wts klient newsletter

WTS Klient.
The Bridge.

Contents

Dear Readers,

Maybe you also share the feeling that you would love to read an article without the words coronavirus, pandemic or crisis in it. We unfortunately might have to wait a little longer for that, but I can promise you that if you thumb through our newsletter you will find mostly reassuring content with only a few references to the special rules introduced under these extraordinary circumstances. In separate articles and newsletters published at an unprecedented speed we report to you about the economic measures aimed at dampening the impact of the crisis, naturally with a focus on taxation.

You will most probably agree that our daily lives have changed radically. Our entire team is spending their 6th week working from home, but I am convinced that we will be glad to return to our regular working environment once the pandemic is over. At the same time, the experiences gained in these few months will help us pay more attention to the quality of our relationships with other people. On behalf of all my colleagues I can definitely say that we are very much looking forward to that time. Until then, please write us emails, call us, and meet us on a "virtual" basis. We are doing everything we can to ensure the quality of communication with us stays at the same customary level.

Zoltán Lambert
managing partner

Accounting treatment of project accounting from 2020

Logic underlying project accounting fundamentally changed

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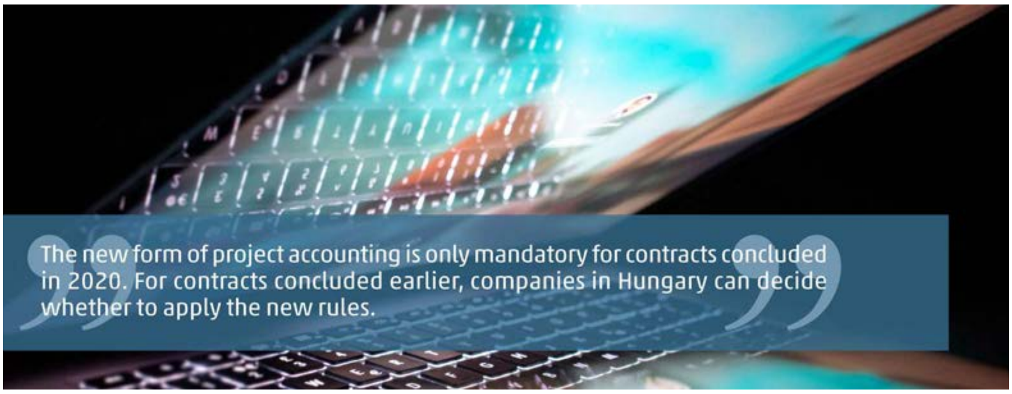

Significant changes have taken place in the accounting treatment of project accounting in Hungary from 2020. With this change, the Hungarian Act on Accounting has taken another step towards the approach adopted by the International Financial Reporting Standards (IFRS).

A project

The objective of a project is to create a unique product or service in accordance with the client's individual and special needs. Accordingly, preparing a specific machine, building a block of apartments or office building **tailored to the individual needs of the client** as well as carrying out specialised tasks are all considered projects. Accounting treatment is especially tricky with projects lasting several years, or affecting several financial years.

Key stages of project accounting regulations so far

It is safe to say that before this rule amendment, the accounting treatment of project accounting in Hungary was mainly **connected to** sales revenue, and more precisely to **invoiced sales revenue**. Project costs were adjusted to sales revenues booked based on the issued invoices pertaining to the milestones defined in the contract.

The specific **milestones**, i.e. the most important stages of a given project, **could be different for each project** depending on the common will of the contracting parties and naturally their balance of power. This is why it was possible when closing the planning phases of two separate projects with similar parameters for one to enable the invoicing of 10% of the contracted value and the other 60-70%.

Costs had to be accounted afterwards according to the matching principle of course, which in practice generally meant **adjusting costs to the already invoiced sales revenue** based on the expected profit figures of the project.

In cases where costs had already been incurred, but the project did not reach the next milestone, these costs had to be recognised as work in progress in the financial statements, which meant the project results were not presented for the given financial year. What is more, in such cases the **profit/loss over the years and pre-tax results may also be distorted**.

