

wts klient newsletter

WTS Klient.
The Bridge.

Dear Readers,

There must be a special reason for writing an introduction to draw attention to my own article. It is perhaps needless to say that these days we are all focusing on our [Tax Strategy Day](#) to be held next Tuesday. We are really happy about the large number of participants and we look forward to some exciting discussions.

Our first article this week will outline the planned topics of these discussions. The drastic changes proposed can be realised gradually over the next 4-5 years of course, depending on the current state of the budget. At the conference we expect to reach an agreement between the government, businesses and consultants about the key future directions of tax policy, and we hope that views on scheduling the amendments can also be brought closer to one another. We trust the discussions will be held in the spirit of the mutual respect and positive cooperation already established over the years.

Come and meet in person with leaders of the Ministry of National Economy and the NAV, and help us shape tomorrow's tax system together!

Zoltán Lambert
managing partner

Tax strategy proposals

With the help of the tax strategy proposals, the investment mood would improve, the economy and consumption would grow, and this would lead to a rise in tax and contribution revenues.

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Changes to tax enforcement law

The tax enforcement law, which was accepted on 14 November 2017 and will enter into force on 1 January 2018, contains both tighter rules and new rules.

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Tax strategy proposals

"These simplifications would have a positive effect on investment sentiment and would enable a significant increase in salaries, thus boosting economic growth and consumption."

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The relationship between man and his environment is special. The more we want to solve a specific problem, the less we "see the wood from the trees". The same applies for us, as tax experts.

Seriously, except for those who love seafood, who cares that the VAT on fish will fall to 5%

next year? Will it really affect our business decisions, or perhaps force us to change strategies, if the social contribution tax falls by a half a percentage point more than expected?

Still, this was what all of the specialist Hungarian press focused on **last week**; practically **all you could read about was the minute detailed rules of the tax changes coming next year.**

In the meantime, loss-making companies frequently pay significant amounts of local business tax, when making our daily bank transfers we contribute to central budget revenues with the almost invisible transaction tax, but which adds up to a significant amount overall, and we use Excel spreadsheets to try and calculate the tax and contribution implications of in-kind contributions in any given month, which differ for virtually every item.

We don't have any time left to push through the material changes because browsing through the detailed rules we rack our brains to figure out whether or not it is worth launching a health maintenance programme in the hope of up to a 10% decrease in the public health product tax.

Please don't misunderstand me! A good tax consultant is always aware of the minute details of legal regulations currently in force, but if we had time to take a deep breath, **we could simplify the tax system and decrease administration with some simplifications and by fixing systemic errors, as well as debating tax strategy proposals.**

There is no dispute among professionals about whether the decision to switch the focus of taxation from income taxes to sales taxes was right or not. There is also consensus that reducing taxes on employment was the right decision by the government due to its effect on competitiveness and boosting the economy. However, by simplifying or perhaps abolishing some tax types we could really improve the transparency of the tax system.

Specific tax strategy proposals

→ Local business tax

I discussed the possibilities of improving the transparency of local business tax and its systemic transformation in detail in [an earlier article](#). In essence, the significant convergence of the tax base to the company's profit and a simultaneous increase in the tax rate could maintain the tax burden in a way that calculating tax would be simpler, and it would align with the income-dependent nature of local business tax, which is the declared aim.

→ Topping up corporate and local business taxes

Another idea that has been raised before is that at the end of this particularly successful budgetary year the system of [topping up corporate and local business tax](#) should be scrapped for good. This rule plagues the work of professionals focusing on taxation and accounting in December. Advent is a special period for many, and it is only chief accountants and tax directors who spend their evenings beside their "crystal ball" instead of going to the Christmas fair. During this time they try to predict their profits and losses for the given year – which often depend on events in the last few days of the year – and consequently their expected corporate tax base.

