

## wts klient newsletter

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The Bridge.

Dear Readers,

As you all know, due to the recent legal requirements of the OECD with respect to the Country-by-Country-Reporting (CbCR), multinational enterprises have to ensure the correct data- and transmission structure of the compiled and [prepared CbC Reports](#) to the competent authority in their country.

In order to perfectly support our international clients with these new obligations, WTS developed the "WTS CbCR-2-XML converter" to perfectly fulfil all technical requirements of the OECD standardized XML-schema. Our new "WTS CbCR-2-XML converter" tool provides your company a significant reduction of workload and a substantial increase of legal compliance. Our online-tool is fully compliant with the requirements of the [OECD User Guides](#) referring to the mandatory XML-Files to be provided to the tax authorities.

For further information please visit: [wts.de/en/content/cbcr-2-xml.php](https://wts.de/en/content/cbcr-2-xml.php)  
I hope that besides reading about the requirements of the Country-by-Country-Reporting you will also find the time this week to browse the WTS Klient Newsletter and I trust you will find it useful for you daily practise.

Maik Heggmaier, Partner  
WTS Steuerberatungs GmbH

### Local business tax, the "little brother" of corporate tax

Local business tax is the third largest income-generating tax after sales taxes and personal income tax at the level of the national economy.

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### NAV customer service – Where can I find accurate information on taxation?

The NAV customer service website provides plenty of useful information including, among others, articles, a taxation calendar, and tax return forms.

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## Local business tax, the "little brother" of corporate tax

**"We are repeatedly taken aback by the unexpectedly high local business tax lurking behind the percentage rate of corporate tax."**

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In the summer months, many businesses start their next annual planning. The finance and controlling departments can start to calculate profits in light of the sales revenue plans of the sales team and the wage cost estimations of the HR department. At this point, taxes depending directly or indirectly on profits soon come to the fore. Year after

year, the moment comes when we are repeatedly taken aback by the unexpectedly high local business tax lurking behind the percentage rate of corporate tax.

### Why are we surprised?

We are prone to form opinions based on appearances. And the [2% rate of local business tax](#) can easily throw us off guard. It is generally accepted among company managers that local governments also need the taxes of the companies operating in their area. The 2% rate actually seems quite fair.

I often wonder whether all company managers in Hungary are aware that **the base for local business tax is many times that of corporate tax**. Although we officially consider local business tax to be an income tax, the tax base comprising net sales revenue less only a few material-type expenses is more reminiscent of a sales tax. When calculating the local business tax base, neither the costs of service invoices that make up serious amounts at businesses, nor total wage-type expenses, depreciation or other expenses can be deducted. Do not be surprised if your business pays a local business tax that greatly exceeds [the level of corporate tax](#).

### Systemic error that needs fixing

Investments that drive economic growth naturally enjoy the support of economic policymakers. The use of EU funds for economic development purposes (primarily through the support of small

and medium-sized companies) and state funds provided for the investments of multinational companies significantly reinforce the investments of businesses that underlie long-term growth. **As part of economic policy, tax policy should focus on encouraging investments.** We see good examples of this in the case of corporate tax, just think about the generous tax-cutting opportunities of development tax allowances. However, regarding local business tax in Hungary, we see no signs of any similar efforts. In the years following the commissioning of investments, depreciation is the expense that companies can account for. However, this expense does not decrease the local business tax liability of the companies.

**We see a similar anomaly in employees' wage-type expenses.** The wage agreement concluded at the end of 2016 offers a historical chance for employees in Hungary for an accelerated increase of wages. The government is contributing to realising this economic policy goal by decreasing the social contribution tax, and employers, in turn, by increasing gross salaries. Local business tax ignores this intention. No matter how much wage-type expenses of companies grow, the local business tax base remains unchanged, so the amount of tax does not decrease either. With constant sales revenues and expenses excluding wages, the increased wage-type expenses decrease the pre-tax profit, but the local business tax, which theoretically counts as a profit tax, remains unchanged.

### Another danger: property tax

As a result of the above, profit-generating enterprises can "only" complain that a significant portion of their expenses does not affect their local business tax. But what should **businesses** say that **make losses**, even only temporarily?

A company can book even 15-20% of its net sales revenue as a loss, but it can still be sure that the base for its business tax will definitely be positive, so it will still have a local business tax obligation.

Operating a business always comes with risks for the owners. A booked loss decreases a company's assets. However, **further decreasing assets** by having companies **pay** what is theoretically a profit-based **local business tax** should definitely be avoided. It is good to know that in **Germany**, which is often referred to as an example, **the constitutional court qualified** all similar interventions by the tax authority as **unconstitutional** as they endanger freedom of ownership.

### What is the solution?

Local business tax is the third largest income-generating tax after sales taxes and personal income tax at the level of the national economy. It is obvious that with the current rate of 2%, there is no chance of bringing this tax base close to the corporate tax base. In Hungary local business tax plays an important role in the financing of local governments, so there is no real chance for it to be drastically reduced. With a **gradual increase in the tax rate** and a simultaneous, gradual approval of the **deduction of the afore-mentioned expenses from the tax base, local business tax revenue would remain unchanged** and, parallel to this, a greater proportion of company profits would be expressed in the amount of tax payable.

Prior to making an investment decision, serious 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 show our regional tax benefit for 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.

