

# wts klient newsletter

WTS Klient. **The Bridge.**

## Dear Readers,

It has been almost a year since the coronavirus pandemic has been making our lives more complicated. Advisory work is not made easier by the lack of personal contact, nonetheless we are proud that we have been able to adapt to the circumstances and solve every task in time, in cooperation with our clients. This is why in this year's first newsletter we would first like to wish you all good health, and ask you to continue taking care of yourselves and your loved ones so we can get through this tough period as soon as possible.



Despite the pandemic, you can count on us, as always. 2021 ushered in a number of significant law amendments for companies operating in Hungary which are worth paying attention to, and we will continue to try and navigate you in these endeavours. We already reported on the latest amendments on cutting local business tax in half and on online invoicing in the last [WTS Klient Newsflash](#). In the first edition of this year's newsletters we take a look at the allowances that can be claimed from the personal income tax base in 2021, and our new author, **Ádám Pécsék**, tax advisor, provides a detailed analysis of the EKAER amendments which took effect on 1 January. On page 3 we examine the effects of Brexit on taxation, and on page 5 we detail the customer risk management methods that are particularly important during the pandemic.

Our network, WTS Global, has also had an eventful first month of the year. Fidal, the largest business law firm in France, [joined](#) WTS Global in January, thereby becoming the largest member of the network besides the founder WTS Germany. Moreover, the WTS Global Real Estate Investment Guide 2020, a thick publication for real estate investors describing taxation related to real estate in 50 countries on more than 600 pages has been released together with the latest WTS Global international transfer pricing newsletter.

We hope you will find useful information in both the international publications and in our newsletter, and we can contribute with these to making 2021 a smooth and successful financial year for your business. As always, do not hesitate to contact us if you have any unanswered questions.

**Tamás Gyányi**  
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## Contents

- 2 **Ádám Pécsék:** New EKAER decree from 1 January
- 3 **Béla Kovács:** One story ends, another begins: the tax consequences of Brexit
- 5 **Csaba Baldauf:** Credit insurance and factoring, two ways to manage customer risk
- 7 **Marianna Fodor:** Personal income tax base allowances in Hungary in 2021

## Real Estate Guide 2020 has been released



The fifth edition of WTS Global's Real Estate Investment Guide provides you with a comprehensive overview of all real estate related tax aspects in 50 countries, including Hungary. The information is based on the experience of dedicated real estate tax practitioners of WTS Global and is up to date as of December 2020.

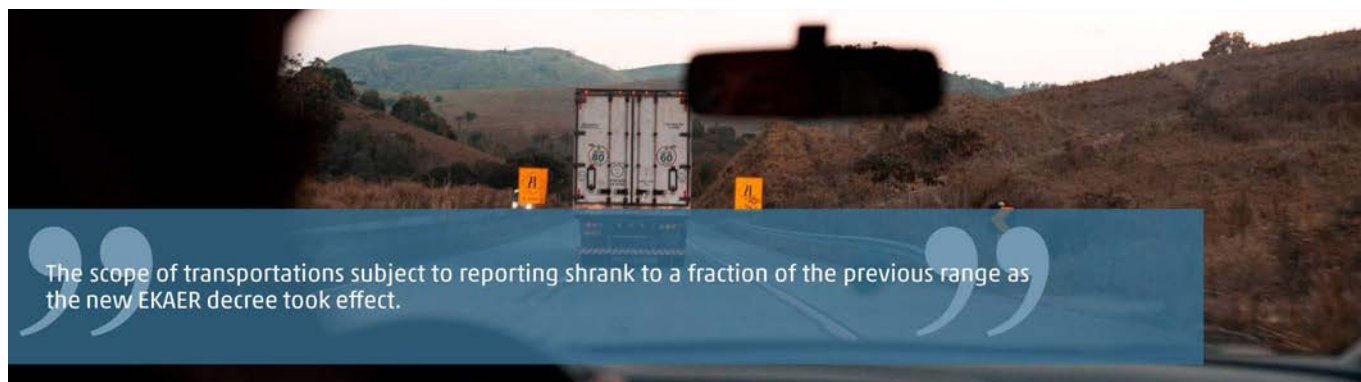
You can download Real Estate Guide 2020 in PDF format here: [International Taxation of Real Estate Investments 2020](#)

## New EKAER decree from 1 January

Only risky goods now subject to reporting obligation

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In an [earlier article](#) we touched on the legal changes effective in Hungary from 1 January 2021 to ease administration related to the Electronic Public Road Customs Transit Control System (EKAER). The approval of the [2020 summer tax law amendments](#) put a new framework for detailed rules on the horizon, but business entities had to wait another six months for the publication of the new EKAER decree. This is because Ministry of Finance Decree No. 13/2020 PM on the operation of the Electronic Public Road Customs Transit Control System was only **published** in the Hungarian Gazette **on 23 December 2020**. In this article we summarise the key elements of the new EKAER decree.