What changes with the new rules of project accounting?

The new rules of project accounting essentially break from previous Hungarian practice. Moreover they completely disrupt the approach where the actual performance, i.e. the **degree of completion**, is what matters when accounting projects, irrespective of the invoicing. (Degree of completion means the defined rate of actual performance per accounting unit set forth in the contract, which expresses the ratio of work actually completed to the total amount of work to be completed.)

In practice this means that irrespective of invoicing, but still taking it into consideration, project-related sales revenue must be adjusted to the value defined by the contract value and the degree of completion by increasing or decreasing the sales revenue against accruals and deferrals

Consequently, completed works not yet invoiced cease to be recognised as inventory, since it is clear that **the right amount of sales revenue was recognised for each performance (based on the degree of completion)** in the books. Furthermore, it must be ensured that costs and expenses are recognised on a pro rata basis in the company's books based on the matching principle.

Companies must present the methodology applied for assessing the degree of completion in their accounting policies.

What effect does this have on ongoing projects?

The regulation is effective as of 1 January 2020 and is already applicable for the 2019 financial year. What is much more important for many, however, is that the new form of project accounting **is only mandatory for contracts concluded in 2020**. For contracts concluded earlier, companies in Hungary can decide whether to apply the new rules. For companies where the milestones and the degree of completion do not correspond, it might be worth considering closing the project in accordance with the earlier regulation.

Financial & accounting advisory

Since project accounting entails special accounting tasks it is worth considering involving an expert. Feel free to contact the professionals at WTS Klient Hungary, who, as consultants, will be happy to support you with the special taxation and accounting issues that may arise during project accounting.

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Education

- economist
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Specialisations

- due diligence
- transformation
- consolidation
- IFRS

Languages

Hungarian, German, English

Latest publications

- Consolidation
- Carve-out, or separation of a business division
- Likely negative tax implications of mergers

Are you an expat worker in Hungary?
Be aware of the following before filing your returns in Hungary!

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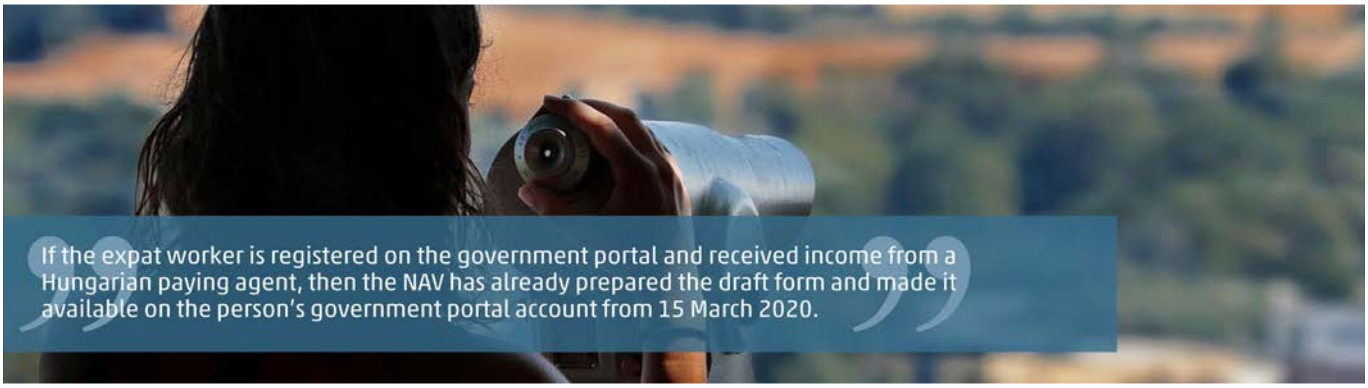

In light of the extraordinary circumstances at present WTS Klient Hungary can prepare expat returns without personal contact, and all the technical conditions are in place to file properly completed returns electronically with the Hungarian tax authority by the 20 May deadline. In this article we outline the basic details surrounding the obligation of foreigners to file personal income tax returns in Hungary.

