



Dear Readers,

With the first WTS Klient Newsletter of the decade it is perhaps not too late to wish you a prosperous New Decade on behalf of myself and my colleagues.

We are certainly ready to do everything we can to ensure your company is successful in the next ten years as well. To support this we set up a new business line in January this year, which uses automated business solutions to increase the efficiency of our clients' tax, accounting and other business administration processes. Take a look at our [new services](#) and do not hesitate to contact us if you feel we can help optimise your business processes with digital solutions, perhaps by developing and operating online invoice data reporting, EKAER or other IT / Business Automation solutions.

Of course, we analyse other relevant tax, accounting and legal topics in this year's first newsletter too. For example, we report on the new rules regarding VAT reclaims on irrecoverable debts, the conditions for switching to the small business tax, new features of business gate administration, and we turn the spotlight on the new Act on Social Security entering into force in July.

Please do let us know if you have any questions.

György Kőrösi
partner

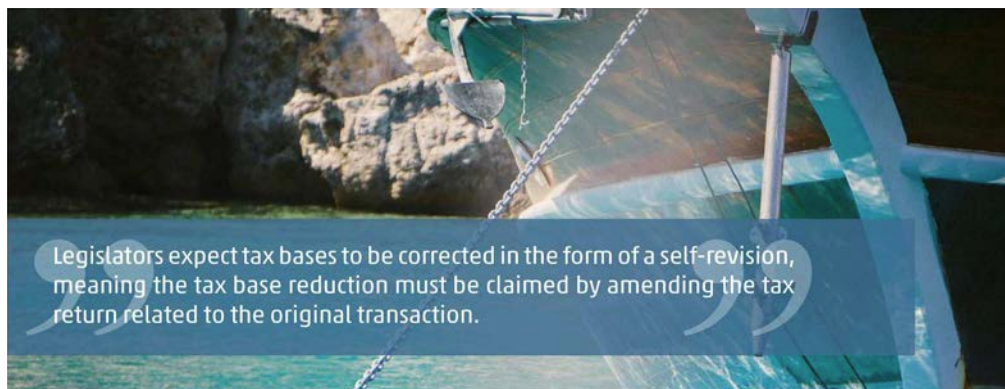
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Reclaiming VAT on irrecoverable debts

Permitted in Hungary from 1 January, but this is tied to a number of conditions

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The majority of businesses have most probably already encountered a situation where **one of their customers could not pay**, therefore their receivable turned into an irrecoverable debt. In this article we take a look at the [new rules](#) pursuant to the Hungarian VAT Act for reclaiming VAT on irrecoverable debts, effective from 1 January 2020.

The business entity in our example acquires raw materials for its production then sells the finished goods as a wholesale trader to various retail networks. The company can deduct VAT in its tax returns on its purchases subject to VAT (this is commonly referred to as deductible VAT), while it has to determine and declare the VAT on its sales as tax payable. **The entity actually has to pay any positive difference between the tax payable and the tax deductible to the state coffers** depending

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WTS Klient expanding with new business line

As a way of responding to the new challenges of the rapidly developing digital world, in January 2020, WTS Klient launched a new business line led by economist and IT expert János Németh. Besides automating and robotising monotonous and routine tasks in clients' administrative systems, **WTS Klient Business Automation Kft.** provides help for business managers to make more effective use of large amounts of data recorded and the information stemming from connections between large databases.

on the regularity of the returns (generally monthly or quarterly), and if the deductible tax exceeds the tax payable, it can be reclaimed. Let's take a look at what issues may arise with such a procedure.

Is it possible that my customer still has not paid me, but I already have to pay the related VAT to the state?

Of course it is. Suppose you dispatch a domestic supply to a Hungarian customer on the last day of June, so according to the general rule, the performance date of this sale on the invoice is 30 June. The VAT return on the transaction in June must be prepared and the related VAT paid in by 20 July. If you agreed on payment terms with the customer of more than 20 days, then it can happen that the payment for the supply (including the related VAT) does not arrive on your bank account by the time you have to pay in the related VAT to the state. **Naturally, most businesses anticipate such conditions and always structure their cash flow position in such a way as to be able to bridge these periods.**

What can I do if my customer does not pay for a lengthy period, becomes insolvent or, in a worst-case scenario, goes into liquidation?

