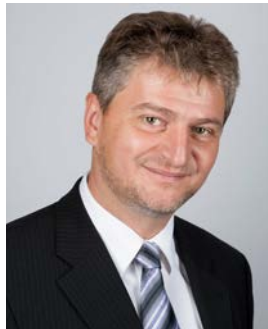


wts klient newsletter

WTS Klient. The Bridge.

Dear Readers,

As the end of the year approaches, one cannot help but have a plethora of feelings. On the one hand, it is time to evaluate what the year has brought us, what 2022 was like, what successes we have achieved and how we could do better. On the other hand, at this time of the year something new opens up, and a new year also means new hope, new plans and renewed momentum to start or continue something, after we are somewhat tired by the end of the year, and start to wind down as we prepare for the holidays.



In terms of evaluation, we cannot complain: 2022 for us was explosive, in the positive sense of the metaphor, of course. So much has happened to us that it could easily fill the whole newsletter. In the spring, ARX Equity Partners joined as a [new investor in the company](#), then our team was reinforced by new partner and senior partner appointments, and we injected some great momentum in rejuvenating the company. We followed two main paths: the digital and technological upgrading of our office and work processes, the optimisation of our HR processes, and employer branding took priority. It would take a long time to list all the things we have automated, and the many programmes organised to create a more attractive workplace for our staff. In the meantime, we have been expanding (increasing our headcount to 130, renting new office space), and we have also been trying to better acquaint people with WTS Klient at professional events, in business media and on new social media platforms.

And what are the plans for 2023? Perhaps the most significant change, yet the one with the smallest impact on our daily work, is that – as announced in October – from 1 January 2023, the members of our group, which have been operating together under the WTS Klient brand name, will merge and officially become one company under the name of WTS Klient Gazdasági Tanácsadó Kft. This will complete our rebirth in 2022, and in 2023 we will continue down the road we have set out on. In the wake of our rebirth we will continue to rejuvenate in every way, revamping the WTS Klient brand, further developing our digital capabilities and putting the pulse of youth at the helm. The newest generation is already here: at this year's Santa Claus party we had a line of new WTS Klient babies introduced, including my first grandchild.

Merry Christmas! Have a good rest, and enjoy reading the newsletter! Stay tuned in the new year too!

Zoltán Lambert
Managing Partner



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Listen to this!



Special taxes, VAT on homes, tax allowance for young people, local business tax, KATA, duties – the new year is almost here, what will happen in the coming year? On 9 December, Tamás Gyányi, Senior Partner of WTS Klient Hungary gave an interview to VG Podcast about tax amendments in 2023.

In his podcast interview entitled "The golden age of flat-rate taxation is coming", Tamás Gyányi explained that not changing the key elements of a tax system every year sends out a good message. Being able to plan ahead is of key importance for companies, and in this respect, amending taxes mid-year is hard to factor in.

The conversation can be found in Hungarian at this link:
www.vg.hu/podcastok/eljon-az-atalanyadozas-aranykora/

Digital transition – a long journey

Where to travel, how, and what are the dangers?

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The digital transition is also affecting the finance sector. In fact, to increase work efficiency, data usability, to ensure better traceability of documentation and to reduce time-consuming administration, it is essential for every company and business to become more and more aware of this area.

We know from own experience that the digital transition is a long journey with a lot of forks in the road. Drawing on our practical experience, in this article we delve into the challenges of the digital transition. Off we go!

Destination

First, let's determine what the destination is. After all, once the destination is set, we only have to choose the route and the means of transport, taking the available budget into consideration of course. It's up to everyone to decide whether to pay for a trip organised by an agency, with tried and tested programmes and ready-made solutions, or to put the backpack on and let your own ideas and inspirations lead you into discovering the unknown.

Digitalisation, as a target, has become inevitable in the world of finance and business, but also in [taxation](#). The digital transition has become **an essential part of strategic decisions**. Paper-based invoices and payrolls have been replaced by [electronic invoices](#), applications recognising invoice images, and electronic payrolls. The electronic filing of invoices, the automation of approval processes and electronic signatures greatly simplify business processes, and thus lead to cost efficiency. Only having the right IT

infrastructure, streamlining and connecting databases, automating processes and digitalising documents enable businesses to stay competitive in this new information society.