### Goods subject to reporting obligation according to new EKAER decree

According to the new EKAER decree, from 2021 the obligation to request an [EKAER number](#) may only arise with regard to **goods deemed risky under the previous regulation**. These typically include food products and clothes as well as other products subject to reporting as defined in a separate decree.

So Hungarian businesses are now exempt from the reporting obligation with regard to goods deemed non-risky under the previous regulation.

### Exemptions

When assessing the reporting obligation, the weight and value of the transported products are still a major aspect for consideration. This is because no EKAER number is required for transporting goods subject to reporting and transported from the same dispatcher to the same recipient in the same vehicle **not exceeding HUF 1 million (roughly EUR 2,800) in value and 500 kilograms in gross weight**. These thresholds are the same as the ones previously applicable for transporting risky goods.

One important difference, however, is that contrary to the previous regulation, based on the new EKAER decree the reporting obligation is applicable not only for road transportation with tolled vehicles weighing over 3.5 tonnes, but it may be applicable for **road transportation with any type of vehicle**.

### Risk collateral

Besides the previous exemptions, **no risk collateral has to be paid by reliable taxpayers** according to the Act on Rules of Taxation, and the obligation to provide risk collateral for the transportation of products subject to the 5% tax rate no longer applies either.

### Exemption for short-range transportation

Special exemption from requesting an EKAER number with respect to short-range transportation (i.e. less than 20 km) will now **be available for any transport direction**. The authorisation is valid until withdrawn.

continued on page 3

### Developing and supplying EKAER solutions

If you wish to learn more about the details of the new EKAER decree, and you need help from experienced professionals regarding the registration and processing of data in the EKAER system, as well as in handling system messages, and implementing and operating solutions to facilitate communication with the EKAER system, [feel free to contact us](#).

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## Voluntary reporting

The new EKAER decree **enables taxpayers to make voluntary EKAER reports** even if they are not subject to a reporting obligation. In these cases too it is important to make sure the reported data is accurate, but there is no collateral obligation in the case of voluntary reporting.

To sum up, **the majority of Hungarian businesses will be relieved from a significant administrative burden** from 1 January 2021.

This is because the scope of transportations subject to reporting shrank to a fraction of the previous range as the new EKAER decree took effect. Given the positive changes of the default penalty rules announced earlier, the EKAER system has seen the most favourable amendments in recent years. Nevertheless, the EKAER rules should still not be taken lightly since if a reporting obligation does arise, data reporting must be accurate and detailed and the deadlines complied with to avoid any detrimental legal consequences.



## One story ends, another begins: the tax consequences of Brexit

Brexit mainly brings about significant changes in VAT

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It has been nearly two years since our [analysis](#) summarised the tax consequences of Brexit, which at the time was planned to take place on 29 March 2019. Although the **United Kingdom** officially **exited the European Union as of the end of January 2020**, not many things changed during the **transitional period** that lasted **until 31 December 2020**. So as experts, we are essentially facing the real tax consequences of Brexit only now. Let us take a brief look at what to expect for the most important tax types.

### Tax consequences of Brexit on VAT in Hungary

Until the end of 2020, we had to treat the United Kingdom as any other EU Member State for the purposes of VAT. This meant that if a company from the United Kingdom concluded an economic transaction with a place of performance in Hungary (except for transactions where reverse charge scheme was applicable), the company had to be registered in Hungary for VAT. Here, an economic transaction means for example a domestic supply of products that does not result in the creation of a fixed establishment in Hungary for tax purposes, fixed establishment transactions or special provision of services. This simple registration process did not require a [fiscal representative](#).

