



Dear Readers,

Over the next few weeks and alongside our normal texts we will be publishing brief articles on which of our proposals made to rationalise tax laws have been heard. In this edition on page 2 we report on how we managed to have the default penalty abolished that used to be imposed in relation to underpayments of tax due to exchange-rate differences when topping up corporate tax. By presenting this and other successes we would like to encourage you to share any ideas you may have that could be passed on to the NAV or the Ministry of Economy for further consideration.

Why has this become topical again now?

As we [intimated](#) last week, we are holding a **Tax Strategy Day** on 28 November with representatives from the government and the business community. We would like to discuss any and all proposals that could make taxation fairer, and could further reduce the time spent on tax administration. You can find more information on the Tax Strategy Day on our [website](#), please share your suggestions with us here too.

We look forward to hearing your ideas for improving the current systems, and would be delighted if you could take part in the conference as well.

Zoltán Lambert
managing partner

Changes to the Act on the Environmental Product Fee effective from 1 January 2018

On 17 October, MPs approved the amendment to the Act on the Environmental Product Fee effective from next year, affecting a lot of product-fee taxpayers. » [page 1](#)

Type and audit of annual financial statements

Prior to preparing financial statements we have to examine which rules apply to the given company in terms of the type of financial statements and audit. » [page 3](#)

Changes to the Act on the Environmental Product Fee effective from 1 January 2018

Major changes to Act on the Environmental Product Fee:

- definition changes
- decreasing product fees
- new obligations in event of transformations or if grounds for assumption of obligations change
- application of different rules on the classification of goods

Author: **Zoltán Cseri**

zoltan.cseri@wtsklient.hu

As the end of the year approaches this means that along with Christmas decorations in the shops we are also seeing legislative amendments being approved by the National Assembly one after the other. Accordingly, on 17 October MPs approved the amendment to the Act on the Environmental Product Fee effective from next year. The aim of the legislative changes is to simplify compliance with the product fee obligations, ensure a uniform inter-

pretation of the law and comply with the changes to the EU Directive on waste electrical and electronic equipment. Below I will give an outline of the most important changes to the Act on the Environmental Product Fee.

Planned amendments to Act on the Environmental Product Fee that were not adopted

It is important to note that the draft law submitted at the end of September included a number of elements whose primary aim was to increase the product fee. These provisions have been removed in the meantime, so they are not included in the approved version of the Act on the Environmental Product Fee. Consequently, the product fee for **advertisement paper will not increase from HUF 85/kg (approx. EUR 0.3/kg) to HUF 114/kg (approx. EUR 0.4/kg)**, and **thin plastic bags used in "sales outlets" will not be included** in the category of advertising bags, so their fee remains unchanged at HUF 57/kg (approx. EUR 0.2/kg) instead of the planned HUF 1,900 /kg (approx. EUR 6.2/kg).

Definition changes

According to the regulations prescribed by the Act on the Environmental Product Fee effective from 1 January 2018, and in line with the provisions of Directive 2012/19/EU on waste electrical and electronic equipment, **large-scale fixed industrial tools as well as electrical and electronic equipment designed to be used in space are not categorised as electrical and electronic equipment, consequently, no product fee is payable for these types of equipment.** This change is certainly good for Hungarian companies producing these products in Hungary, or importing and selling them in Hungary.

Looking at the definition changes we should point out that the amendment to the Act on the Environmental Product Fee **clearly defines plastic bags used to collect separated waste**, while **drink packaging made of metal appears as a new term**; at the same time, the definition of commercial packaging and commercial packaging materials no longer applies.

In addition, **the definition of advertisement paper will also be simplified** next year since it contains no exceptions that are not clearly identifiable.

Decreasing product fees

In accordance with the amendment, the electrical and electronic equipment categories are also to change, and **the product fee of all electrical and electronic equipment will be a uniform HUF 57/kg (approx. EUR 0.2/kg).** Due to this standardisation **the product fee of consumer electronic products (current product fee HUF 114/kg – approx. EUR 0.4/kg), and mobile phones (current product fee HUF 304/kg – approx. EUR 1/kg) will be considerably reduced.**

continued on page 3

Successful legislative proposals

Lowering default penalties - topping up tax advances

In our study summarising the opinions of leading tax experts at German firms we emphasised that abolishing the requirement to top up corporate tax would be a huge step forward for companies. This is an obligation that applies to practically every company where the annual sales revenue in the fiscal year preceding the current fiscal year exceeds HUF 100 million (approx. EUR 325,000). When topping up the tax, the tax advances paid during the fiscal year have to be supplemented up to the expected amount of tax payable for the fiscal year, and by the 20th of the last month of that year. Aside from the cash flow impact of the top-up requirement and the advance financing for the state budget, the legislators also penalise taxpayers who do not comply with the above rules in full. Consequently, if a taxpayer has not paid its expected tax payable by the deadline, at least up to 90%, then a default penalty of 20% must be paid on the difference between the paid tax advance and the amount equivalent to 90% of the actual tax charge.

Based on requests received from taxpayers we submitted a proposal to the Ministry for National Economy, which became an important part of the legislative amendments in 2014, to the effect that when imposing this automatic default penalty the base for calculating the penalty should omit any exchange gain earned on the difference between the exchange rate on the date for topping up tax advances and that on the balance sheet reporting date, if such gain becomes part of the tax base. As a result, taxpayers can be more accurate in defining the amount of their tax top-up obligation at the end of the year, and they do not have to be anxious about penalties resulting from future swings in the exchange rates, which are clearly beyond the control of the taxpayer.

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!

