28/2017
13 July 2017

wts klient newsletter

WTS Klient.
The Bridge.

Dear Readers,

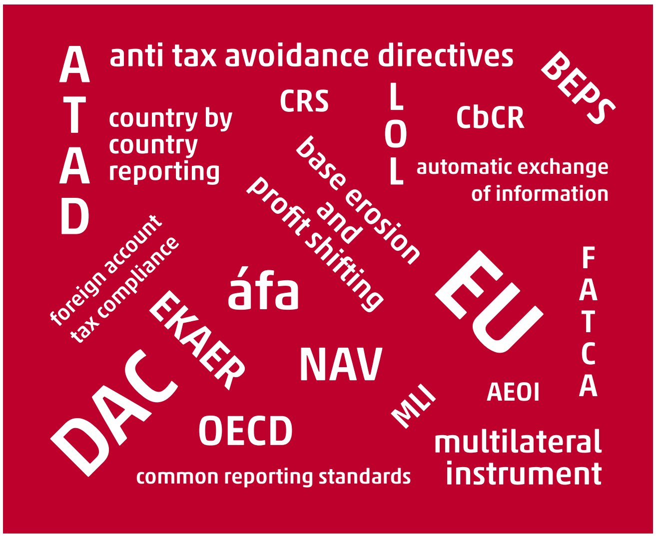
As a global company you are faced with the ever increasing complexity of managing your expatriates' cross-border taxation, Social Security, legal and immigration-related matters. The legal regulations in these fields are not only subject to constant change but they are also becoming more and more complex when applied in different jurisdictions at the same time.

Our expertise helps you to strategically plan and manage your intercompany assignment cost and compliance. Our specialists guide you smoothly through the planning, structuring and implementation of every international assignment. Jointly with our international network, WTS can assist you in close to 100 locations worldwide. We provide local expertise from international professionals wherever you are.

This booklet offers you an overview of tax, Social Security and immigration-related matters within Europe.

Frank Dissen, Partner,
Head of Global Expatriate Services
WTS Steuerberatungsgesellschaft mbH

BEPS = ATAD + NAV – LOL? letters against tax fraud



Author: **Tamás Gyányi**
tamas.gyanyi@wtsklient.hu

This title is unusual and out-of-the-box, but it is not intended to be a puzzle; it does make sense and we will reveal the answer at the end of the article. Each profession has its own unique language, which is difficult for an outsider to understand.

NAV, ÁFA (VAT), EKAER: the Hungarian hits

Nowadays, reading and understanding a letter written by a tax adviser can be a challenge in itself, considering the special terminology and the rapidly changing environment of international taxation. Clients also expect us to provide brief, concise and comprehensible articles. This is not helped by EU and OECD tax bodies, since incredible amounts of material have been prepared during the past 3-4 years to prevent tax fraud and aggressive tax planning, and of course, new terminology means new abbreviations.

We can happily add Hungarian specialities to this. Investors coming to Hungary are not familiar with many Hungarian abbreviations, but as they quickly learn about Hungarian tax regulations they know that if they hear 27%, that is surely the world record holder of value added tax in Hungary, the **VAT** rate. They also know that if they receive a letter from the **NAV** (National Tax and Customs Administration) it rarely means good news. Those who know the abbreviation **EKAER** (Electronic Public Road Trade Control System) understand that tax administration in Hungary is not negligible by any means (and although there is a common interest to fight against the black economy, unfortunately the extra administration involved definitely increases costs).

BEPS, ATAD, AEOI and other newcomers from abroad

Having learned the most common Hungarian abbreviations, let's take a look at the terminology created by the **EU** and **OECD** to please taxpayers. There is no need for further explanation in the case of **BEPS** (base erosion and profit shifting), we already know this includes actions related to direct taxes and against tax evasion. The European equivalent of the Action Plan is **ATAD I** and **ATAD II** (the anti-tax avoidance directives). We have already written about **MLIs** (multilateral instrument). This instrument provides a practical and effective "facelift" solution for bilateral agreements reached between countries.

We already know the legal framework of the fight against tax evasion, but what is even more important is how tax authorities will be able to collect information about transactions in which more than one country is involved. We should never think that the NAV will not gather information about incomes arriving from abroad. There are a number of tools facilitating the automatic exchange of information on bank accounts. **AEOI** (automatic exchange of information) and **CRS** (common reporting standards) supplemented by **FATCA** (foreign account tax compliance) regulations of the United States of America provide enough munition for tax inspectors. It is perfectly conceivable that we might receive a reminder letter from the Hungarian tax authority about declaring the income sitting on our foreign bank account.

DAC: abbreviated directives

EU Member States also exchange information about transactions previously made bulletproof by conditional agreements. This is all the result of Directive **DAC3**, and supplemented by **CbCR** (country by country reporting), which is based on the **BEPS** Action Plan and Directive **DAC4**, as well as the obligation to provide information about beneficial owners as stated in Directive **DAC5**, we can happily say that the lives of taxpayers will be an open book in the case of companies as well now.