Now, **from January**, one of the most significant changes associated with the tax consequences of Brexit is that similar to other non-EU states (third countries), **engaging a fiscal representative is unavoidable** even for the registration ([VAT registration](#)) in Hungary of companies with a registered office in the United Kingdom. Having a fiscal representative is mandatory, with all its complexity and conditions, so a company going down this path is required to have registered capital / a bank guarantee of HUF 50 million (roughly EUR 140,000) and there is joint and several liability in respect of the foreign company's tax liability.

It is important that companies in the United Kingdom that **already have a tax number** in Hungary have to engage a fiscal representative so they can continue their domestic economic activities lawfully, but **they do not need to be registered again**.

Looking at the tax consequences of Brexit it has to be emphasised that from 1 January 2021, **product transactions** to and from the United Kingdom will **qualify as either imports or exports**. For the supply of services, although the partner in the United Kingdom will qualify as a third-country partner, the place of performance for the supply of services will only change in a few cases.

## Personal income tax

**Private individuals** with tax residence in Hungary or the United Kingdom who **generate taxable income from another state** are in a fortunate situation. In their case there is practically **no change** and the tax implications of the income generation will still be assessed according to the provisions of Act CXLIV of 2011 (Treaty) still in force between the Republic of Hungary and the United Kingdom of Great Britain and Northern Ireland.

## Corporate tax

The tax consequences of Brexit will not be seen in corporate tax either. Similar to personal income tax, we need to take the provisions of the Treaty as the basis, i.e. **Brexit will not have a substantial effect** in this case either. The provisions of the aforementioned Treaty will override the provisions of Hungarian Act LXXXI of 1996 on Corporate Tax.

## Social security

In addition to the tax consequences of Brexit, we summarised the expected [social security implications](#) of Brexit in an article in 2019. We had to apply Regulation (EU) No 883/2004 on the coordination of social security systems so far in respect of social security issues, and there is no bilateral social security treaty concluded with the UK. Thus, **we have to take the provisions of Act CXXII of 2019 on the Eligibility for and Funding of Social Security Benefits ("Social Security Act") into consideration.** According to Sec-

tion 17 of the Social Security Act, third-country citizens (now including the United Kingdom) qualifying as non-residents employed in Hungary by an unregistered foreign employer may be exempt from the insurance obligation in Hungary (i.e. may be exempt from becoming insured) if the work is performed in the context of a [posting](#), secondment or temporary labour for no more than two years.

We frequently see employment arrangements where either a foreign or **UK employer pays income** (salary) **subject to contribution payments** to an insured employee. In this case, the **foreign employer has to register in Hungary** as well as deduct and declare the social security contributions at the tax authority. If the foreign business does not have a statutory representative and fails to fulfil this obligation, the employee will settle the tax liability and bear any legal consequences (with certain exceptions).

## Value added tax consulting and compliance work

The most important tax consequences of Brexit are related to VAT, since the exit will have a substantial effect on the business processes of most taxpayers in this tax type. However, it is worth thinking over the potential comprehensive consequences in detail as soon as possible, even involving a tax consultant. Please do not hesitate to contact the [professionals at WTS Klient Hungary](#).

## → Our expert



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- » due diligence

### Languages

Hungarian, German, English

### Latest publications

- » [Are you an expat worker in Hungary? Be aware of the following before filing your returns in Hungary!](#)
- » [Basic information about postings](#)
- » [New amendments to regulation of innovation contribution from 2019](#)



## Credit insurance and factoring, two ways to manage customer risk

Factoring can also improve a company's liquidity position

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In the pandemic and the resultant crisis it is extremely important to monitor customer risk regularly, since non-payment not only jeopardises the company's liquidity, it is also a threat to its successful operation in many cases.

The [COVID-19 pandemic](#) has had tangible impacts on all economic operators. Some sectors have been hit badly, others less severely, and of course there are sectors that have emerged as winners from the pandemic and the resultant crisis. Naturally, no business organisation can isolate itself completely from national economic or global real economic processes, but **the extent to which a given company is affected by the pandemic largely depends on the situation it was in when the crisis reared its head**. For example, the company's [capital position](#), its outstanding receivables, what reserves it had, how affected its customers and suppliers are, and of course, how quickly and extensively the management managed to adapt to the new conditions.

Under such circumstances it is extremely **important to monitor customer risk regularly**, since non-payment not only jeopardises the company's liquidity, it is also a threat to its successful operation in many cases.

There are two tried-and-tested methods for managing customer risk: credit insurance and factoring.

