



Dear Readers,

The General Data Protection Regulation (GDPR) of the EU will be mandatory and directly applicable in all Member States, including Hungary, from 25 May 2018. This has increasingly been pointed out to companies on numerous platforms recently, but our experience shows that many, especially senior executives, HR leaders and marketing staff, have not yet even started their preparations for the GDPR.

The opinions, reports and resolutions issued by the National Authority for Data Protection and Freedom of Information (NAIH) provide guidance for the preparation process. Based on NAIH practice [we summarised](#) the most important rules for data management prior to employment in a previous newsletter, and on page 6 of this newsletter we turn the spotlight on the principles of checking email accounts used for work purposes.

If you need help in preparing for the GDPR, then the law office working in cooperation with WTS Klient Hungary will gladly examine your present data management procedures during a [data protection audit](#) and will support you in taking the necessary steps to ensure legal compliance with GDPR requirements. Feel free to contact us.

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Contents

Financial diagnostics: are the finances of your company in order?	» page 1
Tax implications of property development	» page 3
Tasks of business entities after a company registration in Hungary	» page 4
Checking email accounts used for work purposes	» page 6
Reporting intention to perform a self-revision before tax inspections	» page 7

Financial diagnostics: are the finances of your company in order?

Financial diagnostics covers the following areas, among others:

- Review of product profitability
- Preparation of business plan
- Survey of tax risks
- Selection of appropriate funding
- Cash flow planning

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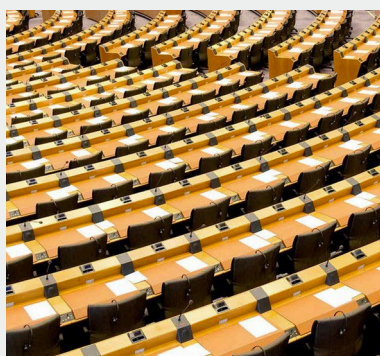
In addition to having appropriate products and services, a company's taxation and financial issues must be in order to ensure successful and sustained operations. Financial diagnostics helps with this.

Large companies generally have the necessary staff. It is not unusual for the finance manager to be supported by

separate financial and accounting staff, and for additional controlling staff or a team to help define the appropriate cost structure and keep costs within limits. In this way, thorough knowledge of cost structures supports these companies with pricing. It is also natural that other functions required for acquisition, manufacturing, sales and operations have independent responsibilities too, with a **specialised manager and staff** and a control mechanism adjusted to the professional area.

continued on page 2

WTS Global creates European Tax Law Centre in Brussels



The continuous substantial changes in EU tax law gave rise to setting up an integrated European team consisting of experienced European tax law practitioners with a proven track record at WTS. Therefore WTS Global has launched its European Tax Law Centre (ETLC) in Brussels which, under the leadership of its Belgium member firm Tiberghien, will act as the cutting-edge European tax advisory centre for international WTS clients. "By setting up the ETLC, we will help navigate our clients through the complex European tax law developments and continue on our path to build a leading global tax practice, whereby the bundling of our expertise plays an indispensable part" – said Wim Wuyts, CEO of WTS Global about the ETLC.

Challenges for SMEs

By contrast, the **majority of the above functions** often **either overlap** or, in unfortunate situations, are completely **missing in small and medium-sized companies** in Hungary. The managing director and the owner are often the same person, managing acquisitions, manufacturing and sales, and also bringing in business and actively participating in product development. Generally speaking this means there is no longer sufficient time and energy for finances. This is particularly true if the manager is not a financial professional but comes from an engineering, technical, chemist or sales background, and lacks the inclination to pay sufficient attention to the company's financial issues.

Yet a company **may flounder even with the best product or service**, or can be doomed to fail **if its finances are not in order**. Do not forget that a business is primarily established to make a profit.

Additionally, Hungarian SMEs have to stand their ground in the same economic environment and generally have to comply with the same legal regulations as large companies. Indeed, in certain cases they have to make significant efforts to obtain appropriate [funding](#).

Financial awareness

By the time some managers recognise that their company can only be sufficiently successful if its finances are in order, years may have passed without paying substantial attention to this area. Even worse, a problem arises that compels the manager to think about why his company makes losses when their product is believed to be successful and of high quality.

