



Dear Readers,

Once again, this summer is not boring for tax and finance professionals or for company managers. The legislators managed that we all have something to think about while we are on holiday. Only shortly after the excitement brought on by the GDPR transition we were straight into the launch of online invoicing (see our article on page 5), and now the National Assembly has adopted the 2019 budget and tax laws.

So in recent weeks we have been discussing the proposals on the [expected tax amendments](#) and [accounting regulations](#) more frequently as well. As we've arrived to the last Friday of the month we summarised our professional publications of July and we also present the latest WTS Global study on the implementation of the ATAD in EU Member States in this newsletter.

And last but not least we are proud to inform you that in the latest International Tax Review publication, our colleague, Tamás Gyányi, partner at WTS Klient, was [included on the list](#) of the world's 800 leading indirect tax advisers.

We hope you enjoy reading it, and have a pleasant summer:

Eszter Balogh
partner

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Proposals to revise tax regime in Hungary



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The Hungarian Government submitted the 2019 state budget to the National Assembly in the middle of June. Obviously, a tax consultant is primarily interested in the [changes to the tax regime](#). Since investors mainly want [predictability](#) when it comes to the elements of a tax regime, we were happy to see that based on the budget forecast **we do not expect any major, unforeseen changes** in 2019.

The 15% personal income tax and the 27% VAT reduced by preferential rates shall remain in force, and the only change in the area of family tax relief or social contribution tax is that the **amendments previously adopted and providing further advantages will enter into force**. Although the narrowing of fringe benefits and the introduction of the special immigration tax in 2019 could still ruffle some feathers, on the whole we have to ask whether the tax regime really is complete, and is there no need for further material changes in the coming four years?

continued on page 2



WTS Study: Interest Limitation Rules in the EU has been published

On 20 June 2016, the Council of the European Union adopted the EU Anti-Tax Avoidance Directive (ATAD) laying down rules against tax avoidance practices that directly affect the functioning of the internal market. The Interest Limitation Rule (ILR) must be adopted into national law by 31 December 2018. WTS Global has concluded a European WTS ILR Study regarding the implementation of the ILR in the various EU Member States.

If you are interested in the study, please send us an email to the esther.lausek@wtsklient.hu email address!

What should be changed on the tax regime in Hungary?

The radical transformation of the tax regime in Hungary in 2011, i.e. the shift in emphasis from the taxation of income to the taxation of consumption, was a new and fundamental tax policy direction and it would be difficult to challenge this in light of the current economic indicators. However, there are **three smaller proposals** which will not change the tax regime materially but applying them is worth considering. I will attempt to outline these now.

Special sectoral taxes of the Hungarian tax regime

In Hungary, the 6 largest special sectoral taxes (special tax on financial organisations, income tax on energy providers, telecom tax, public utilities' tax, insurance tax, gaming tax) barely generated 3% of tax receipts for the 2018 budget. However, these special taxes distort competition. If we add the special tax to the corporate tax paid by companies operating in sectors that are subject to a special tax, then in most cases they face an effective tax burden in excess of 50%, but in some cases it can be more than 80%. **With a tax burden of this size there is almost no point in conducting any business activity at all**, while the only thing really keeping these investors in Hungary is that under such taxation conditions they would only recover a fraction of their invested capital were they to sell up and leave. And waiting for the appearance of new market players in industries subject to a special tax is most certainly a fruitless endeavour. The VAT revenue growth of HUF 200-300 billion (roughly EUR 600-900 million) expected from the introduction of online invoicing from 1 July 2018 would make up for almost the total discontinuation of the special sectoral taxes. This step would revive investment appetite in the industries concerned, so some of the missed budget revenues would be collected in the form of different tax types.

Local business tax

Local business tax is the third largest income-generating tax at the level of the national economy after sales taxes and personal income tax. How is it possible that the 9% corporate tax generates less revenue for the budget than the 2% local business tax, which seems negligible?

Apart from the available allowances, this contradiction in the area of corporate tax is explained by the fact that the basis for local business tax is a multiple of that for corporate tax. The more than HUF 600 billion (roughly EUR 1,8 billion) received by local governments from this tax type is not expected to decrease drastically. With a **gradual increase in the tax rate** and a simultaneous, **gradual approval of the deduction of wage-type expenses, depreciation and other expenses from the tax base**, local business tax revenue would still remain unchanged and, parallel to this, the profitability of companies would be expressed in the amount of tax payable to a greater extent.

