

**Dear Readers,**

The end of the year is drawing closer, which for tax and accounting professionals not only means the excitement of Christmas preparations, but also numerous additional tasks related to year-end accounting closes. Especially at a time like this, the last thing anyone wants is to deal with identifying and clarifying errors or even misunderstandings found during a potential **comprehensive tax inspection**.

In our year-end video series we want to help you and your company overcome the obstacles in a tax inspection with greater ease, and be prepared for all eventualities. Although it is always best to adopt a preventive approach to avoiding adverse findings from the tax authority by monitoring legal regulations continuously, here we give you some guidance as to what legal remedy options are available if you disagree with the tax authority findings. You can watch our video presenting the **legal aspects** of comprehensive tax inspections at this link: wtsklient.hu/en/2017/12/13/legal-remedy-procedure/

Please do not forget to switch on the English subtitle by clicking on "settings" in the right-hand corner of the video.

I hope you enjoy reading the articles of our newsletter too!

dr. Zsombor Lenner

Increasing administration when deducting input VAT

From 2018, input VAT can only be deducted without a self-revision by the end of the year following the date of performance. » [page 1](#)

Proposals to improve Hungarian tax regime

Tax experts discussed proposals aimed at decreasing tax administration and improving the competitiveness of the Hungarian tax regime at the Tax Strategy Day. » [page 3](#)

Increasing administration when deducting input VAT

"From next year, the VAT of certain incoming invoices will now only be deductible as part of a self-revision."

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A significant modification entered into force on 1 January 2016 relating to the deduction of input VAT in Hungary, which so far has not resulted in much change to companies' tax return filing practices. Yet as the end of the year draws near, it is worth revisiting the modified rules

since these will first have an impact on VAT returns in 2018. Starting from next year, the VAT of certain incoming invoices will now only be deductible as part of a self-revision.

What will change from 2018 regarding the deduction of input VAT?

Although the new rule **entered into force in 2016, taxpayers only have to apply** the modified rules **in practice from 2018**. Prior to the 2016 tax amendments, with regard to exercising VAT deduction rights the VAT Act stated that payable tax established in the tax assessment period can be reduced with the deductible input VAT generated **within the same period, or in former periods but before the limitation period expires**.

In 2016, the relevant provision was supplemented as follows: in any current VAT return only the deductible input VAT generated **in the same period, or prior to that, but within the calendar year preceding the calendar year that includes said tax assessment period**, can be taken into account.

In practice, this means that taxpayers can exercise their tax deduction right in respect of a 2016 incoming invoice until the end of 2017. In the case of input VAT subject to the reverse charge mechanism or related to import transactions filed according to self-assessment rules, the tax has to be assessed in the period when the tax payable is determined, in line with the governing rule.

If taxpayers do not exercise their tax deduction right until the year following the date of performance, they may take the deductible VAT into account (within the limitation period) in the tax assessment period when the tax deduction right arose. Accordingly, for certain incoming invoices, **the period that includes the date of performance has to be modified with a self-revision**. Based on the provisions of the VAT Act in Hungary, this rule first has to be applied for transactions where the deduction right is generated on 1 January 2016 or afterwards.

In the case of correction invoices where the amount of input VAT increases as a result of the correction, the tax deduction right still starts upon receipt of the modifying invoice, so here **the tax deduction deadline** does not have to be calculated based on the date of performance but rather **based on the date of receipt**.

What does this mean for taxpayers?

Self-revisions mean extra administration for taxpayers since in addition to filing the self-revision, the reason and the impact of the self-revision also have to be documented in detail.

With a self-revision, taxpayers inevitably **use up the more favourable conditions related to the first self-revision** since when submitting the second and subsequent self-revisions the self-revision interest is higher if the self-revision comprises a tax payment liability.

For self-revisions that benefit the taxpayer (i.e. if we are claiming tax back as a result), it is important to mention that filing the self-revision **resets the limitation period**. This means that according to the general rules, the tax authority has another 5 years to possibly subject the period modified with a self-revision to an inspection.

How to avoid detrimental consequences?

The regulation in Hungary does not distinguish between invoices received or issued late, so to eliminate administrative burdens, those receiving the invoices will definitely be interested in having the invoices available within the maximum two-year period, meeting the requirements in terms of form and content.

