

wts klient newsletter

WTS Klient.
The Bridge.



Dear Readers,

Our company, WTS Klient Hungary, turned 20 this October.

We are proud of the past two decades, of all our accomplishments achieved together and of our 120 employees. We are proud of you our clients, and mainly the trust that you have put in us during all those years. If **trust** is the word best summarising our accomplishments in the past 20 years, then the most important term for us looking ahead to the next 20 years is **rejuvenation**. This word is a pledge that moving forward we will maintain the trust we have built up with you in the past. The road to rejuvenation will lead us through continuous technical development. It is fairly obvious that we will witness spectacular changes in the fields of taxation, accounting and payroll in the next 20 years, and we will do all we can to not only keep up with the changes, but also to lead the way towards innovation. As we have done so far. For our clients. For you.

Although 20 years is a long time we have tried to summarise what happened to us during all those years in a short video (in Hungarian) of a couple of minutes. Watch it on our YouTube channel!

<https://youtu.be/d0zEzbXCqes>

And to receive an answer to the question at the end of the video of "Why choose WTS?", please turn to page 8!

György Kőrösi
partner

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Busy autumn ahead for companies supporting spectator team sports

"Without transparent operations, major companies opt against taking advantage of such a tax benefit even if they cannot be held legally accountable in the new system if the beneficiary uses the allocated amounts improperly."

Author: **Zoltán Lambert**
zoltan.lambert@wtsklient.hu

In 2017 the European Union gave the green light for another 7 years to the Hungarian system of supporting spectator team sports, i.e. football, handball, basketball, water polo, ice hockey and volleyball. In this article we would like to draw the attention of business decision-makers to the **advantages of this opportunity**, and why it is important to start preparing well in advance. In addition we will be seeking an answer

to how the support of spectator team sports helps promote the new generation of sportsmen and women in sports associations, and what difficulties the clubs face despite this generous support system.

Buzzword: tax benefit

This issue is all the more topical because companies have got over the summer lull and now are slowly planning for next year, which is based on the current year's projections. Such estimates also include planning for payable corporate tax, which is largely influenced by whether a given company decides to opt for the chance to **allocate some of its corporate tax**. And while you can also allocate this sum on a monthly or quarterly basis from up to 50% of corporate tax advances, most allocations still tend to come at the end of the year when **topping up corporate tax advances**. In terms of pre-

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Transfer Pricing for Financial Transactions: WTS Global reply to OECD

We are glad to inform you that WTS Global participates in the public consultation round of the OECD, by providing extensive comments on the non-consensus discussion draft on transfer pricing aspects of financial transactions. The OECD draft was issued on 3 July 2018. Comments had to be delivered by 7 September 2018, and were available for 78 interested parties, of which WTS Global was one.

paring for this, selecting the right sports association and signing the necessary agreements, the 60 days remaining this year only seems plenty at first glance.

Taxpayers can choose from two types of support: **direct support** and **tax allocation**. As the latter has spread quickly since it was introduced in 2015 – thanks to the favourable scheme – and has clearly become the preferred version (both forms may not be chosen in the same year), we will briefly try to outline its advantages here.

In this scheme a taxpayer can allocate up to 80% of its tax payment liability, which the tax authority pays to the beneficiary. In return the taxpayer receives a **tax credit**, which the tax authority transfers to the company's corporate tax account in July of the following year. If making an allocation from a tax advance top up, the tax credit amounts to **7.5%** of the amount allocated.

So companies which pay support end up with a higher profit after tax than they would have had without using the tax allocation scheme. **Too good to be true!**

Although my clients regularly doubt my intellectual capabilities as a tax consultant when I first try to explain this opportunity to them, the method has still become popular in the two and a half years since it was introduced.

Is the support of spectator team sports justified from a national economy perspective?