IT infrastructure: what to travel with?

Comparing the optimal IT infrastructure for the digital transition with the IT equipment pool currently available can help identify what investments are needed. Before initiating a major investment, there is still a huge dilemma about whether to **use a cloud-based solution or on-site equipment**. In a table on the next page we summarised the aspects worth considering when assessing this.

IT / Business Automation

2022 marked the beginning of a new chapter in the life of WTS Klient Hungary, which brought with it some significant changes. Parallel to revamping our organisation, we also embarked on large-scale technological developments. In this article, we primarily draw your attention to the importance, or the inevitability, of the digital transition, while also sharing our own experiences with technology developments. Feel free to contact the [WTS Klient Business Automation](#) division if your company is facing similar challenges and problems, and you need an experienced professional to develop digital solutions for your business or tax matters.

Methods / Criteria	On-site equipment pool	Cloud-based solutions
Equipment used	Own servers purchased	Rented platform and infrastructure (Azure, Google Cloud or other hosting providers)
Technological development	Equipment continuously becomes outdated.	The service is typically supported by the latest technology.
Security	Having the equipment in the server room next door often gives a false sense of security.	Typically operated by a large provider, so much better protected than own equipment
Backups	The business needs to make backups.	Data backups are automatically generated in the cloud.
Post-incident recoverability	This largely depends on the capacity and expertise of the internal and external human resources available.	Data recovery can generally be recovered with a short reaction time, depending on the type of subscription and fee.
Investment	The equipment has to be paid for in advance.	An implementation fee and monthly service fees, which gives a more favourable initial cash flow position.
Operation	External or internal resource	External or internal resource

There is no one-size-fits-all solution, it is up to the business leaders and IT managers to figure out what best fits the level of digital transition they intend to achieve and the means of the company, based on the criteria above. Mixed solutions are often viable too.

Internal or external developments – backpacking or organised trip?

Today, there are **ready-made software solutions** for almost any need, so-called out-of-the-box solutions. **You can also choose** to have your **own solutions developed by external developers or by your own development team**. It can cause serious headaches to decide when the right time is to start an internal development.

Given the client-support solutions, the automation of our processes and the digitalisation of internal administration, we at WTS Klient Hungary opted for a combined solution. On the one hand, we set up our own development team, so development expertise is always available for us, and we are able to react to client or internal needs in a tailored fashion. However, as the capacity of our development team is limited, and the digital transition is fast-paced, we use ready-made, market solutions for our HR software and CRM system.

Travel guides and brochures, or booking.com and Tripadvisor?

The digital transition involves **connecting databases and existing systems**. Companies generally have data in different formats in isolated systems, just like travellers may gather information from

a variety of brochures, guidebooks or by using one of today's modern internet platforms offering tailored solutions based on the data entered. To turn the accumulated sea of data into useable, valuable information, it is important to synchronise databases, matching and linking the data they contain. Nowadays, these integrated databases are essential for measuring employee performance, evaluating engagements, providing offers and reaching informed managerial decisions. There are **integrated corporate information systems** which fully meet these needs, but **software** and databases **connected via interfaces** are also becoming more and more common.

The current expectation is the individual **systems** (like the invoicing software, the CRM and the performance recording programme) should be interconnected, and for them to be able to **communicate with each other** they need to use the same terms. For instance, turnover figures, outstanding invoices, time consumption and other client-specific information related to the same client need to be recorded under the same client code in the various systems, because when connecting the programmes, this is the only way to turn the pool of data into useful information.

The isolation generated by the pandemic brought **collaborative platforms** into everyone's life. Quick Teams, Skype or Zoom meetings have become daily occurrences. Communication no longer takes place by email and in telephone conferences; instead, collaborative platforms connect colleagues and clients to share data, information and files.

