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highlights

Supplies from abroad – can the Tax Authority penalise? – It frequently occurs that a Hungarian company has a contract with a Hungarian supplier to purchase goods, but said goods are delivered by the ultimate Hungarian buyer to Hungary either from an EU Member State or a non-EU country. Failing to examine the supply chain appropriately can result in severe VAT risks during a tax inspection.

Spotlight on supplies from abroad – can the Tax Authority penalise?

It frequently occurs that a Hungarian company has a contract with a Hungarian supplier to purchase goods, but said goods are delivered by the ultimate Hungarian buyer to Hungary either from an EU Member State or a non-EU country. Failing to examine the supply chain appropriately can result in severe VAT risks during a tax inspection.

Let us take the case, for example, when a Hungarian company concludes a contract with another Hungarian firm, the supplier, to deliver or purchase some goods. The question arises whether the Hungarian supplier proceeded correctly when invoicing the goods to the buyer at gross value including 27% Hungarian VAT, and whether the buyer can happily deduct the VAT from the incoming invoice?

The answer can be yes, and no. What does this depend on? If the buyer transports the purchased goods from the supplier's place of business in Hungary, then yes, the invoice is correct to include Hungarian VAT.

The situation is more complex if the buyer has the purchased goods transported from the place of business of the supplier or another foreign supplier of said supplier outside Hungary, e.g. from Austria, Germany or another EU Member State, or even from a third country, to Hungary. Because in this case it is not a sale or product supply within Hungary, but a transaction within the EU, where the ultimate bona-fide Hungarian buyer is only seldom aware of the supply chain their purchased product came along. At large corporations we frequently find that for size reasons and also due to the vast number of related transactions, accounting staff only see a single invoice or possibly a purchase order, and have no information on the route of the product. Another department within the corporation normally knows this information, but they too are frequently unaware whether it is a simple product purchase or a genuine multi-player chain transaction. In the cases referred to above, the supplier's invoice should not include Hungarian VAT. Whenever this happens, the Hungarian supplier should have a foreign tax number from one of the EU Member States, instead of a Hungarian one. To this end the Hungarian supplier should first be registered in the given EU Member State where their buyer transports the goods from.

If you are a decision-maker at a Hungarian firm which regularly purchases goods (e.g. parts for installation) from a Hungarian supplier, but from outside Hungary, and transportation to Hungary is also your responsibility, it is worth examining somewhat more thoroughly whether or not the supplier's invoices received contain Hungarian VAT, and if the VAT was deducted. If the supplier's invoice has been issued incorrectly, and therefore the VAT is not deductible, the Tax Authority may even levy a fine.

Several issues and tasks may arise on the part of the supplier too because the example presented above relates to a registration abroad that was not carried out, which often involves paperwork and preparation, and is therefore relatively more time-consuming and more costly. Additionally, tax returns and data may also subsequently need to be submitted abroad, the lack of which can again lead to fines.

In light of the above and regardless whether we are on the supplier or buyer side, extra attention should be paid to such supplies from abroad, reviewing customary procedures again where necessary.

The newsletter accurately reflects the statutory provisions as they stand at the time of its issue. The authors of the news articles have endeavoured to provide general information that both reads well and is professional. Given the general nature of the content and possible changes to legal regulations, please contact us if you require this information tailored to your personal circumstances.

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