WTS Klient Newsletter

People you can rely on.

Dear Readers,

WTS Klient reached a milestone this summer. Crowning almost a quarter of a century of organic growth and continuous development, on 12 June we signed an agreement to merge WTS Klient and Finacont Kft. and to continue operating under the name WTS Klient, thus doubling in size and with an expanded service portfolio. We have been laying the ground for this move for a long time, searching for the ideal "spouse" and paving the way for the merger, and we can safely say that it was worth the energy invested. The fact that the two companies profess similar values in how they treat clients and how they communicate with their staff provides a strong foundation for a shared future, and you can experience this change too, by not seeing what is different around you yet still sensing that everything is better. Having more professionals, more knowledge, more experience and other associated disciplines and strengths supporting you in the future can only be a positive outcome of the merger. In addition to the well-known services already provided by WTS Klient, such as tax consultancy, accounting, payroll, financial and accounting advisory and IT/ business automation, Finacont's experts will now also be available for business outsourcing, controlling and HR consultancy.

We hope that in the coming period we will have the opportunity to personally introduce the "new" WTS Klient and our senior Finacont colleagues to you as well, to discuss any questions you may have about the transaction, and most importantly, to assure you that by broadening our competencies and perspectives and ensuring long-term stability we will be able to support you better in achieving your business goals.

Of course, in the midst of all the good news, we continue to conscientiously monitor economic trends, events as well as tax and accounting changes, and as part of our work we will keep you informed of everything you need to, or should, know. Keep reading our newsletters and Newsflashes, and don't miss out on anything!

Zoltán Lambert
Managing Partner

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WTS Klient and Finacont to merge

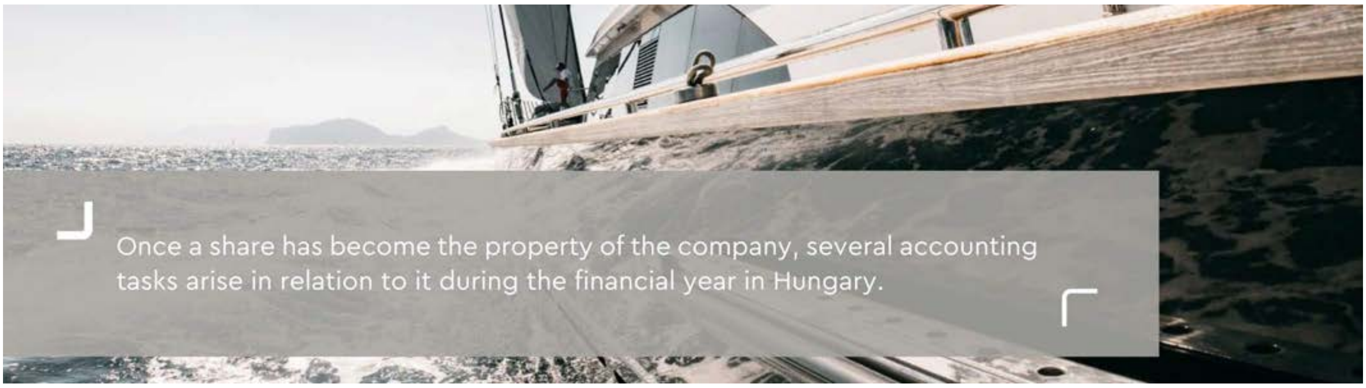
György Pintér, managing partner of Finacont (on the left) and Zoltán Lambert signed the contract on the merger on 12 June 2023.

Click here and read our article about the details of the merger!

Accounting treatment of equity investments

Valuing and classifying them requires continuous work during the financial year

Author: **Anita Marinov**
anita.marinov@wtsklient.hu



We previously looked at own investments that represent equity investments, when a company buys back its own equity investments or stakes in its own business based on a resolution by its main decision-making body. In business, however, it is much more common for **a company to acquire a stake in another company as an investment for future profit.**

Types and purposes of investments

The **essence of an equity investment is that** the acquired security **gives** the holder specific **property and other rights**. However, their accounting treatment in Hungary is far from straightforward, and depends heavily on the type and nature of the investment. There are many options here, including stocks, partnership equity investments, equity investments in cooperatives, share notes, other partnership equity investments, investment units issued by unlimited term investment funds, or venture capital equity investments.

