



Dear Readers,

Last year it was mainly online invoicing – and on a European level probably GDPR – that were the hottest issues of the profession. This year, it's easy to see the main topics will revolve around Brexit. What tax changes can be expected? When will these surface in practice? Who will be affected? The planned withdrawal of the United Kingdom from the European Union on 29 March 2019 has shrouded both European and British citizens and companies in incredible uncertainty. Anyone who is potentially affected, without exception, is worried that the withdrawal, and especially a no-deal Brexit, will most likely have significant economic drawbacks.

We cannot avoid the issue either of course, and we will try to outline the anticipated tax and customs implications of the United Kingdom becoming a third country on page 6 of our Newsletter. Although we cannot dispel the uncertainty, we hope to provide you with some useful information on the topic. However, we strongly recommend that if your company is affected, you should consult an adviser to prepare thoroughly for the changes. Please do contact us if we can be of help.

Tamás Gyányi
partner

Contents

Employee training could be tax-exempt in Hungary	» page 1
New amendments to regulation of innovation contribution from 2019	» page 2
A comparison of business valuation methods	» page 4
The tax implications of Brexit: who are affected, and how?	» page 6

Employee training could be tax-exempt in Hungary

“A business-owner can settle the vocational training contribution also by organising training for its own employees.”

Author: **Judit Kondrát**
judit.kondrat@wtsklient.hu

Finding and paying an appropriately qualified worker is an ever-increasing challenge for businesses nowadays. Additionally, from 2019 the number of [benefits subject to preferential tax rates](#) has fallen significantly, which further increases the costs on businesses.

Employee training may be a solution, particularly when training costs can be paid by businesses **tax-free or under even more preferential terms.**

Forms of employee training

Employee training can take place:

- when **prescribed by the employer** – in this case the employer makes a unilateral decision on the training and pays the direct training costs,
- based on a **study contract** – the employer and the employee agree jointly on the terms and conditions in writing,
- **without a separate contract** between the employer and the employee – in this case the employer only pays the fees it committed to.

continued on page 2

World Tax 2019 and World TP 2019 rankings are out



According to World Tax 2019, which ranks more than 1,850 tax consultancy firms in the world, WTS Klient Hungary is in the “Tier 2” category, signifying an excellent rating. The firm fares well in the World TP 2019 publication too, which presents transfer pricing advisory firms.

You can find World Tax 2019 ranking [here](#) and World TP 2019 [here](#).

The selected form of employee training is important not only for the purposes of applying labour law but also other laws and regulations.

Under Act CXVII 1995 on Personal Income Tax (the "PIT Act") in Hungary, employee training can take place both within and outside of a school system. Only **training outside the school system** or training-on-the-job can be **exempt from personal income tax** (more precisely, no revenues are generated during its use), if the training complies with Section 4 (2a) of the PIT Act, i.e. if the training is used within the scope of performing work or an activity, as a precondition for carrying out the job.

It is possible for the education and training to take place in another city or even country, either because the given training is only available there or the desired results are achieved at the given training location more quickly (e.g. an intensive language course abroad). If the training complies with the terms of **official business trips** as per the PIT Act, then the **travel costs and the accommodation costs** (including the mandatory breakfast) may be **exempt from personal income tax**. Payments for other meals, programmes as well as mandatory or voluntary daily allowances, etc. may not be tax-exempt.

Computer use and library registration fees provided by the employer free of charge or under preferential terms can help people successfully complete their studies, but both benefits can be provided free of personal income tax, even independently of the training.

Based on Section 14 of Schedule 3 to Act LXXXI of 1996 on Corporate and Dividend Tax in Hungary, the cost borne by the payer qualifies as a business-related cost.

How can paying costs arising during the employee training be even more preferential than tax-exempt status?

A business-owner can settle the **vocational training contribution** not only by paying the contribution to the tax authority, but also by organising training for its own employees. In the case of training complying with the conditions defined in Section 5 of Act CLV of 2011 on Vocational Training Contributions and Support for Training Development, given that the costs specified in a separate ministerial decree can be deducted, the business can **decrease the amount of the contribution or claim back** any contribution that was already paid.