If the situation can still be saved (even in such cases), the **problematic areas**, which can make the company profitable or put it on a faster growth path if they receive more attention, can be **identified** through **quick and professional financial diagnostics**. And by maintaining financial awareness, the risk that the company might face a difficult situation again due to its finances can be mitigated.

You can listen to the radio interview about this topic by clicking here:



wtsklient.hu/2018/02/08/penzugyek-rendben-tartasa/
Please note that the conversation is available only in Hungarian.

Conducting financial diagnostics

Although financial problems may differ by company, there are areas to which attention should definitely be paid during the conducting of financial diagnostics.

For example, it is important whether a given business line or product is **profitable or not**. If it is, what does this mean precisely? How much profit does it generate? Does it cover variable costs only, or is the profit also enough to cover the given proportion of fixed costs? If a product makes losses does its production really have to be terminated, or will this put the company in an even worse situation?

It is also worth reviewing who generates **cash inflows and outflows** and at what pace within the company. Is the company not too generous with customers in terms of **payment conditions**? Do its suppliers offer payment assistance options that are perhaps due based on the size of the order?

Financial diagnostics

WTS Klient Hungary has been able to help many companies by performing financial due diligences. The diagnosis not only gives a clear picture, but also helps specify the **path and tools necessary to ensure stress-free growth**. How does this work in practice? Send us an [email](#), we will make an appointment, and you'll find out the most important issues within a quarter of an hour.

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- » consolidation
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Languages

Hungarian, German, English

Tax implications of property development

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When planning to buy property as a developer, you typically look for a piece of land or a building to be knocked down, and you generally have fixed ideas. But have you ever thought about the tax implications of the purchase in Hungary, or the subsequent tax implications of property development that you should bear in mind?

In the case of property development, think through the following:

- Should you buy the property itself, or purchase a share in the company owning the property?
- If a property is purchased, what is the VAT status of the property?
- How do you intend to utilise the developed property?
- Have you filed the necessary reports to the tax authority?

As finance professionals we often see that developers know very well during the planning stage what they subsequently want to implement, but they don't know whether they should buy the property itself, or the company that owns it, whether they will have to finance the VAT, or will it be a reverse charge transaction. Without aiming to give an exhaustive summary, in this article I want to draw the attention of property developers to the tax implications of property development in Hungary, which may play a key role in their decisions.

Tax implications of buying property in Hungary

First, it is worth investigating how the property to be purchased is classified in the land registry, and whether the tax department of the competent local authority based on the location of the given property recorded it with the same status: is it a **building lot** or it is a property classified as an **undeveloped area**. If it is a building lot as per the VAT Act, you can only buy it from the seller paying VAT of 27%. If you buy a used property (possibly including a structure to be knocked down) based on the definition of the VAT Act, the acquisition basically takes place without charging VAT.

However, it is important whether it really is a tax-free sale/acquisition, or whether you as the buyer need to report the tax (reverse charge) as tax payable and deductible because the seller of the property chose a tax liability for the transaction that is essentially tax exempt under the law. The situation is **simpler if you don't purchase the property itself but acquire a share in the company that owns the property**. In this case you won't face complex VAT issues in connection with the purchase, but you have to be aware of the company's "history" and tax risks.

Tax reporting obligations of property development in Hungary

As a newly established project company, in order to avoid any problems with reclaiming the VAT on services used and acquisitions during later procurements or developments, **attention should be paid to the reports filed with the NAV as early as during the establishment of the company** in connection with the tax liability of the subsequent presumed utilisation (property sale and leasing).

As a developer, the most important issue is the deductibility or reclaim of the tax related to product purchases and services used during the development. To this end, it is worth choosing a tax liability for all types of subsequent utilisation, and in respect of leasing and sale this reporting might even have to be made during the establishment of the new company acting as the buyer.

continued on page 4

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"This will involve data structures and information that the average person or even accountant will not be capable of comprehending."

Tamás Gyányi, WTS Klient Hungary partner

Source: inforadio.hu



Have you heard?