According to the new rules regarding VAT on irrecoverable debts effective as of 1 January 2020, in such cases **it is now finally possible to reclaim the VAT of your customer's unpaid consideration under certain conditions.** A number of EU countries have already dealt with the issue of VAT related to irrecoverable debts in their national VAT rules, and in 2020 Hungary is now catching up.

What exactly are irrecoverable debts?

The Hungarian VAT Act introduced a **new definition** based on which the following receivables are considered irrecoverable debts:

- a) Receivables **generated through supplies of products or services**, consideration amounts or parts thereof including VAT accounted for as receivables, which are **recorded as receivables in the taxpayer's records.**
- b) A receivable is considered an irrecoverable debt for **one of the following reasons:**
 - there are **no funds** for payment as identified during enforcement proceedings against the debtor, or the funds are insufficient,
 - the receivable was **cancelled** by the creditor during bankruptcy or liquidation proceedings or during a debt consolidation with local governments,
 - there are no funds for the receivable according to the written declaration (statement) issued by the liquidator, provided that **at least two years have elapsed since the start of the liquidation,**
 - the receivable is not covered by the asset(s) received at a value specified in the **proposal for the distribution of assets** upon conclusion of the liquidation or debt consolidation procedure.

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



wtsklient.hu/2019/12/20/behajthatatlan-koveteleseik/
Please note that the conversation is available only in Hungarian.

Under what conditions can the tax base be reduced?

It was already included in the [summer tax law amendments](#) that in Hungary, according to the new rules, you need to **satisfy** a number of conditions **at the same time** to be able to deduct the VAT of irrecoverable debts from your tax base. These conditions are the following:

- you must comply with the principle of the **proper exercise of law;**
- the transaction must be conducted among **independent parties;**
- the customer must be previously **notified in writing** unless it was terminated without succession;
- the taxpayer **must not be under bankruptcy, liquidation or involuntary deregistration proceedings** at the submission date of the tax return related to the irrecoverable debt;
- the customer must not be under bankruptcy, liquidation or involuntary deregistration proceedings at the performance date of the product or service supply resulting in a receivable recognised as irrecoverable debt;
- the customer **must not be listed in the database for taxpayers with a considerable tax shortfall or large tax debt** at the time of the original transaction and the year before that, which can be queried from the Hungarian tax authority's website;
- the customer's **tax number** has not been cancelled as of the performance date of the original transaction;
- the **Hungarian Tax and Customs Administration did not provide information** for the taxpayer by the performance date of the original transaction on the customer's **evasion of its tax liabilities;**
- at least **one year has elapsed since the payment due date for the consideration of the original transaction;**
- the consideration for the original transaction **was not or cannot be recovered in another way;** and
- the performance date of the original transaction falls **after 31 December 2015.**

What does the written notification sent to the customer have to contain?

Pursuant to the legislation, the preliminary written notification must include at least the following information:

- the **reason** for recording the receivable as an irrecoverable debt;
- the **invoice number** related to the original transaction;
- the **amount** of irrecoverable debt (consideration or part thereof, and the breakdown of the related taxes); and
- a **statement** on the taxpayer subsequently deducting the amount of the consideration designated above, excluding VAT, from its tax base.

How do you need to declare the tax base reduction?

The reasoning for the new rule regarding the VAT on irrecoverable debts clearly states that the legislators expect tax bases to be corrected in the form of a **self-revision**, meaning the tax base reduction must be claimed by amending the tax return related to the original transaction. The taxpayer must attach a statement to the tax return on the reason for recognising the receivable as an irrecoverable debt, the number of the related invoices, the amount deductible for tax purposes, the name and tax number of the customer, and a statement on the fact that the consideration for the original transaction was not and cannot be recovered in another way.

What should you do if the customer pays the debt after lowering the tax base?

In this case **your tax return must be corrected** and you have to make a statement on the recovered consideration excluding VAT as well as on the name and tax number of the paying customer.