Equity investments can be recognised in a company's books on various grounds. The most common of these are starting a business, transforming a business, a purchase, contribution or a transfer free of charge. Just like there are various ways to purchase a share, there can be various purposes too:

- **Long-term investments (equity investments held for more than one year)**: these are recognised in the balance sheet under investments. The primary objective of a long-term investment is to generate sustainable income (dividend or interest), and to influence, direct or exert control as an owner, with the secondary purpose of realising a capital gain upon a subsequent sale.
- **Equity investments held for trading (temporary, not long-term)**: these are recognised in the balance sheet under current assets, securities. The primary purpose of equity investments held for trading is to earn short-term income and realise capital gains, while the secondary purpose is to receive dividends. Exerting influence is not so typical in this case.

Accounting treatment of equity investments

Once a share has become the property (asset) of the company, several accounting tasks arise in relation to it during the financial year in Hungary. Let's take a look at these.

Classification upon acquisition

The cost of a share is essentially the aggregate amount of the items incurred to acquire it that can be attributed individually to the asset. Depending on how they are acquired, these can be as follows:

- When **starting a business**, the share should be recorded at the value specified in the articles of association, in the case of a **contribution in kind**, at the value specified in the articles of association, while in the case of a **transformation**, the cost should be determined based on the equity capital in the transformation balance sheet. The cost of a **purchased equity interest** is the purchase price (consideration paid), increased by any acquisition-related consignment fee paid and the fee for a purchased call option in the case of a long-term investment.

- However, for **current assets**, these fees are not mandatory parts of the cost. A decision can be made on whether to charge them to the profit for the reporting year. If they are significant and are expected to be recovered when the investment is sold, they should be deferred.

- In the case of a **transfer free of charge**, the cost of the asset is its market value upon recognition, unless otherwise required by law, and is recognised against income from financial transactions and recorded as accrued income. When this share is removed from the company's books or an impairment loss is recognised, this accrual must be reversed proportionally.

Classification upon preparing balance sheet at end of financial year

At the end of the year in Hungary, equity investments in foreign currency must be revalued as part of the accounting close, **accounting for** the resulting **exchange-rate difference**. Furthermore, the **need for impairment should be assessed**, as well as the **possibility of reversing** previously recognised **impairment losses**. Impairment losses are recognised as an expense on financial transactions and reversals of impairment losses are not recognised as income but as a negative expense. Impairment is generally required when the loss between the carrying amount and the market value is prolonged (lasting at least one year or considered permanent) and significant, regardless of whether the given investment is recognised under non-current assets or current assets in the balance sheet.

In the case of investments, an **upwards revaluation** may be accounted for long-term equity investments. It totals the amount by which the market value at the balance sheet preparation date exceeds the carrying amount, which is recognised against the valuation reserve under equity.

Accounting for returns on equity investments

Advance dividends received during the financial year are recorded when settled under other current liabilities, while **dividends or income received or receivable** are recorded under income from financial transactions.

Accounting for derecognitions from the books

When an equity investment is sold, the selling price and the carrying amount adjusted for impairment give rise to an **exchange-rate difference**, which **in the case of a long-term share** is recognised under income/exchange gains or expenses/exchange losses on equity investments, while **in the case of a current asset** it is recognised under other income from or expenses on financial transactions.

If an upwards revaluation was recognised in relation to the long-term share, this must be eliminated when the share is derecognised.

Accounting advisory

Our article shows that there are many things businesses need to pay attention to in relation to equity interests, and their valuation and classification require continuous work throughout the financial year. Feel free to contact us if you need expert advice on equity investments in Hungary, the accounting advisers at WTS Klient Hungary will be glad to help you.

Our expert

Anita Marinov
Director | Accounting
Mobile: +36 30 426 9601

Areas of Expertise
- accounting
- IFRS
- accounting advisory

The ViDA proposal: the EU's latest VAT reform

What will happen to the Hungarian online invoice data reporting system?