"Hungarian accounting software programmes are expected to be capable of handling the technical challenges behind **online data reporting**, but an appropriate IT solution will be necessary for those who do not use Hungarian accounting software. This will definitely entail extra costs" – says Tamás Gyányi, partner of WTS Klient Hungary, who on InfoRadio on 8 March discussed the challenges and the preparatory tasks for the introduction of online data reporting on 1 July.

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

Please note that the conversation is available only in Hungarian.

Tax implications of property utilisation in Hungary

If following your project you want to sell the apartment(s) in a residential block, you can currently do so at a [preferential 5% tax rate](#), where VAT is charged in each case. No other taxation method can be selected in this case. But, **if you are selling storage facilities or garages, these are sold with a 27% VAT rate.**

If you primarily want to rent out the property built, and as lessor you selected the taxable status, **the residential property will be rented out with a 27% VAT rate.** In light of the tax rules, the possibility of reverse charging is not an option here. The renting out of garages or car parks is taxable in each case.

You can listen to the radio interview about this topic by clicking here:



wtsklient.hu/2018/03/01/ingatlanfejlesztes/
Please note that the conversation is available only in Hungarian.

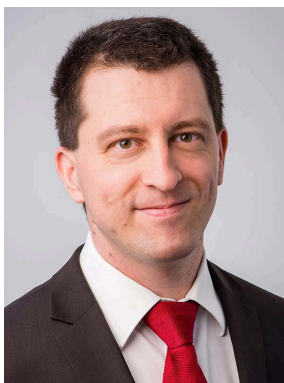
It follows from the above that you have to pay attention to many things during property development: it pays off if you consider the tax implications of property development as early as sitting at the planning table.

Tax planning in the case of property development

If you are interested in the details of [tax planning](#) before a property development along with the most frequent, tried and tested professional proposals and solutions, please contact us.

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- » value added tax planning
- » tax authority inspections
- » reviews of transfer pricing documentation obligations
- » due diligence reviews

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Languages

Hungarian, German, English



Tasks of business entities after a company registration in Hungary

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After registering at the Hungarian Court of Registration, entities in Hungary have to fulfil statutory obligations by certain deadlines. From among the tasks to be performed after a company registration, those related to accounting and taxation obligations are highly important. Failure to meet these obligations can result in a default penalty from the authorities.

Data reporting obligations after a company registration

After a company registration, common business data has to be reported to the **Hungarian tax authority (NAV)**. It has to be reviewed whether **all activities** were registered at the establishment and whether these are included in the master data held by the tax authority. If additional activities have to be specified, you

have to indicate this on the relevant forms. The **operating licence number** also has to be reported if the activity is subject to a permit from the authorities. You have to consider and, if necessary, report the **form of taxation** you have chosen in the cases when the law allows this choice. This is hugely important, particularly in the case of leasing and [property sales](#) activities. You have to specify **the place where documents are stored** and report the data of any [registered office service](#) if this is relevant for your business. According to the [new provisions](#), you have to provide the main details of any **bank account held at a foreign bank**, and you can specify whether to use the MNB or the ECB exchange rate in your bookkeeping. In addition to data reported to the tax authority, after a company registration you have to report the data to the **local governments** and register at the competent bodies of the **Hungarian Central Statistical Office (CSO)**. Some of the businesses' tax obligations and data reporting tasks will be defined based on this information.

Obligations following a company registration

Data reporting

- **NAV:**
 - » activities
 - » operating licence number
 - » selected form of taxation
 - » place of document storage
 - » data of registered office service
 - » foreign bank account
- **local government**
- **CSO**

Accounting tasks

- **defining:**
 - » reporting date of financial year
 - » bookkeeping currency
- **preparing:**
 - » valuation policy for assets and liabilities
 - » inventory policy
 - » cash management policy
 - » internal prime cost calculation policy

Accounting tasks

You can define the accounting tasks following a company registration in Hungary based on the principles and procedures relevant for the business. The **reporting date of the financial year** and the **bookkeeping currency** are defined upon the establishment of the company. The rules and requirements typical of the business have to be defined within the framework of the accounting policy, and it has to be decided which statutory choice will be applied by the business. The accounting policy has to include the policy for the **valuing assets and liabilities, the inventory policy, the cash management policy and the internal prime cost calculation policy**, if the latter is relevant.