Practical training or **traineeships** organised as part of a basic course with a significant practical element or dual training are good opportunities to train workers in line with the needs of your business. Various tax and contribution allowances can be claimed in respect of the fees paid to those participating in such training.

Accounting advisory

If you need additional tax and contribution payment information regarding employee training, please contact us! The accounting consultants at WTS Klient Hungary are ready to help you find the most optimal solution for your company.

Andrea Potássy
partner
+36 1 887 3741
andrea.potassy@wtsklient.hu



New amendments to regulation of innovation contribution from 2019

Author: **Béla Kovács**
bela.kovacs@wtsklient.hu

Innovation contribution from 2019:

- rating NOT based on the company's own financial indicators
- partner and related companies considered
- continued application of the two-year rule
- base and rate of the contribution unchanged

It is no surprise for Hungarian tax consultants and tax leaders, or possibly even for taxpayers who have been in the industry for years, that the regulations for the innovation contribution were amended again in Hungary in 2019. Professionals are probably only rolling their eyes with a cry of "not again"! And rightfully so, since it is difficult to count how many times the innovation contribution regulation has been changed in the last 10-15 years in Hungary.

Innovation contribution – a look back

It verges on the impossible, but since the currently applicable law effective from 1 January 2015 was implemented, one major element of the regulation, the one defining which business entities are liable to pay the innovation contribution, has remained essentially unchanged until the end of 2018. It was always a **key issue** whether the small and micro enterprise status

giving exemption should be defined based on the company's own indicators, or using consolidated financial data with any related companies as well.

At the end of 2014 the regulation prescribed that all the provisions of Act XXXIV of 2004 on Small and Medium-sized Enterprises and the Promotion of SME Development (SME Act) must be taken into account when qualifying a small and micro enterprise. Hence, it needed to be checked whether the company had any related or partner companies, and whether, pursuant to the "**two-year rule**", its headcount, net sales revenue or total assets exceeded the threshold prescribed by law in two consecutive years.

Thereafter, from 2015 until the end of 2018, enterprises had to be classified based on their own indicators. The **returning regulation** effective again from 2019 brings back the pre-2015 provisions.

The 2019 regulation

What does all this mean in practice? **From this year on**, when defining whether a Hungarian company is obliged to pay the innovation contribution, **you again need to take into account the relevant financial indicators of any related or partner companies as well**, and when assessing whether a contribution needs to be paid, the data in their financial statements becomes relevant too. The "two-year rule" is still applicable: a business exceeding (or falling below) the threshold loses its previous rating if it exceeds (or falls below) the given threshold in two consecutive years.

Let's take an example. Let us suppose that our company is a small enterprise and has not been obliged to pay innovation contribution since at least 2017, and (based on its own figures in its latest financial statements from 2016) it is classified as a micro enterprise in 2018. Its business activity picked up substantially according to the figures in its 2017 financial statements, so much so that when it reassessed in 2019 based on its 2017 financial statements, it qualifies as a large company. However, it does not matter if we qualified the company as large this year because the

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



wtsklient.hu/2019/01/31/innovacios-jarulek-fizetes/

Please note that the conversation is available only in Hungarian.

data reported in its last financial statements exceeded the threshold; since it happened for the first time, the rating of the company for 2019 is unchanged, so it is still exempt from paying the innovation contribution.

Brief look at aspects to be examined

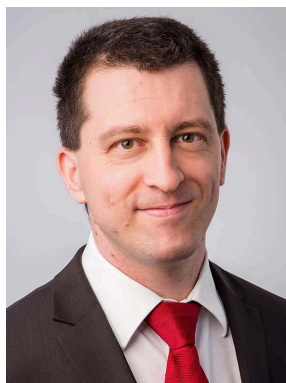
It is important to specify whether the companies within your group are classified as **related or partner companies** based on the statutory definitions. If yes, the consolidated figures need to be taken into account when assessing fulfilment of the threshold for the innovation contribution obligation in 2019 – just like before 2015. The good news though is that the **base and rate** of the innovation contribution **remain the same**: the contribution must still be calculated and paid on the local business tax base at a rate of 0.3%.