The question as to why the state allows companies to keep more profit through their corporate tax can be answered as follows:

In **Hungarian film manufacturing**, which has used this opportunity for years, we can see that there are many professions related to film-making (cameraman, dubbing expert, etc.), which are **flourishing thanks to this support**. Since assignments can only be won under strict requirements and with official invoices, these professions have completely stepped out of the black economy, adding additional revenues to the budget in the form of various taxes.

The introduction of the support system for **sports associations** (after the original system of direct support was launched in 2011) was accompanied by similar expectations. Coaches and masseurs, etc. employed at sports associations working with young talent have the opportunity to earn an official wage, paying personal income tax and social security contributions. The tops and

other sports equipment bought for the players increase VAT revenues thanks to the higher spending. The construction work financed from the support (new courts, new association buildings) also generate additional tax revenues.

Why does this development not produce the expected results?

We cannot expect the system to lift the funded sports into the vanguard of top international sport in just a few years. However, the U20 handball world champion title recently won by Hungary's women shows that **the tax forints invested can have a positive impact when accompanied by thorough professional work**. The number of registered players has risen sharply in these sports. And the increase in people doing sport makes long-term savings in social security spending too with people being in better health.

Nevertheless, the support system for spectator team sports could still work more effectively in several respects. Anyone who has tried to allocate tax to associations working with young sportspeople knows it is not easy to find clubs that are really carrying out professional work. One hears rumours of smaller associations "over-invoicing" to compensate for capital shortages. Instead of pushing clubs towards official channels though, this leaves them in the grey economy. Yet **without transparent operations, major companies opt against taking advantage of such a tax benefit** even if they cannot be held legally accountable in the new system if the beneficial uses the allocated amounts improperly.

So what is the solution?

In the film industry, the film-making activity in Hungary of multinational companies whitened the industry, boosting tax and other budgetary revenues. If a **few internationally renowned clubs were to appear** in the field of spectator team sports too, for whom it would be worthwhile to use Hungarian tax forints to set up another base for the new generation of sportsmen and women, we could see further improvements in this area as well. What is more, these clubs would promote professional development in bringing on new talent, and the multinational companies working with them could provide direct sponsorship too.

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

wtsklient.hu/2018/09/06/csapatsportok/

Please note that the conversation is available only in Hungarian.



→ Our expert



Zoltán Lambert

managing partner
Telephone: +36 1 887 3711
zoltan.lambert@wtsklient.hu

Education

- » economist
- » certified tax advisor
- » international tax expert

Specialisations

- » tax advisory in all tax types
- » tax optimization and tax planning
- » income tax audits and investigation
- » due diligence

Languages

Hungarian, German, English

Latest publications

- » [Proposals to revise tax regime in Hungary](#)
- » [What is the connection between the construction boom and the VAT on new apartments?](#)
- » [Tax strategy proposals](#)

Accounting policies: guidelines for accounting transactions at companies

Author: **Anita Toki**

anita.toki@wtsklient.hu

On the strength of the basic principles and valuation procedures recorded in the Hungarian Act on Accounting, accounting policies most suited to the company's characteristics and circumstances must be drawn up and set forth in writing. Yet many companies in Hungary face difficulties right at the outset. How should they start? What are accounting policies? What are the mandatory elements to be included in accounting policies, who should prepare them and by what deadline? Decision makers have many questions, and we will try to answer them here.

What aspects do you need to consider in relation to accounting policies?

- What is the preparation deadline?
- Who is responsible for preparing them?
- What should be included in the accounting policies?
- What related policies need to be drafted?

What is the deadline for preparing accounting policies?

New entities in Hungary are required to draw up their accounting policies as well as related policies and procedures **within 90 days of their establishment. If the laws are amended, any changes must be incorporated** into the accounting policies **within 90 days of entering into force**. There is also a deadline of 90 days for updates or amendments required as a result of changes in the activities or valuation procedures of the entity.

Who is responsible for preparing the accounting policies?

The person authorised to represent the entity is responsible for the preparation, authenticity and amendment of the accounting policies. Of course, the person/organisation performing the accounting or financial tasks plays a key role in preparing the document, in close cooperation with the management of the entity, as the accounting policies mainly regulate tasks and procedures related to accounting and financial settlements.