Value added tax consulting and compliance work

During [value-added-tax consultations](#) the tax advisers of WTS Klient Hungary help their clients navigate in the maze of the 2020 VAT amendments, they answer questions on the applicability of the new VAT rules at the clients' companies, and help them find solutions for the new challenges. Feel free to contact our colleagues if you need help or have questions with regard to reclaiming VAT on irrecoverable debts.

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- » international taxation of foreign workers
- » representation of companies during tax inspections

Latest publications

- » [Changes to call-off stock rules in Hungary](#)
- » [Most common questions about tax from foreign nationals](#)
- » [Business division transfer](#)

Languages

Hungarian, German, English

Introduction to the mysteries of the KIVA: switching to the small business tax

Who should make the change and what are the conditions?

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Take advantage of the small business tax (Hungarian abbreviation: KIVA)! – this was the title of the notification sent to the business gate accounts of Hungarian companies by the tax authority (NAV) in early December. This notification briefly summarised **who could benefit** from this type of tax, **which taxes it replaces** (corporate tax, social contribution tax, vocational training contribution), it detailed the tax calculation method and the benefits of the small business tax, and it also introduced the kiva calculator which provides help when considering whether to make the switch. In our article we go further and look at when and under what conditions Hungarian taxpayers can use this option, and **what needs to be done when making the switch**.

Down one percentage point from 1 January

As we pointed out earlier, based on the Hungarian [summer tax law amendments](#) accepted on 12 July 2019, the **small business tax rate was reduced to 12%** from 1 January 2020, which further increases the popularity of this tax type. If your company finds itself in a position where your staff costs are higher than your company's profit, or if you are planning significant developments by regularly investing your profit back into the company or raising capital, then you should consider making the switch.

The small business tax rules can be found in Act CXLVII of 2012 on the Fixed-Rate Tax of Low Tax-Bracket Enterprises and on Small Business Tax, and information booklets are available on the NAV website to help understand the rules.

Who can be small business taxpayers?

Among others, the following types of company in Hungary can choose this option:

- sole entrepreneurs
- general partnerships
- limited partnerships
- limited liability companies
- private companies limited by shares
- law firms

Status as a small business taxpayer is also **subject to**

- the company having an average **headcount** not exceeding 50 people in the fiscal year preceding the given fiscal year (also taking related companies into account);
- the company having **income** accounted in the fiscal year preceding the given fiscal year not exceeding HUF 1 billion (roughly EUR 3 million) prorated in the event of fiscal years shorter than 12 months;
- the company's **tax number** not being permanently cancelled by the tax authority in the two calendar years preceding the given fiscal year;
- the **balance sheet date** of the company's financial year being 31 December;
- the company's **total assets** in the financial statements prepared for the fiscal year preceding the given fiscal year not exceeding HUF 1 billion (roughly EUR 3 million);
- the company not having a **controlled foreign company** in the fiscal year prior to the given fiscal year;
- the company's **net borrowing costs** not exceeding HUF 939,810,000 (EUR 2,797,054 at the time of the publication of this article);
- the company's enforceable net **tax debt** recorded by the NAV not exceeding HUF 1 million (roughly EUR 3,000) on the day the taxpayer status is declared.

Switching from corporate tax to small business tax

What happens if there was no time to make the decision during the [busy end-of-year period](#), but you then **subsequently** decide that you would like to take advantage of this opportunity?

It is reassuring to know that you can switch to the small business tax at any time since this taxpayer status takes effect as of the first

Zoltán Lambert, managing partner of WTS Klient Hungary talked about this topic on InfoRadio.



Listen to the conversation at this link:
wtsklient.hu/2019/10/10/kiva/

Please note that the conversation is available only in Hungarian.

day of the month following the registration with the Hungarian Tax Authority. If you failed to do this in December last year, you must know that **a separate financial year begins when the small business taxpayer status commences**. The general closing tasks must be carried out as of the day before the financial year commences, which include preparing [financial statements](#) in accordance with the Act on Accounting and filing them, as well as conducting a prior audit for those [subject to an audit](#). When making the switch in line with the calendar year the deadline for this is 31 May of the following year, but for those changing in the middle of the year the deadline is the last day of the fifth month following the month of the switch.

Corporate tax no more?