Prior to making an investment decision, major investors always calculate the so-called effective tax burden based on the taxes charged in the given country. If we stop communicating economic policy merely at the level of tax rates and demonstrate Hungary's regional tax benefit to potential investors in terms of the effective

tax burden in the area of income taxes, including the advantage of **transparency**, which should not be underestimated, we can achieve serious economic development.

The most unjustified element of the Hungarian tax regime: the corporate tax top-up system

Taxpayers which had net sales revenues in excess of HUF 100 million (roughly EUR 300,000) in the year prior to the reporting year must estimate their entire annual tax liability by the 20th of the last month of the given financial year and pay the difference between this amount and the tax advances already paid.

Alongside the otherwise efficient and logical Hungarian tax advance system, it makes no sense to have to estimate corporate tax by 20 December (or by the 20th of the last month of the financial year if the company follows a different financial year), and pay the difference taking the paid tax advances into account. This date often precedes the balance sheet preparation date by 2-3 months. But the pre-tax profit and thus the corporate tax base are heavily influenced by year-end accruals, turnover-related bonuses and group accounting. There are also many items that can increase or decrease a company's corporate tax base. It is not easy taking these into account months before the financial statements are prepared either.

If the tax advances paid during the year and the top-up payment at the end of the year are collectively less than 90% of the actual corporate tax payment liability, which is assessed only 5 months later, then a default penalty becomes payable amounting to 20% of the difference. And all because, **several months before preparing its annual financial statements, the company did not know precisely how external factors would impact on its profit**. What is more, the Hungarian tax authority is unrelenting in its levying of default penalties. If the top-up payment is transferred one day late because the authorised signatory was perhaps not in Hungary the day before, the penalty is imposed in full and without exception.

I have my suspicions that **this system serves one purpose and one purpose alone**: in order to avoid the significant default penalty companies pay tax advances and make their top-up payments at amounts which exceed their actual corporate tax payable, thereby **financing the state budget interest-free** for 5 months from the end of the year. With economic growth of 4% and a budget deficit of less than 2%, now is perhaps the time to abolish this economically unjustified system. continued on page 3

Complex tax planning

If you are planning a complex tax strategy for your company and you need a tax consultant to define the actual steps and for a detailed analysis of the Hungarian tax regime, do not hesitate to contact us and make sure you avoid the possible pitfalls.

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We have already formulated several modifications regarding the tax regime for the Hungarian Ministry for National Economy (the old/new Ministry of Finance) in our [proposal packages](#) submitted annually, yet I think if we could see the 3 most important revisions listed in this article in our tax laws in the following four years, we can be satisfied with the Hungarian tax regime.

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



wtsklient.hu/2018/06/28/magyar-adorendszer/
Please note that the conversation is available only in Hungarian.

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Languages

Hungarian, German, English

Latest publications

- » [What is the connection between the construction boom and the VAT on new apartments?](#)
- » [Tax strategy proposals](#)
- » [The be all and end all of taxation policy: predictability](#)



Artificial intelligence in taxation

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The 5 software types developed by the research centre of WTS and DFKI:

- Examination of content of tax-related issues
- Texts related to taxation, speech recognition and interpretation
- Identification of argumentative structures
- Translation of texts related to taxation (NeuMU)
- Detection of errors not previously identified in extensive databases

What is the potential impact of artificial intelligence on taxation, and how can we possibly use it in tax consulting? What are the first steps and experiments that have already been carried out in this field? These are the questions we seek answers to in our article.

For now we are still far from submitting our tax returns to the tax authority using artificial intelligence. In the short term this is not likely to happen, even in the most developed countries of the world. In the medium term though, it is not inconceivable.

Artificial intelligence in taxation could create new area of expertise

Solutions provided by artificial intelligence will sooner or later create a new business area in tax consulting. Yet in order for artificial intelligence in taxation to be feasible, according to Fritz Esterer, Chairman of the Board of WTS Global and acknowledged expert in this field, **large-scale and high quality databases along with clear rules and definitions** are required. This is because intelligent algorithms need clear instructions and large-scale databases to ensure learning and continuous development.

Within the field of taxation, **VAT, customs, transfer pricing and personal income tax** are the areas where we find large-scale databases so it is worth considering the use of artificial intelligence primarily in these areas. According to Fritz Esterer, there are 3 questions to answer if we want to make artificial intelligence capable of evaluating databases automatically.

- Where is the tax rate?
- Which data do we need to capture and in which areas?
- Which areas do we need to assign these data to?

The German Research Centre for Artificial Intelligence (DFKI) and the centre of WTS in Munich set up the research institution **Centre of Competence Tax and Technology** at the beginning of this year. The centre aims to explore innovative application possibilities of artificial intelligence in taxation and develop tools based on the research that makes taxation easier, more precise and optimal with the help of artificial intelligence. The first intelligent algorithms have been created during the past few months and are being tested by multinational companies like Audi, Bosch, E.ON or Henkel.

