wts klient newsletter

WTS Klient. The Bridge.

Dear Readers,

A few months ago, the WTS Klient group opened a new chapter. The weeks since have been marked by continuous renewal and development. But this we can only achieve by having a great team behind us, committed to delivering a quality service and open to change. We do this for selected, trusted clients, who recognise and value our performance. The added value, and our clients' satisfaction and success are our success, so it is worth all the work and attention.

The Hungarian football team too deserves praise for its performance in June. Of course, as Hungarians, we are immensely proud of the fact that the Hungarian national team beat England 4-0, in England, but what made this worth mentioning here was the team performance behind the result. This miraculous footballing success could not have happened without unity among the individual players in the team, and without the team believing in itself. The secret to our success is that the employees and managers of WTS Klient all believe that we are good, and that we can be even better by forming a committed, cohesive team. This openness to development, reliability, teamwork and a good atmosphere are what make our people want to work for us. We can only trust in our clients to continue looking forward to working with us in the future, recognising these values.

Both our experienced and younger colleagues alike have been given the opportunity over the past few months with promotions to senior, manager, director and partner positions to further drive progress with their knowledge, experience, dedication and youthful energy. By automating workflows and improving our digitalisation, we want to make life and work easier and more efficient for our clients and ourselves. To meet the challenges of the last two or three years, and to the delight of our staff, we are working on IT and office designs that fit the hybrid model of working partly from home and partly in the office.

In our newsletters, we continue to make sure that we do not lose sight of the most important changes in our domestic and wider environment, whilst paying attention to the details too.

We hope you keep reading our news, stay tuned, and please feel free to contact us if you have any questions.

Szabolcs Szeles
Senior Partner

Contents

The latest WTS Global Newsletters have been released

The second edition of the WTS Global VAT Newsletter in 2022 wants to share with you insights on the latest developments in terms of VAT and GST in six countries. You can download the newsletter in PDF format here: WTS Global VAT Newsletter #2/2022

The first WTS Global International Corporate Tax Newsletter this year focuses on changes in international tax law and country-specific tax law developments with respect to cross-border transactions in 13 countries. You can download the newsletter in PDF format here: WTS Global ICT Newsletter #1/2022

SAF-T data reporting

New digital development from Hungarian tax authority

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In recent months we have read and heard more and more about the SAF-T report or SAF-T data reporting, the latest technological development of the Hungarian tax authority. Let us take a closer look at what we are talking about here exactly.

As of 1 July 2018, data reporting on online invoicing was introduced in Hungary by the tax authority. You can remember we were afraid because we knew nothing about it, neither as taxpayers nor as tax specialists. Explicitly or implicitly, we knew that the NAV would possess even more taxpayer data. In the four years since its introduction, we can say our software reports data on every outbound invoice, and this has all become part of every taxpayer's life, so maybe it is not so terrible after all.

OECD recommendation and the purpose of SAF-T data reporting

The latest idea from the tax authority, based on an **OECD recommendation**, is the so-called **Standard Audit File for Tax**, SAF-T for short. The point of SAF-T is that, according to the plans, all company information related to accounting, invoicing and taxation will have to be submitted digitally to the tax authority, in one standard file. In practical terms, SAF-T is a well-formatted **XML data file containing data from the entity's various ERP systems and sub-systems**. The data content is divided into master data and transactional data, and it refers to a given financial or settlement period. The standard file is created in a standardised format in XML language, respecting only the validation scheme in the available XSD files.

Obviously, the main aim is to enable the tax authority to conduct inspections more effectively based on the information received, or, on a more positive note, to provide support for the work of taxpayers in a more specific way focusing on the individual tax payer. Furthermore, the purpose of or ways to use SAF-T data reporting include supporting external and internal audits, and making the data transferrable between companies and government bodies.

Foreign examples

It is also heard that the Hungarian tax authority wants to introduce **data reporting with a broader primary dataset than that laid out in the international recommendation**. There are two versions to the OECD recommendation, and in Hungary the latest SAF-T draft was prepared based on version 2.0. This data structure was primarily developed to support tax authority inspection procedures, and it only supports ad hoc data requests, in its current form it is not (yet) suitable for regular data reporting.

The tax authority's vision in Hungary is not unprecedented, in several countries – such as Portugal, Poland and Norway – the idea has been introduced in one form or another in recent years.

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Developing and operating online invoice data reporting and related services

Changing the IT systems and invoicing software of companies to facilitate the SAF-T data reporting system and the new format may pose challenges for the IT 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.