What do the accounting policies include?

The accounting policies contain **the rules, regulations and methods tailored to the company** that define what is considered material, immaterial, significant or insignificant from an accounting and valuation perspective, and what are deemed exceptional income, costs or expenses in terms of size or occurrence. In the accounting policies the entity determines **which of the selection and rating opportunities set forth in the law are applied, and under which conditions**, as well as the reasons justifying a change in the procedures used.

Policies and procedures forming part of the accounting policies are as follows:

- policy for valuing assets and liabilities
- policy for stock-taking and inventory of assets and liabilities
- internal purchase and production cost calculation policy (Companies preparing simplified financial statements and simplified annual financial statements are exempt from this obligation, as well as companies where the net sales revenues less cost of goods sold and mediated services in any given financial year does not exceed HUF 1 billion (roughly EUR 3 million), or total costs by cost type do not exceed HUF 500 million (roughly EUR 1,5 million). If these thresholds are exceeded then from the following financial year the company has to determine the purchase and production costs of own products manufactured or services rendered using the ex post calculation method according to the internal purchase and production cost calculation policy.)
- cash management policy
- documentation policy

When drafting the accounting policies, company managers in Hungary need to make decisions on the following key issues among others:

- bookkeeping method
- choosing the balance sheet format
- choosing the format of the income statement
- further segmentation of the balance sheet and the income statement, if necessary
- mandatory content of the supplementary notes
- accounting principles applied
- bookkeeping system
- accounting close
- audit, if such is not legally binding
- schedule for preparing and filing financial statements, responsibilities
- provisioning
- recording and reversing impairment

All in all, the company management decides on various elements when preparing the accounting policies as there are various

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Accounting services

If you are preparing or updating your accounting policies now, we are here to help. Over the past twenty years we have prepared or reviewed accounting policies for hundreds of companies. Our bookkeeping team looks forward to hearing from you by email, or just give us a phone.

Eszter Balogh
partner
+36 1 887 3715
eszter.balogh@wtsklient.hu

options to choose from when determining content. However, the accounting policies need to be drafted in a manner which ensures that compliance with the relevant rules results in financial statements that provide a true and fair view, and as required, meet the information needs of management and support internal or external audits.

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



wtsklient.hu/2018/10/04/elkesziteni-a-ceg-szamviteli-politikajat/
Please note that the conversation is available only in Hungarian.

→ Our expert



Anita Toki

manager
Telephone: +36 1 887 3725
anita.toki@wtsklient.hu

Education

- » economist
- » chartered accountant
- » IFRS-certified chartered accountant
- » tax advisor

Specialisations

- » accounting
- » IFRS
- » accounting advisory

Languages

Hungarian, English

Latest publications

- » [Significant or not significant error? That is the question...](#)
- » [Publication of annual reports and sanctions in the absence of e-reports](#)
- » [Statutory audit: useful, or a necessary evil?](#)



Most important privacy statement requirements in terms of form and content at the NAIH

Author: **Dr. Petra Eszter Deli**
petra.deli@wtsklient.hu

The position of the National Authority for Data Protection and Freedom of Information in Hungary (hereinafter referred to as: NAIH) on the data protection reform, its (former) recommendations as well as resolutions passed in individual cases may serve as a guide for legal compliance with the General Data Protection Regulation (GDPR) of the European Union and the development of proper data processing practice.

The NAIH already had a well-established practice regarding the form and content requirements of a privacy statement, which served as the basis for data subjects' consent even prior to the application of the GDPR, but this topic was addressed by the opinions of several Hungarian authorities after 25 May 2018 too. In this article we summarise the **most important findings of the NAIH**.

