

wts klient newsletter

WTS Klient.
The Bridge.

Dear Readers,

Besides the introduction of the e-PIT system, the creation of the business gate, and the opportunity to comment on draft tax laws and decrees, the 2nd national tax consultation organised on 28 and 29 September at the initiative of the NAV provides yet more proof that the Hungarian tax authority is trying to do everything it can to present itself as a positive, helpful and modern authority for taxpayers and professionals.

The two main topics of the consultation this year were the new Act on Rules of Taxation and the related framework law entering into force from 1 January 2018, as well as electronic administration and communication. The issues addressed included the challenges that the new Act on Rules of Taxation will bring in 2018, how businesses can prepare for e-invoices, what NAV 2.0 means, and what Hungarian taxpayers can expect as a result of Brexit.

WTS Klient Hungary was represented at the event by my colleague Tamás Gyányi, who reported on his experiences in the leading article in this week's newsletter and in the radio interview that can be accessed from page 2.

Zoltán Lambert
managing partner

NAV: the good tax authority!? Experience from the 2nd national tax consultation

The 2nd national tax consultation confirmed that the NAV and the legislators lay great emphasis on cultivating partnerships with taxpayers.

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Significant or not significant error? That is the question...

In the event of an error, the first thing to decide is whether it is a significant error, because this determines the subsequent accounting treatment.

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NAV: the good tax authority!? Experience from the 2nd national tax consultation

Why is the NAV good?

- As part of a cooperative procedure it can draw our attention to the mistakes we made during our tax payments, without needing a tax inspection.
- It supports developments that help reduce administration, and our tax position can be monitored more easily.
- Start-up companies receive mentoring support from the tax authority.
- In the e-PIT system, the majority of private individual taxpayers do not have to deal with completing their tax returns.

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Without having to read the article in full, we would like to respond to the question in the title. **Yes, the tax authority can be good**, and there are many areas where this statement proves to be true. After the 2nd national tax consultation, we can support this with facts too. In the article we will share why we think the Hungarian tax authority is good.

We move forward with the times

Electronic administration was one of the main topics of the tax consultation. The NAV has re-

cently devoted incredible energy (and money) to make electronic access and administration more modern. As a result, many just had to open their prepared personal income tax returns on the special e-PIT site of the NAV and saw that the NAV's figures were correct, so they did not have to spend a long time preparing their tax returns. The NAV's 2.0 programme set even more forward-looking goals, and the Hungarian tax authority could easily become the most modern tax authority in Central and Eastern Europe.

As tax consultants, however, we do not believe **an automated program can replace knowledge requiring special international taxation expertise in the future**. Besides this, we would be happy to see electronic methods as the primary mode of communication, and the problems receiving official documents by post can be forgotten.

The new Act on Rules of Taxation

We have already written an article about the [changes in the procedural rules of taxation](#), the other key topic of the tax consultation, as well as about the new framework law and the [new Act on Rules of Taxation](#). It should really be appreciated that legislators as well as officials at the Ministry for National Economy and the NAV stood by the idea that stakeholders should be able to express their own opinions on a tax procedural law of such magnitude, prior to submitting the draft to the national assembly (which is expected to take place shortly). One of the most important achievements of the **social consultation**, one that WTS Klient Hungary also indicated to the legislators, is that although the amount of late payment interest will increase from 1 January 2018, the self-revision interest will still be tied to the central bank's key interest rate, as if "in appreciation" of voluntary corrections.

Tax authority as a service provider

We react differently when we are required to do something compared to when we are asked to do something. In practice, the NAV's [cooperative procedure](#) both increases budgetary revenues and makes us feel we have a second chance in the event of an error, before the tax authority collects the taxes during an inspection. From 2018, new steps are expected to strengthen the service provider nature of the NAV. **The mentoring of newly formed enterprises by the NAV and the list of reliable taxpayers, which will hopefully be published in the future, will serve the interests of taxpayers.** Additionally, the NAV would provide online access for taxpayers for reporting/change reporting, to help them fulfil their obligations, and if we can believe the news, the NAV would also make free invoicing software available for online invoicing that would be able to handle the immediate reporting of the data on invoices exceeding HUF 100,000 (approx. EUR 320).

Online invoicing – online data reporting

The new legislation turning invoicing into [online data reporting](#) will enter into force from 1 July 2018. We are talking about immediate data reporting here, but there are a lot of questions regarding its practical implementation. Again, the positive side of the story is that **taxpayers will have time to prepare for the changes**: they can view the related draft decree, while a new draft is expected based on the comments received from taxpayers. It is no wonder they are proceeding carefully. Online invoicing can be considered an IT issue which should be solved by IT experts, but it is almost certain that there will be companies even after 1 July 2018 which will find it difficult to carry out this task. It is enough to think about the [taxpayers registered for VAT purposes](#) in Hungary who have their own invoicing software, but their operations in Hungary are just part of their overall business, and so even just separating Hungarian invoices may actually cause problems for them. As for the positive side of online invoicing, it should be noted that it will replace the detailed domestic summary report of outgoing invoices by the party issuing the invoices, while taxpayers would definitely be happy with a function in the system enabling them to learn which taxpayers had issued invoices to them.