Timing of SAF-T data reporting

So far we have talked about **subsequent data reporting**, but for lack of a decision from the legislator it is not clear when the standard file will need to be created. One version is that companies will need to generate the SAF-T files following the preparation of the balance sheet, and they must be kept throughout the retention term for the given period. The data reporting contains both mandatory and optional elements. It is possible, though, that the file might only have to be created at the request of the tax authority based on a taxpayer notice for the start of a tax inspection, in which case the number of this notice will be a mandatory element of the data reporting.

When does it start?

As mentioned above, **no decision has yet been made about the time for introducing the SAF-T**, about any deadlines and the exact nature of the data reporting; what seems to be presumable is that the VAT module will be introduced first. Until then, it is worth familiarising yourself with the thought, the ideas of the tax authority, and that a solution hopefully beneficial for taxpayers will be realised when the legislator's regulation finally becomes available for taxpayers and professionals alike.

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- due diligence

Languages

Hungarian, German, English

Latest publications

- Personal income tax refund for foreigners in Hungary
- One story ends, another begins: the tax consequences of Brexit
- Are you an expat worker in Hungary? Be aware of the following before filing your returns in Hungary!

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Tax-free bicycle use

From this year, bicycles provided for employees are tax-free

Author: **Marianna Fodor**
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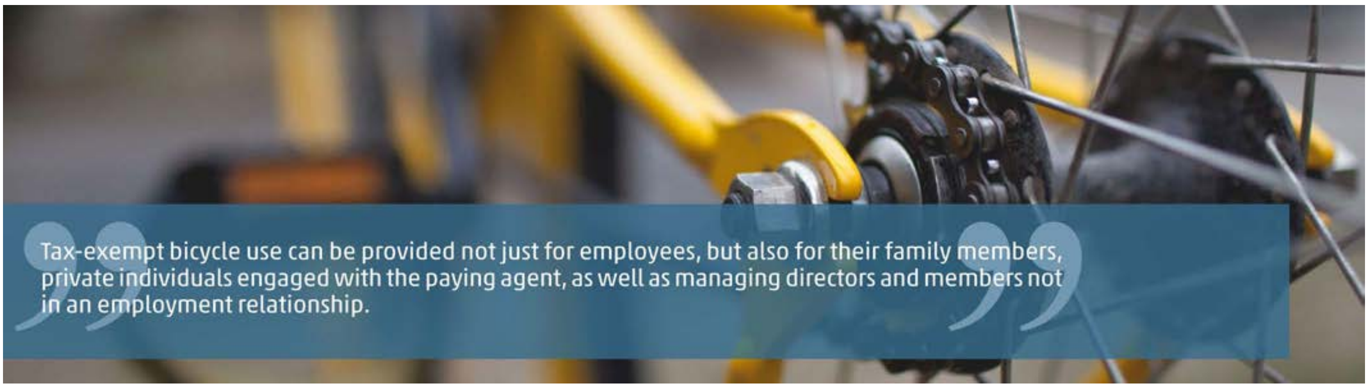

From 1 January 2022, a new tax-free benefit was added to Annex 1 of the Hungarian Act on Personal Income Tax, namely, tax-free bicycle use. Accordingly, private use of bicycles provided by the paying agent, powered solely by foot or aided by an electric engine of up to 300W, is exempt from personal income tax. Tax-free bicycle use may help encourage employees and **could be provided as a fringe benefit** if the paying agent extends the scope of benefits available in its fringe benefit policy.

Conditions of tax-free bicycle use

However, tax-free bicycle use is subject to strict conditions in Hungary. For example, it matters who gives the bicycle to whom. The tax-exemption is **applicable for use ensured by the paying agent**. The good news, though, is that tax-free bicycle use **can be provided** not just for employees, but **also for** their **family members**, private individuals engaged with the paying agent, as well as managing directors and members not in an employment relationship.

Another condition is what type of device can be handed over tax-free. The Act on Personal Income tax does not define the term "bicycle", so we have to consider the definition set out in the Hungarian road traffic rules, according to which a bicycle "is a vehicle with at least two wheels powered by the user and potentially aided with an engine of up to 300W". The tax-exemption **does not apply to scooters and mopeds**.

The legislator exempted the use of bicycles from tax, so **if the employer transfers ownership of the bicycle** to the employee or another individual, **this will not be** deemed a **tax-free** benefit. On the other hand, it is not necessary for the paying agent to own the bicycle: tax-free bicycle use is also lawful if the paying agent rents the bicycle or uses a bicycle sharing service. In the case of tax-free bicycles, the given bicycle does not have to be assigned to a specific user, it is also possible for the bicycles always to be used by the individuals who need them at a given moment.