In respect of corporate tax, the provisions of the Act on Corporate Tax for terminations without legal succession must be applied, and **form '71** for the previous year must be submitted (in 2020, form 2071 for switches during the year for example) by the deadline for publishing financial statements. In this **corporate tax** return the taxpayer does not declare tax advances for the fiscal year after the registration because it is **no longer obliged to make such payments**. Accordingly, the NAV will delete any previously declared tax advances from the taxpayer's tax current account *ex officio*.

However, there is one case where you cannot ignore the corporate tax payment liability in the future, and that is with allowances tied to future conditions. One example of this is the development reserve. Owing to the tax base allowance taken into account in the **development reserve**, taxpayers switching to the small business tax are still subject to the corporate tax prevailing in the allocation year and any late payment interest on the portion of the amount previously claimed as a deductible for tax purposes which is not spent on investment in the four years following the

allocation year and is not used by the end of the fourth fiscal year. The liability arising at this point must be declared in the small business tax return prepared following the event that triggered the liability.

What is good news, however, is that when determining the small business tax base any unused negative corporate tax base that arose while subject to corporate tax can be claimed as a **deductible item** before it expires.

New companies choosing the small business tax

Companies launching their activity during the year can signal their intent to choose this tax upon registering with the tax authority. If the taxpayer is not obliged to be registered as a company, then the **'T201 form** must be completed, while taxpayers that have to register as companies must indicate on their **company registration** application that they want to opt for small business taxpayer status.

Accounting

Since choosing small business tax is always an individual decision, we definitely recommend consulting with a tax adviser to ensure you make the correct decision. If you have made your decision, [our accountants](#) can help with the related accounting and tax return details. Feel free to contact us.

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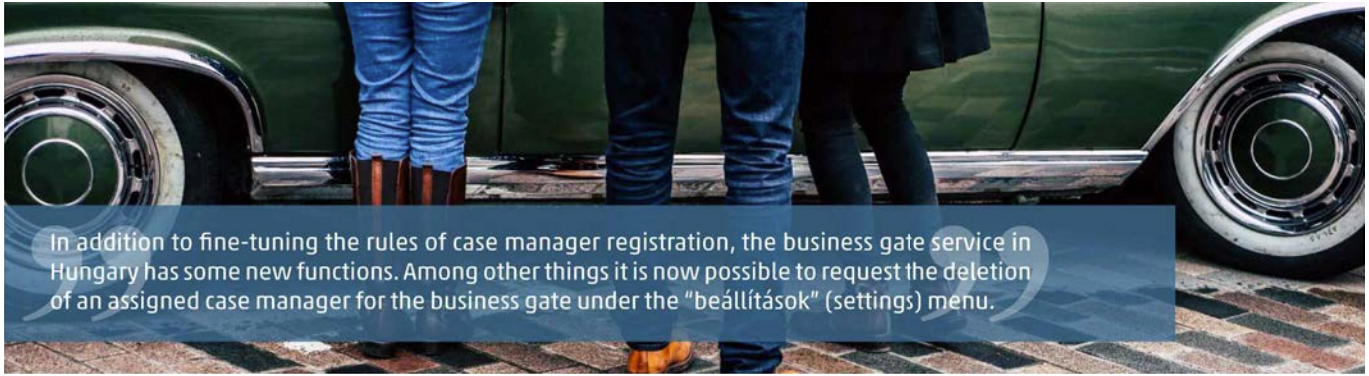
Business gate administration: case manager registration, step-by-step

Case managers can be registered by the person authorised to use the business gate

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As we already covered in a previous [article](#), Hungarian business entities – companies in particular – must communicate electronically with the state in accordance with Act CCXXII of 2015 on the General Rules of Electronic Administration and Trust Services. The Hungarian state enables the necessary documents to be sent from official contacts and received via the business gate. Companies have to complete their [business gate registration](#) within eight days of their registration – or of their establishment,

if they are not obliged to register their operation in Hungary in accordance with legislation. A person authorised to use the business gate is appointed and has to carry out the business gate administration. **The authorised business gate user is entitled to appoint** further users, so-called **case managers**. In this article we review the most important steps of case manager registration, paying special attention to user needs.



