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wts klient newsletter

WTS Klient. The Bridge.

Dear Readers,

March 2020 marked the start of a new era for both our clients and advisers. We all had to adapt to the changes, and in the past two years we have got used to unpredictable circumstances. At the outbreak of the Covid pandemic I would not have thought that I would hold my presentation on the 2022 tax amendments to our clients in January 2022 while being ill myself, yet online platforms have enabled our clients to learn about tax law changes from a safe distance, but with excellent sound and image quality.

In the past two years we have endeavoured to report immediately on any tax law amendments which could be important for our readers, and we will continue to analyse topics related to this changing environment. We can safely say that planning is still not easy in 2022, but we must be aware of the main steps in rational planning. My colleague, Csaba Baldauf, has compiled an article on the key aspects of business plan preparation. On a related note, in another article of our newsletter, we look at the accounting treatment of grants.

Another of my colleagues, Tamás László, examines the taxation issues of electric car use, the future of driving. Many people would probably be happy with the favourable VAT rules that Tamás mentions in his article, with a short outlook on Slovenia as well.

Recent years have seen a number of special VAT issues as well. Zoltán Cseri draws your attention to the rules related to call-off stock, more precisely, the treatment of stock shortages. Non-compliance with the rules can easily result in foreign companies having to register in Hungary for VAT (such companies may not only be subject to VAT, but also the environmental product fee, depending on the nature of their activity, or the retail tax payment liability, as mentioned in the January edition of the WTS Klient Newsflash).

We are happy to help you navigate through this ever more complex tax environment, and will gladly explore any questions you may have regarding the articles.

Enjoy your read, I wish you a 2022 free of tax penalties, and more importantly, good health!

Tamás Gyányi
partner

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Permanent Establishment challenges in CEE region with focus on home office

WTS CEE Webinar

BEPS Action 7 on permanent establishments and the profit attributable to permanent establishments is a very hot topic in all CEE countries. Keeping the tax base in the countries where the actual work or service is performed is becoming more and more important. But what effect did the spread of home officing due to the Covid pandemic have on this area? Our presenters from the Czech Republic, Poland, Russia and Hungary will answer this and many other questions on our regional webinar on Thursday, 21 April 2022 from 2 to 4 p.m. We look forward to welcoming you! We will contact you soon with more details and link to register.

Call-off stock – stock shortage and its consequences in Hungary

For which shortages is the simplification rule not applicable?

Author: **Zoltán Cseri**
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It can easily upset the life of businesses applying the call-off stock simplification rule if there is a shortage in call-off stock. **In the case** of such **stock shortage, the conditions for call-off stock simplification are not met in most cases, thus foreign businesses holding call-off stocks in Hungary have to register here**. When is there a call-off stock shortage? For what size and type of call-off stock shortage is the simplification rule not applicable? Is it possible to receive exemption from registration in Hungary in the case of a certain level of call-off stock shortage? These are the questions I will be seeking to answer below.

What do call-off stock and the simplification rule mean?

In the context of Hungary, call-off stock is basically the Hungarian stock of a seller from another Member State, where the goods are used from the stock and supplied at the customer's discretion. The call-off stock simplification rule means that **the seller from another EU Member State is not required to register as a Hungarian taxpayer because of the call-off stock kept in Hungary**; consequently, it is not necessary to report the stock supply as the shipping of own goods and charge Hungarian VAT when selling the stock later on. Two transactions become one, namely, for the seller this means a tax-exempt sale within the EU, while for the customer it is an intra-EU purchase using the stock.

What has changed since 1 January 2020?

Due to compliance with EU regulations, Hungarian rules on call-off stock changed from 1 January 2020, and in terms of application they became more stringent. Most important changes:

- **the seller must know who the potential customer is and what their tax number** is at the time of the goods transfer;
- the fact of the goods transfer must be indicated on the EC sales list, while both the entity transporting the goods and the potential buyer must have **detailed records** on the goods.
- the customer has to **call off the goods within 12 months** of delivery.

In line with EU law, starting from 1 January 2020, the rules on call-off stock in the Hungarian VAT Act also stipulate that in case of the destruction, loss or theft of products within the call-off stock (collectively: stock shortage), **the conditions for applying the call-off stock simplification rule are no longer met when the product has actually disappeared or was destroyed**, or if it is impossible to define this time, then the conditions for simplification are no longer met when it transpires that the product has been destroyed or is missing.

