

According to the following rules input VAT can not be deducted even if the goods and services are acquired for the business purpose of the taxable person. This means that in following cases VAT can not be reimbursed to the taxable persons not established in Hungary.

## **Restrictions on the Right of Deduction**

### *Section 124*

(1) Input VAT on following goods may not be deducted:

- a) supplies of motor fuels (tariff headings 2710 11 41, 2710 11 45, 2710 11 49, 2710 11 59);
- b) supplies of fuels other than what is contained in Paragraph a), if used in connection with the operation of a passenger car (tariff heading 8703);
- c) supplies of other goods, not mentioned in Paragraphs a) and b), if used in connection with the operation or maintenance of a passenger car;
- d) supplies of passenger cars;
- e) supplies of motorcycles above 125 cubic centimeters of displacement capacity (under tariff heading 8711);
- f) supplies of yachts (tariff heading 8903);
- g) supplies of vessels other than those described in Paragraph f) (tariff heading 8903), if suitable for sports or entertainment purposes;
- h) supplies of residential properties;
- i) supplies of goods and materials for the construction or remodeling of residential properties;
- j) supplies of foods;
- k) supplies of beverages.

(2) Input VAT on following services may not be deducted:

- a) the leasing or letting of the goods referred to in Paragraphs d)-g) of Subsection (1);
- b) services ancillary to the operation or maintenance of passenger cars;
- c) services ancillary to the construction or remodeling of residential properties;
- d) taxi services (in the Central Statistical Office List of Services - hereinafter referred to as "SZJ - 60.22.11");
- e) parking services;
- f) highway toll services;
- g) services of restaurants and other public catering services;
- h) entertainment services (SZJ 55.40, 92.33, 92.34, 92.72).

(3) 30% of the input VAT may not be deducted on following services:

- a) telephone services (SZJ 64.20.11 and 64.20.12);
- b) mobile telephone services (SZJ 64.20.13);
- c) Internet-protocol-based voice transmission services (under SZJ 64.20.16).

## **Exceptions from Restrictions on the Right of Deduction**

### *Section 125*

(1) By way of derogation from Section 124, input VAT may be deducted:

- a) in connection with the goods mentioned in Paragraphs a)-g) and i)-k) of Subsection (1) of Section 124 if purchased for the purpose of resale, and verified as such;
- b) in connection with Paragraph *h*) of Subsection (1) of Section 124, if the residential property is purchased for the purpose of resale, having regard that if the residential property is tax exempted, the supplier taxable person must exercise his option for taxation in advance;

c) in connection with Paragraphs d)-h) of Subsection (1) of Section 124, if the goods in question are supplied in accordance with Paragraph a) or b) of Subsection (4) of Section 6, and verified as such;

d) in connection with Subsection (2) of Section 124, if the services are procured with a view to the supply of services under Section 15, and verified as such;

e) in connection with Subsection (3) of Section 124, where at least 30% of the consideration due for the supply of services is included in the taxable amount of the services supplied under Section 15, and verified as such.

(2) By way of derogation from Section 124, VAT may be deducted in connection with the application by a taxable person for the purposes of his business goods:

a) used - as verified - chiefly for the supply of taxi services in the case mentioned in Paragraph d) of Subsection (1) of Section 124;

b) used - as verified - chiefly for leasing or letting in the cases mentioned under Paragraphs d)-g) of Subsection (1) of Section 124;

c) used - as verified - chiefly in the cases mentioned in Paragraph c) of Subsection (1) of Section 124 and Paragraphs a) and b) of Subsection (2) of Section 124, as being included in the taxable amount - shown under material costs - of the goods supplied under Paragraph b);

d) used - as verified - chiefly for leasing or letting in the case mentioned in Paragraph h) of Subsection (1) of Section 124, and the taxable person opted for taxation;

e) used - as verified - chiefly in the cases mentioned in Paragraph i) of Subsection (1) of Section 124 and Paragraph c) of Subsection (2) of Section 124, as being included in the taxable amount - shown under material costs - of the taxable goods supplied under Paragraph d);

f) used - as verified - chiefly in the cases mentioned in Paragraph i) of Subsection (1) of Section 124 and Paragraph c) of Subsection (2) of Section 124, as being included in the taxable amount - shown under material costs - of residential properties sold, having regard that if the residential property in question is tax exempted, supplier taxable person must opt for taxation;

g) used - as verified - chiefly in the cases mentioned in Paragraphs j) and k) of Subsection (1) of Section 124, as being included in the taxable amount - shown under material costs - of other goods and services supplied;

h) used - as verified - chiefly for the operation and maintenance of a motorized land vehicle, the gross weight of which exceeds 3.5 tons, in the cases mentioned in Paragraphs e) and f) of Subsection (2) of Section 124.

### *Section 126*

(1) With a view to the obligation of verification mentioned in Section 125, the taxable person is required to keep separate records with facilities to provide reliable and credible information to monitor compliance with the conditions prescribed therein for the exemptions from restrictions on the right of deduction.

(2) For the purposes of Section 125, 'chiefly' means where compliance with the conditions prescribed for the exemptions from restrictions on the right of deduction is accomplished covering at least 90% of the said conditions within a reasonable timeframe.

(3) With a view to measuring compliance with the requirements set out in Subsection (2), the taxable person is required to rely on a numerical index that is expected to yield the most objective result taking into view the nature of the goods and services in question, and the nature of the use of such goods and services.