Following the change in the law, we are delighted that default penalties are no longer levied on account of exchange-rate movements. This makes our year-end work significantly easier on the one hand, whilst also bringing a financial benefit for the group in that we can avoid overpaying our corporate tax unnecessarily.

Achim Weinstock, managing director, LKH Leoni Kft.

While the categories of commercial packaging and commercial packaging material have been removed, metal packaging for drinks is included in the packaging materials category as **drink packaging made of metal, and as a result, its product fee is reduced from HUF 304/kg (approx. EUR 1/kg) to HUF 57/kg (approx. EUR 0.2/kg).**

Amendments to the Act on the Environmental Product Fee effective from 1 January 2018 give preference to hybrid or fully electric vehicles with a reduced environmental impact, which means that **only 70% in the case of hybrid vehicles and 50% in the case of fully electric cars is charged from the normal product fee or product-fee flat rate.**

Other key changes to the Act on the Environmental Product Fee

The amendment to the Act on the Environmental Product Fee makes it clear that if a new product-fee taxpayer with a new tax number is created as a result of the **transformation, merger or division** of a previous taxpayer, or **if the grounds based on which the obligation is assumed changes, then new contracts assuming these obligations must be concluded and reported to the NAV.**

Keeping records will also be simplified for these taxpayers because **from the beginning of next year the regulation on product fees will apply the rules on the classification of goods effective from 1 January of the given year,** instead of the classification rules effective on 1 January 2010. In light of the legislative changes we recommend revising customs tariff headings, and modifying records if necessary.

Type and audit of annual financial statements

Audit obligation:

- average net sales revenue in previous 2 years > HUF 300 million (approx. EUR 1 million)
- average headcount in previous 2 years > 50 people
- consolidated entity
- Hungarian branch of foreign-registered company (in certain cases)

Author: **Andrea Potássy**

andrea.potassy@wtsklient.hu

As the end of the year approaches it is becoming more important to clarify issues regarding the preparation of financial statements. Those who have yet to do so need to examine the **rules regarding the type of financial statements and for auditing.** These issues are primarily important for companies that have recently grown or downsized significantly.

When is an audit of financial statements mandatory?

Depending on the size of the entity, audits are generally compulsory for international companies. The owners have this information when establishing the company, and the auditor is appointed on this basis. If this issue is not completely clear, then when assessing

this obligation we need to examine some statutory indicators. By law a company does not have to be audited if in the **previous two years its average net sales revenue did not exceed HUF 300 million (approx. EUR 1 million) and the average headcount over the same period was no more than 50 people.**

For newly established entities the audit obligation has to be analysed on the strength of expected figures. Yet based on the listing provided for in the law, some companies are still not exempt, regardless of their indicators. Audits are mandatory in all cases for consolidated companies and in certain instances for the Hungarian branches of foreign-registered entities. An auditor must be appointed before the balance sheet date of the company's financial year. It is also worthwhile examining whether the mandate of any previously appointed auditor is still valid, and whether it needs to be extended.

Simplified annual financial statements

If 2 of these are complied with in 2 consecutive financial years:

- total assets ≤ HUF 1,200 million (approx. EUR 3.9 million)
- annual net sales revenue ≤ HUF 2,400 million (approx. EUR 7.8 million),
- average headcount ≤ 50 people

What about the type of financial statements?

The type of annual financial statements defines the scope of information to be published, and thus the administrative tasks related to compiling financial statements too. An entity can prepare **simplified annual financial statements** if two out of three defined indicators do not exceed the following thresholds in two consecutive financial years:

- total assets no more than HUF 1,200 million (approx. EUR 3.9 million),
- annual net sales revenue no more than HUF 2,400 million (approx. EUR 7.8 million),
- average headcount in the financial year no more than 50 people.

For new entities we need to study the expected figures.

What is also important is that the Act on Accounting lays down certain exceptions for companies eligible to choose simplified annual financial statements, but who in spite of their indicators are not permitted to prepare such statements. These conditions also need to be examined. The data content of simplified annual financial statements is narrower, and so using them is less of a burden for the companies involved. Aside from annual and simplified annual financial statements, companies can prepare **micro-enterprise simplified annual financial statements** too if the statutory conditions are complied with. In this case there is not even an obligation to prepare supplementary notes, and so even less time is needed to compile financial statements.

Publishing financial statements

By publishing financial statements companies disclose their figures on the online reporting portal (available in Hungarian), which means information on companies' operations becomes public. Besides being a significant obligation, we can learn a lot about the workings of other companies, for example when establishing new business relations.



wts

"The standardisation of the product fee for electric and electronic equipment brings about a significant reduction for consumer electronics and mobile phones."

Zoltán Cseri, WTS Klient Hungary manager

Source: inforadio.hu



Turn on your radio!



Last week the Parliament accepted the amendments to the Act on the Environmental Product Fee which will take effect from next year. While the draft law submitted at the end of September included a number of elements whose primary aim was to increase the product fee, these were ultimately excluded from the final amendments. Zoltán Cseri, manager at WTS Klient Hungary, will be discussing the details on the evening of 26 October on InfoRadio.

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

Please note that the conversation is available only in Hungarian.

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.

Services of the WTS Klient Hungary:

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

You can request for our
online offer by one single click:

[Online offer >](#)

You can sign up for our
newsletter by one single click:

[Sign up >](#)

WTS Klient Hungary

1143 Budapest • Stefánia út 101-103. • Hungary
Telephone: +36 1 887 3700 • Fax: +36 1 887 3799
info@wtsklient.hu • www.wtsklient.hu