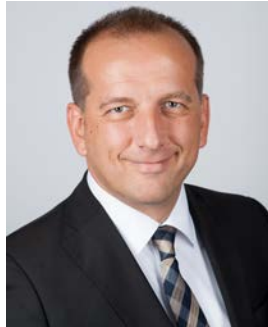


wts klient newsletter

WTS Klient. The Bridge.

Dear Readers,

The holiday season is drawing near, but the number of unanswered questions distracting professionals' attention from Christmas tops that of last year. Of course we are mainly looking forward to the end of this pandemic, but we also have to prepare for the changes next year.



Version 3.0 of the online invoice data reporting system, which will be introduced from January, has the ability to fundamentally change the direction of development in accounting and taxation systems. Applying the data reporting obligation to invoices for sales to private individuals and within the Community will add the data of almost all issued invoices to the system. However, besides the stricter data reporting obligations of businesses, the system does offer advantages too. The greatest help is the option already available that not only invoices issued by the company but also those received by it, i.e. the data of the company's incoming invoices, can be downloaded from the online system. As a result, the importance of character recognition applications used in the systems processing incoming invoices automatically will fall substantially. On page 3 of our newsletter, in our article on online invoicing 3.0, we endeavour to shed some light on the expected direction of developments. As for developers, they will have a lot of work ahead next year.

The 5% VAT rate, valid again from January, will be of great help to companies involved in the construction and sale of residential properties. To establish the period of validity, it is important to be aware of the transitional rules. We describe this in the first article of our newsletter.

We also write about the rules on Hungarian branch offices of foreign-registered companies, and the new 40% tax of low tax bracket entities that choose the flat-rate tax. The latter will affect small enterprises more acutely that receive their revenues from related companies, or generally from fewer customers. Due to the high new tax, there may be significant differences between the tax burdens that arise in the various schemes, so they need to analyse their tax planning thoroughly.

We would like to thank you for your attention throughout the year. We wish you a successful year-end, a Merry Christmas, a prosperous New Year, and above all, good health!

György Kőrösi
partner



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November 2020

wts global

WTS Global Mobility
Newsletter

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

Not only during times of a pandemic (e.g. COVID-19), the demand for home office/work from anywhere will remain. There are huge compliance and HR issues, ranging from taxation, social security, immigration, duty of care to compensation levels, payroll and permanent establishment risks. The second edition of the WTS Global Mobility Newsletter for 2020 would like to show you the most important consequences in 17 countries (including Hungary), based on a small case study.

You can download WTS Global Mobility Newsletter #2/2020 in PDF format here: [WTS Global Mobility Newsletter #2/2020](#)

5% VAT on homes – it's back

Families claiming Family Housing Support also entitled to duty exemption

Author: **Tamás Gyányi**

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For a temporary period from 1 January 2021 until 31 December 2022, the sale of newly built property would again be subject to 5% VAT on homes.

The bill including the reintroduction of the 5% VAT on homes was submitted to the Hungarian National Assembly on 27 October. Bill T/13477 submitted to Parliament includes the **amendments** of certain laws **necessary to implement the Housing Support Action Plan**. Based on the reasoning in the bill, the amendment is aimed at setting a rate of 5% VAT on homes for the sale of property for "socio-political" purposes. It also provides exemption from paying the onerous property acquisition duty determined when buying new property for Hungarian families with children claiming family housing support.

CSOK, but no duty

From 1 January 2021 the bill would ensure full **duty exemption for families** with children **claiming family housing support (CSOK)** when buying a new property, irrespective of whether the acquired property is new or used, or of how much its sales value is.

If someone was exempt from the duty based on an advanced award of the CSOK, but the agreed number of children were not born, and thus the support must be paid back, the Hungarian tax authority will subsequently charge the onerous property acquisition duty. In such cases, the duty is based on the sales value at the time the duty obligation arose, and at the rate effective on that date. The right to determine the duty elapses within five years of repaying the support, or on the last day of the calendar year in which an official resolution is issued regarding the repayment.