We have written several articles on the subject of foreign postings of varying lengths becoming more and more common at international companies. Although in legal terms, foreign, i.e. expat workers **most often do not become employees of the Hungarian company**, thanks to their work they more or less **integrate into the host company's work processes** during the time of their stay here. Since such an expat worker does not have Hungarian employer, no M30 employer certificates are issued, so the host company employer, its HR department or the expat worker have to pay attention to meeting tax payment obligations in Hungary. Let us take a look at what needs to be observed in order to complete the personal income tax returns correctly for expat workers posted to Hungary.

Tax residence for expat worker

Firstly, you always need to determine where the tax residence of the expat worker is. Generally, this is defined by the domestic laws of the posting country and the host country (in this case Hungary); however, if the worker is considered a tax resident in both countries based on their laws, then **the provisions of the convention on avoiding double taxation concluded between the two countries** (if such exists) **must be examined**. These conventions generally define the country of tax residence as the one where the private individual has their permanent address, where the centre of vital interests lies (family and business ties), and where their habitual abode is (where they actually spent more days) in the given calendar year. If, based on a given factor, the person has residence in both countries, then you can move on to the next item on the list above. If the worker starts their posting mid-year, it can happen that their **tax residence is "divided"**, meaning that they will have Hungarian tax residency only for part of the year.

Where should the income from the posting be taxed?

When tax residence is established, you need to examine where the income stemming from the non-independent activity and received for the posting should be taxed. According to the basic rule, based on the conventions avoiding double taxation, the country of residence is the country of taxation provided the expat works in this country. If, however, work is carried out in a different country than the one the expat is resident in, **the tax payment obligation arises in the country of work**.

It is important to note that by meeting certain special conditions all at once, the income of an expat worker resident abroad but working in Hungary may remain taxable in the posting country.

Economic employers

It is crucial to examine the factor also considered by the Hungarian tax authority (NAV), and that is which country the worker gets instructions from, **who actually controls the work**. Depending on which country the expat is more aligned with from this respect, the "economic employer" of the worker will be either the posting or the hosting company. Accordingly, if the Hungarian hosting company is the economic employer of the expat worker sent to Hungary, then there is a good chance that the worker's income stemming from the posting will be taxable in Hungary, if it is only a short, two or three-month posting.

Renting an apartment? Trading on the stock exchange? Receiving dividends?

Beyond the elements of income related to the posting (monthly wage, "moving allowance", bonus), the situation is often more complex and the expat has income of other kinds too. If the Hungarian hosting company rents an apartment for the worker, or reimburses the rent paid by the expat, this can even be tax-exempt for the private individual.

For income, interest or dividends stemming from stock exchange transactions, tax residence is the decisive factor, these **special**

types of income are generally taxed in the country of tax residence. For dividend income, however, the paying state (not the one where the person is resident) can deduct withholding tax from the payment, which in most cases can be offset against the tax payable in the country of tax residence.

Use the available allowances!

In Hungary the most often claimed allowance is the family allowance, which an expat worker may also claim if they raise children or meet other conditions. In the case of foreign tax residence, it is important to consider other rules when examining the claim for allowances (such as the rule that 75% of the income of the expat worker in the tax year must come from Hungary). If the worker has just got married for the first time, they are eligible for a special allowance too.

The Hungarian **tax payment obligation may be** further **reduced** by 20% of any payments made to special pension savings accounts (Hungarian abbreviation: NYESZ) or voluntary savings funds during the year. In such cases the Hungarian tax authority credits these to the accounts held by the taxpayer at the service provider or fund.

Filing obligations, draft returns available

The deadline for submitting the 19SZJA form for 2019 is **20 May 2020**. If the expat worker is registered on the government portal (and obviously has a tax identification number) and received income from a Hungarian paying agent, then **the NAV has already prepared** the draft form and made it available on the person's government portal account from 15 March 2020, so it might just be enough to check and finalise the form.

