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wts klient newsletter

WTS Klient.
The Bridge.

Dear Readers,

Now that everyone has published their 2016 financial statements and filed their tax returns (those adopting financial years that differ from the calendar year were able to sit back and relax of course), we can focus once more on strategic issues.
The **Central and Eastern European region** is growing faster than the overall European average, so it is no surprise that it is becoming one of the main targets for investors again after the crisis year of 2008. How can we as tax consultants contribute to this process?
By providing up-to-date **tax information**, how else! As the Central and Eastern European coordinator for WTS I am proud to announce that our **"Tax and Investment Facts Booklet"** containing the most important tax and investment rules for a given country has now been compiled for 13 countries in the region: with the same layout and the same structure, making comparisons easy, but offering the detailed insight that investors need.
These publications in **English** are available on our website, but we can also send printed copies to you if required. We hope you enjoy reading them.

Zoltán Lambert
managing director

Tips when planning a voluntary liquidation

Voluntary liquidation – what to think about during planning:

- starting date
- deadlines, who is responsible
- settlement of liabilities
- requesting reduction of tax advances
- document archiving

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Companies winding up their activities voluntarily in a solvent liquidation are well-advised to review the accounting and taxation implications of the liquidation before the owner makes this decision, to ensure that the closing down of the company is properly prepared and to avoid any unpleasant surprises or unexpected additional costs.

The start date for the voluntary liquidation should be the first day of the financial year

Since the company has to prepare a financial statement upon ending its activity along with tax returns as of the day prior to the start of the voluntary liquidation, it makes sense to make the **start date** of the **voluntary liquidation** the first day of the financial year. This means the company does not have to prepare an additional accounting close due to the start of the voluntary liquidation, and the financial statements can be the financial statements ending the activity as well. Consequently, the company also saves on the audit fee for the separate report, if indeed it is subject to an audit.

Despite the fact a company can continue its business activity in Hungary in the course of a voluntary liquidation, and the liquidation itself can last up to three years, it really makes things easier if business processes are closed and all outstanding issues are clarified prior to starting the voluntary liquidation.

Such issues can include loans received from owners. As there can be no liabilities left in the company at the end of the voluntary liquidation, this obligation towards the owner must be settled as well, by repaying it if possible, or by transferring loans given, other receivables or assets for example. Converting a loan into equity, or the forgiving of a liability that has not been properly scheduled or thought through, can cause problems during a tax inspection, not to mention that private individual owners can find themselves facing a tax payment liability.

It is worthwhile requesting a tax advance reduction

Based on tax payment liabilities in previous years, the company still has to pay corporate tax and local business tax advances during the voluntary liquidation period in Hungary.

If calculations show that the actual tax will be less over the period of the voluntary liquidation than the tax advances assessed, it is worthwhile requesting a **tax advance reduction** from the tax authority, to lower the payment burden on the company and the amount of any subsequent overpayment.

The deadlines during a voluntary liquidation are very tight: there are 30 days available to prepare and submit the final financial statements ending the company's activity and the related tax returns, while there are 60 days to prepare and submit the financial statements ending the voluntary liquidation and the related tax returns. It is advisable to consult in advance with the company's lawyers, accountants, auditors, tax consultants and of course with the managing directors, the liquidator and the owner's representatives about tasks and timings, so that everyone is clear on the schedule.

Separate documents!

Experience shows that you can expect at least one NAV tax inspection in Hungary if you opt for a voluntary liquidation. If the company was previously considered a risky taxpayer by the tax authority, then the tax authority is obliged to conduct a tax inspection.

At the end of the voluntary liquidation you have to designate the place where the company's documents will be archived after the company is wound up. To assess the costs of **document archiving** it is worthwhile putting together the documents related to previous years and separating them in advance; these have to be kept by the company for 6, 9 or even more years.

Statutory audit: useful, or a necessary evil?

Statutory audit: benefits, burdens

- Audit benefits
- Audit burdens
- Audits mandatory for
- Special audit cases

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Most owners and managing directors still tend to consider audits as a necessary evil. Yet there are many benefits to having an auditor or an audit, alongside the associated burdens of course.

How do we benefit if our company is subject to a statutory audit?

Apart from inspecting a company's accounting records and financial statements, a reliable auditor can highlight accounting and tax risks. An auditor can offer opportunities to consult on the accounting treatment of transactions during the year, and help in assessing the expected accounting implications of decisions to be made by management or owners.

Creditors, banks, and even the Hungarian tax authority ("NAV") during a tax inspection, respond differently to financial statements that come with an unqualified auditor's report.