Based on our short and hopefully light summary, in keeping with the summer season, we can now translate the title: The **BEPS** Action Plan supplemented and supported by EU regulations against tax evasion spell good news for the Hungarian tax authority too. The question is how much fun taxpayers will have due to the increasing administrative burden, and whether they will be able to follow the turbulent changes in legislation?

TP policy

TP policy

preparation of business plans –
TP policy

↓

financial year

↓

preparation of transfer pricing
documentation (based on the TP policy)

Author: **András Szadai**
andras.szadai@wtsklient.hu

You can always find a lot of relevant information in the history of transactions between related parties. If we know there will probably be related-party transactions, we need to think about pricing in advance. This briefly sums up the content and essence of our article, focusing on the importance and relevance of TP policy.

In our previous article we looked at transfer price documentation, which companies have a statutory obligation to prepare. Ideally, however, TP policy or directives are prepared much earlier along with intercompany policies, in which we can define the pricing principles and methods within the group.

Why is TP policy useful?

Planning is a key element in the life of a company: when preparing business plans the owners and the management "dream up" what they would like to achieve within a few years, including levels of sales revenues and profit. If a group consists of several related companies doing business with each other, it is worth looking at the pricing applied in their transactions. **Depending on the size of transactions between the parties, pricing can have a significant impact on the sales revenues and profits of subsidiaries**. If we plan the pricing of related-party transactions, we can then apply the rules consistently and refer to them during price negotiations.

What should the principles contain?

If TP policy is prepared, **the most important chapter should definitely be a detailed breakdown of the various types of transaction**. For example, financing (e.g. loans, cash-pool agreements), purchasing raw materials and selling semi-finished and finished products within the group are key aspects for a manufacturing group. We should not forget about services provided at group level either that do not fall directly under the main profile, and in many cases come from the "head office", but they facilitate day-to-day operations (e.g. SAP subscriptions).

Once we have identified each type of transaction, we should set prices for each of them. **Pricing can be based on generally accepted principles**, for example, in the case of loans, connecting transactions to the variable interest rate determined by market mechanisms (such as the EURIBOR). For raw materials used during manufacturing as well as semi-finished / finished products, prices should be set **in line with** market trends at arm's length prices. This can be determined based on a price list used for independent parties, revenues defined on a cost basis, or even based on profitability ratios that take particular market features into account.

How can TP policy be useful for us later on?

At the end of the financial year, when we prepare the transfer pricing documentation before filing our corporate tax return, we need to analyse a great deal of data and information. The rules can be really useful during this brief period covering a few months, where we have already set the prices to be applied within the group. **If the planned transfer prices are close to the market prices during the preparation of the principles, we can simply copy a significant part of the rules into the transfer pricing documentation**. The documentation, of course, needs to be completed with the statutory content.

Based on the above we recommend that the competent people in the group should prepare TP policy, since they can be used as a **preliminary checkpoint for transfer pricing** as well. We can identify pricing problems during the planning process and correct them, thereby avoiding the need for an ex post tax base correction that may be required for the sole reason that we failed to revise prices properly in advance.

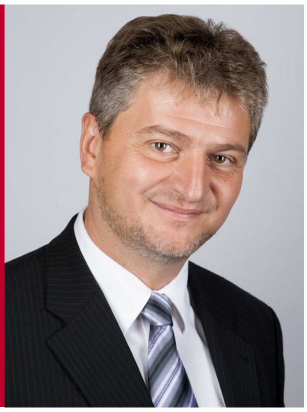
❖ ❖ ❖

wts

"Is there really a need to top up corporate tax at the end of the year?"

Zoltán Lambert, WTS Klient Hungary managing partner

Source: inforadio.hu



Turn on your radio!

„In order to avoid the significant default penalty, companies pay tax advances and make their top-up payments at amounts which exceed their actual corporate tax payable, thereby financing the state budget interest-free for 5 months from the end of the year." Zoltán Lambert, managing partner at WTS Klient Hungary will be talking, among others, about this to InfoRadio on the evening of 13 July.

Listen to the conversation at this link!
Please note that the conversation is available only in Hungarian.

This WTS information does not constitute advice and it serves only to provide general information about selected topics.

Any information contained herein shall thus not be considered exhaustive, and nor may it be relied upon instead of advisory services in individual cases. We accept no liability for the accuracy of the content.

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.

Services of the WTS Klient Hungary:

» Tax consulting
» Financial advisory
» Legal consulting
» Accounting
» Payroll

WTS Klient Hungary
1143 Budapest • Stefánia út 101-103. • Hungary
Telephone: +36 1 887 3700 • Fax: +36 1 887 3799
info@wtsklient.hu • www.wtsklient.hu