Tax consulting

If you would like more detailed information on how the 2019 innovation contribution amendments affect your company, please get in touch with the [tax experts at WTS Klient Hungary](#).

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

→ Our expert



Béla Kovács

senior manager
Telephone: +36 1 887 3730
bela.kovacs@wtsklient.hu

Education

- » economist
- » certified tax advisor
- » certified value added tax expert

Specialisations

- » tax advisory in all tax types
- » value added tax planning
- » tax authority inspections
- » reviews of transfer pricing documentation obligations
- » due diligence reviews

Languages

Hungarian, German, English

Latest publications

- » [100% advance an option if residential property not completed by end of 2019](#)
- » [Transfer tax exemption in property sales in Hungary](#)
- » [Tax implications of property development](#)

A comparison of business valuation methods

Author: **Szabolcs Szeles**

szabolcs.szeles@wtsklient.hu

In this series of articles we have taken a thorough look at the basic elements of the most important business valuation methods, the [income-based methods](#), the [comparables methods](#) and the [asset value methods](#). We devote the closing part of our series to comparing these methods and assessing their applicability.

Nine criteria of business valuation methods

For a clearer view of the business valuation methods we compare them in a table, where we take several assessment criteria into account.

“Business valuation methods do not necessarily have to rival each other, they can be deployed well side by side. In fact, in a lot of cases combining different business valuation methods is downright beneficial.”

Methods / Criteria	Income-based methods	Comparables methods	Asset value methods
Basis of method	Business value can be defined based on the current value of future cash flows generated by the company.	Business value can be assessed with the help of data from third parties.	Business value is based on historical data from financial statements.
Required input data	Financial plans, discount factor, industry risks	Historical data from databases	Data from financial statements
Need for experts	Special expertise required	Required to a moderate extent since queried data can only be used in conjunction with certain correction factors.	Only required in certain cases: to reveal hidden reserves or define market value.
Advantages	Anticipated performance is taken into account.	Simple and quick to carry out.	Basic data can easily be retrieved from the published data in financial statements, and the value can quickly be calculated from this.
Disadvantages	Structuring a financial plan and defining the discount factor are both time-consuming and expensive. The valuation is based on assumptions.	Accessing comparative data is costly and it does not take into account the inherent potential in the company. The valuation draws on historical data.	Asset value can be influenced by measurement methods. The valuation draws on historical data.
Limitations	Future business plans are based on assumptions, and industry risks are only estimated.	The more limitations there are in the comparative data available, the greater the uncertainty in connection with the method.	If the assets are valued at market price, the process may require the involvement of an expert.
Future performance / strategy	It is based on the future performance of the company. It takes into account the company's strategy.	It does not take into account the future potential of the company and its expected performance.	It does not take into account the future potential of the company and its expected performance.
Where to use them	<ol style="list-style-type: none"> 1) Company acquisitions and capital investments 2) Valuation of new industries and technologies 3) Valuation of presumed synergies 	<ol style="list-style-type: none"> 1) Valuation of larger or listed companies 2) During acquisitions, if no internal data is available to evaluate the buyer side 3) If there are significant uncertainties in future cash flows and assumptions 	<ol style="list-style-type: none"> 1) Defining the minimum purchase value of the company 2) If terminating an activity
Costs	An expert is required to prepare the valuation.	Databases can be accessed after paying subscription fees or query charges.	Not costly.

The dilemma of price and value

"Price is what you pay. Value is what you get." Warren Buffett

The different business valuation methods characteristically lead to vastly **different results**. Yet there is **only one purchase price**, which often does not correspond to any of the business valuation results.

Business valuation methods complement each other

We would not like to declare a winner, and identify one viable method to be used in all circumstances. **Different conditions, industries and capabilities rationalise the use of different valuation methods**. It is not possible to set up just one system of rules to select the appropriate method, at most you can define patterns from practical experience. It is generally true that income-based methods can mostly be used for acquisitions and equity investments, for the valuation of new industries and new technologies. Comparables methods are suitable for the valuation of larger or listed companies, or in cases where valuations using DCF methods are not viable due to the lack of internal data for the valuation of the buyer side for example, or if future cash flows and assumptions contain significant uncertainties. Asset value methods are suitable for defining the minimum value of a business.