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Successful legislative proposals

EKAER – simplified reporting in more cases

Many of you still probably remember December 2014, when the Electronic Public Road Customs Transit Control System (EKAER) was hastily accepted. Our customers and their foreign parent companies had to make their IT systems compliant with the new requirements very quickly from January 2015. In addition to the system's undeniable effect on whitening the economy, it also caused problems in the details. To remedy this, we put a sizeable amendments package on the table of the Ministry for National Economy. Although the majority of our ideas have not yet been accepted, our proposal regarding the simplification of the system was heard.

From October 2016, **authorised economic operators** according to the specific rules of the Regulation of the European Parliament and of the Council laying down the Union Customs Code **can submit simplified data reports in the EKAER**.

Authorised economic operators (AEO) are economic players that the customs authority considers to be reliable partners, and therefore they enjoy various benefits when dealing with customs matters. These benefits have now been expanded to include EKAER relief, which means such companies may submit simplified data reports, i.e. **when requesting EKAER numbers they only have to provide basic information on the transportation** (sender, recipient, licence plate). Less data means less exposure to default penalties, which we also qualified as excessive.

Do you have also an opinion about taxation? Would you like the government to listen to your proposals on tax policy in Hungary? Then come to our Tax Strategy Day 2018 conference!

For a transportation company it is not insignificant whether only 3 items of data are necessary to apply for the EKAER number, or all the data as per the relevant decree. The amendment comes as a great relief both to our authorised customers and to us.

Gedeon Tabányi, managing director, Hoyer Hungária Kft.

→ Special sectoral taxes

I discussed this issue in detail in a [previous article](#). Few disputed the temporary implementation of these special taxes in the years of the crisis. However, keeping them in the tax system permanently is largely unnecessary during the current boom. They no longer have a significant impact on the budget, but they hinder investment projects significantly, and by often levying a 30-40% tax on pre-tax profits they make it impossible for these sectors to develop dynamically.

→ Transaction tax

It cannot be said that the transaction tax – similar to the special sectoral taxes – discriminates some companies. Proportionally, every company feels the “benign” impact of this tax in almost equal measure. This way, however, the tax weighs down on companies regardless of any profitability factor, significantly lowering the [advantages of Hungary's corporate tax rate](#) which is highly competitive in regional terms.

→ Fringe benefits

[Fringe benefits](#) have become important parts of staff incentives at many companies in Hungary in recent years. By selecting their size and proportions, companies can convey to their employees the values they believe to be important in a unique way. If staff members can select the individual elements of their fringe benefit package themselves to a certain degree, they can develop a system that is advantageous for both parties (the employer and the employee). The various taxes and contributions on fringe benefits make this simple system so complicated and counter-productive that it has resulted in many firms dropping their fringe benefit systems completely in recent years, while those who have kept them complain about the continuous rise in administration. With standard tax charges and maintaining the level of total budgetary revenues, the fringe benefit system could be made simpler and attractive.

→ Group corporate tax

A significant number of international companies outsource their different activities into separate business lines, and generally even into separate legal entities. If, fortunately for us, such a company carries out several of its activities in Hungary (production, trade, services), one of its entities could easily generate losses, even if only temporarily. These groups are adversely affected by the fact they cannot consolidate the corporate tax bases of the companies included in their portfolio. The loss generated in one of their business lines cannot decrease the profit of another business line when assessing the corporate tax base. This discrimination should be eliminated by introducing group corporate taxation, partly because in the case of significant such items, companies still take advantage of the opportunity to merge their legal entities, so the central budget can only count on extra revenue in cases affecting corporate tax to a smaller extent. With the option of loss carry forwards this extra revenue is only temporary too, though to a limited degree.

In conclusion

Of all the tax strategy proposals outlined above I have endeavoured to present some simpler points. I'm not saying that their implementation would have a negligible impact on the budget. Still, **during the current boom it would be simpler to implement these modifications** and they would largely have a positive effect on [investment sentiment](#); they would also enable an additional significant increase in [salaries](#), thus boosting economic growth and consumption. All this would ultimately lead to an increase in tax and contribution revenues. “What is lost on the swings is gained at the roundabouts.”



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“One of the greatest merits of the 2018 tax package is a more unified, more transparent and clearer definition of tax procedure rules.”

