

wts klient newsletter

WTS Klient.
The Bridge.

Dear Readers,

After a long wait and a lot of rain, summer is finally here. As you probably know from our [WTS Klient Newsflash](#) published a couple of weeks ago, the 2019 summer tax law amendments have also arrived, along with the long-awaited cancellation of the top-up obligation for corporate tax and the innovation contribution. Thus now we can take a breather, and have some rest. Both you, and us. So on the last Friday of July, please do not wait for our regular newsletter since it will now only be published every two months, but still with the usual professional precision and preparedness of course.

Don't worry though, you will not be left with nothing to read in the remaining two months of the summer, not even when lying on the beach! WTS Global recently published its latest [VAT](#) and [TP](#) Newsletters as well as the [first issue](#) of its International Tax & Permanent Establishments Newsletter. And we will soon be sending you the first Tax Bridge of the year. Until then, please browse through this newsletter, where we discuss interesting topics such as consolidation, postings, voluntary liquidation and the repurchase of own shares or partnership shares.

We hope you enjoy a pleasant summer.

Zoltán Lambert
managing partner

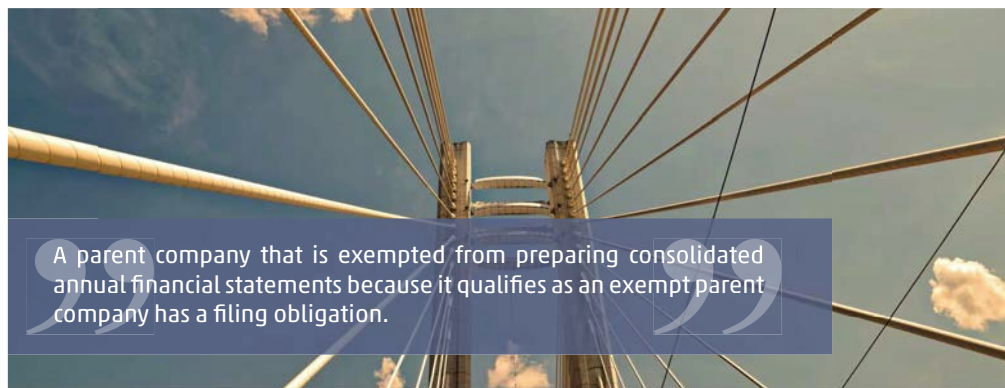
Contents

Consolidation	» page 1
Basic information about postings	» page 3
Voluntary liquidations	» page 5
Repurchasing own shares or partnership shares	» page 7

Consolidation

Who need to prepare consolidated annual financial statements, and who are exempt in Hungary?

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Most accountants finish their accounting duties related to the previous financial year after publishing and [filing](#) the simplified annual financial statements, or the [annual financial statements](#) as well as the decision on the appropriation of the after-tax profit, and in the event of a [mandatory audit](#) with the auditor's report. Yet there are others in the profession in Hungary who still have a major and complex task to complete: consolidation.

Who is affected by consolidation?

Consolidated annual financial statements **must be prepared by the parent company**. The parent company involves its subsidiaries and jointly-controlled companies in the consolidation process.

continued on page 2

The latest edition of the WTS Global TP Newsletter has been released

June 2019
1.2019

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WTS Transfer Pricing
Newsletter

.....>

The WTS Global TP Newsletter #1/2019 edition reports on current developments in the transfer pricing area in various EU and third countries.

You can download WTS Global TP Newsletter #1/2019 in PDF format here:

[WTS Global TP Newsletter #1/2019](#)

There are relief rules of course, which can exempt parent companies from their obligation to consolidate.

A Hungarian parent company does not need to prepare consolidated annual financial statements on a given financial year if two of the following three indicators fall short of the thresholds on the reporting dates of the preceding two financial years:

- total assets: HUF 6 billion (roughly EUR 18.4 million),
- annual net sales revenue: HUF 12 billion (roughly EUR 36.8 million),
- average headcount in the financial year: 250 people

The question does arise as to how the parent company can know this information if it has not yet prepared its consolidated annual financial statements? The answer is simple. The aggregate figures of the parent company, the subsidiaries and jointly-controlled companies must be compared to the thresholds. The consolidation takes place by adding the parent company's data to that of the subsidiaries, while the data of any jointly-controlled companies is also added proportionate to the given equity shares; this is all "raw" data, prior to the consolidation.