However, **the duty does not need to be paid back if the conditions for having children are not fulfilled for health reasons.**

Return of 5% VAT on homes

The bill modifies the Hungarian Act on Value Added Tax too. For a temporary period **from 1 January 2021 until 31 December 2022**, the sale of newly built property would again be subject to 5% VAT on homes. For transactions concluded this year, the tax rate should be defined based on the transitional rule related to the termination of the 5% VAT rate as of 31 December 2019. This transitional rule would be repealed by the bill from 1 January 2021.

The **transitional rule** terminating the 5% VAT rate as of 31 December 2022 will set forth the conditions under which the preferential 5% VAT on homes will be applicable **until 31 December 2026**. The preferential tax rate may be applied on this basis if the building permit is finalised no later than by 31 December 2022, or if the associated construction is registered by 31 December 2022 pursuant to the rules of simplified reporting.

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Tax consulting

If you need advice on how to apply the 5% VAT on homes, or on other issues related to real estate, [our tax experts](#) are here to help.

The preferential 5% VAT on homes is applicable if the **total usable floor space** does not exceed 150 square metres for an apartment in a block, and 300 square metres for a single-unit detached house.

Pursuant to the VAT rules, **property shall be regarded as new** if it has not yet been properly used, or if it has, then two years have not yet passed between its approval for use and its sale.

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- » review of intra-group transactions (TP, VAT/supply chain)
- » tax advisory related to international postings

Latest publications

- » [Property transfers between siblings: duty-free from 8 July!](#)
- » [Verification of intra-community supplies](#)
- » [Tax risks of foreign postings](#)

Languages

Hungarian, German, English

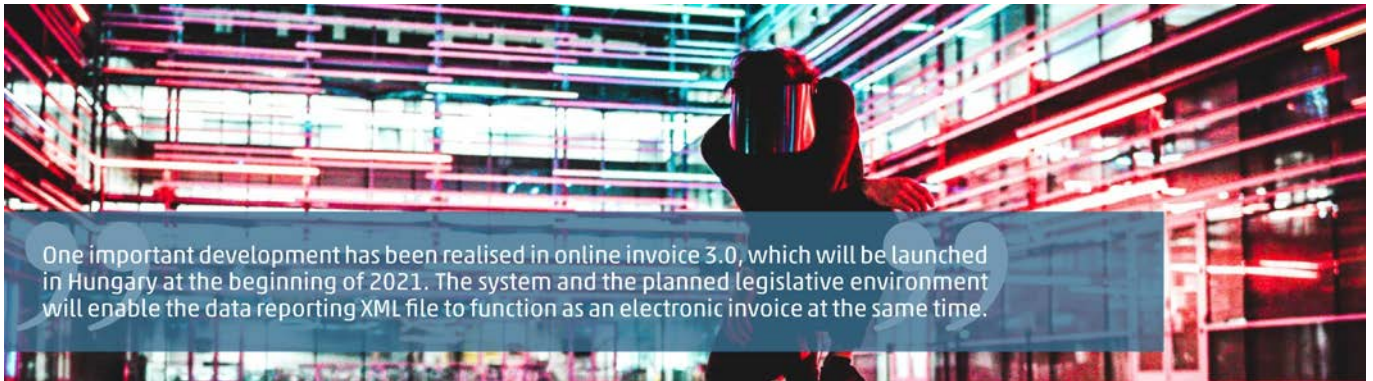


Online invoice 3.0 – is automation here?

Worth switching to data reporting based on electronic invoicing

Author: **János Németh**

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One important development has been realised in online invoice 3.0, which will be launched in Hungary at the beginning of 2021. The system and the planned legislative environment will enable the data reporting XML file to function as an electronic invoice at the same time.

As an expert of business automation, I was really looking forward to the [introduction](#) of online invoicing. In my experience, Hungarian businesses put a lot of effort into administrative tasks that could be taken care of with a small investment or even optimisation, thus decreasing their costs in the short term.

Automation for outgoing and incoming invoices

The administration of invoice processing is particularly important for all businesses. It is **easy to implement automation for the handling of outgoing invoices**. This is because these invoices are generated within the business: they are most often produced from an underlying document, for example a waybill and, with pre-set bookkeeping rules, even the bookkeeping can be performed automatically.

