



Dear Readers,

This news might come as a shock for many returning from their summer holidays, but the registration deadline for the business gate has expired! Legislators made sure we stayed alert during the summer heat with a deadline of 30 August. There is no reason to be alarmed though. The grace period lasts until 31 December 2017, so there is plenty of time to make good on your registration obligation.

Despite this, we were surprised that we were contacted about the business gate on many occasions in recent weeks. There are still many open questions that will only be answered over the next four months. You can find useful information on our experience so far with the topic in our articles and in a radio interview with me.

Our articles are available [here](#) and [here](#), while you can listen to the interview in Hungarian by clicking [here](#).

We look forward to your comments and questions regarding the business gate registration and our articles on the topic published this week.

dr. Ildikó Szopkóné Horváth  
partner, lawyer

### Provisions or accrued expenses

Accrued expenses and provisions are liabilities recorded on the company's income statement; but they differ in several respects.

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### How to submit the VAT registration form

Foreign companies may ask to be registered for VAT via an authorised representative, by submitting the VAT registration form and company documents to the NAV.

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## Provisions or accrued expenses – discrepancies between Hungarian and German rules

**“Accrued expenses as recognised by Hungarian standards may be current liabilities or provisions according to German regulations.”**

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The question of provisions or accrued expenses arises most often when preparing annual reports. Both items are liabilities recorded on the company's income statement, but they differ in several respects. However, if a given company prepares its annual report in accordance with German accounting standards, they must consider further discrepancies.

### Distribution of costs affecting more than one financial year

One accounting principle in Hungary clearly states that costs affecting more than one year must be divided proportionately between the financial years to which they relate. In practice, **a significant number of accrued expenses comprise trade payable invoices received after the reporting date.** An important characteristic of accrued costs and expenses is the fact that their **amount is known and approved** by the company. Under German standards, such accrued expenses are treated as other liabilities; therefore, they must be reclassified in the reports and statements. Items recognised as accrued expenses are acknowledged by default when assessing corporate tax, unless they cannot be recognised as such because of the type of expense involved.

### When are provisions obligatory?

Companies are required to allocate provisions for their contingent liabilities, and for any other significant, anticipated and periodically recurring costs that are expected to arise, but where **the amount or exact time they will be incurred is uncertain.** German standards define the criteria for **provisions** in similar ways; there is no difference to Hungarian accounting rules in this respect. There are a number of differences, however, as to which expenses have to be provided for under Hungarian or German regulations. For instance, while annual taxes payable are recognised as liabilities according to Hungarian standards, German accounting standards require provisioning for the unpaid amount of such taxes. There are further **discrepancies between Hungarian and German rules** as regards the release of provisions. According to Hungarian standards, provisions

must always be released against other income. The German standards, however, differentiate between three cases, based on whether the amount of the actually incurred expense is the same, higher or lower than the amount of the provision. If the expense is equal to the provision, the release of the provision is recognised against liabilities, without affecting revenues and expenses. If the amount of the allocated provision is higher or lower than the expense, the difference must be booked on a separate general ledger account.

### What should be done in the case of group reports?

When [preparing a consolidated report](#), such differences must be compensated for by reclassifications in the income statement. **Under Hungarian standards, provisions do not affect taxes**, as the tax base must be adjusted with the provision. As provisioning does not entail any tax base adjustment under German regulations, the German tax authority closely examines the legitimacy of provisions if they differ from the expense incurred, since they might indicate a reclassification of profit and loss accounts between multiple years.

### The importance of understanding legal regulations

The above comparison relates mainly to costs and expenses; however, it is also important to know that accruals/deferrals and provisions must be allocated not only for costs and expenses, but also for revenues and other special cases when preparing both Hungarian and German annual reports and financial statements as regulated by the Accounting Act.

## How to submit the VAT registration form



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In my earlier articles in this series on VAT registration, I outlined the theoretical background to the topic: I explored [financial representation](#), then in my [most recent article](#) I gave a brief overview of the typical cases when VAT registration in Hungary is indispensable for a foreign company. This article focuses on a significant practical issue: **what information on a foreign company subject to registration is required to be able to submit a VAT registration form**, i.e. which documents must be attached for a successful registration?

### Who should be appointed as an authorised representative?

As I explained in [my article](#) on how to appoint a representative for issues concerning the Hungarian tax authority (NAV), foreign companies are better off appointing a **Hungarian expert** to ensure more efficient administration, someone who can represent the foreign company directly at the NAV in the course of the registration process. Experience shows that, to this end, foreign companies generally authorise a tax adviser, tax expert or an employee of a company authorised to provide tax advisory and accounting services in Hungary.

When registering as a VAT taxpayer, a foreign company generally appoints its future Hungarian representative to act on its behalf at the tax authority and in place of the company's usual representatives with **one-off authorisation**.

To facilitate the smooth administration of any subsequent tax-related issues, and apart from the one-off authorisation mentioned above, the foreign company **may also appoint a permanent authorised representative**, who can represent the company fully in connection with all its tax-related issues – in person, on paper, electronically and by phone. Naturally, such authorised representatives must also be reported to the NAV using the Uniform Representation Form, commonly known as the EGYKE form.

### What information is required to complete the VAT registration form?

The VAT registration form, also known as the **T201 VAT and change registration form**, [can be downloaded](#) in Hungarian language from the tax authority website and completed with the help of the program for filling out general forms (ÁNyK). To complete this form properly, the following information is needed: exact name of the company to be registered, the address of its registered office/permanent establishment in Hungary, its core activity and activity code (TEÁOR), and the company data of the foreign company. It is also on the VAT registration form that we have to report the company's representative or representatives (in the case of joint representation) as stated in the certificate of incorporation. Likewise, here we have to indicate which one of the exchange rates offered by law the company wants to apply to convert its tax base expressed in a foreign currency to Hungarian forints (HUF).

The **certificate of incorporation** containing the effective company data recorded in the company register must be attached to the registration form. In addition, **specimen signatures** identifying the signatures of those representing the company are also necessary, as well as a **certificate issued by the foreign tax authority on the foreign company's taxpayer status**. These documents should not be older than 30 days, but in our experience the NAV is relatively tolerant in this respect.

If the above-mentioned documents of the company to be registered are available in languages other than English, German or French, then **translations** of the documents should also be submitted (it does not necessarily have to be a certified translation). If the documents are available in one of the afore-mentioned languages then no translation is needed.

### Submitting the VAT registration form

The VAT registration form can be submitted **in paper form** based on one-off authorisation. Please note that the NAV requests the **original** signed and stamped **copies of these documents**, so make sure to have them available when starting the registration process.

The NAV generally issues a tax number in Hungary within two weeks of the submission, but if every relevant document has been submitted then tax numbers are normally issued within just a week. You can check whether your tax number exists by looking on the NAV website, in the [taxpayer database](#) (available in Hungarian).

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"Even if a company is making a loss, it is certain that they will have to pay local business tax."

**Zoltán Lambert, WTS Klient Hungary  
managing partner**

Source: inforadio.hu



### Turn on your radio!



For foreign business entities wishing to newly invest in Hungary, the substantial amount of local business tax payable might come as a surprise given the small rate. The reason for the contradiction lies in the size of the tax base, from which neither wage nor investment expenses can be deducted. Zoltán Lambert, managing partner at WTS Klient Hungary, will be discussing this anomaly and the ways to resolve it on the evening of 31 August on InfoRadio.

Listen to the discussion on the radio, or click on [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.

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