Starting point: without a privacy statement, a data subject's consent does not comply with the GDPR

According to Article 4 (11) of the GDPR, 'consent' of the data subject means any freely given, specific, informed and unambiguous indication of the data subject's wishes by which he or she, by a statement or by a clear affirmative action, signifies agreement to the processing of personal data relating to him or her. This means the data subject's consent will only comply with the GDPR if the data subject gave it based on preliminary information. It is important to emphasise that in light of the principle of accountability, the **controller has to be able to prove** that preliminary information was given. One of the best tools for this is if the consent follows the privacy statement, where the page numbers are continuous and the sheets are stapled together.

Typical errors in practice include:

- overly general language of privacy statement,
- avoiding examples, and
- ignoring group-specific aspects (e.g. age, basic knowledge of data subjects).

Most important privacy statement requirements in terms of form

The Hungarian NAIH expects the privacy statement to be easy to read (appropriate font size), transparent and appropriately structured. Using a **table format** is good practice according to the NAIH. If the controller adopts a **Q&A** format, this can help the data subject understand the privacy statement. It is important that the privacy statement should be accessible for the data subject as well (e.g. in a footer on a website).

Most important privacy statement requirements in terms of content, in addition to mandatory GDPR elements

According to the NAIH's position, in line with the preamble of the GDPR (point 58) and Article 12 (1), among other things the statement is acceptable if it considers the group of data subjects (group-specific aspects) and uses clear and plain language. One **typical error** in practice is that the privacy statement uses **language that is too general or too complicated**, does not include examples or ignores the age (as a group-specific aspect) of the data subjects.

The requirement of clean and plain language means that the privacy statement is **accessible for the data subject in terms of the words used**. According to the NAIH's previous position, "if the controller wants the data processing to cover the personal data of foreign citizens (e.g. the guest book of a hostel, a tender for foreigners), the controller has to ensure that the privacy statement is available at least in English." Based on guideline WP260 rev.01 on transparency, facilitating the application and interpretation of the GDPR and issued by the Data Protection Working Party established based on Article 29 of Directive 95/46/EC, the NAIH stated that "if it can be established that an application has data subjects living/residing in a given country such as Hungary

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



wtsklient.hu/2018/10/11/adatkezelesi-tajekoztato-hanganyag/
Please note that the conversation is available only in Hungarian.

for example, because the website is also available in this language, the privacy statement can be expected to be available in Hungarian, and in this case, the lack thereof implies a violation of the requirement for clear and plain language. In this case, due to the lack of appropriate information, the data processing would violate Article 13 of the GDPR."

When formulating and applying the privacy statement it is recommended to take these NAIH findings into consideration and incorporate them into data processing procedures, since during a potential audit the NAIH, in line with the GDPR, will require the controller to process data in accordance with the above.

Data protection due diligence

If you are interested in checking whether your company's data processing practices in Hungary comply with GDPR requirements, please contact us and we will review them in a [data protection due diligence](#).

dr. Ildikó Szopkóné Horváth
partner, attorney-at-law
+36 1 887 3733
ildiko.horvath@wtsklient.hu

→ Our expert



Dr. Petra Eszter Deli

attorney-at-law, lawyer
specialized in employment law
Telephone: +36 1 887 3732
petra.deli@wtsklient.hu

Specialisations

- » labour law
- » corporate and economic law

Education

- » university degree in law
- » PhD degree
- » postgraduate degree in employment law
- » diploma in German legal translation

Languages

Hungarian, German, English

Latest publications

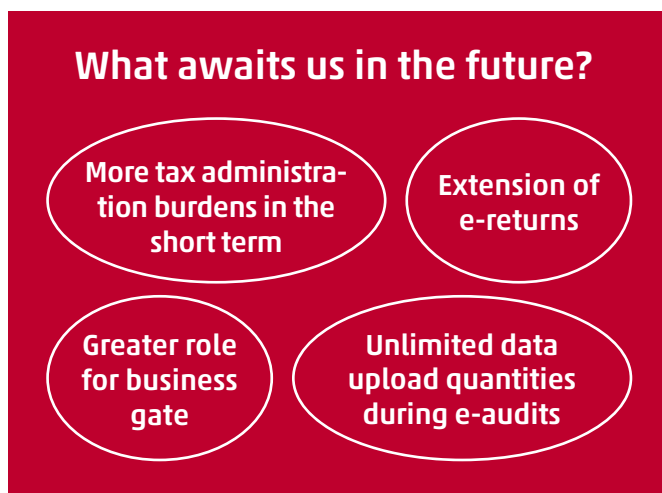
- » [Management of personal data prior to employment](#)
- » [Business gate registration with authorisation – in practice](#)
- » [Labour law framework for an intercompany posting](#)

The third national tax consultation, how would you rate the Hungarian Tax Authority?