Expat taxation consulting and compliance work, tax returns

WTS Klient Hungary has substantial expertise with regard to the taxation of expat workers. In light of the extraordinary circumstances at present we can prepare expat returns without personal contact, and all the technical conditions are in place to file properly completed returns electronically with the Hungarian tax authority by the 20 May deadline. Please feel free to contact our colleagues.

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Specialisations

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- value added tax planning
- tax authority inspections
- reviews of transfer pricing documentation obligations
- due diligence reviews

Languages

Hungarian, German, English

Latest publications

- Basic information about postings
- New amendments to regulation of innovation contribution from 2019
- 100% advance an option if residential property not completed by end of 2019

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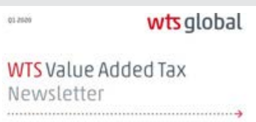
The latest WTS Global Newsletters have been released



The first edition of the WTS Global VAT Newsletter in 2020 wants to share with you insights on the latest developments in terms of VAT and GST across the globe. It reports recent or expected changes in VAT and GST regulations and compliance duties in 14 countries. You can download WTS Global VAT Newsletter for Q1 2020 in PDF format here: WTS Global VAT Newsletter Q1/2020

The latest WTS Global Mobility Newsletter provides you with an overview of recent developments of the global mobility environment in 11 selected EU and third countries. You can download WTS Global Mobility Newsletter for Q1 2020 in PDF format here: WTS Global Mobility Newsletter Q1/2020

Tax and social security revenues of the 2020 Hungarian budget in the shadow of the coronavirus

How might budget revenues change this year?

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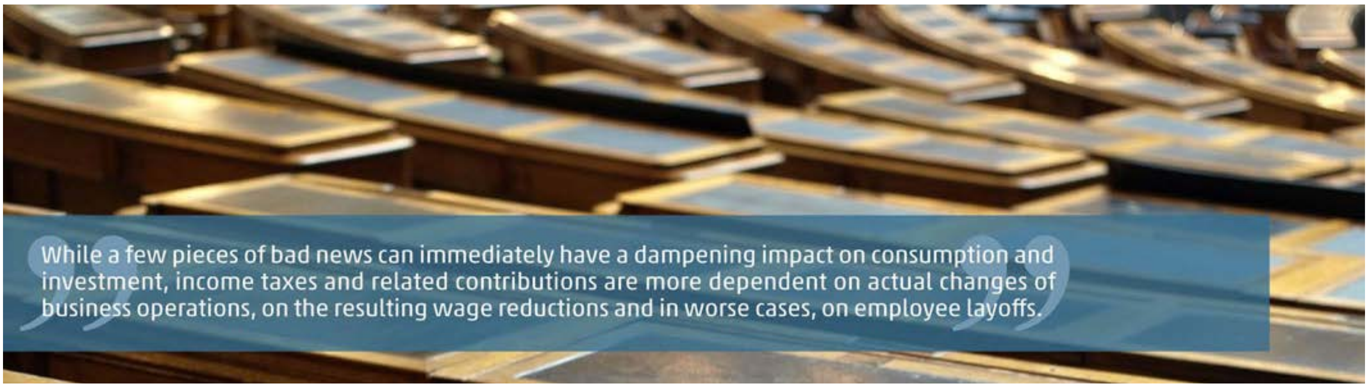

The recently published measures on taxes and contributions brought in by the government (as part of the economy protection action plan) were not yet known when this article was written, see our later published summary here on the details!

After writing this article, but before its release, the government announced its comprehensive economy protection action plan to mitigate the negative economic impact of the coronavirus pandemic. So I am not in a position to evaluate the measures affecting tax and contribution revenues in this article, but I can try to elaborate a few ideas about **the tax and contribution revenues** of the 2020 Hungarian budget **without taking** these **government measures into consideration**.

Tax and contribution revenues in the 2020 Hungarian budget

Perhaps nobody will be surprised when I say that the bulk of the roughly HUF 21,000 billion (roughly EUR 57.5 billion) revenue of the 2020 Hungarian budget will be comprised of taxes and social security revenues.