### Credit insurance

Credit insurance is a **complex service**. It can cover all clients, thereby ensuring the creation of a balanced portfolio, including clients performing both better and worse, and those more likely to perform or not perform. It can also be taken out for certain partners only, if the company deems this necessary based on the information available.

Credit insurers carry out their own **risk analysis procedures** for all companies in their credit insurance portfolio, and only enters into a contract with the given partner when the likelihood of an insurance event happening is sufficiently low at the time of the rating, or when the risk premium associated with non-payment can be rolled into the insurance premium. The rating also determines

what **security** the given partner must provide to take out the credit insurance.

If an insured partner does not meet its payment obligation on time, this in itself does not create a **loss claim** since it must be preceded by attempts to collect the receivable. The credit insurance service may include [collecting receivables](#) as well.

An insurance event occurs if the reasonable attempts set forth in the credit insurance contract to collect the receivables are unsuccessful; the company then receives the **compensation** due based on the credit insurance besides the security for the given partner.

Since non-payment is the insurance event, it is easy to see that the company cannot gain access to the value of the invoices before they fall due, so **credit insurance is not able to improve the company's liquidity position**.

### Factoring

Alongside credit insurance there is another effective method for managing customer risk: factoring. In contrast to credit insurance, **factoring can also improve a company's liquidity position**, it is essentially a transfer of receivables. However, it is important to proceed carefully and choose a factoring contract that meets your needs. If you do not want to continue bearing the non-payment risk of a customer after factoring, it is important to opt for **non-recourse factoring**. In this case, the factor takes on the risk of non-payment, while with full-recourse factoring, if the partner ultimately does not pay, the factor collects its receivable from you.

It is also important whether the factor settles the value of the receivable at the start of the factoring or when the receivable is paid. In the first instance the factoring can substantially [improve your liquidity position](#), while in the latter case it only manages the risk of non-payment.

### Other procedures

With partners where there are clearly problems with non-payment, there is a good chance that neither factoring nor credit insurance will help.

Going down other paths is justified in this context. First of all, it is worth **reviewing the size of credit facility** of the given partner, or introducing one if they do not have such an option. In more serious cases it may be justified to **suspend sales on deferred payment terms**.

Do not forget that a company is exposed not only to the **non-payment** of customers, but also that **of suppliers**. In this case, if a company's activity largely depends on one supplier, it is worthwhile looking into alternative procurement sources, and possibly diversifying purchases.

### Financial & accounting advisory

Since many different factors have to be weighed up when regularly monitoring and managing client risk, it is advisable to consider involving an expert. Feel free to contact the professionals at WTS Klient Hungary, who, as consultants, will be happy to support you with issues surrounding credit insurance, factoring, or other methods of managing customer risk.

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#### Latest publications

- » [Accounting treatment of project accounting from 2020](#)
- » [Consolidation](#)
- » [Carve-out, or separation of a business division](#)



### Fidal joins WTS Global

In January 2021, the French business law firm Fidal joined WTS Global as the newest member of the leading global tax practice. Founded originally as a tax firm in 1922, Fidal today is the largest business law firm in France with tax being its core discipline, and it has more than 1,300 lawyers and consultants. Headquartered in Paris, the firm is represented in more than 90 cities across the country. By joining, Fidal became the largest member firm of WTS Global next to WTS Germany.

## Personal income tax base allowances in Hungary in 2021

Allowances can only be claimed in the specified order

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The system of personal income tax base allowances has changed a lot in Hungary in the past few years. In our article below we will describe what types of tax base allowance an employee or a private individual – who receives regular income subject to aggregation – can claim, in **what amount and in what order in 2021**. These allowances can be claimed in payroll on a **monthly** basis with a tax advance statement sent to the employer/payer, but they can also be claimed in one amount **at the end of the year** in the personal income tax return.

### Personal income tax base allowances available in 2021

This year, employees/private individuals can claim the following four types of allowance:

- tax base allowance for mothers raising four or more children
- personal income tax base allowance
- newlywed allowance
- family tax and contribution relief

### Tax base allowance for mothers raising four or more children

The scope of those entitled to the tax base allowance for mothers raising four or more children, and who can claim this allowance and when, are all defined by Section 29/D of the Act on Personal Income Tax.