In addition to fine-tuning the rules of case manager registration, the business gate service in Hungary has some new functions. Among other things it is now possible to request the deletion of an assigned case manager for the business gate under the "beállítások" (settings) menu.

Case manager registration, step by step

1. The person authorised to use the business gate accesses his/her **personal storage space** after the identification process (Central Identification Agent) on the tarhely.gov.hu website (available in Hungarian), then selects the **business gate storage space** for the company (indicated with the first eight numbers of its tax number) from the drop-down list in the navigation menu.
2. To complete the case manager registration, first click on "beállítások" (settings) in the top right corner of the screen, then in the "ügykezelők" (case managers) menu click on "új hozzáadása" (add new).
3. During the case manager registration, the following **personal identification details** of the new case manager must be supplied: name at birth, name at present, mother's maiden name, place of birth, date of birth. It is important that the person assigned as a case manager for the business gate has individual storage space too. During the case manager registration, the following settings can be made:
 - "új üzenetküldés tiltása" (block new messages): by ticking the box the case manager's right to send documents is blocked;
 - "meghiúsulási igazolás menüpont tiltása" (block the presumption of service notification menu) by ticking the box the case manager's right to access the presumption of service notification menu is blocked;
 - "cégképviselőre jogosult" (authorised to represent company): by ticking the box the case manager is entitled to handle documents received in the business gate addressed to natural persons and bearing a limited access label. ("Blocking the presumption of service notification menu" and "authorised to represent company" options may not be selected at the same time.)

After supplying the above details and settings, click on the "mentés" (save) button.

Consulting

Business gate users are advised to keep an eye on the changes to the business gate storage space functions. If you have any questions about the registration of case managers, [the professionals](#) at WTS Klient Hungary are here to help.

Approval of case manager registration

Contrary to earlier practice, case managers assigned to the business gate are only given a temporary status (awaiting approval) for the business gate storage space until they approve. Please note that a case manager with **temporary status** does not yet have access to the business gate.

The system sends a notification to the email address provided for the assigned case manager's personal storage space, asking the assigned case manager to **approve** of the assignment within five days. Should the case manager fail to do so, the system will send a notification message one day before the deadline. If the person assigned as case manager does not approve the assignment by the above deadline, it will automatically be revoked by the system.

New function – request for deleting case managers

In addition to fine-tuning the above rules of case manager registration, the business gate service in Hungary has some new functions. Among other things it is now possible to request the deletion of an assigned case manager for the business gate under the "beállítások" (settings) menu. The **deletion request** is approved by the person authorised to use the business gate within 30 days. If this person fails to meet this deadline, the system will automatically delete the case manager's assignment for the business gate storage space.

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Latest publications

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- » [Most important privacy statement requirements in terms of form and content at the NAIH](#)

Languages

Hungarian, German, English

New Act on Social Security takes effect on 1 July in Hungary

Best to start gearing up for the changes now

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On 1 July 2020 the new Act on Social Security, i.e. Act CXXII of 2019 on the Eligibility for and Funding of Social Security Benefits, shall replace the current Act LXXX of 1997 and the related implementing regulation in Hungary.

The legislators want the new Act on Social Security to **unify and simplify the fragmented regulation, thereby reducing administrative burdens**. In our [article](#) on the tax changes in 2020 we looked at the main amendments; below we take a closer look at some of the more important details with regard to private individuals in particular (employees, posted staff).

Key element in new Act on Social Security: 18.5% social security contribution

The key element of the new Act on Social Security is that the 4% in-kind health insurance contribution, the 3% in-cash health insurance contribution, the 1.5% labour market contribution and the 10% pension contribution are to be amalgamated **into one single contribution, the 18.5% social security contribution**. The pension contribution remains separate, however, and must be paid in special cases in line with the previous rules. So the rate of the individual contribution will not change from 1 July, and it will be paid by the insured person on all income subject to contribution payments that is earned from a legal relationship subject to the payment of social security (with the statutory exceptions).

In addition to alleviating the tax administration burdens of employers, the other advantage of the single social security contribution is that the **family contribution relief can now be claimed on the entire 18.5% amount** by those who are eligible to do so. (Before 1 July the relief cannot be claimed in Hungary on the 1.5% labour market contribution). This will benefit low-wage families and those with several children in particular.