Author: **Tamás Gyányi**

tamas.gyanyi@wtsklient.hu

The question in the title of our article was asked at the third national tax consultation held on 4 October, namely, how you would rate the Hungarian tax authority. The answers at the event were provided by tax advisors, not taxpayers. We will reveal what they said at the end of the article, along with the views about the Hungarian tax authority (NAV), considering the steps they are planning to take in the future and **what we can look forward** to regarding the sometimes excessive [tax administration](#).



Adat data atad

Let's play with words: the Hungarian term "adat" is the equivalent of the English term "data", and the EU guidelines against tax evasion consist of the same letters (ATAD, anti tax avoidance directive). Information is power and the Hungarian tax authority has been aware of this for a long time, but **large-scale data handling**, processing and evaluation as well as the identification of risky taxpayers **will be taken to a new level in the near future**. And the data must be provided by the taxpayers, which in the short term will result in increased tax administration. The positive aspects of the [Hungarian EKAER system](#) are indisputable, but it increases the costs of certain taxpayers even today, and the default penalties also seem to be easy prey at a Hungarian company generating a significant number of transactions, as according to the law of averages, mistakes can occur even in the best corporate administration systems. From 1 July 2018, online invoicing further enhanced the complexity of corporate administration with the threat of a default penalty amounting to HUF 500,000 (roughly EUR 1,500) for incorrect invoice reporting.

Online invoicing

Nearly 15 million invoices have been reported since the introduction of the online invoicing system, including more than 6 million successfully reported items. Under certain circumstances some sanctions could be avoided in July, but from August the NAV can penalise taxpayers (weighing up and assessing all the circumstances according to the information provided at the national tax

consultation). If **online invoicing** becomes part of daily routines and is automatic for each taxpayer thanks to IT solutions, I think it **can have a positive effect for both the tax authority and taxpayers**. Even if this will not be enough to eliminate tax cheats in the Hungarian economy in one swift blow, it could provide the ammunition for targeted tax audits that will increase tax revenues and relieve good taxpayers from the administrative burden of unnecessary tax audits.

E-additives

The letter "e" that often appears on food packages is not a good sign. E-return, e-data reporting, e-audit, e-paper: **these are currently megatrends at the Hungarian tax authority**, the question is whether we are all glad about them. [One of the key issues](#) of the second national tax consultation last year was electronic administration; Hungarian tax trends show that digitalisation is one of the NAV's main goals and that the tax authority is progressive (in many cases more progressive than taxpayers themselves, and companies with minor resources can encounter difficulties following the changes). E-returns may turn out to be a really good initiative. **The tax authority realised that they can make taxpayers' lives easier using the data available, and thus reduce tax administration**. In my opinion, draft personal income tax returns (e-szja) are milestones, and one of the greatest success stories in recent years for the NAV as well as for taxpayers. Extending the use of e-returns can also have positive impacts (just think about excise tax returns), and further tax types might also become involved. Taxpayers, tax advisors and now the tax authority based on the national tax consultation all agree, however, that the freedom of choice for taxpayers in taxes offering various options must be maintained, along with the option to fill in and submit their corporate tax returns themselves.

E-audits also work in practice, which means you don't need to appear in person with boxes of documents, the audit can be performed without you being present. The administration process can be carried out without personal presence using "e-papers", from receipt of the letter about starting a tax inspection through the delivery of the documentation and the electronic delivery of the minutes of the inspection, even during appeals.