2nd national tax consultation and marketing

The information above shows that the NAV, which has gone through major downsizing in the meantime, is really taking some forward-looking steps. During the national tax consultation, the tax authority demonstrated its marketing arsenal, since it is not only corporations that need positive marketing. **Partnerships and communication between taxpayers and the tax authority create an opportunity for the smooth receipt of budgetary revenues.**

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"The NAV is waging a clever marketing campaign to present itself as a helpful and supportive tax authority in the eyes of taxpayers."

Tamás Gyányi, WTS Klient Hungary partner

Source: inforadio.hu



Turn on your radio!



"Besides the opportunity to give preliminary opinions on new laws and decrees, the 2nd national tax consultation demonstrated that the Hungarian tax authority has entered into genuine dialogue with taxpayers, legislators and consultants" – emphasised Tamás Gyányi. On the evening of Thursday 5 October on InfoRadio, WTS Klient Hungary's tax partner will be talking about the topic of the first article in our newsletter.

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

Please note that the conversation is available only in Hungarian.

For us as tax consultants, the problem or risk (if we can voice some criticism about the Hungarian tax authority) is that in terms of inspections, the system of sanctions or the default penalties established for the online data reporting based on the "number of defaults" are determined in a way that is not in line with the level of the defaults. We trust that the tax authority is striving to increase its tax revenues, and not its penalty revenues.

Significant or not significant error? That is the question...

Significant or non-significant error?

- what qualifies as an error?
- what is a significant and a non-significant error?
- what must be done with a significant and a non-significant error?
- three-column financial statements (balance sheet, income statement, supplementary notes)

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A company can learn about various pieces of information during the year that **affect the results of previous, closed financial years**, be they errors discovered during self-revisions, or in a worse-case scenario, tax shortfalls found in a tax inspection along with the related penalties and interest. Companies have various tasks to perform here depending on whether the error or the impacts of the error are significant or not.

What constitutes an error?

An error is considered to be any omission, mismanagement or misrepresentation of information in the financial statements of a business entity in one or more previous financial years, which are **derived from failing to use or misusing information**.

An error can also arise in connection with recognising, valuing, presenting or disclosing individual items in the financial statements.

These errors can be arithmetic mistakes, ignoring or misinterpreting facts, or the impacts of fraud.

What constitutes a significant and a not significant error?

Companies record in their accounting policies what constitutes a significant and not significant error in relation to their own size. With due consideration of the **threshold set forth in the accounting policies**, under the Act on Accounting a significant error is considered to have been committed if the aggregate amount (whether positive or negative) of all errors and the impacts thereof for a given year – increasing or decreasing equity – exceeds 2 percent of the balance sheet total of the financial year under review, or HUF 1 million (approx. EUR 3,200), if 2 percent of the balance sheet total does not exceed HUF 1 million (approx. EUR 3,200).

So the Act on Accounting states that if the error amount calculated as described above does not exceed HUF 1 million (approx. EUR 3,200), then the error is not considered to be a significant error. Of course, the error threshold in the accounting policies may be set at a lower amount.

What happens in the event of a significant error?

In the event of a significant error, **three-column financial statements** must be prepared, which means that the changes affecting previous years must be presented for all items of the balance sheet and the income statement beside the previous year's data, in a separate column, the "middle column". In practice, the business events affecting the previous financial year must be recorded in the books in the reporting year in a manner enabling them to be distinguished from the reporting-year figures later on. In three-column financial statements, the amounts of errors and related impacts in the middle column affecting the previous year/years

- contain the reporting-year column figures on the balance sheet page, if their inclusion in the financial statements in the reporting year is justified, but
- do not contain the reporting-year column figures on the income statement page.

So in the case of a significant error, the reporting-year profit/loss does not contain the errors and their impacts affecting previous years, and therefore cannot be used as the tax base for corporate tax in the reporting year either.

The profit/loss after tax figure in the middle column will be included under retained earnings in the column containing the reporting-year figures, together with the profit/loss after tax and the retained earnings of the previous financial year.

An important control point when preparing a three-column balance sheet and income statement is that the total of the middle column and the reporting-year column of the income statement should tally with the balance sheet items of the general ledger statement for the reporting year.

Any significant error and its impacts must be presented in the supplementary notes per balance sheet and income statement item. If additional information is needed, explanations must be provided alongside the numbers.

What happens in the event of a non-significant error?

With a non-significant error there is **no need to prepare three-column financial statements**. The impact of the error on the profit/loss is contained under the reporting-year data in the income statement, and so this data appears in the reporting year's profit/loss before tax and is thus used as part of the corporate tax base for the reporting year. However, errors and the impact(s) thereof affecting previous years **should still be treated separately from an accounting perspective**, at least at general ledger level, so they can be retrieved and tracked at any time.

Thus if a company detects an error during the year that (also) affects previous, closed financial years, then before getting anxious about having to prepare three-column financial statements it should definitely be examined whether the error and its impacts qualify as significant or not, because this decision could save a lot of unnecessary work.

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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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