No adventure without dangers: the issue of cybersecurity

The digital transition is not a walk in the park. In addition to the undisputable advantages, there are many dangers. By integrating external supporters, opening up our systems and connecting to a wider cyber community, we inevitably make ourselves vulnerable to attacks. Information is power, and the digitalisation of financial systems is all about that, so we need to focus on prevention. However, it is no longer enough to defend ourselves with firewalls and virus scans. **Training** and keeping our **staff** vigilant is in our fundamental interest. There is a lot of training material as well as phishing simulations to help businesses actively and responsibly engage their employees in prevention activities, so the internal systems of the company can block out ransomware as a closed system.

Based on our experience, we can tell you that having **policies** helps, and our **ISO 27001 information security certification** also keeps our employees constantly alert. Our years of ISO audit experience help us keep information security issues constantly on the agenda, both in our internal workflows and during communication with clients.

No return ticket

Digitalisation is **not** a **reversible** process. The sooner you start consciously planning the journey, the better position you will be in compared to your competitors. Sometimes you reach a dead end when travelling, but an organisation open to learning and development also tries to build on failures. Fasten your seatbelts! Have a safe journey!

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- » accounting and tax due diligences
- » accounting advisory
- » interim management

Languages

Hungarian, English, German

Latest publications

- » [Duality of grants](#)
- » [Completing a voluntary liquidation procedure in Hungary](#)
- » [Accounting requirements of financial statements prepared during voluntary liquidation](#)



The latest WTS Global Customs Newsletter has been released



The WTS Global Customs Newsletter #3/2022 shares with you news on trade and customs developments from Brazil, China, Germany, Italy, UK and USA and reflects the typical issues that we see discussed internationally. You can download the newsletter in PDF format here: [WTS Global Customs Newsletter #3/2022](#)

Duty liability on real estate transactions

What has changed in recent years, and what can we expect next year?

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The Hungarian real estate market has seen quite a strong upwards trend in prices recently, and therefore in value too. As a result, the duty liability on real estate transactions has become an increasingly important issue, and [planning](#) the transactional background to the **onerous property transfer duty** payable by the buyer is (and continues to be) of increasing importance. However, it is not only market players who are paying particular attention to the issues arising from the duty liability on real estate transactions, Hungarian legislation has also adjusted and refined the existing regulation several times.

Duty liability on real estate transactions when acquiring real estate or a company holding real estate

One of the most important rule changes regarding the duty liability on real estate transactions took place in [January 2010](#): from this point onwards it was not only **acquiring real estate** (asset deal) that could result in an onerous property transfer duty liability, but also a **share acquisition** – directly or indirectly – of at least 75% in a company holding Hungarian real estate (share deal).

Calculating asset value when acquiring a company holding real estate

Subsequently, in July 2021, the legislator clarified the definition of a **company holding Hungarian real estate** with regard to the duty liability on real estate transactions, thereby closing a loophole that had hitherto been open to abuse in practice.

This is because according to the rules **before July 2021**, a company was deemed to hold Hungarian real estate if at least 75% of its assets as shown in its **last available balance sheet** (or opening balance sheet) consisted of real estate. So if the last available balance sheet (or opening balance sheet in the case of a start-up company) did not include any real estate (or if its value repre-

sented less than 75% of the adjusted asset value), but the company acquired property between two balance sheets, then the property value did not have to be taken into account when calculating the 75% ratio. This potentially gave rise to a situation where a company was not considered to be an entity holding Hungarian real estate in its last approved financial statements, but upon closing a share deal in the middle of the year, the company perhaps had significant real estate among its assets. If such a company was acquired by a buyer, as a general rule – under the previous legal provisions – it was not subject to paying duty on the real estate transaction.

The amendment adopted in 2021 eliminated the potential abuse arising from the above situation by effectively **requiring** the target company to **prepare an interim balance sheet** on the current value of the real estate and other assets at the time of selling the share. Based on this interim statement, it is necessary to determine whether a target company is a company holding Hungarian real estate, and thus whether the buyer is subject to the duty liability on real estate transactions if the company is acquired.