To resolve the above dilemma of price and value we could conclude that business valuation methods do not necessarily have to rival each other, they can be deployed well side by side. In fact, in a lot of cases **combining different business valuation methods**

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.

is downright **beneficial**. If we conduct valuations based on different methods, the **business values** thus received may define a range for the purchase price, which can be a valuable tool for negotiations during a business acquisition or equity investment deal.

In our series of articles we have reviewed some of the most frequent business valuation methods. We analysed where it is best to use them, and highlighted the strengths and weaknesses of each method.

Financial advisory

If you would like to learn more about business valuations or the valuation of a specific company, please contact our [financial advisory experts](#).

Szabolcs Szeles
partner
+36 1 887 3723
szabolcs.szeles@wtsklient.hu

→ Our expert



Szabolcs Szeles

partner
Telephone: +36 1 887 3723
szabolcs.szeles@wtsklient.hu

Education

- » international economist
- » ACCA member auditor
- » member of chamber of auditors
- » certified auditor
- » tax consultant

Specialisations

- » compilation of international group reports (IFRS, HGB)
- » accounting and tax due diligences
- » accounting advisory
- » interim management

Languages

Hungarian, English, German

Latest publications

- » [Asset value methods in business valuations](#)
- » [Business valuation based on comparables methods](#)
- » [Business valuations based on future incomes: income-based methods](#)



VAT Update for the Digital Economy has been released

WTS Global prepared an easy-to-read binder which provides insights into the latest developments in the VAT world for the digital industry. It includes updates on Data as Currency, the Digital Service Tax, the new obligations for payment service providers as well as new details on rules for online marketplaces in 2021.

Click [here](#) to read the Update as PDF!

The tax implications of Brexit: who are affected, and how?

Author: **Tamás Gyányi**
tamas.gyanyi@wtsklient.hu

The issue of the United Kingdom staying in the European Union is still riddled with uncertainty, even though **the 29 March 2019 deadline for the withdrawal is only one-and-a-half months away**. Hungarian companies conducting business in the UK as well as British firms active in Hungary need to consider, in good time, how the change will affect their daily operations and what preliminary measures need to be taken.

This is because the tax implications of Brexit will not be negligible, since fundamental processes in the fields of **logistics, transportation, product sales and services** will change. In this article we summarise the key information regarding future changes in taxation, which are anything but certain. In other words, we examine which tax implications of Brexit seem to be the most important.

"In an ideal scenario we have nothing to do. However, we must also prepare for the worst-case scenario, and for that, nearly every procedure needs to be scrutinised as the tax implications of Brexit may affect anything from simple postings abroad to the transportation of goods."

Where to find information on the changes?

The National Tax and Customs Administration (NAV) published its information on tax and customs administration with regard to Brexit in November 2018 and on 31 January 2019 as well, which was supplemented [with further important documents](#) (available in Hungarian) on 11 February. The Directorate-General of the Taxation and Customs Union of the European Commission published a statement according to which **the preparations for Brexit, not surprisingly, are the issue of the day not only for the EU and national authorities, but for private individuals as well**, as the tax implications of Brexit will affect them too.

As the information reveals, in light of the significant uncertainties regarding the content of the withdrawal agreement, taxable entities must be reminded of the legal consequences that will have to be considered when the **UK becomes a third country**.

What are the plausible scenarios?

If **the withdrawal agreement is accepted**, the period between 29 March 2019 and 31 December 2020 will be a transition period, when the United Kingdom is still considered an EU member, but will not be allowed to participate in the day-to-day operations of EU institutions. The transition period may be extended once by mutual agreement between the EU and the United Kingdom.

If **the withdrawal agreement is rejected**, the United Kingdom will cease to be a Member State of the EU as of 30 March 2019. Let us take a look at what needs to be considered if this worst-case scenario materialises.