If the above conditions are met, tax-free bicycle use could also be applicable even if the private individual **uses** the benefit exclusively **for private purposes**.

Tax-free bicycle use in other tax laws

Tax-free bicycle use appears not only in the Act on Personal Income Tax, **the Corporate Tax Act of Hungary was also amended** as of 1 January 2022. The costs incurred by acquiring and operating the bicycles are deemed business-related costs.

As a general rule, based on the Hungarian **VAT Act**, the VAT on purchased bicycles can be deducted by the company, if it has a right to deduct VAT and the product is used for business purposes. If a bicycle is used entirely for the business purposes of a company, for instance a courier company uses a bicycle for delivery services, the VAT on that can be deducted in full. If a bicycle is used for business as well as private purposes, the VAT can be deducted at the ratio the asset is used for business purposes. So for example, the VAT on bicycles received and used exclusively for commuting and free-time activities may not be deducted.

Fringe benefit consulting

The payroll team at WTS Klient Hungary has been carrying out payroll activities for large international companies for nearly 25 years, and has diverse experiences with fringe benefit systems too. Feel free to contact us if you have any questions regarding tax-free bicycle use or any other issues related to tax-exempt benefits, or would like to entrust us with your company's payroll activity.

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Languages

Hungarian, English

Latest publications

» Family support benefits in 2021-2022
» Personal income tax base allowances in Hungary in 2021
» Health service contribution

Missed statutory audit? Here are the consequences!

It could even cost a company its tax number

Author: **Anita Toki**
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After 31 May, a large number of accountants and businesses in Hungary can breathe a sigh of relief as companies with a normal financial year have submitted their annual tax returns and published their financial statements. But what happens in the event of a missed statutory audit, and the financial statements have been published without an auditor's report? What are the consequences of this, and more importantly, how can a company rectify the situation?

Who are subject to a statutory audit?

In our earlier articles (including here and here) we discussed who are subject to a statutory audit in Hungary. To summarise here briefly, the obligation to be audited is primarily prescribed by the Hungarian Act on Accounting. **It is partly linked to thresholds**, namely, if a company's net sales revenue in the two financial years prior to the reporting year did not exceed HUF 300 million (roughly EUR 758,000) on average, and the average headcount in the same two years did not exceed 50 people, then the company does not have to be audited. **On the other hand, the type and activity of the company along with other aspects define the criteria for a statutory audit**.

This latter group includes **consolidated Hungarian companies**, irrespective of which country the consolidation takes place in, and whether the company's individual figures reach the above thresholds or not.

How can you determine if there has been a missed statutory audit?

Each company with a filing and publication obligation related to financial statements has to fulfil such obligations **electronically**. In this process, the authorised business gate user or the case manager sends the financial statements to the Company Information and Electronic Company Registration Service provided by the Ministry of Justice (Company Registration Service) through the Online Reporting and Form Completion System.

The financial statements data published at the Company Registration Service are **public**, i.e. accessible by anyone. Based on the information queried here, **the tax authority, the Court of Registration and, for instance, the Chamber of Hungarian Auditors can learn** about the company's details, its operating form, activities, and among other things, whether the statutory audit thresholds on average for the two years prior to the given financial year were exceeded.

If a company's individual figures do not reach the above-mentioned threshold, but it is consolidated in Hungary or in another country, then the Hungarian company is subject to a statutory audit. However, determining this fact about consolidation is quite a lengthy procedure for someone outside the company.

What to do in the event of a missed statutory audit?

If you are facing a missed statutory audit, this **must be rectified** as soon as possible. The auditor must be chosen for at least a year under an engagement contract. The statutory auditor may be an individual or an audit firm registered at the Chamber of Hungarian Auditors. If the audit is conducted by an audit firm, a person responsible for the audit must be appointed. The entity's company-law documents must be amended to include the name of the selected auditor, which must also be registered with the Court of Registration. The information on which financial years are audited under the engagement is not recorded in the company register, but is set out in the engagement contract.

Published financial statements **cannot be subsequently replaced or corrected**. In certain cases, financial statements may be suspended within 12 months of publication, but this may not happen because an audit was not carried out. No attachments may be added to financial statements already published, nor is it possible to subsequently upload the independent auditor's report as a mandatory attachment, if the company has failed to do so.

The fact an audit was not carried out for the previous year may be mentioned in the financial statements of the reporting year containing an auditor's report.

Whose responsibility is it to meet the company's audit obligation?

Within the company's highest decision-making body it is the **joint responsibility of the members** to ensure that the compilation and publication of the financial statements comply with the statutory provisions.

What are the legal consequences of a missed statutory audit?