To avoid the negative consequences derived from self-revisions, **regular year-end reviews of invoices not yet subject to deductions is definitely recommended**.



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"Factors such as which sector a company operates in, or how much tax it is obliged to pay, greatly affects how often it might encounter tax authority inspections."

Tamás László, WTS Klient Hungary manager

Source: inforadio.hu



Turn on your radio!



Although there is no information available yet on the NAV website, similarly to this year the focal points of tax authority inspections in 2018 are likely to be waste management companies, electronic cash registers and EKAER reporting obligations – says Tamás László, manager of WTS Klient Hungary, who will be talking about the tax aspects of tax authority inspections on InfoRadio on the evening of 14 December.

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

Please note that the conversation is available only in Hungarian.

Proposals to improve Hungarian tax regime



Photo: Csanád Kiss

“The government’s measures are aimed at significantly reducing the current average of 277 hours, or 34 working days, spent by enterprises on administration per year” – said **Csilla Tamásné Czinege, Deputy State Secretary for Taxation Issues at the Hungarian Tax Authority (NAV)**, on Tuesday, 28 November 2017 at the **Tax Strategy Day 2018** conference organised by WTS Klient Hungary and three professional organisations, the German-Hungarian Chamber of Industry and Commerce, the Joint Venture Association and the Swiss-Hungarian Chamber of Commerce.

Tax experts from the government and businesses – Audi, E.ON, Magyar Telekom, MOL, Robert Bosch and Kirchhoff Hungária – as well as professional advisers discussed numerous proposals aimed at decreasing tax administration and improving the competitiveness of the Hungarian tax regime at the event.

Digitalisation and a “whiter” economy

In her presentation, Csilla Tamásné Czinege emphasised that one of the goals of the five-year strategic programme entitled **NAV 2.0** is to decrease and **simplify tax administration as well as support voluntary legal compliance** as a result. One of the first steps of digitalisation with the introduction of the e-PIT system is that “1.9 million people did not have to complete their tax return in 2017, while in 2018 this option will also affect 155,000 farmers and 16,000 private individuals with tax numbers obliged to pay VAT. This year 667,000 people chose to have their tax returns completed by their employer, and the NAV preparing these documents instead of employers next year aims to decrease the burden on 30,000 employers, but if there is a need, we will go out to workplaces and help employees as well” – said the Deputy State Secretary, quantifying the results.

At the panel discussion after the presentation, representatives of the companies raised the issue of duality, i.e. that parallel to the digitalisation there is an obligation to keep and submit hard copies of the documents. Csilla Tamásné Czinege said that the **Hungarian rules for archiving are part of a ten-year-old legal regulation that is considered strict** even in the EU. The shift towards digitalisation is one of the special goals of NAV 2.0, and a review of the current legal regulations has already started.

Norbert Izer, Deputy State Secretary responsible for tax regulation and accounting at the Ministry for National Economy (NGM), talked about the focal points of Hungarian tax policy and the future changes thereof. He explained that the economy had noticeably “whitened” in all areas in recent years. This is proven by the fact that after 2013, mainly following the introduction of the EKAER and the electronic cash registers, the **VAT gap fell from 22% to below 15%**, which is already close to the EU average. “This ‘whitening’ resulted in tax receipts of HUF 300-400 billion, and this trend may continue in the coming years, so the VAT gap could even fall below 10%” – emphasised Norbert Izer.

Proposals to improve tax regime

To further **improve the tax regime**, businesses and advisers voiced a **proposal** at the conference, among others, recommending that it should be possible to **lower the local business tax base with a few items**, taking into account at least some of the wage costs and amortisation costs. For mediated services, the legal regulation and practice in Hungary should be clearer than it is now too. It was also argued that **introducing taxpayer groups for corporate tax** would give Hungary a great advantage in regional competition, and would not result in a material loss for the budget.

Participants raised the possibility of **tax and wage transfers becoming exempt from the transaction tax**, while companies terminating cash payments completely could be rewarded with transaction tax relief. It was also proposed that **transactions between related companies could be exempted from the tax**. In the area of fringe benefits and entertainment, tax experts recommended simplifying the extremely complicated regulation in place at present, where different tax and contribution rates are applied to the various in-kind contributions.

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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