The **five major revenue sources** from these are the following:

	HUF billion	EUR billion
VAT	4,970	13.63
Pension insurance and health-care contribution	2,680	7.35
Social contribution and other employer contributions	2,664	7.30
Personal income tax	2,609	7.16
Excise tax	1,226	3.36
Total:	**14,149**	**38.80**

It is clear that these five items cover two-thirds of budgetary expenses. Although not new information, it is important that corporate tax amounting to HUF 501 billion (roughly EUR 1.4 billion) barely contributes to the 2020 Hungarian budget. Another noteworthy fact is that the amount of special taxes still in the system is minor too. The revenue from the five most contested special taxes is as follows:

	HUF billion	EUR million
Financial transaction duty	226	620
Income tax on energy suppliers	74	203
Financial organisations' special tax	65	178
Telecom tax	54	148
Public utility tax	54	148
Total:	**473**	**1,297**

The overall total here does not even reach that of corporate tax, a tax which is "referred to as insignificant".

Tax and contribution revenues in the 2020 Hungarian budget under "normal" business circumstances

In several of my earlier articles I have analysed that the taxation policy of the government prioritises the collection of consumption taxes rather than the primary taxation of income. Such **consumption taxes** include, besides VAT and excise tax, any special sectoral taxes that still remain in the system. These taxes are easy to assess given the simplicity of the tax base and the lack of items modifying the tax base, and with cautious budgetary planning, along with solid but consistent economic growth, they generate surplus revenues for the budget every year, which provide the government with greater scope in its economic policy decisions. Although the significant growth in VAT revenue in Hungary for several years is mainly due to the effect of measures aimed at whitening the economy (online cash registers, the EKAER system and online invoicing), the increase in consumption and investment volumes that goes hand in hand with the growth of GDP figures have for years covered budgetary expenses and ensured a low budget deficit.

If the economy is growing, it is naturally likely that the revenue from **income taxes**, such as corporate tax and personal income tax, will increase too. The base for these taxes, however, may change significantly as a result of several factors. It is enough to think about the items that markedly reduce the corporate tax base and the generous corporate tax allowances, or the family tax relief that lowers personal income tax. Certain trends are apparent here too, but the annual taxes of a given company or private individual do not necessarily track GDP figures.

Contribution revenue can deviate from growth trends similarly to personal income tax, but mostly due to the extension of family tax relief; on the other hand, in stark contrast to the relative stability of the other tax types, based on the agreement between business entities in 2016 the **social contribution tax is on a downward trajectory**, so at the level of budgetary revenues it does not follow the trend of economic growth.

Impact of economic downturn on tax and contribution revenues

As an expert on taxation I am not in a place to assess to what extent the coronavirus will impact on GDP figures in 2020. Unfortunately, however, all experts agree that **we can expect** a significant deceleration of growth, and most likely **an economic downturn**. Budgetary revenues from consumption taxes will fall by at least the same rate. Naturally, there is no historical data with regard to the coronavirus, but the 2008-2009 recession showed that while consumption fell by almost the same rate as the economic downturn, albeit following a different timeline, private individuals as well as businesses postponed their **own investments** right at the beginning. In this area we can expect a similarly **considerable downturn**.

Income taxes and contributions depend on government measures to a much **greater extent**. While a few pieces of bad news can immediately have a dampening impact on consumption and investment, income taxes and related contributions are more dependent on actual changes of business operations, on the resulting wage reductions and in worse cases, on employee layoffs.

Wise government decisions made in these fields, which share the burden across businesses, employees and the state, can greatly alleviate the downturn caused by the recession, and thus also the drop in the revenues of the 2020 Hungarian budget.

Sectoral differences

The government measures brought in so far were aimed at providing significant help for entities in sectors first affected by the coronavirus outbreak (tourism, hospitality, air travel) to be able to retain their workforces. **Although the restrictions mean more and more sectors will face serious downturns, we must still try to take proportionate measures**, which will include new tax and contribution reduction decisions.