How to treat destroyed or stolen goods

Goods can be destroyed in transit, or perhaps there is a fire at the customer's warehouse, or the goods stored in the warehouse simply disappear without a trace. In this case, from a call-off stock perspective it is important to note that when the goods are destroyed or the theft is detected, the conditions for call-off stock simplification are no longer met, so **at this time the transfer of goods for call-off stock qualifies as an intra-Community transaction**. Consequently, the foreign business must apply for a tax number and the competent authorities in both countries must be notified of the goods movement.

Is it always necessary to apply for a Hungarian tax number in the case of a call-off stock shortage, or are there any exceptions?

According to Taxation Issue No. 2021/7 issued on 26 November 2021 by the Customer Relations and Information Division of the National Tax and Customs Administration, **any shortage derived from the very nature of the product (natural decrease) is an exception to the above rule** i.e. such minor stock shortage will not automatically render the call-off stock simplification rule inapplicable, or the pertaining obligation to register in Hungary.

"The basic goal of the tax payment liability required in respect of a call-off stock shortage is to prevent untaxed final consumption. Yet the nature of the product may also result in a stock shortage, but this is due to a natural "decrease" of the product (e.g. perishable food,

natural evaporation). However, payment of the tax liability imposes an administrative burden on taxpayers moving their own products, which was possibly avoided because of the call-off stock simplification. To ensure that the natural "decrease" derived from the nature of the given product does not result in the loss of the administrative relief granted to the taxpayer moving its own products because of the call-off stock simplification rules, it is best to recognise minor shortages/losses in call-off stock as ones that do not create the status of a goods transfer" – states the National Tax and Customs Administration.

However, this information does not contain an exact specification of the extent of the stock shortage qualifying as a minor shortage. This always has to be defined in light of the nature of the product and all of the circumstances of the given case.

One additional important note in this information is that **if the stock shortage exceeds the "minor" threshold, the tax payment liability shall set in** not only for the part above the "minor" portion, but **for the total shortage** as well.

In the event of a tax payment liability and registration in Hungary, the taxpayer may, of course, deduct the tax payable for the intra-Community purchase of goods to the extent it can prove that the product was destroyed or any other material damage was caused for a reason beyond the taxpayer's control, or in the case of other material damage, if it can prove that it acted as would normally be expected in the circumstances in order to prevent or mitigate the damage.

Tax consulting

Based on the above, in the case of call-off stock held in Hungary, any shortage in the stock will immediately render the simplification rule inapplicable if such shortage is not a natural decrease derived from the very nature of the product, or is not minor. If your foreign business plans to hold call-off stock in Hungary, please bear the above in mind and consult a tax expert if you are uncertain. Feel free to contact the tax advisory team of WTS Klient Hungary.

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- tax advisory in various tax types
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Languages

Hungarian, German, English

Latest publications

- One-stop shop systems in international e-commerce
- Special payment options during the coronavirus pandemic too!
- Tax issues regarding company cars

VAT on electric cars – what to look out for

Tax reliefs available, but no mercy on VAT in Hungary

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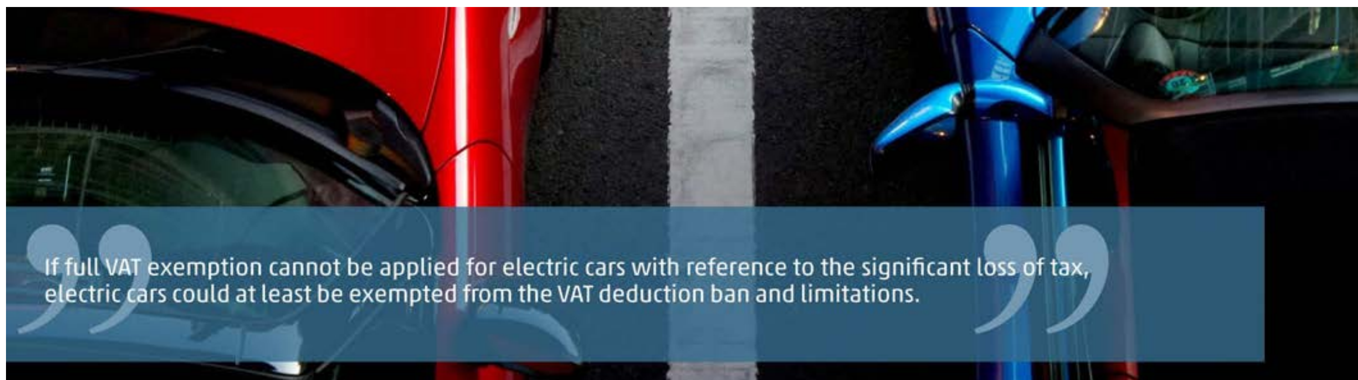

