



Dear Readers,

I do not know if you feel the same, but for us, this year has passed as if each month lasted just a few days. Throughout the year we reported on countless legislation amendments, useful legal, accounting and tax information, as well as news from WTS Global.

In this publication we take a look at topics that are usually relegated to the background amidst the whirlwind of day-to-day activities. One such issue is one of the most widely read topics of the year, the registration of data processing activities, a somewhat neglected part of GDPR provisions, but it is also worth delving into the latest article of our financial series about asset-value methods for business valuations. And our foreign clients, or Hungarian clients employing foreign workers, may take an interest in the most typical questions on taxation by foreign nationals, as highlighted in our related article.

We hope you will read our newsletter with your usual enthusiasm, but please do spend most of your holiday taking some well-deserved rest. We will do the same, so we can tell you all about the latest events from January with our batteries fully recharged.

We wish you a Merry Christmas and a prosperous and happy New Year!

Eszter Balogh
partner

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Maintaining records of processing activities

“A controller may receive an administrative fine if it fails to comply with its obligations related to maintaining records of processing activities.”

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The General Data Protection Regulation (GDPR) of the European Union sets out obligations for controllers on keeping records of data processing activities. Records of processing activities are **documents compiled and kept up-to-date by controllers** that contain the processing activities performed by such controllers under their responsibility – in order to prove compliance with GDPR (account-

ability principle). In this article we summarise the key issues related to maintaining records of processing activities.

Exemption from obligation to keep records of processing activities – only a narrow range of micro, small- and medium-sized enterprises are exempt

Only controllers **employing fewer than 250 people are exempt from the obligation** to maintain records of data processing activities. However, this **exemption** is not applicable if

- the processing performed by the controller **is likely to pose a risk to the rights and freedoms of the data subjects** (e.g. camera surveillance),
- the processing is **not occasional** (e.g. payroll, sending of regular newsletters),
- processing includes **special categories of personal data** (e.g. personal data referring to religion or philosophical beliefs, trade union memberships) or **personal data related to criminal convictions and offences**.

So if any of the exemptions listed above are applicable, controllers employing fewer than 250 people are also obliged to maintain records of the relevant processing activity.

Mandatory content for records of data processing activities

The GDPR defines the mandatory content for records of processing activities precisely. Records of processing activities shall **contain at least the following**:

- **the name and contact details of the controller** and, where applicable, the joint controller, the controller's representative and the data protection officer;
- **the purposes** of the processing;
- a description of the **categories** of data subjects and of the categories of personal data;
- the categories of recipients to whom the personal data have been or will be disclosed, including recipients **in third countries** or international organisations;
- where applicable, **transfers of personal data to a third country** or an international organisation, including the identification of that third country or international organisation and, in the case of transfers referred to in the second subparagraph of article 49 (1), the documentation of suitable safeguards;
- where possible, **the envisaged time limits for erasure** of the different categories of data;
- where possible, a general description of the **technical and organisational security measures** referred to in Article 32 (1).

Formal requirements regarding the records of processing activities

Records of processing activities shall be kept **in writing**, either in paper or electronic format (e.g. xls file). There are no requirements in the GDPR about the language used for records of processing activities. If there are no special circumstances justifying

the maintenance of the records in a foreign language, it is recommended to keep the records in Hungarian. It is also recommended to include the documents available for the specific processing operations as well as where they are available (e.g. data processing contracts, interest assessment tests, certifications).

Amendments should be traceable

Records of processing activities are prepared as a result of screening the controller's processes related to the processing activity. However, it is important to note that controllers must keep the records up-to-date. Consequently, a controller **must transfer any interim changes** – initiation of a new processing activity, termination or modification of existing processing activities (e.g. extending scope of data subjects, changes in purpose of processing) to the records of processing activities. The records must explicitly show the date when the specific modifications (erasures) were transferred.

A controller **may receive an administrative fine** if it fails to comply with its obligations related to maintaining records of processing activities – which means it does not or does not appropriately maintain the records, or refuses to hand such over to the supervisory authority upon request.

Data protection due diligence

If you are interested in checking whether your company's data management practices meet the GDPR requirements, please contact us and we will review your current practices in a [data protection due diligence](#).

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



wtsklient.hu/2018/12/20/adatkezelesi-tevekenysegek/
Please note that the conversation is available only in Hungarian.