Exemption from consolidation due to size is not applicable in cases where the parent company is a bank, insurance company or financial enterprise, or if exchange trading of the shares or partnership shares of, or securities issued by, the parent company or its subsidiary is authorised, or such authorisation has already been applied for.

Who may (also) be exempted from consolidation?

If certain conditions are met, Hungarian parent companies obliged to prepare consolidated annual financial statements based on their size can also be given exemption.

Subsidiaries of companies based in any country of the European Economic Area (where such subsidiaries are also parent companies of their own subsidiaries and jointly-controlled companies), i.e. "**exempt parent companies**" can be exempted from their obligation to prepare consolidated annual financial statements **if the superior parent company prepares and publishes its own consolidated annual financial statements and business report – in accordance with relevant EU directives and EU regulations –** in which the exempt parent company and its subsidiaries are also included.

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



wtsklient.hu/2019/06/13/konzolidalt-eves-beszamolo/
Please note that the conversation is available only in Hungarian.

The exemption from consolidation must be presented in the supplementary notes of the individual annual financial statements of the exempt parent company, and further data must be presented on both the superior parent company and the exempt parent company's subsidiaries.

Difference between the two types of exemption

It is important, however, that while a parent company has no further administrative duties following its exemption based on the size thresholds, a parent company that is exempted from preparing consolidated annual financial statements because it qualifies as an exempt parent company still has a **filing obligation** in Hungary.

Since they do not prepare consolidated annual financial statements of their own, they have to file the consolidated annual financial statements and the consolidated business report of the superior foreign parent company, including the auditor's report, in Hungarian. This must take place within 60 days of the approval of the consolidated annual financial statements of the superior foreign parent company.

Financial advisory

Preparing consolidated annual financial statements is a very time-consuming and resource-intensive task for the finance department of a corporation. It is important to note, however, that consolidated annual financial statements do not always have to be prepared, exemptions can be provided for certain parent companies on various grounds. To decide whether your group of companies is subject to consolidation, or whether you are eligible for exemption, please do not hesitate to contact our [financial advisory](#) experts.

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Languages

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Latest publications

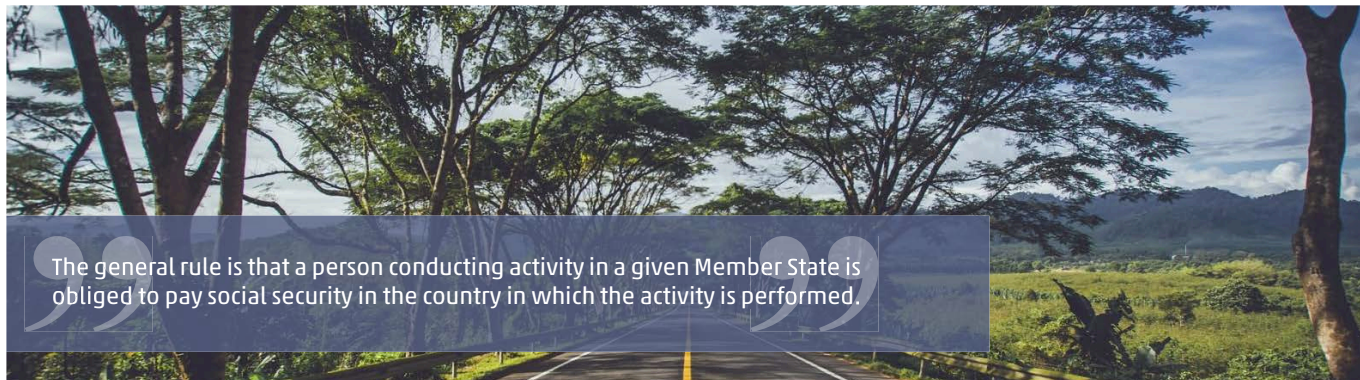
- » [Carve-out, or separation of a business division](#)
- » [Likely negative tax implications of mergers](#)
- » [IFRS 16: integrating off-balance-sheet financing into the balance sheet](#)

Basic information about postings

When should an A1 form be requested?