Author: **Tamás László**
tamas.laszlo@wtsklient.hu

The ViDA proposal (VAT in the Digital Age) is **a series of legislative measures proposed by the European Commission on 8 December 2022** aimed at modernising the workings of the common value-added tax system and reducing VAT fraud.

When drafting the ViDA proposal, the Commission took into account the 2022 VAT Gap report, which, among many other interesting things (such as how effectively Hungary has been able to reduce its VAT gap in recent years), shows that Member States lost around EUR 93 billion in VAT revenue in 2020 due to VAT evasion linked to intra-EU transactions (e.g. carousel fraud). In addition to lowering this amount, one important goal of the ViDA proposal is to bring the common value-added tax system into the digital age with regard to intra-EU transactions and the so-called platform economy, and to reduce the administrative burdens for taxpayers.

This is why the Commission set three main objectives:

› the introduction of **digital reporting**, mandatory e-invoicing for cross-border transactions;
› **updated VAT rules** to meet the challenges of the platform economy;
› the introduction of **single VAT registration**.

Digital reporting

This is not an alien term to Hungarian taxpayers, as Hungary has been operating its so-called online invoice data reporting system for some time now, which we have already discussed in detail in several articles. This system in Hungary, together with the EKAER (Electronic Public Road Transportation Control System), has made a great contribution to reducing VAT fraud and increasing VAT revenues. Hungary is not the only Member State to have introduced some form of digital invoice data reporting. The Commission estimates that in the Member States where some form of digital reporting is required, VAT receipts increased by 2.6% – 3.5% between 2014 and 2019.

This is why ViDA proposes that a common digital reporting system based on e-invoicing will need to be introduced, primarily for intra-EU transactions. At present, by submitting recapitulative statements, taxpayers only provide aggregate data on intra-EU trade, by Member State and tax number, not by transaction. Therefore, the Commission plans to introduce digital reporting that will require **near real-time reporting of cross-border transactions within the EU on both sides of the transactions.** In addition, in the longer term, there are plans to harmonise domestic reporting systems and create a single template.

VAT regulation of the platform economy

The platform economy is a modern business phenomenon (thinking in particular here about passenger transport, such as Uber, and short-term accommodation providers, such as Airbnb) where individuals and small taxpayers can sell their services with the help of, or via, the platform. Since these entrepreneurs conduct a taxable activity, in most cases they are compelled to register as taxpayers, which imposes an additional administrative burden on the service providers, or, they pursue their activities tax-free, but thereby distort competition. Another problem is that VAT rules on the platform economy differ, or are applied differently, in the various Member States.

It follows from the above that there is a need to create a simple and common system to reduce the administrative burden for platform providers and the taxpayers wishing to sell their services through them, and to simplify the collection of the tax. To achieve this, the so-called **deemed supplier model** will be introduced, where the **tax is accounted for by the platform providers instead of the taxpayers actually providing the services.** Uniform rules on the place of supply are also being introduced, as well as harmonising the reporting of data and transmission of information by platforms.

Single VAT registration

The changes that took effect on 1 July 2021 greatly reduced the administration imposed on e-traders with the roll-out of the One Stop Shop (OSS). The idea here is that cross-border sales to private individuals do not need to be registered in the country of the customer, but the tax payable in the destination country can be settled through the one-stop shop system. In addition, the so-called Import One Stop Shop (IOSS) – a one-stop shop system for sales from non-EU countries to intra-EU customers – was introduced, which is also the one-stop shop platform for imports of small consumer goods (up to EUR 150).

One stated intention of the ViDA proposal is to **expand the scope of** these **one-stop shops**, since in their current form, the OSS or IOSS do not provide an adequate solution or simplification for certain economic operators, mainly small and medium-sized enterprises, and thus generate additional administrative burdens for taxpayers because of the registration required in the Member States concerned.