Software prototypes for application of artificial intelligence

The jointly established research centre is currently developing 5 different types of software:

- Examination of content of tax-related issues
- Texts related to taxation, speech recognition and interpretation
- Identification of argumentative structures
- Translation of texts related to taxation (NeuMU)
- Detection of errors not previously identified in extensive databases

The artificial intelligence algorithms built into extensive databases learn automatically from large volumes of data. This allows the detection of errors and anomalies that no one noticed before. This software is especially useful in customs operations.

The speech recognition system helps users access relevant taxation information or give orders quickly and easily via voice input. This question-answer system also sets an example for a trend in taxation, i.e. **the possibility to reduce the complexity of tax legislation by using artificial intelligence**. The system helps users make decisions in certain taxation issues.

The automatic translation system is similar to Google Translate, but there is a significant difference between the two. Google practically "eats everything", while NeuMU, the prototype developed by the research centre of WTS and DFKI, deals only with one field of expertise, the translation of taxation documents with a high level of specialisation. As a result, the translated document is free of errors, understandable, and above all correct.

Compliance, network building and real-time solutions

Artificial intelligence in taxation can accelerate procedures, taxation processes and creates a significantly higher level of compliance. In addition, cognitive systems can also be used to build horizontal networks with other sectors, and this aspect is becoming more and more important for experts and departments dealing with taxation. Last but not least, these developments enable us to access all, globally accessible, taxation-related data and processes in real time.

IT-based tax solution

An **IT-based tax solution**, thus the use of artificial intelligence in taxation will achieve the most and be the most efficient if it is adapted to the company's individual situation. That is why we at WTS Klient Hungary place high value on tailored implementation. Feel free to contact us if you want to simplify the taxation of your company with automated and digitalised solutions!

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Latest publications

- » [Quick evaluation of investments – calculating depreciation](#)
- » [Expatriate workers in Hungary – strategic considerations](#)

Languages

Hungarian, German, English

Online data reporting for invoicing: penalties on the way from 1 August

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Online data reporting for invoicing was launched in Hungary on 2 July, though we may still see some technical problems in the course of the reporting. WTS believes it would be useful if the **penalty grace period** of 1 month, i.e. until 31 July, were somewhat longer, given the processes at companies working with non-Hungarian invoicing systems.

Practical experience with online data reporting for invoicing

Parallel to the system that [went live](#) from 2 July, the test system for online data reporting for invoicing is also available, so **special-case invoicing can still be run through the test system first** to see whether the taxpayer receives a positive or negative response. (Don't forget that providing incorrect data can leave taxpayers facing substantial default penalties.)

Login link for live system >

Login link for test system >

Initially there were differences between the invoicing software programmes developed by Hungarian software developers. Most of the developers were successful in their endeavours, and the online data reporting for invoicing worked well right from the outset; others experienced problems with communications in the first weeks. And in some cases it is not easy to identify where the problem is. We feel it is important to note that **the law only requires reporting on the data content of invoices**, which means the obligation does not relate to other documents, pro forma invoices and receipts produced by accounting systems.

Secondary user permissions

online
számla

- Export invoices
- Verify technical annulment
- Report malfunction
- Login
- Query taxpayer
- Query invoices
- Manage invoices

Technical and secondary registrations

The online data reporting for invoicing system resembles the [EKAER](#) system in that here too it is the company's representative or authorised representative who can set up the primary [registration](#), and they can configure the technical registration as well, which is a prerequisite for M2M communication. Separate technical registration is also recommended for self-billing and in the case of all self-billing structures, while **requesting separate technical**

Online invoicing

We will keep our readers updated of the initial lessons learned from the roll-out of the **online invoicing system**. Please [feel free to contact](#) us if you have any questions or comments. Together with our developers we will work on finding solutions for even the most challenging of situations.

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registrations is advisable too when using various invoicing programmes at the same time. Two types of authorisation can be set during a technical registration:

- invoice management and invoice queries, or
- invoice management and own invoice queries

The primary user can also give access to secondary users, and can define the activities that these secondary users can perform (see figure). **Access to the Hungarian government portal is not required for secondary registrations**, which means, for example, a foreign finance director or foreign experts at international companies can also view the system, check the data reporting, query the list of invoices issued for their company, and authorise their invalidation if mistakes have to be corrected.