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The general rule is that a person conducting activity in a given Member State is obliged to pay social security in the country in which the activity is performed.

We have previously looked at the topic of postings in many [articles](#) on the website of WTS Klient Hungary and in our newsletters. Nevertheless, it is still worth returning to this and adding new information because postings are still common among [international corporations](#), i.e. when an employee of a given company acquires experience at another group company in a different country for a given length of time, or helps the business activity of that group company with his or her work.

Previously we provided information on applying double taxation conventions and on which [country to pay tax in](#) during postings, but less attention is probably paid to the [social security aspects](#) of postings and what they are based on.

General rule

The general rule is that a person conducting activity in a given Member State is obliged to pay social security in the country in which the activity is performed. However, there are **special cases when the country of insurance differs from where the work is actually performed**. These include postings for example (temporarily working in another Member State) or working in more than one Member State at the same time. Below we analyse when and under what conditions we can remain insured in Hungary during a period of working abroad, what the related terms are for the issue of an A1 form to guarantee this, and what would the right procedure be for postings of a few days.

Postings (temporarily working abroad)

Posted employees generally remain insured in the country they came from, but such periods of work may not exceed 24 months.

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



wtsklient.hu/2019/06/20/tarsadalombiztositas-fizetesi-kotelezettseg/

Please note that the conversation is available only in Hungarian.

The basic condition here is that the posting employer must conduct a **significant business activity** in Hungary.

This statutory significant activity criterion is fulfilled if the employer agrees that the **ratio of people employed in Hungary or the ratio of sales revenue generated from activities in Hungary will be at least 25%** in connection with its overall activity in Hungary and abroad. Hungarian law can still be deemed applicable even if these conditions are not met, provided that the circumstances verify a significant activity of the employer in Hungary.

A posted employee **may not remain insured in Hungary** for example and the parties may not receive an A1 form if

- the people employed in Hungary only carry out **administrative tasks**,
- the activity carried out in the Member State of the posting and the activity in Hungary fall into different **sectors of the economy**,
- the employer does not exercise the **employer's rights** over the posted employee throughout the entire duration of the posting,
- the employee did not have an uninterrupted entitlement to **healthcare services** of at least 30 days prior to the posting,
- the employee is posted to **replace** another employee already in a posting,
- the employee **was already posted within the last 60 days** for a period determined in the Coordination Regulation or a social security agreement.

What should be done in the case of a conference lasting a few days?

If employees of a Hungarian company take part in a conference for a few days in another European Union Member State, the question arises of whether an A1 form needs to be requested in this instance. Such cases fulfil the criterion of a posting too, so based on the rules of the Coordination Regulation there might even be an obligation to pay foreign contributions. To avoid the risks it can therefore be worthwhile obtaining an A1 form before the start of the conference for these short-term postings too.

Parallel activity in two countries

If an employee works in another Member State subject to the Coordination Regulation or a social security agreement, as well as working in Hungary, what can be done so they remain insured in Hungary throughout the **period of parallel work**?

Assuming they live in Hungary, having Hungarian insurance is subject to the employee performing the majority of the activity in Hungary (as an employee, the **working hours and wage of the activity in Hungary must be at least 25% of the overall working hours and wage**). In this case the government office scrutinises the actual and expected data for the activity in Hungary and abroad relating to the last 12 months and the subsequent similar period. The regulatory background is complex, as shown by the fact that other rules are applicable if the former conditions are not complied with; this is why every single case has to be examined thoroughly in the case of activities carried out in parallel.

Official A1 form verifying insurance in Hungary

If the administrative body in Hungary confirms that Hungarian law applies, it will issue a form within 30 days of receiving such a request, stating the terms of the insurance and any expiry date. In all Member States this is known as the A1 form. The form **verifies that the employee or self-employed person is subject to social security rules and regulations in Hungary while working in another Member State**. If one posting follows another in more than one Member State, the applicable law must be assessed on a case-by-case basis, and so the forms must be issued separately.