However, **the processing of incoming invoices is time consuming** without exception. Incoming invoices can arrive at the recipient in several forms, and through several channels, this varies almost by supplier. Thus it is **impossible to develop a general processing procedure**, instead of automation, invoices have to be processed manually. The introduction of [electronic invoices](#) in 2004 did not help this situation because the concept did not spread as was expected, and the [data content](#) was not standardised either. Systems digitising the invoice view and then processing it by way of text recognition and interpretation appeared as a promising new tool. Some even apply [artificial intelligence](#) during the processing, but nearly 5-10% of the invoices are still erroneous or remain unprocessed. Searching for an error often requires more energy than recording 5-10 new pieces of data. So in the case of an average business, the aggregate benefit is not significant.

Role of the online invoicing system in automation

The **online invoice system of the Hungarian Tax and Customs Administration (NAV)** gave new impetus to this business area, where automation has been planned for a long time anyway. The online invoice system **standardised the data content of the invoice**, i.e. it defined an XML format that can be processed by computer and must be applied upon the issuance of each invoice. The NAV made it possible for invoice recipients to download the XML files sent as part of the mandatory data reporting. From July 2020 data reporting is mandatory in Hungary for each invoice issued to domestic taxpayers, so from this date, businesses access all their incoming invoices through this interface.

What is **missing** to make automation complete? Currently, the XML file of the data reporting enables almost all data that appears on the invoice to be saved. At the same time, only the invoice data elements defined in Section 169 of the Hungarian VAT Act must be reported, the **inclusion of other data is optional**, and left for the invoice issuer to decide. **Invoices issued through cash registers cannot be queried** yet (online invoice data reporting is not applicable here) but the necessary development is already planned.

XML file as an invoice

One important development has been realised in online invoice 3.0, which will be launched in Hungary at the beginning of 2021. The system and the planned legislative environment will enable the data reporting XML file to function as an electronic invoice at the same time. This is only an option though, applying it is not mandatory. In the case of electronic invoices, **the XML file is the invoice itself**, which must include all data to the full. This is what should be presented in the event of a tax inspection, or archived, or sent to the customer (the legal responsibility for sending the invoice remains with the invoice issuer). The integrity of the data content is guaranteed by a hash code also sent to the NAV. Generating and using this is much simpler than the procedures required earlier with digital signatures and time stamps.

The XML file is hard to understand with the human eye, it is rather **suited for machine processing**. So it is worthwhile preparing a legible and printable pdf file from the invoice, and making this available for the customer. The NAV is also initiating a development for this, and it is expected that the electronic invoices derived from all the data reporting will have a completely similar invoice print view. This will accelerate data processing by recipients, even for **those not thinking about an automated system**. It is important to note that in this case the **PDF file**, neither in its electronic nor in its printed format, counts as the **invoice** itself, it is just a **representation** of it. The invoice recipient can still decide not to accept electronic invoices, so it is worth keeping traditional invoicing for these situations.

Advantages of switching to electronic invoicing based on data reporting

As an invoice issuer, if your business partner does not object, it is worth switching to electronic invoicing based on data reporting. The data must definitely be reported with the required data content, which with a **minimal development** can also function as an electronic invoice.

As the invoice recipient, all the incoming invoice files can be processed together with the mandatory data content. In the case of partners providing electronic invoices or voluntarily reporting the whole data content, all the invoice data is available for full processing. The reconciliation of invoices, i.e. matching recorded invoices with those received through the NAV, can be introduced as a basic function, enabling missing invoices for example to be identified. The dates and amounts included in the invoices can be checked, and errors minimised as a result. Automation becomes possible by partially or fully recording the data of incoming invoices in the IT system. If the algorithms allow, the bookkeeping of invoices can be completed or prepared.

The future

Thanks to the possibilities inherent in data reporting, **many new applications** will certainly be prepared in the future. Having received NAV access, even external service providers can process the data of a company's outgoing and incoming invoices. This allows the development of independent applications based on invoice data, including turnover reports, analyses, management decision support, fraud investigations, group consolidation, etc.