New amendment for sales revenue limit on real estate transfers

The [tax law amendments](#) with effect from 1 January 2023, include an amendment now relevant for real estate sale transactions (asset deals). The change concerns the exemption from payment of the duty liability on real estate transactions, which exempts **transfers of real estate between certain related companies** from the payment of the onerous property transfer duty. According to the current legislation, the condition for the exemption is that the core activity of the buyer when the duty payment liability arises must be the rental or operation of own or rented real estate (TEÁOR 68.20) or the sale of own real estate (TEÁOR 68.10).

According to the reasoning behind the amendment adopted by the National Assembly, the fact the condition for duty exemption can be fulfilled by a simple change notification regarding the core business activity opens the system up to abuse. So while maintaining the **condition on the scope of activity**, the amendment **also** defines a **new 50% sales revenue limit**, which the acquirer must make a statement on to the tax authorities. In other words, the duty exemption only applies if the sales revenue of the acquirer from the preferential activities (TEÁOR 68.10 and 68.20) relating to the real estate represents at least 50% of the total sales revenue.

The amendment uses the net sales revenue of the acquirer in the previous fiscal year as the basis for determining the 50% limit. Of course, this exemption will also be available for businesses starting their activities in the given year, provided that the acquirer

declares that at least 50% of its net sales revenue will be derived from the preferential activities in that fiscal year.

Amount of additional duty and penalty

We might rightly ask what sanctions the new regulation foresees if **the sales revenue condition is not met** for whatever reason. The following cases can be highlighted in this respect:

If this declaration or undertaking are not complied with, the acquiring party must report this to the state tax authority, which will compel the acquiring party to pay the unpaid duty plus an additional 50%. If they fail to comply with this obligation and the state tax authority finds in the course of a tax inspection that the declaration or undertaking were not complied with, the acquiring party will be charged twice the amount of the unpaid duty.

Duty liability arises	Adjustment by taxpayer (if sales revenue limit is not met)	Tax assessment by tax authority (if a tax inspection finds the taxpayer's declaration is false)
Between 1 st month and last day of 5 th month of fiscal year	Adjustment permitted: by 15 th day of 6 th month of fiscal year Consequence: 1½ times the duty payment (100% duty + 50% penalty)	Double the unpaid duty (100% duty + 100% penalty)
Between 6 th month and last day of 12 th month of fiscal year	No adjustment permitted	Double the unpaid duty (100% duty + 100% penalty)
For an acquirer starting operations during a fiscal year, in first fiscal year of operation (no closed accounts for previous fiscal year yet)	Adjustment permitted: by 15 th day of 6 th month of fiscal year after duty liability arises Consequence: 1½ times the duty payment (100% duty + 50% penalty)	Double the unpaid duty (100% duty + 100% penalty)

Due to the amendment, even given the level of the penalties, the duty liability on real estate transactions and the related financial and tax planning will be emphasised even more.

Tax consulting

If you would like to entrust experienced experts with supporting your own individual transaction, please contact the [tax consulting team of WTS Klient Hungary](#). We're here to help.

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- » value added tax planning (supply chain management)
- » compliance services in VAT and PIT matters
- » tax authority inspections, tax litigation

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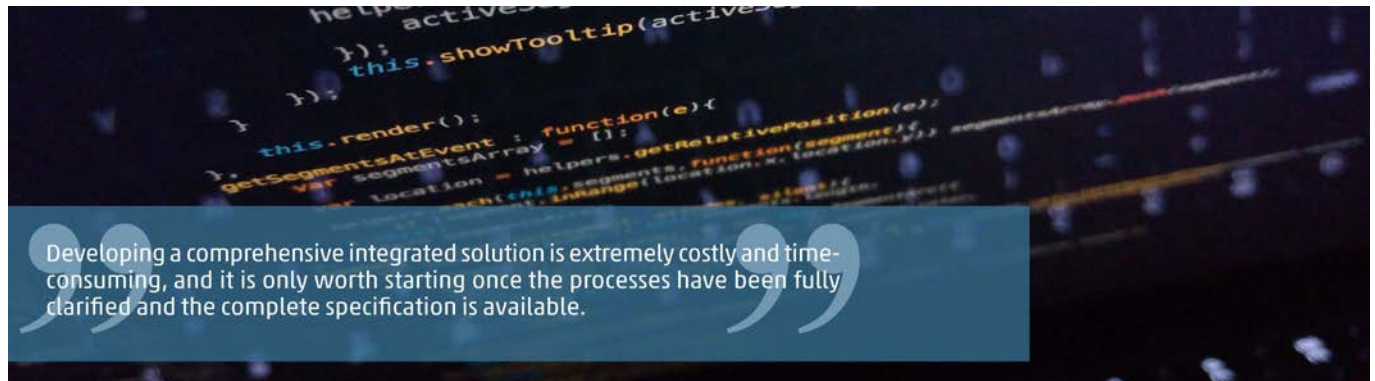
Languages