The representative of the business entity is responsible for preparing the accounting policy, the preparation deadline is 90 days after the establishment of the company. When preparing the valuation policy, you determine the valuation of the assets and liabilities typical of the business, and during this process, in the case of international companies, you also have to consider the requirements of the group. Among other things you can record the principles for the depreciation of assets, the valuation of inventories and receivables and the allocation of provisions. It is important to keep accounting records based on these principles, and any changes should be documented in writing in the accounting policy.

Other potential obligations

These general tasks arising after a company registration in Hungary may be supplemented with other obligations or data for reporting. Tax consultants assess these based on appropriate information, and consult with the managers in charge if necessary. If there is any change in the data already reported, you have to proceed according to the rules on **change reporting**; thus, ensuring that the information affecting the tax obligations of the business is available for the authorities.

Obligations following a company registration

If you are not sure that you properly fulfil all the data reporting and accounting obligations after a company registration, please [contact us!](#)

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- » controlling reports
- » reporting (general and special cases)
- » support of tax inspections, liaising with tax authority

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Languages

Hungarian, German, English

Checking email accounts used for work purposes

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Legal compliance with the General Data Protection Regulation (GDPR) of the European Union is one of the key areas of personal data management in connection with employment. In our earlier article we wrote about the proper management of personal data before employment; in this article, **to help prepare for the GDPR**, we summarise the most important rules on checking email accounts used for business purposes, which also involves personal data management, paying special attention to the practices of the National Authority for Data Protection and Freedom of Information (hereinafter referred to as: NAIH) in Hungary.

Before checking email accounts, employers must notify employees about the following:

- purpose of the check
- those present during the check
- steps of checking procedure
- employee's rights, legal remedy options

Prepare an internal policy!

It is common practice for employees to use their work email accounts for personal correspondence, without authorisation, which can cause problems. This can result in employers gaining access to personal information of the employee as well as other people (not employees) in the private emails, during checks of the email accounts. Another issue here is that the other party (not an employee) involved in the **private correspondence** is not aware that a third person (the employer) is entitled to review their emails. According to the NAIH, to resolve such issues it is vital for the employer to have an internal policy, which defines the following at least for the use and monitoring of email accounts set up for work purposes:

- whether the email account set up by the employer is to be used exclusively for work purposes, or whether the employee may use it for private correspondence as well,
- rules for making and keeping backup copies,
- when emails are permanently deleted,
- rules for monitoring procedures.

According to the NAIH, **positive conduct by the employer is of paramount importance** for the purposes of establishing proper data management practices. It is considered good practice if the employer draws the attention of employees to compliance with the provisions of the internal policy at regular intervals, e.g. in the form of system notifications.

Data protection due diligence

If you are interested in checking whether your company's data management policy – related to checking email accounts or any other issues – complies with GDPR requirements, please contact us and we will review your current practices in a data protection due diligence.

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Employees must be notified before checking email accounts begins

Employers must notify employees prior to checking email accounts, about the following among others:

- why and for what employer interest is the check being carried out (e.g. reasonable suspicion that business secrets have been breached);
- who is present during the check (e.g. Head of IT Department, HR manager), and who is entitled to carry out the check on behalf of the employer;
- what steps does the check comprise, how exactly is it carried out;
- what rights do employees have during the check, what legal remedy options do employees have in connection with the data management during the check of their email account.

Main rules for checking email accounts

When checking email accounts of employees used for work purposes, the following rules must be observed by the employer to protect personal employee information – in view of the requirement for the employee being **present in person** and the **step-by-step principle**:

- The check must be carried out in the presence of the employee concerned and minuted.
- The person conducting the check must review the email interface based on available information, and, in view of the step-by-step principle, filter the emails based on email address, email subject, time of sending, and size of attachment to select those which the employer wishes to inspect.
- If the employer does not allow work email to be used for personal purposes, the main rule is that the check shall only be carried out until it is established that the employee did not observe the employer's instructions. **The employer, however, is not entitled to read the content of the private emails.** Detecting non-compliance provides sufficient grounds for labour law consequences in Hungary.

When checking email accounts used for work purposes, observing the above rules and implementing them in practice is an important part of legal compliance with GDPR requirements.