Income subject to contribution payments

For the sake of transparency, income subject to contribution payments is governed in a separate section in the new law, but **the definition is also changing**. Based on Section 27 (1) of the new

Act on Social Security, income subject to contribution payments includes the following:

- a) from the income derived from independent and non-independent activity that pertains to the consolidated tax base under the Act on Personal Income Tax, the income taken into account when calculating the base for tax advances, membership fees deducted (paid) for the body representing employee rights, cash benefits actually paid based on vocational training contracts, service fees, and scholarships paid on the strength of scholarship-based employment relationships,
- b) in derogation from point a), if Hungary is not entitled to impose a tax based on an international agreement,
 - the basic wage, but no less than the average national gross wage published by the Hungarian Central Statistical Office for full-time employees in July of the previous year, or
 - the income earned in the given month as consideration for activity – accounted for the given month in the case of an employment relationship – if such falls short of the amount as per the previous sub-point.

So essentially, the income considered in Hungary when calculating the base for tax advances as per the Act on Personal Income Tax can still be deemed the contribution base (alongside other types of income, such as service fees, etc.). At the same time, it should be noted that **tips received by waiters directly from customers shall not form part of the contribution base from 1 July (the service fee is still part of it, though)**, while the **assessment of income subject to the payment of contributions is to change in the event that Hungary is not entitled, or not fully entitled, to impose tax** on the given income.

In the case of employment relationships and [postings](#), this basically means that if the taxation of income is split in a given month between Hungary and a different country, then the following must be taken into joint account as the contribution base:

- a) wage for (working) days in Hungary, and

b) for calendar days abroad

- the basic wage, but no less than the average national gross wage published by the Hungarian Central Statistical Office in July of the previous year (which according to CSO information was HUF 362,600 – roughly EUR 1,074 – in July 2019), or
- the income earned as consideration for activity, if such falls short of the amount as per the previous point.

Despite the rules regarding income subject to contributions being incorporated into a separate paragraph, and the definition having been updated, the Act on Social Security **still not does define the concept of basic wage**, which can be very important with international circumstances. In addition, the tax payers also have to define what "consideration for activity" means, for example.

Minimum threshold for contribution payments in employment relationships

What is completely new to the new Act on Social Security, and what deserves particular attention in the case of part-time work, is the **definition of a minimum contribution base for employment / employment-type work**. (So far the Act only specified a minimum contribution base for business owners.) On this basis the social security contribution must be paid on at least 30% of the minimum wage. Deviating from this provision is permitted only in certain listed cases.

Health service contribution

Health service contributions still have to be paid by resident individuals – as per the Act on Social Security – who are not insured and who are not entitled to any health service on any other grounds. One change from 1 July is that the **NAV will now automatically determine the liability ex officio**, and a procedure

starting upon the registration of a private individual at the tax authority (as the system will operate until 30 June) will become the exception.

One stricter rule is that **if the person obliged to pay the health service contribution accumulates arrears of more than three times the amount of the contribution, then their social security number becomes invalid**. This means that health services may no longer be claimed free of charge with this social security number – unless all the debt is settled prior to using the health service.

Supplementary activity – pensioners

In accordance with the new Act on Social Security, from 1 July it is not only [pensioners drawing a direct pension](#) employed in accordance with the Hungarian Labour Code who are exempt from paying contributions, but also **pensioners with other legal statuses that provide insurance by default** (e.g. income received for membership of supervisory boards, which reaches 30% of the minimum wage).

Tax consulting

As demonstrated by this article, the new Act on Social Security brings no radical change to the system of social security. The basic principles, the fundamental provisions and procedural rules relating to insurance relationships are all based on the previous legal sources, and changes to actual content only affect small parts of the regulation. That said, it is important that all employers in Hungary are aware of the changes. If you would like more detailed information on how the social security amendments affect your company, please get in touch with the [tax experts of WTS Klient Hungary](#).

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Latest publication

- » [Brexit effects on social security](#)

Languages

Hungarian, English

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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- » Accounting
- » Payroll
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