Purchasing and upkeeping electric cars – besides it having a lower negative impact on the environment in terms of pollutant emissions compared to vehicles with internal combustion engines – **can be financially beneficial both for private individuals and business entities** in Hungary. Despite being generally more expensive, the total cost over their useful life can be lower than that of a non-electric car. Thanks to their green licence plate, you can park free of charge in certain parking zones, and the cost of fuel and servicing are typically lower than that of petrol or diesel cars.

Tax reliefs

From a taxation point of view there are a number of tax allowances and other reliefs concerning electric cars that have an incentive effect, it suffices to think about the **exemption from registration tax, vehicle tax and property transfer duty**. In addition to this, business entities can claim relief with regard to electric cars in the form of company car tax exemption, while in certain cases a corporate tax allowance for investments serving energy-efficiency purposes may also be claimed when purchasing electric cars.

Electric cars in the VAT Act

On examining the VAT Act, however, it seems that the **Hungarian VAT system** is not progressive enough and **does not really prioritise electromobility over conventional vehicle drive systems**. In certain countries, VAT exemption is applicable to the purchase of electric cars as a form of government grant, or like in Slovenia, deduction of input VAT on the purchase of an emission-free vehicle up to a certain amount or on the purchase of fuels, lubricants, spare parts and services for these motor vehicles may be deductible, but this is not the case in Hungary. Based on the VAT Act, when purchasing a car the input VAT may not be deducted (only in certain special cases, e.g. for hearses, or if the purchased car is rented out). VAT may not be deducted even if the purchased car serves the economic interests of the company, such as a regional representative's company car that is clearly used mostly for visiting clients. In addition, only half of the VAT charged for the maintenance and operation of the car can be deducted (and only since 2019).

In the spirit of the other tax laws, it might be time to modernise the Hungarian VAT law as well. If full VAT exemption cannot be applied for electric cars with reference to the significant loss of tax, electric cars could at least be exempted from the above-mentioned deduction ban and limitations.

VAT on charging electric cars

In our view, however, the greatest difficulty and administrative burden is caused by the VAT on charging electric cars. This is because, in line with the VAT Act, the fuel used in **passenger cars is also subject to a VAT deduction ban, and electricity is no exception here**. Charging the car in this context is not a problem, if,

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Due diligence of companies and assessment of tax risks

With the spread of electric cars in Hungary, companies may be faced with introducing a number of modern solutions where the tax implications and risks should be assessed beforehand. If your company is one of them, we recommend you contact our tax experts who have extensive experience in the field of assessing tax risks.

for instance, you buy the electricity from a company specialising in charging electric cars (the number of companies operating charging stations for electric cars is rapidly growing in Hungary). The complication arises if an employee parks their electric company car in the company car park and plugs the car in to charge it from the mains. Since there is no separate meter it is very difficult to say how many kW of power was used to charge the electric cars (where the VAT cannot be deducted), and so the Hungarian tax authority would probably question the deductibility of part of the VAT of the electricity bill. Naturally, this problem also emerges when employees are allowed to charge their own electric vehicles at the company when there is no separate meter installed to measure how much electricity is used for that purpose. This means that employees charging their electric cars at the company **generates a tax risk for the company**, despite best intentions.