**Béla Kovács, WTS Klient Hungary
senior manager**

Source: inforadio.hu



Turn on your radio!



With the amendments approved on 14 November, the 2018 tax package announced in several stages over the year has been completed and finalised. On the evening of 23 November, senior manager of WTS Klient Hungary, Béla Kovács will be discussing the latest changes on InfoRadio, including issues such as the repeal of the Act on the General Rules of Public Administration Procedures, the rearrangement of tax procedure laws, and the new elements to laws.

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

Please note that the conversation is available only in Hungarian.

Changes to tax enforcement law

New tax enforcement law

- new employer obligation in connection with income garnishment
- possibility of collateral swap
- new rules on suspension of enforcement proceedings
- rules for appointing a trustee
- changes regarding enforcement challenges

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Among other tax laws, on 14 November 2017 the National Assembly accepted the law on enforcement proceedings to be implemented by the tax authority (hereinafter: "tax enforcement law"), which will enter into force on 1 January 2018. The bill brings several modifications to the current provisions of the [Act on Rules of Taxation](#) regarding enforcement proceedings. Consequently, the tax enforcement law makes up for old deficiencies whilst also introducing new elements. In our article we highlight the most important changes.

New rule on income garnishment among provisions of tax enforcement law

The law introduces a new information obligation for the employer, according to which **employers are obliged to inform both the tax authority and the employee of the employee's income that can be garnished every month, along with any changes and other circumstances, within 15 days.**

The collateral swap

The law introduces a new, customer-friendly option, which means assets seized by the tax authority can be released from enforcement proceedings. This opportunity applies if the debtor offers another asset as collateral, whose market value reaches or exceeds the value of the movable to be swapped, and if recovery of the debt is still ensured after the release. Additionally, the application has to be submitted by the debtor prior to the setting of the auction date at the latest.

Suspension of enforcement proceedings

The tax enforcement law provides new rules for cases when enforcement proceedings can be suspended. In line with the former rules, proceedings will still be suspended in future if deferred payments or payment in instalments are approved. However, the rules have been tightened for debtors in that only an application for payment relief submitted within 8 days of the due date of the debt will suspend the enforcement.

Options to appoint a trustee

The tax enforcement law regulates **the cases when a trustee can be appointed**. This is necessary when debtors have assets that can be seized, but their whereabouts are unknown, they live abroad, or have resided abroad for a long time, and they have no representatives. In such cases, the assets can be seized and sold after the appointment of the trustee.

Changes regarding challenges of enforcement

The law contains several new features in respect of challenging enforcement: firstly, it increases the scope of cases when applications containing an enforcement challenge can be rejected, and now includes enforcement challenges that do not contain any reason for annulling or changing the measure. Secondly, as opposed to the current 8-day deadline, the proposal allows for a **much longer period, i.e. 15 days, for the submission of enforcement challenges**. Additionally, the law revises the rules on the postponing effect of enforcement challenges. An enforcement challenge does not suspend further enforcement actions, except for challenges submitted for the first time after the setting of the auction date to dispute the lawfulness of setting such date; this helps to avoid time-wasting and the submission of challenges related to false grievances.

Other changes

The tax enforcement law did not change the fact that enforcement proceedings can be freely launched without notifying the debtor in any way. One change, however, is that in the case of a debt of HUF 10,000 (approx. EUR 32) or less a payment reminder is sent out, and the tax authority will at most only implement an enforcement-related internal transfer to recover the debt.

According to the reasoning in the tax enforcement law, one of the main new concepts is that movables can be physically taken from the debtor right after they are seized, in order to prevent any sale from being undermined or prevented.

In addition to the stricter rules there are some positive changes for debtors in relation to the seizing of properties. In the case of a residential property used directly as the residence of a natural person or private entrepreneur (debtor) and their close relatives living with them, such property cannot be seized if the amount of debt does not exceed HUF 500,000 (approx. EUR 1,600), even if the value of the residential property is proportional to the extent of the debt.

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