Let's get to it!



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"With the help of the business gate, administration will be faster and document deliveries will be smoother in the future."

**dr. Ildikó Szopkóné Horváth,**  
WTS Klient Hungary  
partner, lawyer

Source: inforadio.hu



### Turn on your radio!



As of 1 January 2018, electronic administration will be the main form of contact with public authorities for businesses, therefore every affected business organization must take its obligation to register at the business gate by 30 August seriously – says dr. Ildikó Szopkóné Horváth, lawyer and partner of WTS Klient Hungary who will give an interview about the topic to InfoRadio on the evening of 24 August.

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

Please note that the conversation is available only in Hungarian.

## NAV customer service – Where can I find accurate information on taxation?

### Information sources for taxation issues:

#### 1. effective laws and regulations

#### 2. NAV customer service

telephone

email

website

information booklets

information leaflets

calendar

#### 3. other reliable online sources → WTS Klient Hungary website

#### 4. consultation with a tax expert

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When it comes to taxation, the question of where one can find reliable advice and information often arises, as not everybody is a tax expert. Luckily, in most cases, this is not even necessary. People search the web with varying degrees of success, but online information is not always 100% reliable. Many times it is easier to turn directly to the tax authority.

### NAV customer service – storage for forms

The [NAV website](#) contains plenty of useful material in Hungarian including, among others, [information booklets](#), [taxation leaflets](#), [a calendar with taxation deadlines](#), and numerous other brochures that can ease your everyday tasks. You can also download all [tax return forms](#) from here too. Always make sure that information found online was composed compliant to effective Hungarian laws and regulations.

Using the phone numbers and email addresses listed under the [Contact section](#) of the NAV customer service you can ask your taxation questions from tax officials. However, before opting for the latter it is worth thumbing through the information leaflets issued by the Hungarian tax authority, as these contain answers to the most frequently asked questions. For instance, as students return from summer recess and fresh graduates enter the labour market, the duties related to property rentals and tax allowances are a hot issue, for which information leaflets issued by NAV under the titles [Key Rules of Leasing or Otherwise Exploiting Real Properties](#) and [Information on tax-free housing allowances provided by employers to facilitate mobility](#) contain useful [information](#). Besides the above, there is a host of other articles on this subject on the NAV website.

### Tax and contribution rates, and a multifunctional calendar

Online services of the NAV customer service also include providing useful information on tax and contribution rates, minimum wages, and the guaranteed wage minimum, all listed under [Főlap/Szolgáltatások/Adókulcsok, járulékmértékek](#). For some reason, however, [corporate tax](#) is not on the list – for financial years beginning in 2017 the corporate tax rate amounts to [9% of the tax base](#).

By clicking on the calendar on the main page you can not only view the tax obligations due on a given date, but all necessary return forms are also available for download.

### Beyond the NAV customer service website

In Hungary businesses need not only meet their deadline obligations in connection with tax returns and tax payment liabilities. The below list includes, but is not limited to, the current duties, deadlines and sources of information (the articles on our website are also available in English) relevant to these obligations:

#### → Business gate registration

Deadline: 30 August 2017 (You can find more detailed information on the registration process [in our earlier article](#).)

#### → Local business tax – advance payment

Deadline: 15 September 2017 (You can read more about the local business tax [here](#).)

#### → Reporting the use of registered seat services

Deadline: 29 September 2017 (You can read about this in more detail [in our earlier article](#).)

→ **Preparatory tasks for switching to a foreign currency**

(More exact information on the topic is available [at the this link.](#))

→ **Preparation and organisation of inventory counts**

Pursuant to an earlier amendment of Section 69 of Act C of 2000 on Accounting, for certain businesses doing an inventory "at least every third year" is enough. The second three-year period following the amendment will expire this year. In case of stocks the option of stock-taking in the last quarter prior to the reporting day of the financial year is also available if all regulatory conditions are met. (The effective law on inventory checking is available in Hungarian by clicking [here.](#))

→ **Review of contracts for the lease of advertisement billboards, dismantling advertisement billboards**

Pursuant to Section 11/A of Act C of 1990 on Local taxes, advertisement billboards placed on properties in the competence of local governments are taxable as of 1 January 2018. The ceiling of the annual rate of the tax is HUF 12,000/m<sup>2</sup> (approx. EUR 40/m<sup>2</sup>). In certain cases this can amount to a considerable sum compared to the rent (it could even exceed it). It is also worth noting what building tax rate a given local government has defined.

(More detailed information is available in Hungarian in the [amendment](#) to Act C of 1990 on Local Taxes.)

→ **Preparation of invoicing software for electronic data reporting**

Deadline: 1 July 2018 (You can read more about the topic [in our earlier article.](#))

This list clearly reveals that in tax issues there are several resources of appropriate information at your disposal besides the NAV customer service website, but the authenticity and reliability of these sources must always be carefully observed. The above examples prove that the website of WTS Klient Hungary always provides up-to-date and accurate information for you in both English and Hungarian.

Services of the WTS Klient Hungary:

- » Tax consulting
- » Financial advisory
- » Legal consulting
- » Accounting
- » Payroll

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online offer by one single click:

[Online offer >](#)

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newsletter by one single click:

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This WTS information does not constitute advice and it serves only to provide general information about selected topics.

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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