The competent body must be informed without delay about any changes in the circumstances, who then invalidates, revokes or amends the form.

Exceptions

Article 16 of the Coordination Regulation enables **Member States to agree on exemptions** from applying the relevant rules of applicable law, for certain groups of people. If a consensus is reached by the Member States in the given case, the validity of the A1 form may not exceed five years.

Social security administration

The team of WTS Klient Hungary has special expertise regarding the taxation and social security payment liabilities of expats. You can rest assured that in consultation with our tax advisers and legal colleagues we can find the answer and solution to any social security issue or problem arising in connection with postings. **Please do not hesitate to get in touch.**

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Specialisations

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- » due diligence reviews

Languages

Hungarian, German, English

Latest publications

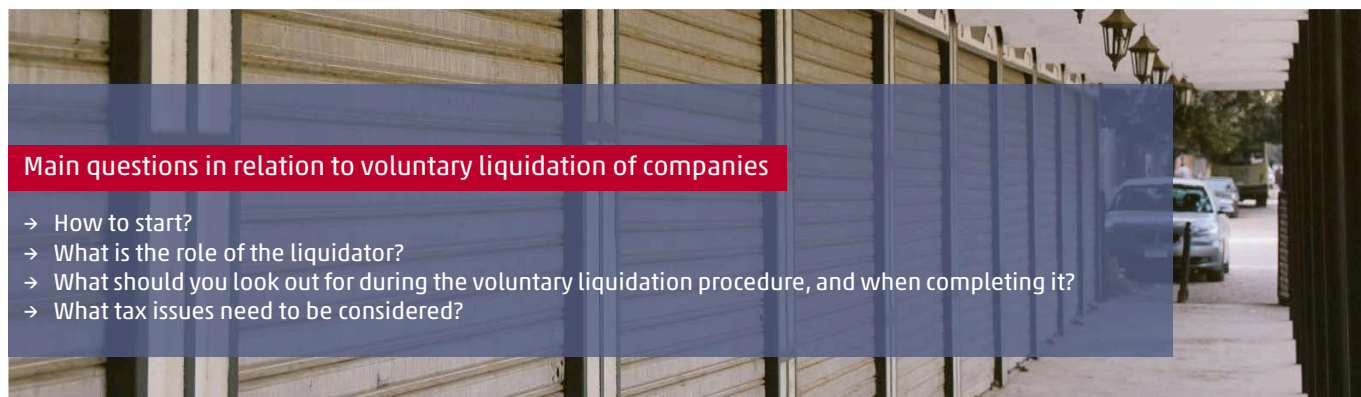
- » [New amendments to regulation of innovation contribution from 2019](#)
- » [100% advance an option if residential property not completed by end of 2019](#)
- » [Transfer tax exemption in property sales in Hungary](#)

Voluntary liquidations

From the beginning until the end

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Main questions in relation to voluntary liquidation of companies

- How to start?
- What is the role of the liquidator?
- What should you look out for during the voluntary liquidation procedure, and when completing it?
- What tax issues need to be considered?

Just like William Shakespeare said, "All's Well That Ends Well". This is particularly true when winding companies down in case of voluntary liquidations, when the owners can see no other solution but to [terminate the activity](#). There is a large number of legal regulations related to voluntary liquidations. Since this is not an everyday task in terms of either accounting or taxation, it **requires particular care**. We would like to give you some guidance in this labyrinth in our series of articles dealing with voluntary liquidations.

What is the difference between liquidations and voluntary liquidations?

First of all, it is important to note that voluntary liquidations **are not the same as liquidations**. What they have in common is that both processes aim to dissolve the company. However, while liquidations are initiated by external parties, generally because of insolvency, voluntary liquidations are initiated **by the owners**, and they control the procedure until the very end.

What can be the reasons for initiating voluntary liquidations?