Hungarian, German, English

IT projects based on MS Access

Guide, not just for software developers

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The inevitability of digitalisation in business processes has been clear and evident for years in almost all sectors of the economy. The digital transition is also affecting the finance sector, as we covered in the article on page 2. Today, it's no longer enough for a company's IT professionals to be conscious of the most effective digital solutions: decision-makers as well as those responsible [for taxation](#), accounting or payroll also need to be aware of them. Having considered the strategic issues, we will now take a look at specific **database management systems** from the ground up, and answer the question of what Excel and MS Access are good for, and how they differ.

When Excel is no longer enough...

Many businesses use various databases and records, even in addition to their existing integrated systems. Generally speaking, a lot of ad hoc information, or information that cannot be integrated into ERP systems (Enterprise Resource Planning) is generated, this issue **can only be solved in the long run and at some expense by means of a system development**. These raw databases are usually brought together into a spreadsheet by an IT-savvy employee, and presented in a digestible format. These summary spreadsheets are often so successful that they are then used more widely, for more tasks, and by more users within the company. This is when the time comes that Excel is no longer sufficient. One common need is to be able to manage multiple concurrent users or have structured data integration (even across multiple projects), which is not really feasible in an Excel environment.

MS Access – one small step for an IT professional, one giant leap for the company

In my experience, most receptive, IT-minded users have no difficulty in familiarising themselves with the world of Microsoft Access, i.e. **MS Access**. With a minimum of training you can start with the basics, it is **not difficult** to move from Excel spreadsheets to the world of databases.

MS Access is an excellent tool **for implementing small IT projects**. It allows multiple users to work with the same data at the same time. Thanks to the database, the data is presented in a structured and integrated manner. There are a number of interfaces, interoperability with other MS products is easy, and it is a well-documented, visually transparent and easy-to-learn system.

For more complex tasks you may need some expertise in the programming language Visual Basic, but if you're familiar with Excel macros, this won't be alien to you either.

Business modelling

Excel spreadsheets are often used in areas of business where there is no industry-specific or specially tailored IT solution. Developing a comprehensive integrated solution is extremely costly and time-consuming, and it is only worth starting once the processes have been fully clarified and the complete specification is available. If a company gradually migrates its existing spreadsheets from Excel to an Access database environment as an **intermediate step**, it essentially models the content and correlations of the business data. The work invested will pay off later when planning the integrated system, as designing the data structures is a significant part of the specification.

continued on page 8

Increasing efficiency of digital business administration solutions, process optimisation

The specialists at WTS Klient Business Automation provide help with integrating data as efficiently as possible and [optimising processes](#), as well as supporting our clients with creating effective digital business projects, even independently. Feel free to contact us.

When MS Access is no longer enough...

It should be noted that the MS Access environment is designed for smaller tasks. The **number of concurrent users** is limited to 255, but **it's worth keeping it under 20** because the database size is

also limited to a maximum of 2 GB. It only runs in a Windows environment with a client-server architecture. Despite these constraints, it is a flexible tool for business automation and integration tasks, enabling simpler IT tasks to be performed within the company.

→ Our expert



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Latest publications

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- » [Online invoice 3.0 – is automation here?](#)

Languages

Hungarian, English, German



Renting out real estate and creating a permanent establishment

What tax is levied on rented real estate and in which country?

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It is often the case that renting out real estate involves more than one country, or more precisely, that a company wants to make some use of real estate in a country other than the one where it carries out its business activities. In such cases, the following issues may be of concern:

- **In which country do you need to pay taxes** on the revenue generated from using real estate located abroad?