Where a statutory audit is conducted, the **filing and publication obligation for financial statements** pursuant to the Act on Accounting **can only be met by attaching the auditor's report**. Failure to do so is grounds for not meeting the filing and publication obligations related to the financial statements.

When conducting a statutory audit, failing to file and publish an independent auditor's report can give rise to a legality procedure pursuant to Section 74 (1) d) of the Companies Act and/or to the initiation of a tax authority procedure pursuant to Section 227 of Act CL of 2017 on the Rules of Taxation, including, among other things, a **cancellation of the tax number**.

In addition to the above, pursuant to the Hungarian Act on the Rules of Taxation, the tax authority may impose a **default penalty**, and the general liability rules of the Civil Code apply to violations of accounting rules.

In summary, a missed statutory audit must be rectified as soon as possible. It should also be taken into account that the auditor may not only want to examine the reporting year, but also the previous financial year, to be able to consider the opening figures of the reporting year as duly substantiated. This is time-consuming and costly for the company, but can still be more cost-effective than a default penalty or other legal consequences.

Accounting

In the event of a missed statutory audit, the non-compliant company may still avoid the legal consequences – such as the default penalty or a cancelled tax number – if the management takes the necessary steps in time. The accountants at WTS Klient Hungary have helped prepare and publish countless financial statements in the nearly 25-year history of the company, and have in-depth experience with statutory audit obligations. Feel free to contact us if you have a question on this topic, or would like to entrust us with your company's accounting.

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Languages

Hungarian, English

Latest publications

- Registered office, permanent establishment, branch office, document storage location, place of central administration
- Normal financial year or different financial year?
- Accounting policies: guidelines for accounting transactions at companies

Company car tax in Hungary changing from July

Tax burden nearly doubling

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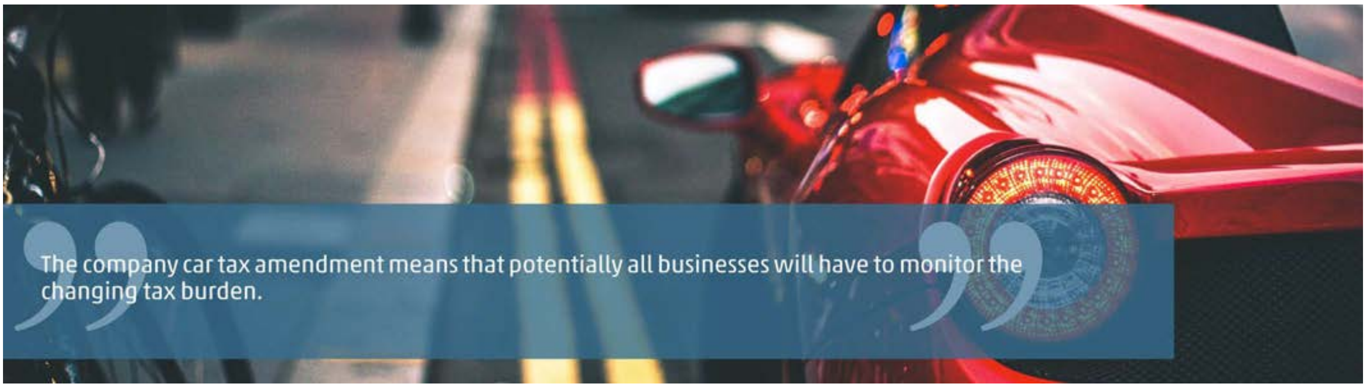

As part of the raft of measures referred to as the extra-profit tax by the Hungarian government, the rate of the company car tax is also to change from July. Although the tax package promulgated by decree will generally impact on businesses in certain sectors, the company car tax amendment means that potentially all businesses will have to monitor the changing tax burden.

Company car tax in general

Amending the company car tax does not affect the scope of taxpayers, the subject of the tax or the procedural regulations, it is only a change to the tax rate. So in this respect, there should be no big surprises for businesses in Hungary: the general provisions detailed in our earlier article are the only ones to bear in mind.

The company car tax continues to apply for passenger cars, which are

- **not owned by private individuals** and have a **Hungarian licence plate**, or
- are **privately** owned or have a **foreign licence plate** and **costs are accounted on them** in accordance with the Act on Accounting or the Act on Personal Income Tax.

Based on the above and further provisions in the legislation, two very important conclusions can be drawn regarding the persons liable for paying the tax. Firstly, not only businesses (economic entities) established in Hungary may be subject to the company car tax, but foreign enterprises too. Secondly, the business using the car does not have to own the car to become liable for the tax (with particular regard to rental and leasing arrangements).