There may be several reasons why owners decide to initiate a voluntary liquidation. In the case of companies with an international background, the activity pursued in Hungary is often relocated to a country where wages are lower in order to **optimise costs**. **Changes in market conditions or in legislation** can also be reasons for dissolving a company, while project companies are originally established for a fixed period only anyway.

The beginning of the "end"

If a company is terminated without a legal successor, and it is not insolvent, this is considered a voluntary liquidation. A decision from the owner is required for such voluntary liquidations. In the **decision**, the start date of the voluntary liquidation and the liquidator need to be specified. The start date of the voluntary liquidation may not be earlier than the date of the relevant decision.

The managing director's assignment is terminated from the start date of the voluntary liquidation, and **the liquidator represents the company** from this date onwards. The company's former managing director is responsible for ensuring that the company prepares financial statements as of the day before the start date of the voluntary liquidation terminating its activity, and submits its final tax returns.

Tasks during process of voluntary liquidation

Creditors may submit their claims within 40 days of the announcement on the commencement of the voluntary liquidation. The liquidator prepares a register of the claims and sends it to the Court of Registration in Hungary. Taking into account the **creditor claims** listed under the reported claims, the liquidator must prepare a **corrected opening balance sheet for the voluntary liquidation** as of the start date of the voluntary liquidation. If it transpires from the opening balance sheet that the company's assets will presumably not cover the creditors' claims, and the owners will not provide the missing amount within 30 days, the liquidator has to initiate the liquidation procedure at the competent court in Hungary without delay.

In addition to this, the liquidator is also responsible for collecting receivables, satisfying creditor claims, terminating existing contracts, terminating the employment of the employees, selling the assets if necessary, and distributing the remaining assets among the owners.

A voluntary liquidation **must be completed within 3 years of the start date**. During this period, financial statements must be prepared and published for each 12-month period, and the period closing the voluntary liquidation, as a financial year, while annual tax returns must also be submitted. During and when completing voluntary liquidations you can expect to have a [tax authority inspection](#), so it is advisable to **evaluate the tax risks of the company** and take the necessary steps to eliminate or minimise these risks.

Ending the voluntary liquidation procedure

If there are no obstacles to ending the voluntary liquidation – because the activity has been terminated, all creditor claims are satisfied, debts have been collected, contracts with employees and partners have been terminated, and the assets for sale have been sold – the liquidator must prepare the **financial statements** for the last period of the voluntary liquidation and submit the **final tax returns**. In addition to this, the liquidator has to make a recommendation for the distribution of the remaining assets.

Due diligence of companies and assessment of tax risks

A voluntary liquidation is not a routine task in the life of a company. To avoid potential tax risks you are advised to consult with an expert. Feel free to contact [the professionals at WTS Klient Hungary](#), who will be happy to evaluate the risks that may arise during the voluntary liquidation in terms of both tax and accounting issues.

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Specialisations

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- » accounting and tax due diligences
- » accounting advisory
- » interim management

Languages

Hungarian, English, German

Latest publications

- » [A comparison of business valuation methods](#)
- » [Asset value methods in business valuations](#)
- » [Business valuation based on comparables methods](#)



The first edition of the WTS Global ITP Newsletter has been released



The first edition of the WTS Global International Tax & Permanent Establishments Newsletter gives you an overview of current developments in this sector, with a particular focus on changes in international tax law and country-specific developments with respect to the taxation of permanent establishments in 10 selected countries.

You can download WTS Global ITP Newsletter #1/2019 in PDF format here:
[WTS Global ITP Newsletter #1/2019](#)

Repurchasing own shares or partnership shares

Who makes the decision and what conditions need to be met?

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Membership rights related to the repurchased partnership shares may not be exercised, and the repurchased own shares do not provide shareholder rights.

A company must be careful if it wants to repurchase its own shares or partnership shares. Effective laws in Hungary (Act on Accounting, Civil Code) stipulate a number of requirements and regulations when repurchasing own shares or partnership shares that must be considered and complied with to ensure this business event is treated appropriately from an accounting perspective.

What are the conditions of a repurchase?

Own shares and own partnership shares are **the company's own equity investments** repurchased (acquired) by the company itself.