- **What tax obligations** arise?
- **Is a permanent establishment created** for the lessor company in the country where the real estate is located?

We will answer these questions in our article, and highlight what a foreign company should pay attention to if it plans on renting out real estate located in Hungary.

VAT fixed establishment when renting out real estate

Renting out real estate in a country other than where the company carries out business activities, or using such property, does not necessarily create a VAT fixed establishment for the lessor.

In one of [our earlier articles](#) we explained the definition of a **fixed establishment** in detail based on **the Hungarian Act on VAT and the implementing regulation of the VAT Directive**. Pursuant to the directive, a fixed establishment is created for a company using real estate in the state the property is located if it has a geographically defined place at a fixed location where it carries out the business activity for a prolonged period, and where **all the material and personnel conditions** required to conduct the business activity independently are actually available on site. According to the implementing regulation of the VAT Directive, a fixed establishment is created if the service provider possesses a suitable organisation with a sufficient degree of permanence in terms of human and material resources to enable the provision of the services in the state where the real estate is located.

Based on the two rules, it is clear that in addition to the fact the rented out property is located in Hungary, the presence of the human resources and material conditions required for supplying services in the country of the real estate must be investigated further.

One important aspect is to what extent is renting out real estate a determining part of the lessor's business activity, and does it in fact have the organisational framework enabling the supply of services connected to use of the real estate. If a detailed investigation finds that the above conditions are not met, no fixed establishment is created for the lessor foreign company in Hungary.

However, given that renting out real estate qualifies as a service related to real estate according to the implementing regulation of the VAT Directive, where the place of performance is the country the real estate is located in, then **as a general rule, the value added tax incurred must also be paid in the country of the real estate**. So for lack of a fixed establishment, the foreign lessor is only exempted from the obligation to [register for VAT](#) and pay VAT in Hungary if the lessee is a Hungarian taxpayer to whom the foreign company can issue an invoice subject to the rules on [reverse charging](#).

If, however, the foreign company sets up a permanent establishment in Hungary as a result of renting out real estate, the foreign taxpayer must register and fulfil its tax payment liability in Hungary under the general rules. This entails substantial additional administration.

What about corporate tax?

While – from a VAT perspective – more careful consideration is required to determine whether renting out real estate gives rise to a fixed establishment, for [corporate tax purposes](#) the situation for taxpayers is relatively easier.

When assessing the creation of a [corporate tax permanent establishment](#), both the provisions of the Act on Corporate Tax and the convention on avoiding double taxation concluded with the country of the foreign taxpayer must be examined.

Under the conventions on avoiding double taxation, revenue from real estate is generally taxable in the country where the real estate is located. Pursuant to Hungarian legislation, using real estate, transferring or selling rights and concessions in relation to real estate in exchange for compensation, as well as the in-kind contribution and sale of real estate create a permanent establishment.

From the combined interpretation of the above legislation, if a leased property is situated in Hungary, **a permanent establishment is created for corporate tax purposes for the foreign lessor in Hungary**, irrespective of the duration of the rental. The corporate tax must be paid in compliance with the Hungarian legislation, for which the taxpayer must register in Hungary.

Local business tax in brief

Given that used (rented out or leased) property, among other things, is considered a permanent establishment under the Act on Local Taxes, a permanent establishment is created for the foreign taxpayer in Hungary upon renting out real estate, so it is **obligated to pay local business tax**.

Tax planning and consulting based on international and Hungarian standards

As revealed by our article, it is highly important to thoroughly investigate the renting activity if a company decides on renting out real estate located in a country other than where it conducts its business activities. However, if the renting activity is incorrectly classified, the given real estate is not considered a permanent establishment and the foreign taxpayer fails to fulfil the related registration and tax payment obligation, the tax authority can subsequently impose severe penalties on the entity. WTS Klient Hungary has decades of experience in international taxation and [planning the tax arrangements of foreign companies](#), so feel free to contact us if you need tax advice and/or tax planning in connection with utilising a foreign company's real estate situated 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.

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- » Financial & accounting advisory
- » Accounting
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