You can listen to the radio interview about this topic by clicking here:



wtsklient.hu/2018/03/14/gdpr-kovetelmenyeinek/
Please note that the conversation is available only in Hungarian.

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Reporting intention to perform a self-revision before tax inspections

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As we have already [discussed](#) before, there are a number of new features in Act CL of 2017 on Rules of Taxation (hereinafter: Act on Rules of Taxation) for the year 2018. One of them is **reporting the intention to perform a self-revision**, which is a new opportunity for taxpayers. According to the new rule, the Hungarian tax authority (NAV) may not start a tax inspection covering the given tax assessment period and tax type for 15 days after receiving such notification.

Reporting a self-revision:

- may only be done once per period and per tax type
- submitting notification is not a prerequisite for a self-revision
- tax inspection may not be launched for 15 days following the notification

Tax inspection and electronic communication from 2018

The NAV has recently [devoted a considerable amount of time](#) to making electronic access and administration more modern, and from 2018 Hungarian taxpayers have a number of ways to communicate with the tax authority in Hungary electronically. **In some cases electronic communication is an option, while with certain issues, this is the only way for taxpayers to communicate with the tax authority.** At the beginning of 2018, choosing the right option often caused headaches both for taxpayers and the tax authority, just like the question of whether to use the business gateway or the government portal. In general, from 1 January 2018 business organisations and other organisations obliged to use electronic communication means in tax-related issues must communicate and handle their administration with the tax authority electronically, via their authorised representative, agent or legal or organisational representative.

According to the change related to tax inspections introduced from 2018, a **tax inspection** creating a period that is closed from an inspection perspective, meaning that no self-revision can be carried out, **starts on the date when the preliminary notification is delivered, or if this is not delivered, then upon the delivery of the engagement letter.**

Practice shows that in the case of electronic communication, the representative or the agent only sees that there is an electronic letter among the messages with the subject "official document arrived". It is enough to click on the letter unsuspectingly, and the notification or the engagement letter about the tax inspection is delivered. Once the letter is delivered, you lose the possibility for a self-revision for the relevant period, and if errors are identified, you may need to pay a tax penalty; with a self-revision you can correct the errors and pay self-revision interest, without facing the threat of a tax penalty.

New option for reporting intention to perform a self-revision

Section 54 of the new Act on Rules of Taxation contains the [general rules](#) for self-revisions applied in Hungary and already known for a long time, which are now expanded with reporting the intention to perform a self-revision (Section 55) from 2018. Thanks to this new option, taxpayers can submit a document to the tax authority that enables them to exclude themselves from the tax authority's right to perform a tax inspection for the period of the self-revision – i.e. for 15 days following the notification. Submitting the self-revision is not subject to giving this notification, and making the declaration does not create an obligation to perform a self-revision either. There is one condition, however, that this can only happen once per tax assessment period and tax type.

Dr. Tamás Felsmann, tax law specialist of WTS Klient Hungary talked about this topic on InfoRadio.



Listen to the conversation at this link:

wtsklient.hu/2018/03/22/onellenorzesi-szandek-bejelentese/
Please note that the conversation is available only in Hungarian.

Documents required for self-revision

A separate document needs to be used to report the intention to perform a self-revision to the tax authority. This can be submitted using the **18ONELLB** document, while the self-revision itself – in the case of tax returns – must be submitted using the tax return form for the relevant period, indicating self-revision as the "type of return".

Self-revision interest

There are conditions and restrictions connected to selecting a self-revision, similarly to the process of reporting the intention to perform a self-revision. All the conditions must be fulfilled for a taxpayer to take this opportunity. **Self-revision interest must be paid** if the [self-revision](#) reveals that the recalculated liability exceeds the amount indicated in the original tax return. The amount **on the first occasion is 50% of the late payment interest, increasing to 75% in the case of a repeated self-revision**. It is worth considering the number of times you modify a period before the start of the tax inspection because of the increase in self-revision interest for a repeated self-revision.

Representing clients

WTS Klient Hungary has been [representing its clients at the authorities](#) for nearly twenty years. With the authorisation given to our tax advisers you can engage us also to report your intention to perform a self-revision. Feel free to contact us.

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- » due diligences
- » tax litigations

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Languages

Hungarian, German, English

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