



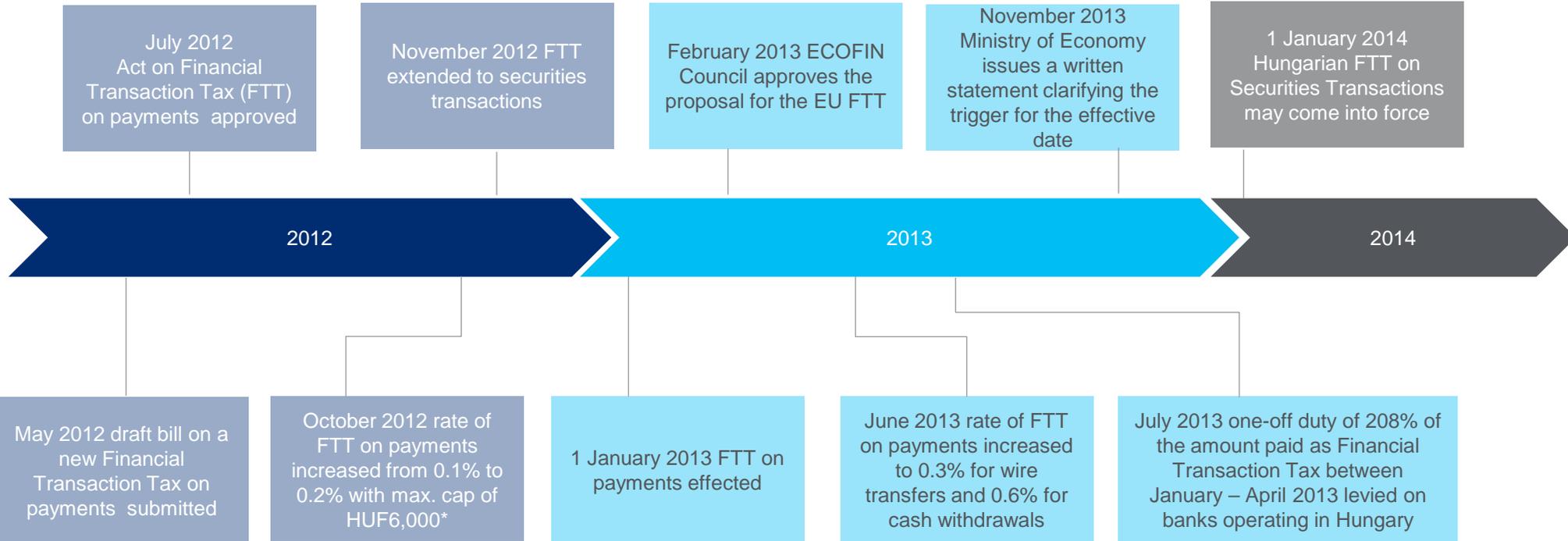
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Hungarian Financial Transaction Tax

Hajnalka Nikolich-Bor, Hungary Securities Country Manager

Hungarian Financial Transaction Tax Summary

Timeline



* Financial transactions on cash accounts owned by foreign payment service providers, foreign financial institutions, investment companies, investment fund management companies or investment funds are exempt from the duty.

Hungarian Financial Transaction Tax Summary

The Hungarian Financial Transaction Tax (FTT) was introduced by Act 116 of 2012 on financial transaction tax (the "FTT Act") as amended by Act 178 of 2012 (the "Amendment Act") effective 1 January 2013

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- Parliament approves the FTT Act for a financial transaction tax (duty) of 0.1% on cash transactions effective 1 January 2013
 - Maximum cap of HUF 6,000 per transaction
 - Transactions of financial institutions exempt from tax
 - Rate of FTT increased from 0.1% to 0.2%. The FTT on cash transactions was introduced 1 January 2013
 - Budget Committee proposed Amendment Act to increase the rate from 0.2% to 0.3% and introduce a tax of 0.1% on securities and 0.01% on derivatives transactions (SFTT) *" effective the first day of the year following the approval of the proposal for a directive on a harmonized financial transaction tax at a European level "*
 - The European Commission adopted a proposal for a Council Directive implementing enhanced cooperation in the area of financial transaction tax indicating the Hungarian SFTT could potentially be effective on securities transactions from 1 Jan 2014. *(Note: wording of Amendment Act unclear on trigger event for effective date of a Hungary FTT on securities.)*
 - A modification of the bill was approved on 27 June 2013, effective 1 August 2013
 - Increased rate to 0.3% from 0.2% on wire transfers
 - Increased rate to 0.6% from 0.3% on cash withdrawals and removed the cap of HUF6,000
 - One-off duty of 208% of the amount paid as FTT on cash payments between January – April 2013 levied on banks operating in Hungary