What are the burdens that come with a company audit?

- First of all, the audit fee is an **extra cost**. There can be significant differences in fees, depending on whom the company appoints to carry out this task (BIG4 or a Hungarian company with an international, or a Hungarian company without an international background). The most important thing is that the auditor's report definitely has to be issued by an auditor registered at the Chamber of Hungarian Auditors.

- **Appointing an auditor creates additional administration and legal tasks** for a company because the auditor has to be stated in the deed of foundation and it becomes public company information as well. The appointment has to be registered at the Court of Registration, which also incurs a fee. Auditors can be appointed for a minimum of 1 year, and a maximum of 5 years.

- What also has to be taken into account is that the statutory audit **will tie down capacities** at the company, and the audit itself could prolong the accounting close. If the company has to be audited, then this fact along with the particulars of the auditor and the audit fee must be included in the financial statements. Of course, the financial statements also have to state if the company is not obliged to be audited and the figures have not been audited.

But who is subject to a statutory audit anyway?

Audit obligations are primarily prescribed by the Accounting Act. On the one hand the obligation to be audited **is linked to thresholds**, namely, if a company's net sales revenue in the two financial years prior to a given financial year does not exceed HUF 300 million (approx. EUR 960,000) on average, and the average headcount in the previous two years did not exceed 50 people, then the company does not have to be audited.

In the case of companies established without a legal predecessor, if data is missing or incomplete for either or both of the two financial years prior to the given financial year, then the expected figures for the reporting year and – if applicable – the (annualised) figures for the previous (first) financial year must be considered when calculating the thresholds outlined above.

On the other hand, the type and activity of the company along with other aspects define the criteria for a statutory audit, irrespective of whether the company reaches the above-mentioned thresholds or not. On this basis, the following companies are subject to a statutory audit in Hungary:

- companies limited by shares,
- savings cooperatives,
- consolidated companies, irrespective of which country the consolidation takes place in,
- companies of public interest,
- companies with public debts in excess of HUF 10 million (approx. EUR 32,000) overdue by more than 60 days as of the reporting date of the previous financial year,
- the Hungarian branch offices of foreign-registered companies, unless the registered office of the foreign company is located in an EU Member State,
- companies which, owing to exceptional circumstances, deviate from the Accounting Act in order to provide a true and fair view,
- companies preparing consolidated financial statements.

If a company has a foreign parent and this parent company compiles its annual financial statements under IFRS, while the Hungarian subsidiary is consolidated, it can make sense for the Hungarian subsidiary to opt for IFRS financial reporting as well. Owing to the consolidation, the Hungarian subsidiary will automatically fall into the statutory audit category, and it may choose to compile its financial statements in accordance with IFRS because of its parent company.

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"Customers want to choose partners who not only have orderly manufacturing processes but their financial situation is also sound."

Csaba Baldauf, WTS Klient Hungary senior manager

Source: inforadio.hu

Turn on your radio!

A customer audit is the process during which a company evaluates its supplier. Csaba Baldauf, senior manager at WTS Klient Hungary, will be talking about the financial implications of this on the evening of 1 June on InfoRadio. "No company can even get close to becoming a supplier if they don't have a very good product. But that, in itself, is still not enough" – argues the expert.

Listen to the discussion on the radio, or click on this link.
Please note that the conversation is available only in Hungarian.

There are some special cases where audits are mandatory, even though the company itself is not otherwise obliged to be audited. If the company is subject to a statutory audit, then the appointed auditor may inspect the accounting compliance of the following aspects. **If the company is not subject to a statutory audit, then an independent auditor must be separately appointed.**
These special cases include the following:

- evaluation of a member's non-cash contribution,
- review of interim balance sheet,
- review of calculation and accounting of value adjustments,
- review of fair value measurements and compliance of related accounting,
- in the event of a change in bookkeeping currency, review of the transition balance sheet prepared based on the switch from HUF to foreign currency or from one foreign currency to another.

In the case of company transformations, mergers and separations, the transformation balance sheet (both the draft and the final transformation balance sheet) and the underlying inventory of assets and liabilities (both the draft and the final inventory of assets and liabilities) must be checked by an auditor independent of the registered auditor.

Of course, companies may also appoint an auditor even if this is not prescribed for them by law, because based on the "two heads are better than one" principle, a thorough auditor can also create added value for the owner and the management.

Services of the WTS Klient Hungary:

- Tax consulting
- Financial advisory
- Legal consulting
- Accounting
- Payroll

Should you have any questions regarding the above or any other professional issues, please do not hesitate to get in touch with your WTS advisor or use any of the contact details below.

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