Consulting

We can only rely on estimates regarding the length and intensity of the crisis, and the same applies when considering the fall of tax and contribution revenues in the 2020 Hungarian budget. In these uncertain times, we will try to be helpful for you with our team who have fully transitioned to working from home. Our experts are still happy to provide assistance, giving specific advice, legal help or contacting relevant authorities as is required. Please feel free to contact us.

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Specialisations

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- tax optimization and tax planning
- income tax audits and investigation
- due diligences

Languages

Hungarian, German, English

Latest publications

- How the abolition of the corporate tax advance top-up obligation affects the support of spectator team sports
- Three wishes regarding rationalisation of the Hungarian tax regime
- News on supporting spectator team sports with corporate tax allocations

Special payment options during the coronavirus pandemic too!

Understanding the rules could be crucial, now more than ever before

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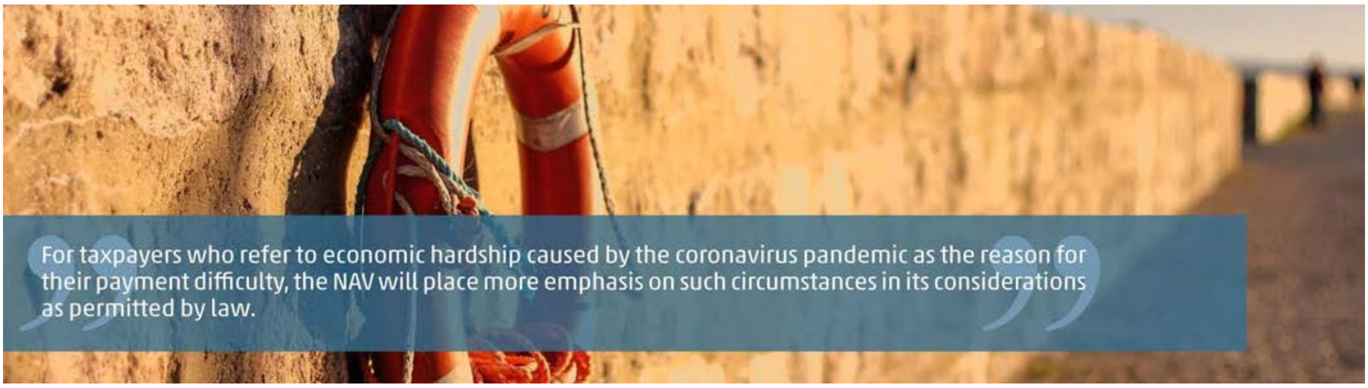

The coronavirus pandemic is undermining many Hungarian businesses, even making it impossible for them to operate. Many entities are being forced to partly or fully suspend their activities and send their employees on involuntary leave, or in worst-case scenarios, lay them off. In these tough times the Hungarian government is bringing in measures one after the other to throw a lifeline at companies in trouble.

Measures related to special payment options during state of emergency

One important part of the latest tax relief measures is that companies may ask for their tax to be reduced – without being subject to stamp duty – if they have fallen into difficulty because of the pandemic. This can amount to no more than HUF 5 million (roughly EUR 14,000) per company. Furthermore, up to a tax debt of HUF 5 million (roughly EUR 14,000) companies can ask for payment in instalments over 12 months without any extra charge, or a payment deferral for 6 months, again without any extra charge.

Beside these measures, businesses who have drifted into financial instability should not forget about the rules on **special payment options which have long been part of tax legislation**. Below we will answer some of the most important questions about these rules and in relation to the topic.

What exactly do we mean by special payment options?

By special payment options we mean

- **deferring**,
- **instalment** payments of, or
- **reducing**, and
- **forgiving** payment obligations at the Hungarian tax authority.

The first two options are defined separately by Hungarian legislation as payment relief

Who can claim deferred payment and payment in instalments, and how?

Deferred payment and payment in instalments **may be permitted** at the request of the taxpayer **at the tax authority**. Payment relief may be permitted if the difficulty in paying

- is caused by reasons not attributable to the company, or if it conducted its business in a way to avoid such difficulty in a manner expected in such a situation, and
- is temporary in nature, and payment of the tax is highly likely later on.

