

# wts klient newsletter

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## Dear Readers,

In the past few weeks, the heads of consulting firms that also provide registered office services have spent their days browsing through real estate advertisements in search of offices that are good value-for-money, instead of going on their summer holiday. Why?

According to the original decree by the Minister of Justice, registered office services could only have been provided for customers from 1 July 2017 if the property in question was owned by the registered office provider, or if it had a right of use for the property registered in the real estate register. Apart from the fact that a right of use cannot be registered for this purpose, and registering a usufruct right was understandably objected to by lessors, we found no reasonable argument for excluding lease contracts from registered office services either.

Fortunately, expert arguments convinced the legislators. The amendment to the decree dated 18 July now only requires a few administrative tasks from the service providers. Our first article for this week deals with these very tasks.

I hope you enjoy reading it.

dr. Ildikó Szopkóné Horváth  
partner, lawyer

## Change in rules on registered office services

In accordance with the law amendments this spring, all companies using registered office services have to report them: the deadline is 29 September 2017.

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## Key areas of a financial due diligence

When reviewing contracts, close cooperation between those performing the individual tasks of the financial due diligence and the legal due diligence is definitely necessary.

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## Change in rules on registered office services

**Those who used registered office services until 31 December 2016 (and where there has been no change in the legal relationship since then) must report the registered office service to the NAV by 29 September 2017.**

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The changes of the Act on Rules of Taxation that entered into force on 1 January 2017 raised several issues in respect of registered office services. The amendments made during the spring clarify the definition of providers of registered office services, and require the companies using these services to report to the NAV. **Deadline: 29 September 2017!** A ministerial decree details the conditions of registered office

services, stating that from 19 July 2017, the company's nameplate should be placed in a position that is easily visible from public areas.

### What are registered office services and who are the providers?

In the law amendments this spring, the definition of registered office service provider was clarified in the Act on Rules of Taxation. In short, those **who perform their obligations related to registered office services based on an engagement, and ensure the receipt and safekeeping of business and official documents during working hours** are deemed providers of registered office services. The change valid from 20 June 2017 clarifies that providers of registered office services do so as a business-like economic activity.

Using this service is mainly a good idea for companies whose activity does not necessarily require an office, or which are able to operate more efficiently by using the administrative services offered by providers of registered office services.

The firm action by the tax authority and the reporting requirement are justified by the fact that a significant portion of tax evaders are registered at addresses of registered office service providers.

## Reporting obligation

The changes that entered into force on 1 January 2017 triggered some uncertainty for those affected in terms of the reporting obligation as well. While the reporting obligation seemed to be clear for companies using these services for the first time, the interpretation of the related law was not clear regarding legal relationships established before 1 January 2017.

The Act on Rules of Taxation also received some clarification in this respect from the spring-time amendments. Those who **used registered office services until 31 December 2016** (and where there has been no change in the legal relationship since then) must report the name, registered office and tax number of their registered office service provider, as well as the start date and, in the case of a fixed-term engagement, the end date of the legal relationship, **to the NAV by 29 September 2017**.

## What else should you look out for?

Decree No. 7/2017 from the Minister of Justice, in effect from 1 July 2017, introduced much stricter rules on the conditions for registered office services. The decree was quickly amended and the relevant legal text was published in the issue of the Hungarian Gazette dated 18 July 2017. Here we highlight the following.

- Essentially, only properties owned exclusively by the engaged provider of registered office services can be used as registered offices, or properties where the provider has a right of use registered in the property register. The amendment eased this stringent provision and also allows the provision of registered office services **if the owner of the property has given prior written consent for the provision of registered office services and there is a long-term bookkeeping engagement** between the parties in addition to the registered office services.
- The company's nameplate has to be well visible from public areas.
- The decree limits the parties' contractual freedom at several points, so for example, **a contract for registered office services may not be for a fixed period**, except where the company is established for a fixed period of time. The parties cannot exercise their rights of ordinary termination for one year after the conclusion of the contract. Some relief has been introduced, however, in that legal relationships for registered office services, which existed when the decree entered into force, only have to be modified by the parties by 30 June 2018, and if no written contract was concluded before, this contract must be in a written form.

## Key areas of a financial due diligence

**During a financial due diligence of a target company, we focus on the following:**

- labour contracts
- supplier contracts
- customer contracts
- off balance sheet liabilities

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In the [first part](#) of my article on the important areas of a financial due diligence I analysed four areas which have to be examined and analysed in detail to conduct a financial due diligence.

What is common to the additional areas discussed below is that while a financial due diligence is capable in itself of providing important information for clients, **close cooperation between the professionals performing the financial and legal due diligence is highly recommended** because together they can create the most added value for the client.

### Labour contracts

Employees are generally deemed special resources at all companies, while in certain industries, the income of employees along with related taxes and contributions are particularly significant cost factors compared to total costs. To get a precise picture of the costs that arise in this respect, we have to **assess** precisely **what types of benefits**, either regular or one-off, **employees are due**. Benefits recorded in contracts, 13<sup>th</sup> / 14<sup>th</sup> month or other bonuses along with those tied to performance have to be taken into account, but the

number of additionally granted holidays is also important. If we plan certain reorganisations or rationalisations during which the jobs of some employees will be terminated, it is important how many months the termination period or the severance pay covers for the given employees. Significant extra cost can be generated if the severance pay due to an employee is higher than the minimum required by the Labour Code in Hungary, either due to an individual or a collective contract.

### **Supplier contracts**

As for supplier contracts, it is important to check **what type of contractual obligations the individual agreements mean** for the company. Additionally, one of the most important issues is the **deadline and conditions** under which a given agreement **can be terminated**. This applies particularly if the contract is not advantageous for the company, or if the new owner can acquire the given product or service under more favourable terms. Although a financial due diligence typically does not cover examining whether a specific contract is advantageous for the company or not, the information the client can use to judge this may become available together with data obtained during a legal due diligence.

### **Customer contracts**

Similar to supplier contracts, one key issue for customer contracts is **under what conditions** we or our customers **can terminate contractual obligations**. In terms of implementing future plans, it is important to see how long the client can count on the orders of the given customers. On the other hand, it can be very costly if the company cannot or does not intend to serve these customers in the future, even though it has a contractual obligation to do so. Customer contracts can of course include agreements that are disadvantageous for the company. Assessing these aspects is beyond the scope of a financial due diligence, but the due diligence can provide information to reflect on.

### **Off balance sheet liabilities**

Owing to their nature, potential payments by the company in the future due to off balance sheet liabilities will not be obvious from financial data to those performing the due diligence, but only from the given contracts, so it is particularly important for those conducting the due diligence to cooperate in this respect. Duties are generally divided in that **while the team performing the legal due diligence identifies the contractual obligations, these obligations are priced within the framework of the financial due diligence**.



"Employers can reimburse employees' nursery or crèche costs for their children in whole or in part, without incurring any additional tax burden."

**Zoltán Cseri, WTS Klient Hungary manager**

Source: [inforadio.hu](http://inforadio.hu)



### **Turn on your radio!**



With September approaching, the issue of how employers can support employees with young children wishing to return to work will become relevant again. The forms of support and the conditions for claiming them are discussed by Zoltán Cseri, tax manager at WTS Klient Hungary, on InfoRadio on 27 July. "From 1 January 2017, the scope of tax-free non-monetary benefits that employers can provide has broadened in that besides crèche care, both nursery care as well as crèche and nursery catering are exempt from tax too" – reveals the expert in the interview.

[Listen to the conversation at this link!](#)

Please note that the conversation is available only in Hungarian.

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