Customs

Any goods transported from the United Kingdom into the customs territory of the EU, and hence into Hungary, or from the EU to the United Kingdom, will be **subject to customs supervision**, and pursuant to [Regulation \(EU\) No 952/2013 on the Union Customs Code](#) may be subject to customs controls. Among other things, this means that customs formalities will need to be applied, customs declarations need to be submitted, and customs authorities may request security for potential or existing custom debts. Goods transported from the United Kingdom into the EU's customs territory will fall under the scope of [Council Regulation \(EEC\) No 2658/87 of 23 July 1987 on the tariff and statistical nomenclature and on the Common Customs Tariff](#). As a result, the appropriate customs tariffs shall be applied on such goods. All licences and permits issued by the customs authority of the United Kingdom and providing authorised economic operator status as well as other **permits** simplifying customs administration **will lose their validity**.

Tax implications of Brexit: indirect taxation

- The **transportation or sending of goods** from the United Kingdom into the value added tax regions of the EU, or from the EU to the United Kingdom, **shall be considered product imports and product exports** pursuant to Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax. This means that import VAT will be charged on goods entering the region, while exports to the United Kingdom will be exempt from Hungarian VAT provided certain other conditions are met as well.
- **Qualifying movements of goods as exports and imports will have an effect on the use of the EKAER system** too (EKAER will not be necessary for exporting to and importing from the UK, i.e. no EKAER ID number shall be requested for the movement of goods).

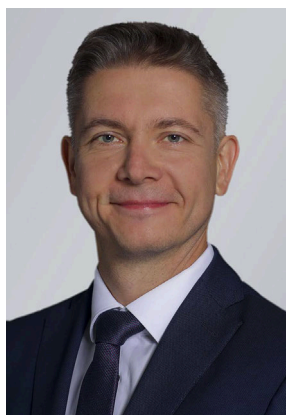
- **Taxpayers** based in the United Kingdom who purchase or import goods subject to Hungarian VAT, and **who want to reclaim the Hungarian VAT, may no longer submit their claim electronically** as per [Council Directive 2008/9/EC](#), but may do so in compliance with [Council Directive 86/560/EEC](#). Based on this latter directive, Member States may refund subject to reciprocity.
- Taxpayers based in the UK, and who are registered for VAT or have a place of business in Hungary, will need to designate a **tax representative (fiscal representative)**. Under the tax implications of Brexit, registered taxpayers who so far have had no **fiscal representation** will need to examine what steps are now required.

Aside from the above, one cannot forget that **specific rules** may take effect from a VAT perspective **for services provided** by Hungarian companies **for private individuals resident in the United Kingdom**. These are just some of the issues, and if the UK obtains a status identical to that of a third country, this may impact further on VAT rules for Hungarian companies (e.g. the rules of VAT deductions for loans provided to taxpayers in third countries could be altered).

What will happen to the convention for the avoidance of double taxation?

The provisions relating to direct taxation described in Act CXLIV of 2011 between the Republic of Hungary and the United Kingdom of Great Britain and Northern Ireland on preventing fiscal evasion and avoiding double taxation with respect to taxes on income and capital gains (double tax treaty) shall remain effective, regardless of whether Brexit happens or not. This way, **an adequate system of rules will be in place for employees and companies performing cross-border activity**. Bear in mind, however, that in a worst-case scenario Brexit will have an impact on the [multilateral convention](#) too.

→ 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

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

Languages

Hungarian, German, English

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



wtsklient.hu/2019/02/14/szabalyozatlan-brexit/
Please note that the conversation is available only in Hungarian.

Implications for employee social security

Everyone would be happy if the current system of A1 forms was left untouched, similarly to the Swiss model. (Although Switzerland and EEA countries are not members of the European Union, the same social security rules apply for them in terms of job postings as for EU Member States.) If the worst happens, the lack of a convention on social security between Hungary and Great Britain will only make the situation graver.

To sum up the above, we can safely say that in an ideal scenario we have nothing to do. However, we **must also prepare for the worst-case scenario**, and for that, nearly every procedure needs to be scrutinised as the tax implications of Brexit may affect anything from simple postings abroad to the transportation of goods.

Tax consulting

If you would like more detailed information on how the 2019 tax implications of Brexit may affect your company, please get in touch with the [tax experts at WTS Klient Hungary](#).

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

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

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