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Languages

Hungarian, German, English

Latest publications

- » [Review of HR activities and processes in Hungary based on GDPR](#)
- » [Checking email accounts used for work purposes](#)
- » [Service provider obligation to forward data in respect of beneficial owner information in Hungary](#)

Asset value methods in business valuations

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[Starting our series of articles off](#) we looked at the cases when business valuations may be necessary, and the possible methods, then we conducted a thorough analysis of the features of [income-based methods](#) and [comparables methods](#); in this article we are going to present the asset value methods.

“Asset value methods are useful because they are simple. They are important because they define the minimum level of a company’s value.”

What are asset value methods based on?

Asset value methods characteristically draw on historical data from financial statements. According to this method, the value of company can be determined as the difference between the carrying value of its assets and its liabilities.

What asset value methods are there?

Asset value methods can essentially be divided into two categories:

- valuation based on **going concern principle**
- use of **liquidation value**

If we assume the going concern principle, assets can be valued at their carrying value or at the asset value adjusted to market value, thereby identifying any hidden reserves. In this case, the data of the company’s financial statements can be taken as the basis for assessing the values of assets and liabilities. A typical example of hidden reserves is a real estate purchased many years ago, where its **market value** may be much higher than its carrying value in the books according to an independent property appraiser’s evaluation.

The liquidation value is applied when the company’s owners do not want to or the company is incapable of continuing its operations, and therefore the owners are forced to sell the company’s assets to meet their obligations to creditors and pay other liabilities from the sales revenue. In the majority of such cases the liquidator generally has to define a value far below the market value, a so-called **salvage value**, to be able to turn the assets of the company into cash. So a valuation based on the liquidation value usually results in a lower figure for the company than a valuation based on the going concern principle.

What is the problem with asset values?

The same asset may have different carrying values based on the accounting system used (for example [IFRS](#) or the Hungarian Act on Accounting), and the application of the options provided by the given system. So it is easy to see that asset value methods **may be significantly influenced by the accounting valuation methods chosen by the company**. At this point, **revaluation** using the buyer’s valuation methods becomes a possibility with a view to obtaining a more relevant figure.

Furthermore, we can try to **identify hidden reserves** among the assets, i.e. differences between the market value and the carrying value of assets, during which the assets and liabilities are valued at their market value instead of their carrying value. Defining market value, however, is a much more complex process than valuations based on carrying value. An **appraiser might be needed** to assess market value. The market value of assets can typically be defined by finding comparable prices or assessing the replacement costs.

When defining the carrying value of assets adjusted to market value, it is also possible to include assets during the identification of hidden reserves which were **not included in the financial statements, such as goodwill and clientele**. The goodwill mentioned above, which is designed to show how much more a company is worth than just the simple mathematical difference between its assets and liabilities, needs to be defined using a different business valuation method, the [income-based method](#). This is how mixed valuation methods are formed.

What is the significance of the method?

From all the values of a company, asset value gives the minimum figure since each company’s value is equivalent to at least the value of its assets less the amount necessary to meet the company’s liabilities. One of the advantages is that the carrying value of assets **can be retrieved very simply from published financial statements**.

What are the drawbacks of asset value methods?

The weaknesses of the method are as follows:

- This valuation does not take into account the future potential of the company.
- It does not consider the company’s strategies for the future.
- **It can be influenced** by measurement methods.
- When adjusting to market value an appraiser needs to be involved in the process.
- **Identifying and valuing** assets not included in the books – such as **goodwill** – **is a very complex** and time-consuming task.

Asset value methods are useful because they are simple. They are important because they define the minimum level of a company's value.

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



wtsklient.hu/2018/12/13/cegertekeles-modszerei/
Please note that the conversation is available only in Hungarian.

Financial consulting

If you have questions about business valuations, please contact our [financial consulting experts!](#)

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Languages

Hungarian, English, German

Latest publications

- » [Business valuation based on comparables methods](#)
- » [Business valuations based on future incomes: income-based methods](#)
- » [Guidelines on business valuations: what to evaluate, how and for whom?](#)



Most common questions about tax from foreign nationals

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“Fortunately, cases where a foreign employee posted to Hungary has to pay taxes in two countries are very rare.”

Another car-manufacturing giant will soon be arriving in Hungary. This investment indicates once again that Hungary is a popular target for foreign investors.