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Developing and operating online invoice data reporting and related services

Changing the IT systems and invoicing software programmes of companies to facilitate the online invoice 3.0 data reporting system and the new format may pose challenges for the IT technicians and finance experts of Hungarian companies, just like during the previous transitions. WTS Klient Business Automation will gladly help you with the transition and with developing the digital systems necessary to fulfil the new data reporting obligation.

To sum up, by implementing the online invoice 3.0 system, business automation receives its long-awaited boost. The approach of the NAV in the project is exemplary since they not only set requirements but also provide major services for taxpayers.

Naturally, as with all processes, things are not always smooth. Aligning the system and the continuous version controls is a **serious challenge for software developers** since the system has already seen three versions in just a short time.

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- » implementation of IT developments
- » IT consultation
- » fraud examination

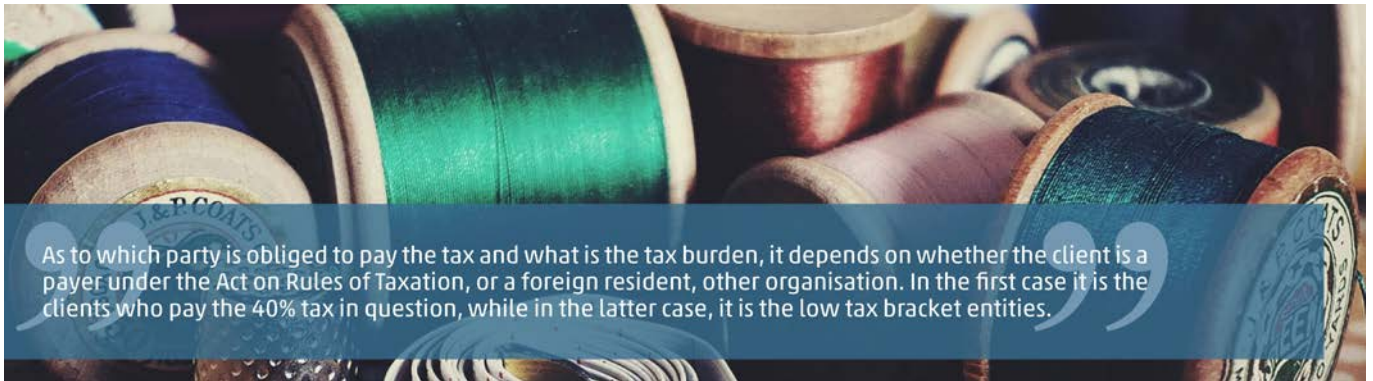


New 40% tax rate for low tax bracket entities in Hungary

Who pays the new tax and when?

Author: **Judit Kondrát**

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As to which party is obliged to pay the tax and what is the tax burden, it depends on whether the client is a payer under the Act on Rules of Taxation, or a foreign resident, other organisation. In the first case it is the clients who pay the 40% tax in question, while in the latter case, it is the low tax bracket entities.

The amendment to Hungarian Act CXLVII of 2012 on the Fixed-Rate Tax for Low Tax Bracket Entities (Hungarian abbreviation: KATA) and the Small Business Tax, which will enter into force from 1 January 2021, will significantly increase the tax burden of low tax bracket entities.

The essence of the change is that depending on who the contracting parties are and what the value of the transaction is, a **40% tax payment liability** may arise. All this may lead to an increase in the price level of transactions, but to calculate the actual price of a transaction it is worth knowing which party (the low tax bracket entity or the client) will pay the tax and when, and contracts should be modified accordingly.

Who shall pay the new tax levied on the transactions of Hungarian low tax bracket entities?

A 40% tax payment liability shall arise on each forint of transactions between low tax bracket entities and their **related companies**. In the case of transactions between non-related companies, the 40% tax payment liability arises on amounts exceeding income of HUF 3 million (roughly EUR 8,300) aggregated from the beginning of the year.

As to which party is obliged to pay the tax and what is the tax burden, it depends on whether the client is a payer under the Act on Rules of

Taxation, or a foreign resident, other organisation. In the first case it is the clients who pay the 40% tax in question, while in the latter case, it is the low tax bracket entities.

