

wts newsletter

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highlights

BEPS – Information is power: CbCR for protecting tax revenues

According to a communication by the Ministry for National Economy (MNE), Hungary will join the OECD convention on information exchange in accordance with the BEPS (base erosion and profit shifting) programme. Each year the tax authorities of almost 50 countries exchange their reports on transfer pricing (Country-by-Country Reporting) thereby protecting the states party to the convention from significant losses in tax revenues.

BEPS – Information is power: CbCR for protecting tax revenues

What data is reported and to whom?

Multinational corporations with annual consolidated sales revenue of over EUR 750 million are required to file a report. The data, including the number of employees, revenue, corporate tax and the global allocation of income, helps the tax authorities in assessing risks associated with determining arm's length prices, reducing tax bases and reallocating profits, and in estimating the amount of taxes payable to the state budget.

What does the NAV do with the information received?

Using the data received, the risk analysts of the National Tax and Customs Administration in Hungary (NAV) can identify more accurately which multinational corporations should be audited. The MNE communication states that transactions between related companies and audits on transfer prices are effective, which is also confirmed by statistics. In 2015, 850 audits were completed within a single year, and 89% of the audits identified shortcomings. This resulted in a net tax difference of HUF 40 billion (EUR 130 million). So in future, those manipulating transfer prices can expect not only effective audits but also that the NAV will have up-to-date and accurate information on each and every subsidiary of a multinational company, thanks to the agreement.

What about neighbouring countries?

Austria enacted the three-tiered OECD documentation proposal in August 2016. Multinational corporations with total consolidated sales revenue of at least EUR 750 million during the preceding financial year are obliged to complete a "Masterfile", a "Local File", and a "CbC report" on the provision of data.

Poland has always been at the forefront of enacting the country-by-country reports proposed by the OECD. Similarly to the OECD proposal and to Austrian practice, in Poland multinational corporations with consolidated revenues over EUR 750 million are required to submit CbC reports from December 2017 for tax years starting after 31 December 2015.

When will the system go live?

The agreement by Parliament is expected to be ratified in early 2017, thus the reporting obligation already applies to 2016, says the MNE communication.

Our experience shows that the audits conducted by the tax authority in relation to transfer pricing documentation assess the suitability of transfer prices applied and the methods selected to substantiate them on a market basis, contrary to previous years where the main focus was on the availability of the documentation. So it may be advisable to examine company processes and identify the transactions subject to the documentation obligation.

Should you have any further questions regarding this topic, please do not hesitate to contact our tax advisors who will gladly help in preparing the analyses required for substantiating prices by using international databases.

The newsletter accurately reflects the statutory provisions as they stand at the time of its issue.
The authors of the news articles have endeavoured to provide general information that both reads well and is professional.
Given the general nature of the content and possible changes to legal regulations, please contact us if you require this information tailored to your personal circumstances.

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