It is important that the Hungarian Tax and Customs Administration (NAV) considers the reasons and conditions of the **payment difficulty** when assessing the request and determining the conditions. According to our information, for taxpayers who refer to economic hardship caused by the coronavirus pandemic as the reason for their payment difficulty, the NAV will place more emphasis on such circumstances in its considerations as permitted by law.

In which cases might payment relief not be granted?

Payment relief shall not be granted

- for advances on the personal income tax of natural persons and deducted income tax,
- for collected taxes,
- for contributions deducted by the paying agent from the natural person, and
- for VAT taxpayers of a tax group during the period of the tax group.

Can eligible taxpayers expect interest/charges on the payment relief?

The NAV levies the following charges in the event of payment relief:

- if a request is submitted, **late payment interest** is levied until the decision on the request is finalised; but if the payment relief is authorised, then only until the date of the first-instance decision,
- if the request is granted, a **charge at the rate of the central bank's base interest rate** valid on the day of the submission shall be levied for the period of the payment relief from the date of the first-instance decision.

In the case of circumstances requiring special consideration, the NAV may waive the interest/charge payable.

What special rules apply to reliable taxpayers with regard to payment relief?

For reliable taxpayers the NAV may grant **payment relief once a year for no more than 12 months without charges or interest** for a tax debt (excluding deducted personal income tax, collected tax, contributions deducted from natural persons) registered at the authority, without reviewing the above conditions. For this, the request must be submitted electronically.

The NAV reaches a decision on automatic payment relief within 15 days of receipt of the request, which it sends out electronically. **Automatic payment relief** may only be granted if the net debt of the applicant does not exceed HUF 1.5 million (roughly EUR 4,300) at the time of the request assessment. If the reliable taxpayer does not meet the requirements for automatic payment relief, then the NAV will assess the submitted request based on the general rules.

What happens if the taxpayer does not pay the due instalments or is late in paying them under the payment relief scheme?

In such cases the **relief is invalidated** and the debt is payable in one lump sum with interest. This rule applies to the automatic payment relief of reliable taxpayers too.

Under what conditions can businesses ask for payment obligations to be reduced or forgiven?

It is important to note that before the state of emergency the law did not provide grounds for the reduction or forgiving of tax debt in the case of **legal persons and other business** organisations. Based on this, Government Decree 140/2010 that appeared in the Hungarian Gazette on 21 April 2020 enables companies to submit requests to reduce their tax burden. Under the regulations before the state of emergency, the **NAV only permitted the reduction or forgiving of charges or penalty debts after special consideration** at the request of the taxpayer if the payment of such debt would make it impossible to continue with the business activity of the entity.

How to submit a request to the tax authority

Taxpayers obliged to communicate electronically may only submit requests electronically (form FAG01 for business organisations), taxpayers not subject to electronic communication can file requests electronically or on paper.

Is there a fee for payment relief requests by business entities?

Yes, submitting the request is subject to a fee in general cases. **The stamp duty is HUF 10,000 (roughly EUR 28)**. However, procedures initiated by reliable taxpayers at the Hungarian tax authority for relief in the form of payment in instalments is duty-free. Procedures related to the payment relief and tax reductions defined by Government Decree 140/2020 are also duty-free in light of the state of emergency.

Tax consulting

The team of WTS Klient Hungary, who have fully transitioned to working from home, are doing everything they can to provide support with their expertise and knowledge to any clients who find themselves in difficulty due to the coronavirus pandemic, and to help their clients navigate among the daily changes in law. Our experts are still happy to provide assistance, giving specific advice, legal help or contacting relevant authorities as is required. Please feel free to contact us.

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Specialisations

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- VAT registration
- preparation of transfer pricing documentation

Languages

Hungarian, German, English

Latest publications

- Tax issues regarding company cars
- Have you prepared your documentation in compliance with the new transfer pricing documentation decree?
- CbCR and reporting obligation – What needs to be done by the end of the year?

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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