The fact that low tax bracket entities must pay 40% tax on amounts in excess of HUF 12 million (roughly EUR 33,300) income realised in the calendar year has not changed. What is changing is that the **tax base** of the 40% tax payment liability arising on transactions between related companies or on transactions exceeding income of HUF 3 million **should be ignored when calculating the threshold of HUF 12 million**.

Clarifications in the new tax package

The [Hungarian 2021 tax amendments](#) adopted on 17 November 2020 introduce an **equaliser** for revenues from foreign legal entities which are related companies of a low tax bracket entity and revenues from foreign payers in excess of HUF 3 million, given

that in this case the 40% tax rate will not be **charged** to the payer but **to the low tax bracket entity**: the basis of the tax is not all of the revenue exceeding HUF 3 million (or, in the case of related companies, not the total revenue), but only **71.42%** thereof. It essentially means a **28.568%** tax on the revenue generating the tax base.

The reason for the tax rate being exactly 28.568% is because with a 40% price hike a KATA taxpayer pays the same amount of tax as a domestic payer without the price hike. In other words – using an example as an illustration – if a low tax bracket entity invoices HUF 100 next year to a domestic payer, this will cost the domestic payer HUF 140, because the payer is subject to HUF 40 in tax. The low tax bracket entity keeps HUF 100. With a 40% price hike, the low tax bracket entity would invoice HUF 140 to a foreign company, and given the rate of 28.568% it would pay HUF 40 in tax to the NAV. In this case, the low tax bracket entity is still left with HUF 100.

Are the parties related companies?	revenue generating the tax base	Entity liable to pay tax on the income if the client is a:	
		domestic payer	foreign resident legal entity or other organisation
yes	total income provided	domestic payer 40% tax	low tax bracket entity 28.568%
no	income in excess of HUF 3 million (roughly EUR 8,300) aggregated from beginning of year	domestic payer 40% tax	low tax bracket entity 28.568%

Deadline for paying and filing tax return for the new 40% tax

If the low tax bracket entity is obliged to pay taxes, the new tax shall be paid on the 71.42% of the revenue generating the tax base by the **12th day of the month following the month when the taxable income was received**, and the relevant tax return shall be filed by 25 February of the year following the fiscal year.

If the client is obliged to pay the taxes, it shall pay and declare the tax by the 12th day of the month following the month when the taxable income was transferred. By 31 January of the year after the reporting year, it must inform the low tax bracket entity about the amount taken into account for the 40% tax base. Additionally, low tax bracket entities and their clients shall continue to report data.

Obligation of low tax bracket entities to provide information

From 1 January 2021, a private individual can only be registered as one low tax bracket entrepreneur. If they had more than one such status, the NAV will cancel the others.

Upon concluding their contract, low tax bracket entities must inform their client in writing that they **qualify as low tax bracket entities**. Prior to the change and specifying the start date of such change, low tax bracket entities must also inform the client they are contracted with when the low tax bracket entity's legal status is terminated or restarted. Low tax bracket entities must fulfil their reporting obligation regarding contracts concluded prior to 2021 **by 15 January 2021**.

Legal, accounting and tax consulting from one source

The new 40% tax for low tax bracket entities may affect many large or medium-sized companies because of contracts with their suppliers. In the case of transactions concluded with branches or commercial representatives, it is particularly worthwhile consulting tax experts, lawyers and accounting consultants in advance. [The specialists of WTS Klient Hungary](#) are ready to assist you in all areas in reviewing the obligations related to the new 40% tax. Feel free to contact us.

Hungarian branch of a foreign-registered company

Branch offices have many benefits compared to subsidiaries

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The popularity of **branch offices** in Hungary is unrelenting, and they are perhaps even gaining in popularity among foreign investors **compared to establishing a subsidiary**. Below we summarise the most important aspects worth considering in connection with a Hungarian branch of a foreign-registered company.

