



# Summary on the amendment to the government decree on extra profit taxes affecting pharmaceutical manufacturers

On 23 December 2022, an amendment to Government Decree No. 197/2022 (VI.4.) on Extra Profit Taxes (the "Government decree") was published, which entered into force one day later, on 24 December 2022 and oblige pharmaceutical manufacturers to pay extra tax.

The purpose of this summary is to provide a brief and non-exhaustive overview of the amendment to the Government decree and as well as on the interpretation matters affecting pharmaceutical manufacturers based on the currently available information regarding the Government decree.



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## Pharmaceutical manufacturers, as taxpayers

One of the most interesting element of the Government decree is that pharmaceutical manufacturers are defined by the Government Decree according to the Unified Classification of Economic Activities in the European Community (commonly known in Hungarian as TEÁOR, or in English NACE rev. 2 codes) so that pharmaceutical manufacturers carrying out activities under TEÁOR 2120 ("Manufacture of pharmaceutical preparations") and 2110 ("Manufacture of basic pharmaceutical products") are subject to extra profit tax, without any further explanation on the taxable person. Due to the TEÁOR classification above we advise all concerned entities to examine their TEÁOR activities listed in the company register.

## What is the tax rate?

The extra profit tax payable for 2022 and 2023 tax years is a progressive flat-rate tax, as per the following tax rates:

Tax base	Tax rate (2022 and 2023)
Amount not exceeding HUF 50 billion	1%
Amount between HUF 50-150 billion	3%
Amount over HUF 150 billion	8%

## What are the deadlines to declare and pay the extra profit tax?

The deadline for the assessment, declaration and payment of the extra profit tax for the 2022 tax year is the 20th day of the fifth month following the tax year (i.e. 20 May 2023 for taxpayers with a normal tax year).

For the 2023 tax year, the deadline for the declaration and payment of the advance is the 20th day of the eleventh month of the tax year (i.e. 20 November 2023 for standard taxpayers). The deadline for filing the return and paying any unpaid extra profit tax is also the 20th day of the fifth month following the tax year (i.e. 20 May 2024 for standard taxpayers).

## What is the tax base?

The tax base for extra profit tax of pharmaceutical manufacturers is based on the net turnover determined on the basis of the local business tax. If the tax base is determined on the basis of a tax year of less than 12 months, the tax base will be pro-rated as set out in the Government decree.

The Government decree does not provide any specific guidelines as to what sales revenue should be taken into account when determining the tax base.

Consequently, the question arises as to whether all sales should be taken into account when determining the taxable amount, or only sales from the pharmaceutical manufacturing activity. It is also questionable whether only the turnover from domestic sales constitutes the taxable amount or whether the turnover from foreign sales should also be taken into account.

Another difference from other extra taxes is that in the case of affiliated companies, the consolidated values cannot be taken into account, so each pharmaceutical manufacturer is obliged to calculate its own tax base separately.

**Summarizing the above, the Government decree with its currently effective wording raises many questions of interpretation both among taxpayers and consultants, so we expect that the legislator or the tax authority will probably clarify the current regulation or provide additional guidelines regarding the practical applicability of the legislation.**

The above summary was prepared by at the request of AIPM:



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*The purpose of this summary is to provide a brief, concise information on certain issues. The content of this summary is not exhaustive and does not constitute a legal advice.*

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