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» value added tax planning
» tax authority inspections
» preparation and reviews of transfer pricing documentation
» due diligence

Languages

Hungarian, German, English

Latest publications

» New residential property: tax refund support now available
» Invoice data reporting still to be expanded from 1 July – no deferment!
» Changes to VAT in Hungarian summer tax law amendments

Key aspects of preparing a business plan

A business plan should be positive, but realistic

Author: **Csaba Baldauf**
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For most businesses, preparing a business plan has never been an easy task, since future business plans are based, at least in part, on assumptions. There is usually a discrepancy between forecasts and actual results, as events and circumstances often do not develop as expected. For this reason, both positive and negative deviations can occur.

What is a business plan?

Recently, there seems to have been an increase in the number of **uncertain events** with regard to preparing a business plan. Just think of the Covid pandemic affecting the entire world and its

consequences, which were unimaginable just a few years ago, or the microchip shortage and its negative impacts on certain segments of the economy.

It is almost certain that there is a **big discrepancy between the plans** drawn up for these periods a few years ago **and the actual facts**. But this does not necessarily mean these business plans were incorrect when they were made. It is more that it is always easier to be smart in hindsight.

Whatever the purpose of the business plan (borrowing, bringing in financial investors, market launch of a new product, developing technology, expanding capacity, etc.), it is important that users of the plan know and understand that what they are reading is not a fixed reality, but a **realistic vision of the future** based on the best knowledge and information available to management at the time.

Of course, the purpose of the business plan can influence its exact content, and which chapters are more important than others, but for credibility it is highly important that its findings do not change depending on the above.

A good business plan defines **where the company starts from, where it wants to go, what it has to offer, what threats it faces, and what tools and resources it needs to achieve its goals**. The longer the time horizon, the more uncertain the future, the greater the likelihood of unexpected events, the more market conditions may change, and sometimes even factors that seem to be stable may diverge.

What to look out for when preparing a business plan

When preparing a business plan, the following key principles must be considered:

- **Reality** – there should essentially be a **positive outlook** and a promising vision for the future. All this, however, whilst being firmly **rooted in reality**. It should not include commitments (e.g. increase in sales revenue or staff) that are known at the time of preparation to be unachievable or unrealistic. Some of the data needs to be based on forecasts from professional sources independent of the business, while in other cases it is permissible to work with conclusions drawn from historical data and trends.
- **Complex approach** – it is important to **cover the full spectrum of the business** and to take into account the influences, as well as their changes and the uncertainties encoded in them, which the business cannot extricate itself from. This includes the regulatory environment, macroeconomic trends both in the Hungarian and global markets, and other expectations of market players, whether in terms of environmental protection or social responsibility. Given the uncertain outcome of changes in some areas, it is not necessarily a bad thing for a company to consider **several scenarios** and weight them according to their likely occurrence.
- **Consistency** – there should be harmony between the **numerical data and the textual parts**, they should support each other, point in the same direction and **be logically consistent with the objective** the business is trying to achieve.
- **Focus** – here too, the principle of **less is sometimes more** also applies. A good business plan does not necessarily have to be 80 pages long; undue information overload can confuse the clarity and hide the point.
- **Accuracy** – in addition to the text being **easy to understand**, the reader should be able to draw the same conclusions from the business plan as the author.

Summary

Preparing a credible business plan is a major challenge for businesses because of the uncertainties of predicting future events. This is why thoroughness is important, and the best way to achieve this is for the writer of the plan to take a realistic and complex approach with consistency.

Financial & accounting advisory

In addition to the above of course, there are many other factors that need to be considered in order to produce a credible and realistic business plan. If you need help with this, please contact our financial & accounting consultants!

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- IFRS

Languages

Hungarian, German, English

Latest publications

- Credit insurance and factoring, two ways to manage customer risk
- Accounting treatment of project accounting from 2020
- Consolidation

Duality of grants

What is changing as a result of the Hungarian Accounting Act amendment this year?

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Today, EU and government grants have become a driving force of the economy in Hungary. Their availability is one of the crucial conditions for numerous market players and Hungarian and foreign investors when deciding about an investment or choosing a permanent establishment. Countries and regions compete for investors, who cannot avoid considering grants when calculating the return on their investment.

A production hall or machinery funded from grants as well as wage support are all factors contributing to future success, but at the same time, they mitigate the required financial funding for investments or costs in the present. In our article we would like to explore this duality, in other words, **the difference between the financial accounting of grants and their impact on profit/loss**. Moreover, thanks to a recent **change in the law**, from this year the two processes will be separated even more markedly in Hungary.