When an investor ventures into foreign markets, **besides the local recruitment of workers they usually send some employees from their own organisation** to the target country, who handle business management or key tasks at the new location during certain periods of the manufacturing. This is no different for business entities operating in Hungary: foreign nationals regularly arrive here to take up jobs.

When these foreign nationals meet tax consultants they typically ask the same or very similar **questions**. What do they ask about most often, what interests them the most?



“Will I have to pay taxes in two countries then?”

Postings are a frequently used arrangement adopted by many companies. For postings to Hungary, **the original** (e.g. German) **employment contracts of foreign nationals are left unchanged or include slightly amended conditions**. The activities carried out in Hungary are governed by a posting agreement between the posting entity and the host entity. Following the first meeting we generally have enough information to know whether or not the posted employee needs to pay taxes in Hungary on their wages for the duration of the posting. If the answer is yes, we need to notify the client that in the event no paying agent is involved, the individual has to pay the taxes in the form of tax advances during the years subject to taxation. “Will I have to pay taxes in two countries then?” – comes the usual question. Fortunately, this happens only in the rarest of cases. For employees arriving from countries that have a convention on double taxation in force with Hungary, **the ways of avoiding double taxation are set forth by said convention**. In the event that no such convention exists, the Hungarian rules provide a basis for credit method the majority of the tax paid abroad against the Hungarian tax base.

Important! It often happens that the accountant of the German employer, for instance, does not change the accounting process after the posting begins, meaning they keep deducting the entire German tax advance from the wages that are now fully taxable in Hungary. So the German company deducts the German tax on our German employee, who then needs to settle the Hungarian tax advance too. Reclaiming the German tax can be time-consuming, so our client has to pay the Hungarian tax from their net wages. If you can, involve a **German tax consultant** who can offer solutions for such situations. This means that in certain cases they can fine-tune German payroll practices and in so doing minimise the otherwise unnecessary German tax deduction.

“The German bank already deducted the tax along with the interest payment. What can I do?”

In line with the Hungarian-German convention, interest income is taxed based on tax residency. If all the necessary conditions (permanent address, centre of vital interests, etc.) have been thoroughly examined and we conclude that our German client is a Hungarian tax resident, the current convention enables Hungary to tax the interest income. **It is possible** in principle **to reclaim the deducted German withholding tax**, what is more, our experience shows that in certain cases you may be able to convince the bank not to deduct any withholding tax in the future by sending them the appropriate certificates (on tax residency for example).

Important! Always examine the relevant convention for the avoidance of double taxation. Although interest income may well be taxable in the state of tax residency, and the convention prescribes the tax base exemption method for the other state involved, **there are conventions where credit method needs to be applied**.

“Can I receive a housing allowance from my company for the duration of my stay here? If yes, is this amount taxable?”

According to Hungarian legislation, **housing allowance** related to a posting **does not qualify as income for the posted employee**. In harmony with the guidelines of the Hungarian National Tax and Customs Authority, this rule is applicable for Hungarian employees posted abroad as well as for foreign nationals posted to Hungary. The answer from the tax authority to a question we submitted earlier reveals that the exact content of housing expenses can mostly be defined by common sense: they may include anything besides rent that is considered an expense related to a normal way of living. According to the Hungarian tax authority this does not include laundry services for instance; however, renting a storage unit or a garage connected to the apartment can constitute part of housing expenses too.

Important! In the event of a posting it is recommended to review the relevant contracts thoroughly. We believe, for example, that in situations **where the gross wage of a posted employee increases during the posting** because of the extra anticipated costs (e.g. rent), **the above-mentioned cost accounting rule is**

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Expatriate taxation consulting

For many years now, WTS Klient Hungary has kept abreast of the legislative changes affecting the work of foreigners as well as international developments and applies these in its day-to-day work. If your company has expat workers, please contact us, we are happy to answer their question related to taxation.

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difficult to apply. It is especially difficult to interpret a situation when these rent components are not indicated item by item in the contract, and only background deals and calculations – not included in the contract – underlie and drive the wage increase.

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



wtsklient.hu/2018/12/21/expatok-adozasa/
Please note that the conversation is available only in Hungarian.

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- » VAT-registration of foreign companies and related tax consulting
- » international taxation of foreign workers
- » representation of companies during tax inspections

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- » [Hungarian-Turkish social security agreement takes effect](#)
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Languages

Hungarian, German, English



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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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