Another important factor is that the obligation to pay the company car tax is also independent of where the vehicle is used. So for instance, when setting up foreign posting arrangements, companies must account for company car tax when determining the expenses incurred in connection with the posting.

What has changed?

The tax continues to be assessed monthly for every passenger car based on the engine power expressed in kilowatts and emissions standards, using the itemised tax rates set out in the legislation and the decree.

The monthly rate of the company car tax based on emissions standards and engine power until 30 June 2022:

Engine power (kW)	Emissions standard					
	0-4		6-10		5, 14, 15	
	HUF	EUR (roughly)	HUF	EUR (roughly)	HUF	EUR (roughly)
0-50	16,500	41	8,800	22	7,700	19
51-90	22,000	55	11,000	28	8,800	22
91-120	33,000	83	22,000	55	11,000	28
over 120	44,000	110	33,000	83	22,000	55

The monthly rate of the company car tax based on emissions standards and engine power from 1 July 2022:

Engine power (kW)	Emissions standard					
	0-4		6-10		5, 14, 15	
	HUF	EUR (roughly)	HUF	EUR (roughly)	HUF	EUR (roughly)
0-50	30,500	77	16,000	40	14,000	35
51-90	41,000	103	20,000	50	16,000	40
91-120	61,000	153	41,000	103	20,000	50
over 120	81,000	203	61,000	153	41,000	103

When is the new tax rate applicable?

In line with the decree, the company car tax amendment is temporary, with the increased rates applicable between **1 July 2022 and 31 December 2022**. However, it will be worth keeping an eye on law amendments from 1 January 2023, as a provision implemented on a temporary basis can be passed into law by legislation (see, for instance, the special retail tax), and the Hungarian government may also adopt other special measures to ensure the stability of the national economy during the declared state of emergency.

What are the consequences of the company car tax amendment in numbers?

Until 30 June 2022, the monthly tax rate was set within the HUF 7,700 – 44,000 (roughly EUR 20 – 111) range. In the second half of 2022, the tax rate will range from HUF 14,000 up to HUF 81,000 (roughly from EUR 35 up to EUR 204). In terms of the individual passenger car categories, this is equivalent to **a tax hike of 82-86%**. (In terms of amount, the monthly tax increase will be HUF 6,300 – HUF 37,000; roughly EUR 16 – 93.)

Given that the company car tax must be paid in full every month in which costs are accounted in some way on the car concerned, or the vehicle was owned by the taxpayer (which means using a daily pro rata method is not possible), companies in Hungary may incur **an additional cost ranging** from HUF 37,800 **to HUF 222,000** (roughly from EUR 95 to EUR 559) per passenger car.

With the tax changes and the increase in energy costs, companies must take special care when planning the use of cars.

How can you avoid the increasing burden?

It is perhaps too soon to envision a future in which the participants of a client meeting all roll in on their company bicycles, in spite of the fact that legislation is trying to steer businesses in this direction too by introducing personal income tax exemption for bicycles provided by employers from 1 January 2022. In reality, taxpayers still favour car rental arrangements, which is facilitated by ensuring the right to deduct up to 50% of the value added tax on rental fees.

Not every car is subject to company car tax, however, as the tax is not applicable to environmentally friendly cars, so its amendment will not impact green-minded companies. Tax-exemption and other tax-related reliefs regarding environmentally friendly vehicles may in future act as incentives for the spread of electric cars in the business sector.

Due diligence of companies and assessment of tax risks

From a tax perspective, there are many circumstances that have to be considered in the context of using of passenger cars, both for company cars and for other tax purposes. Since the increasing tax burden means a higher tax risk, feel free to contact us if you have any questions on how your company is impacted by the topic. Our specialists will be happy to help you in assessing the risks.

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» transfer pricing, preparation of transfer pricing documentation
» tax advisory related to international postings

Latest publications

» Establishing cross-border service permanent establishments in Hungary
» New EKAER decree from 1 January

Languages

Hungarian, German

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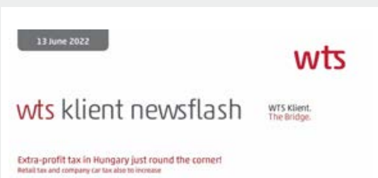
The latest WTS Klient Newsflash on the extra-profit tax is out now



The details of the so-called extra-profit tax announced earlier by the Hungarian government were revealed in the Hungarian Gazette on 4 June 2022. The latest WTS Klient Newsflash gives you an overview of the most important points of the government decree including special taxes affecting a total of eight economic sectors and the increase of other existing taxes. Click here and learn above other changes too besides the amended rate of the company car tax:
WTS Klient Newsflash – Extra-profit tax

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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