Uncertain effective date for Hungarian SFTT

- The Amendment Act provision stated effective date of the SFTT is the **“first day of the calendar year following the year after approval of the proposal for a directive harmonized financial transaction duty at European level”**
- Legal opinion states the wording may be interpreted in the following ways:
 - The adoption of the proposal on the EU FTT submitted by ECOFIN (adopted on 14 February 2013), which indicates an effective date of 1 January 2014
 - The adoption of a Directive under the Enhanced Cooperation of the 11 participating EU countries (not yet in place), which indicates an effective date the year following the adoption
 - The adoption of an EU wide FTT Directive could bring in force the Hungarian SFTT (not yet in place), which indicates an effective date the year following the adoption

Clarification provided by the Ministry for National Economy

- Ministry for National Economy (MNE) issued a written statement to the Association of Investment Fund and Asset Managers on 20 November 2013 in response to their request for a clear interpretation of the effective date of the Hungarian SFTT
- According to the statement the trigger event for the SFTT's application will be when the European Council officially approves a European Directive introducing a financial transaction tax (FTT) that is applicable to:
 - Either each EU Member State or
 - Limited number of Member States as a result of an enhanced cooperation procedure
- The effective date of the SFTT will be 1 January of the calendar year following the Council's approval
- As it is highly unlikely that the European FTT Directive would be approved by the Council during the December meetings, the letter stated the Hungarian SFTT should not be applicable as of 1 January 2014

Key features of the Hungarian SFTT

Scope	<ul style="list-style-type: none">• Applicable to all securities sale and purchase transactions settling in a Hungarian securities account<ul style="list-style-type: none">– All gross buy and sale transactions (no netting)– All securities types including equities, fixed income and derivatives– Both Hungarian law governed and foreign law governed financial instruments– Each step of a securities lending and borrowing transaction– Corporate actions that result in the acquisition or sale of securities are not exempt from the scope of the SFTT, therefore both sales side (outbound) of securities and acquisition side (inbound) of securities as a result of corporate actions are subject to the tax
Tax Rate	<ul style="list-style-type: none">• 0.1% for securities transactions• 0.01% for securities related derivatives transactions
Charging Basis	<ul style="list-style-type: none">• The amount of the duty is to be determined based on the counter value of the transaction, or the market price for free of payment transactions• In case of derivative transactions in securities, the fictitious value existing at the time of the transaction
Liability for tax (Taxpayer)	<ul style="list-style-type: none">• Investment firm or credit institution carrying the securities account on which the securities transaction is conducted
Chargeability:	<ul style="list-style-type: none">• Upon the day of settlement of the securities transaction
Reporting and Payment	<ul style="list-style-type: none">• The investment firm or credit institution carrying the securities account on which the securities transaction is conducted must calculate, pay and report the SFTT on a monthly basis to the Hungarian Tax authorities. Client cash accounts would be debited for the SFTT based on the calculation of settled transactions.
Exemption	<ul style="list-style-type: none">• Exemptions are TBD as none are currently outlined in the Act• Market Maker Exemption – TBD• CCP Exemption - TBD
Reporting to clients	<ul style="list-style-type: none">• Not defined precisely according to applicable regulation• In case of FTT on payment account keeping bank must report at least once a year to the investor detailing the amount of duty charged in connection with any – dutiable – payment transaction executed on the clients payment account, which rule may as well be applied in case of SFTT
Netting	<ul style="list-style-type: none">• SFTT cannot be calculated on net basis• Each of the transferor's account keeping (outbound) and the transferee's account keeping (inbound) is obliged to individually pay the SFTT in relation to each transaction

Citi market engagement

- Participation and input into advocacy efforts of industry working groups at both country and regional level
 - Hungarian Banking Association
 - Association of Investment Service Providers
 - AFME
- On the ground SCM engagement with authorities, central depositories, various in-country industry bodies and tax advisors
- Clarification requests on the effective date submitted to the Ministry for National Economy through both the Banking Association and the Association of Investment Service Providers
- Based on Citi's recommendation a white paper has been prepared, which outlines the effects the introduction of the SFTT could have on public debt financing and the overall local capital market
- Direct clarification request placed by Citi's CCO to the State Secretary responsible for tax related matters to obtain first hand clarification on the effective date

Current Citi approach

- Due to the unlikely, but not impossible, scenario that the FTT Directive could be approved by the European Council in December, Citi Hungary continues to monitor developments and will advise clients of any further action in due course
- Citi Hungary is continuing to prepare its systems to be able to charge the SFTT to clients on all transactions settling in your Hungarian custody accounts should the current status change
- Amendments to clients' custody agreements will be required to reflect the legal requirements of the Hungarian FTT
- Your Client Executive will contact you in due course with an addendum to the DCSA or GCSA
- Should Citi commence charging SFTT due to a change to the current status, Citi will issue details to clients of the process for and timing of charging and reporting of the SFTT

Q & A

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efficiency, renewable energy and mitigation