Hungarian branch of a foreign-registered company as an independent organisational unit

A branch office is an organisational unit of a foreign-registered company with no legal personality, but authorised to conduct business independently, and it is registered as an **independent entity**. A foreign-registered company can perform business activities through a branch office, it has legal capacity, and under its company name the branch office may obtain rights and assume obligations on behalf of the foreign-registered company.

Initial capital

While a limited liability company may be founded with share capital of HUF 3 million (roughly EUR 8,300), and a private company limited by shares with HUF 5 million (roughly EUR 13,800), there is **no minimum amount for the initial capital** of a branch office. What is more, the foreign-registered company may transfer permanent resources to the branch even several times a year to ensure continuous operations, without the obligation to register this at the Hungarian Court of Registration. **The accumulated capital transferred to the branch office must be reported to the Court of Registration only once a year.**

Audit

A Hungarian branch of a foreign-registered company must be audited, irrespective of sales revenue and the headcount. A branch office may be **exempted from this obligation only if the registered seat of the foreign entity is in one of the Member States of the European Union**, or the regulation of the given country

pertaining to the preparation of financial statements is consistent with the relevant provisions of the European Union, and therefore it can be found in the list of states published on the government's website, namely, in the Republic of Iceland, the Principality of Liechtenstein or the Kingdom of Norway.

Bookkeeping, publication and filing of financial statements

A Hungarian branch of a foreign-registered company is subject to the Hungarian Act on Accounting, so **pursuant to the provisions of the Accounting Act it must keep books and prepare financial statements** on the financial year in accordance with the Act on Accounting.

Similarly to companies, branch offices must prepare, publish and file their financial statements until the last day of the fifth month following the balance sheet date of the given financial year. If the registered seat of the foreign entity is in one of the Member States of the European Union, or the regulation of the given country pertaining to the preparation of financial statements is consistent with the relevant provisions of the European Union, and therefore it can be found in the list of states published on the government's website, the branch office is exempted from filing the financial statements.

In the event of **exemption**, the financial statements of the branch office must be available for stakeholders at the registered seat of the branch office, and in such cases the branch office is obliged to file the Hungarian translation of the foreign entity's financial statements.

If the Hungarian branch of a foreign-registered company publishes and files its own financial statements, it is still obliged to send the financial statements of the foreign-registered company to the company information register in the original language within 60 days of the approval of the financial statements.

Taxation

As per the general rules, a branch office is subject to tax. This means that the Hungarian branch of a foreign-registered company **pays corporate tax and local business tax, but it does not have to pay the innovation contribution.**

With regard to corporate tax, it is worth paying special attention to the accounting of transactions between the foreign-registered company and the branch, to tax-base modifying items derived from potential allocations of income and expenses, and to complying with and documenting [transfer pricing rules](#).

Terminating a branch office

Terminating a business has become significantly easier with the introduction of the [simplified voluntary liquidation procedure](#), yet terminating a branch office is even **simpler**. The foreign-registered company must report its decision to terminate the branch

office to the Court of Registration within 60 days of the decision. The Court of Registration will delete the branch office without [voluntary liquidation](#) proceedings if it has no public debt and all other obligations have been fulfilled, or the foreign-registered company presents security for this. Upon its erasure from the company register, the branch office must **prepare financial statements closing its activities** as of the balance sheet date, and **compile final tax returns** within 45 days of the balance sheet date.

Legal consulting

If your foreign-registered company is considering opening a branch office in Hungary instead of establishing a subsidiary, we recommend you contact our expert advisers to map out your options. The [lawyers at WTS Klient Hungary](#) are here to help.

→ Our expert



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Latest publications

- » [Data content of invoices](#)
- » [Electronic invoices](#)
- » [Simplified voluntary liquidation](#)

Languages

Hungarian, English



Have you read it yet?

The latest WTS Klient Newsflash gives you an overview of the most important points of the 2021 tax amendments. Read our summary and learn above other changes too besides the new 40% tax rate for low tax bracket entities.

You can download the WTS Klient Newsflash in PDF format here:

[WTS Klient Newsflash – 2021 tax amendments in Hungary](#)



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 WTS Klient Hungary:

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- » Financial & accounting advisory
- » Legal consulting
- » Accounting
- » Payroll
- » IT / Business Automation

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