Correcting errors

If an original invoice has been issued incorrectly, for example the wrong tax number, VAT rate or net amount, etc. is stated, then in line with Hungarian invoicing regulations a correction document must be issued that refers to the number of the original invoice for the transaction. The system has to record the data content of the original invoice and the correction invoice.

What is important is that **errors can be corrected** in cases that deviate from the above as well. For example, if the data reporting cannot be processed or if a technical error slips in to the online data reporting for invoicing, then the mistake must be corrected. First of all, the data reporting must be repeated electronically in that the correction must be approved online either by the primary user or by a secondary user authorised for such tasks (i.e. the error can only be corrected [technical invalidation] after a manual step). If the developer cannot resolve the problem within 3 working days for whatever reason, then **the data can be reported manually**. Do not forget that the manual data reporting also has to take place on the <https://onlineszamla.nav.gov.hu/> website in Hungary if the taxpayer uses a printed invoice book to issue invoices instead of invoicing software.

Grace period for penalties

According to information from the Hungarian Ministry of Finance the NAV **will not impose penalties until 31 July** if taxpayers register themselves in the system for online data reporting for invoicing before issuing their first invoice, and then subsequently load the invoices in by 31 July. The **penalties are not to be sneezed at** since at any given taxpayer they can total up to HUF 500,000 (roughly EUR 1,500) per incomplete or failed data transfer or invoice.

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



wtsklient.hu/2018/07/05/szankcio/

Please note that the conversation is available only in Hungarian.

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- » due diligences
- » tax litigations

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- » [Data reporting obligations at the start of the year](#)
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Languages

Hungarian, German, English

Included as a leading expert on indirect taxes in the **Indirect Tax Leaders 2018** publication of the International Tax Review.



Business valuations based on future incomes: income-based methods

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To start our new series [we looked at](#) events which can initiate a business valuation and the methods available to value a company. In this article we would like to outline the main points of income-based methods. We will also mention aspects supporting the selection of these most common methods as well as the challenges involved.

Income-based method:

- relies on future trends and expectations
- internal information and corporate strategy taken into account
- complex and time-consuming process
- special expertise required

Essence of income-based methods

The main criterion for income-based methods is that the value of the company is determined based on its ability to generate income. The key point of this ownership approach is that **the company is worth as much as the money it is capable of generating** in the future. The money produced in this way, i.e. the dividend, is the owner's income. The primary aim of profit-oriented companies is to maximise the shareholder's wealth, namely, to generate the highest possible income for them.

How can future incomes be determined?

There are basically two methods to determine future cash flows.

- According to the first method, future cash flows are determined by **averaging past incomes**, more precisely, past incomes are adjusted for the effects of non-recurring and one-off incomes and expenses.
- The other approach is the **discounted cash-flow method, in short, the DCF method**. Basically, this means that future cash flows are determined based on detailed financial plans for the future.

Present value and risks included

Given that we are working with future cash flows, but we want to determine the current value of the company, we need to determine future cash flows at their present value.

The present value shows how much future incomes are worth just now. **Determining future cash flows at present value is also known as discounting.** The present value is determined from future cash flows by using a "discount factor". Among other things, general expectations regarding inflation, investment in the given company and the risks involved in the relevant sector are reflected in the discount factor.

What are the advantages of income-based methods?

Income-based methods have the following advantages:

- The starting point is the performance of the company.
- Internal information, data and the corporate strategy are also considered.
- The DCF method is built on future expectations and trends, so not only past data is considered to determine the value of a business.
- The impact of inflation is also taken into account.
- For future cash flows, acquirers consider their own expectations or the potential synergy effects in the business plan too.

What are the pitfalls of these methods?

There are some drawbacks when calculating future cash flows and determining the right discount factor.

- Both drafting the financial plan for the cash flows and determining the discount factor are time-consuming tasks.
- As this is a complex process it requires special expertise, which generally means involving experts, and comes at a cost.
- Given that future business plans are based on assumptions and that the risks related to the company and the industry are estimated, the final result itself encompasses a number of uncertainties.
- Due to these uncertainties and the many individual assessments, it is questionable to what extent these results are accepted by external users.

Despite the uncertainties and difficulties, income-based methods **are the most thorough and probably the best-known business valuation methods**, which are frequently used to determine the purchase price of a company during an acquisition.

Financial consulting

If you have questions about business valuations, please contact our [financial consulting](#) experts!

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Languages

Hungarian, English, German

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- » [Tax implications of a preferential transformation](#)
- » [Taxation of transformations, and preferential transformations](#)

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Any information contained herein shall thus not be considered exhaustive, and nor may it be relied upon instead of advisory services in individual cases. We accept no liability for the accuracy of the content.

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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