The decision on the repurchase is always made by the supreme body, and is recorded in a members' resolution in the case of limited liability companies. For companies limited by shares, the general meeting authorises the Board of Directors to acquire the own shares, but in exceptional cases – in the case of a [transformation](#) for example – prior authorisation may be disregarded.

In return for consideration, own shares and partnership shares may only be acquired if the **conditions for payment of dividends** are fulfilled at the company. Another condition for limited liability companies is that own shares and partnership shares may only be acquired from available assets in excess of the share capital, and that members **must have paid their entire capital contribution**. The regulation is similar in the case of companies limited by shares as well, as **it is prohibited to acquire shares or partnership shares if the total nominal value/issue price has not yet been paid** by the owners. The consideration for the own shares can be paid from the assets [payable as a dividend](#).

Another important rule is in Hungary that **membership rights** related to the repurchased partnership shares **may not be exercised**, and the repurchased own shares **do not provide shareholder rights**, so when calculating the voting ratios, the relevant voting rights are deducted. Their share of the dividend must be distributed among the eligible members/shareholders.

Funds for repurchase, maximum repurchase

The funds for repurchasing own shares or partnership shares **must be provided from the profit after tax and the disposable retained earnings** recognised in the balance sheet or the interim balance sheet of the last financial year closed with financial statements, in a manner that ensures **the equity reduced by the allocated reserve, the positive valuation reserve, and the repurchase value of the own shares does not fall below the amount of the registered capital**. The data of the financial statements may be taken into account within six months of the reporting date.

The Civil Code in Hungary also stipulates a maximum limit for repurchasing own shares or partnership shares: For limited liability companies the capital contributions underlying the repurchased partnership shares **may not exceed 50% of the share capital**, while for companies limited by shares, repurchasing own shares or partnership shares is only possible **up to 25% of the share capital**.

Presentation in the financial statements

After the repurchase, an **allocated reserve must be created** from the retained earnings for the amount of the repurchase, which also sets the dividend payment limit. The repurchased own shares and partnership shares **are recognised under securities in current assets** in the balance sheet. The data related to their acquisition (reason for acquisition, number, nominal value, ratio to registered capital, amount of consideration paid) **must be disclosed separately in the supplementary notes** of the company.

Other rules in Hungary on repurchasing own shares or partnership shares

Own shares may not be acquired during a company establishment or an increase in capital, and when reducing capital, own shares must be withdrawn first. Neither single-person companies nor single-person companies limited by shares may acquire own partnership shares.

If a company limited by shares acted unlawfully during the repurchase process, it must withdraw the shares by reducing the share capital within one year of the acquisition. The company **must sell** the repurchased own partnership shares, **give them to members free of charge or withdraw them within one year**, and thereafter the allocated reserve can be reversed.

In the case of a **sale**, a gain between the selling price and the carrying value is recognised under other income from financial transactions, while any loss is recognised under other expenses on financial transactions.

In the case of a **withdrawal**, the **registered capital** is reduced with an amount equivalent to the nominal value, while retained earnings are increased or decreased with the difference between the nominal value and the (carried) repurchase value, as applicable.

Accounting advisory

It follows that companies need to consider a number of things when repurchasing own shares or partnership shares. It is best to consult with an accountant and a lawyer before making the decision, to ensure everything is implemented in accordance with the rules. Feel free to contact us, the [accounting advisers of WTS Klient Hungary](#) will be happy to help.

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Languages

Hungarian, German

Latest publications

- » [Employment deviating from employment contracts](#)
- » [What does electronic communication mean from the perspective of local business tax returns?](#)



HAVE YOU READ IT?

On 4 June 2019 the Minister of Finance submitted a bill to the Hungarian National Assembly regarding amendments to tax laws as well as EU legal harmonisation obligations related to taxation. In the latest WTS Klient Newsflash we have summarised the key points of the proposals, the summer 2019 amendments to tax laws, which are also important for decision-makers in Hungary.

You can download the summary in PDF format here:
[WTS Klient Newsflash – Summer 2019 amendments to tax laws](#)

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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