Based on the experiences of the national tax consultation there is still room for improvement

As tax advisors we can say that the positive change from the tax authority is clear. We particularly welcome that **real discussions** can emerge, as we still find a number of statutory references interpreted in different ways by tax advisors/taxpayers and by the NAV.

Besides the positive changes and the IT developments (also) made in the interests of taxpayers, there are some areas that need further improvement, as confirmed by the fair criticism levelled by Hungarian taxpayers. On the one hand, it might be necessary for the NAV to make it clear to its thousands of employees that **a different attitude is required in the case of compliant taxpayers and for taxpayers intentionally avoiding tax**.

The significant IT developments require a particular effort both from the tax authority and taxpayers, and here again we can say that when launching the online invoicing system for example the NAV performed well, taking into consideration the remarks and suggestions of taxpayers, tax advisors and developers. On the strength of remarks from taxpayers, during e-audits it will be possible in the near future to upload unlimited quantities of data in batches of 500 megabytes (NAV is also familiar with the term "spam", so it is better to send only the required and necessary information to the NAV).

The role of the [business gate](#) will increase in 2019 as it will become the primary contact platform with the tax authority (the government portal is still applicable for liaising with the NAV in 2018). For this reason it is very important to make preparations during the remainder of the year. You need to determine who is authorised to use the business gate and to what extent, and **clarify responsibilities**: it is important to know who will receive the letter in the future about a tax authority inspection, and when, and then hopefully the subsequent report without any findings. Clients receiving such reports will probably give excellent ratings to the tax authority (tax advisors were somewhat stricter during the national tax consultation). So it is clear that if your processes are good and you comply with the legislative requirements (even

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



wtsklient.hu/2018/10/18/adoelkerules/

Please note that the conversation is available only in Hungarian.

with the help of a tax advisor), these steps will contribute to you seeing the authority through rose-tinted glasses.

Tax planning

Feel free to contact us if you are interested in further details about the tax consultation, or if you would like to know in exactly [which areas your company is affected](#); we will be happy to prepare tailored guidance for you covering each relevant taxation issue.

Tamás Gyányi
partner
+36 1 887 3736
tamas.gyanyi@wtsklient.hu

→ Our expert



Tamás Gyányi

partner
Telephone: +36 1 887 3736
tamas.gyanyi@wtsklient.hu

Education

- » tax advisor
- » certified international tax expert
- » certified international indirect tax expert

Specialisations

- » tax consultancy and compliance
- » indirect taxes
- » transfer pricing
- » international taxation and tax planning (direct and indirect taxes)
- » due diligences
- » tax litigations

Latest publications

- » [Online data reporting for invoicing: penalties on the way from 1 August](#)
- » [Reporting intention to perform a self-revision before tax inspections](#)
- » [The most important data reporting obligations](#)

Languages

Hungarian, German, English

20 years, 20 reasons – why companies choose us

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- 4 Outstanding professional expertise
- 5 Regular professional communication with clients
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- 8 Speed, efficiency, reliability
- 9 Synergies, smooth in-house cooperation
- 10 Flexibility, adapting to client needs
- 11 Straight to the point
- 12 “Nothing is impossible” attitude
- 13 Knowledge of three different organisational cultures
- 14 Value-driven business processes
- 15 Tax, legal and financial consulting – from one source
- 16 No auditing, no conflict of interest
- 17 Professional contact with Tax Authority, Ministry of National Economy
- 18 Memberships of international chambers: DUIHK, Joint Venture Association, Swisscham
- 19 “Made in Germany” – accuracy, professionalism
- 20 “Hungarian heart” – kindness, politeness

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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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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

WTS Klient Ltd.

Registered seat:
H-1143 Budapest, Stefánia út 101-103.
Company registration number: Cg.01-09-930353

WTS Klient Tax Advisory Ltd.

Registered seat:
H-1143 Budapest, Stefánia út 101-103.
Company registration number: Cg.01-09-978231