What motivates a company to claim grants?

The question sounds trivial, and the answer too simple. It's nothing other than money. Any grants, whether provided for developmental goals or to cover costs, contribute to the company's financing resources in the short term. Interestingly, the impact of grants on profit/loss typically differs, or may differ significantly, from its positive impact on the company's cash flow.

Increase in financial resources and their impact on the balance sheet

Grants are often connected to pre-financing. In a crisis, a 100% **advance on grants** is common practice as a form of quick assistance. With investment subsidies, subsidies for experimental developments or support to cover wage costs, the company often receives a certain percentage of the grant in advance. Grant advances must be recognised in the company's financial statements under liabilities **until the financial report** on the received funding **is approved by the funding organisation**. It is not unusual in Hungary to break down a funding period into milestones. In such cases, the funding is approved at every milestone, and the milestone after which the advance is deemed settled must be determined, i.e. after which milestone does the related liability cease. This means, that the pre-financing of a grant is recognised as **debt** in the balance sheet of the company's annual financial statements until the final approval regarding the implemented funded investment or the settled costs is received.

What role do grants have in terms of profit and loss?

According to the accounting logic for the profit and loss accounting of grants, the funded costs must equal the grants received in a given year, so the impact on profit/loss is zero. This approach is called the matching principle in the Hungarian Act on Accounting, the point of which is that incomes and costs should relate to the period in which they are incurred for economic purposes. In reality this means that the **grant income** only **neutralises the impact of costs** that would **otherwise be incurred**. The prorated income released from deferred income is matched against the depreciation of the completed investment, just as the grant income is matched with the funded wage costs in the given year.

Rules for accounting grant income unified

Ensuring the principle of matching prompted changes in grant accounting in recent years. These changes are the following:

- From 2016, in the case of **grants awarded to cover costs**, financial settlement by the balance sheet preparation date is no longer a condition for income recognition, it is enough just to **complete the settlement with the funding organisation** by that date.
- From 2019, a new element also for **grants awarded to cover costs** is that the grant income can be accounted against accrued income if the entity can **prove it will comply** with the conditions set forth for receiving the funding, and it is **likely that it will receive the funding**.
- One change in 2022, but already effective from 2021, allows for **development grants** to be accounted against accrued income, provided the entity can prove that it **complies with the conditions and it will likely be awarded** the **funding**.

This essentially **unifies the accounting of the two types of funding** and, overall, the **principle of matching can be applied in both cases**.

This welcome amendment to the law will result in a complete separation of financial and profit and loss accounting. Any grant advances potentially recognised in the form of pre-financing are treated separately from any income through accruals not yet recognised.

It is important to add that the legislator sees the principle of matching only as an option, not as an obligation. In the accountant's mind, the question immediately arises as to whether the principle of prudence is more important than the principle of matching because of the uncertainty in the realisation of income, i.e. whether the grant received should be shown together with the cost it was awarded to cover. Of course, this should always be considered in the light of the circumstances.

International comparison

The **International Financial Reporting Standards (IFRS)** also offer a solution to the thinking outlined above. IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance **provides for the possibility of reducing the cost** in addition to accruing the income. This means that the funded asset does not appear in the books at its invoiced value, but at the amount less the funding. This method also results in lower depreciation costs due to the lower cost. In other words, neither the funded cost nor the related income is recognised in the income statement, so this method also ensures that the transaction is neutral on profit/loss. The impact on profit or loss is therefore the same as when the rules of the Hungarian Act on Accounting are applied.

One-stop-shop for complex business consultancy

Grants are not only beneficial for a company's profitability, but they naturally also exert a positive impact on the operation of the company in terms of its cash flow. However, while financing tends to be short term, the impact on profit/loss is felt throughout the life of the asset or the entire period during which the costs incurred. Whatever the form of funding, the financial accounting requires in-depth expertise. If you need help with this, please contact our experts.

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- accounting advisory
- interim management

Languages

Hungarian, German, English

Latest publications

- Completing a voluntary liquidation procedure in Hungary
- Accounting requirements of financial statements prepare during voluntary liquidation
- Role and responsibilities of a liquidator

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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