According to the law, the allowance can be claimed by a woman who, **as a biological or adopting parent**, has at least four children raised by her and:

- **is entitled to family allowance, or**
- is not entitled to family allowance but she **was entitled for at least 12 years**. This includes cases when the entitlement to family allowance ceased due to the death of the child.

According to Hungarian law, the family allowance for mothers (meaning exemption from personal income tax payment) raising four or more children can be claimed on income qualifying as wages and other income from non-independent activities, and, in the context of incomes from independent activities, on the ones listed in the Personal Income Tax Act.

It is very important that this allowance is the first in the order of personal income tax base allowances, i.e. **it precedes all other tax base allowances when claiming**. This means that if a given person claims the allowance for mothers raising four or more children, she cannot enforce the personal income tax base allowance, the newlywed allowance or the family tax relief. The family contribution relief is an exception here, as it can be claimed from wage income in the event of entitlement.

### Personal income tax base allowance in Hungary

2021 is the first year when **the personal income tax base allowance can be claimed as a tax base deductible, not as a deductible tax advance**, as was the case so far. Based on the given statement, the employer or payer decreases the tax advance base for each eligible month by an amount equalling one third of the minimum wage rounded to one hundred forints.

This allowance can be claimed by a person who

- suffers from an illness defined in Government Decree 335/2009 (XII.29) on illnesses qualifying as serious disabilities,
- receives disability allowance
- or **disability support**.

### Newlywed tax base allowance

In Hungary, married couples are eligible for the newlywed allowance **if it is the first marriage for at least one of them**. The allowance can be claimed by registered partners as well. The tax base allowance that can be claimed jointly by eligible persons is **HUF 33,335** (roughly EUR 93) **per month** of eligibility. The first month of eligibility is the month following the marriage ceremony. The allowance can be claimed for a period of up to 24 months.

### Family tax and contribution relief

Depending on the number of dependants, the **family tax base allowance by eligible dependant and eligibility month is HUF 66,670** (roughly EUR 186) **for one dependant, HUF 133,330** (roughly EUR 372) **for two dependants, and HUF 220,000** (roughly EUR 614) **for three or more dependants**.

The following persons are eligible to claim family allowance:

- private individuals who are eligible for family allowance;
- parents providing periodically alternating care for their child based on a legally binding court decision, agreement or joint statement;
- spouses not eligible for family allowance, living in the same household with the eligible party;
- expectant women and their spouse living in the same household with her;
- children eligible for family allowance in their own right, and private individuals receiving a disability allowance;
- private individuals eligible for family allowance, disability allowance or any similar benefits based on the legal regulations of any foreign state. Naturally, all legal requirements have to be fulfilled even then.

If the claimant has claimed all of the personal income tax base allowances and the amount of the allowance has not yet been exhausted, **they can claim the family contribution relief against the social security contribution.** The amount of family contribution relief equals 15 percent of the family allowance not claimed against the tax base (tax advance base), but no more than the amount of the social security contribution.

### Order of personal income tax base allowances

If somebody is entitled to several tax base allowances, **they can only claim them in a specific order.** In 2021, the order is as follows:

1. tax base allowance for mothers raising four or more children
2. personal income tax base allowance
3. newlywed allowance
4. family tax and contribution relief

If, during the year, an employee/private individual claims any of the aforementioned allowances without any legal grounds to do so, and as a result there is a payment obligation exceeding HUF 10,000 (roughly EUR 28) in their tax return, 12% of the payment liability will have to be paid as a **penalty** together with the tax arrears.

### Payroll

Our article does not fully cover the Hungarian personal income tax base allowances that can be claimed in 2021, it only strives to present the most significant changes. Feel free to contact our [payroll specialists](#) if you have any specific questions regarding the allowances.

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#### Languages

Hungarian, English

#### Latest publications

- » [Health service contribution](#)
- » [From 2019, employees who are pensioners drawing a direct pension do not have to pay contributions in Hungary](#)
- » [Dramatic changes in social contribution tax and health-care contribution system from 2019](#)



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



In the first edition of the WTS Global Transfer Pricing Newsletter in 2021 WTS experts from 13 countries provided an update on recently introduced legislations and cases; in particular, the adoption of certain OECD guidelines. Additional developments in the field of transfer pricing, including the implementation of the BEPS into the laws of the various countries, are presented.

You can download WTS Global TP Newsletter #1/2021 in PDF format here:

[WTS Global TP Newsletter #1/2021](#)





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:

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

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