The European Commission intends to implement these objectives gradually **between 2024 and 2028** according to the ViDA proposal. We believe the

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WTS Klient Newsflash – 2023 spring tax law amendments in Hungary

On 6 June the Government submitted to the Hungarian National Assembly the 2023 spring tax amendments. The 152-page document does not contain any substantive changes, most of the changes essentially lift rules already promulgated by government decree and applicable during the state of emergency to the level of laws, so they will continue to apply after the state of emergency has passed. The latest WTS Klient Newsflash gives you an overview of the most important points of the spring tax law amendments: WTS Klient Newsflash – Spring tax law amendments

Commission is on the right track: digitalisation and reducing administration are very important criteria, and implementing the proposals could indeed be effective in ensuring secure tax collection and reducing the VAT gap. The detailed rules are still being worked out, but we hope that the end result will be a truly modern VAT system with forward-looking solutions.

What does the ViDA proposal imply for Hungary?

There are also some questions on the Hungarian side. For example, what will happen to the Hungarian online invoice data reporting? Can it stay, or must the common regime be applied to domestic transactions? Or, with the EU's transaction reporting system will the NAV's dream finally come true and will it be able to prepare taxpayers' VAT returns merged with reported domestic invoice data? (Third country items will still be missing of course.) These are all questions for the future. Of course, as soon as we have something to share, we'll summarise the main points for you.

Value added tax consulting

The VAT experts at WTS Klient Hungary with their decades of professional experience can effectively support their clients not only with Hungarian but also international VAT regulation. Do not hesitate to contact us if your company is involved in international, intra-EU transactions, and you have questions about what changes you need to prepare for under the new rules.

Our expert

Tamás László
Senior Manager | Tax Consulting
Mobile: +36 20 362 7492

Areas of Expertise

- tax advisory in all tax types
- value added tax planning
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- preparation and reviews of transfer pricing documentation
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The latest WTS Global Newsletters have been released

Insights on international corporate tax and mergers & acquisitions from all over the world

The WTS Global International Corporate Tax Newsletter #2/2023 focuses on changes in international tax law and country-specific tax law developments with respect to cross-border transactions in ten countries, including Hungary. You can download the newsletter in PDF format here: WTS Global ICT Newsletter #2/2023

The second edition of the WTS Global Mergers & Acquisitions Newsletter presents updates from nine countries – Austria, Belgium, China, India, Nigeria, Poland, Switzerland, United Arab Emirates and the United Kingdom – with a focus on the international M&A industry. The newsletter is available in PDF format here: WTS Global M&A Newsletter #2/2023

Social contribution tax on savings on the way!

Private individuals will have to pay new charge in addition to 15% personal income tax

Author: **Réka Kiss**
reka.kiss@wtsklient.hu

Overnight on 31 May, a government decree was published in the Hungarian Gazette imposing a **13% social contribution tax on income from private savings, on top of the current 15% personal income tax**. The social contribution tax on savings in Government Decree 205/2023 is currently payable during the period of the state of emergency declared due to the armed conflict in Ukraine, but its future is still up in the air.

According to the government decree entering into force on 1 July, natural persons have to pay social contribution tax on the part of the interest income under Section 65 of the Personal Income Tax Act – with the exception of interest income from real estate fund units – that is taken into account as the basis for personal income tax on interest income.

What was the situation so far?

Previously, there were several types of taxable income on which no social contribution tax was payable. These included interest income, which is now subject to a 13% social contribution tax, or income from controlled capital market transactions and crypto currency income, which will continue to be taxed at just 15%. As a general rule determined several years ago, the tax liability on returns from securities held in a long-term investment account is lowered from 15% to 10% after three years, and to 0% after five years, meaning that after a certain time there was no tax liability at all, and under the new rules, no social contribution tax liability will be imposed on this income either. The same applies to long term pension saving accounts.

Who is affected by the new social contribution tax on savings?

The new social contribution tax on savings will mainly affect Hungarian individuals, and foreigners who are Hungarian tax residents. The government decree **does not apply to companies**.

What is it paid for?

The social contribution tax on savings is payable on **deposits** with banks, interest on sums held on **current accounts**, on **bonds** if interest is paid on them, and on **the return from insurance settlements, so** on **almost every type of interest income**.

What is it not paid for?

There will be no social contribution tax on savings in the case of **government bonds**, and the **returns from real estate funds** will not be subject to the 13% tax either.

Interest on **member loans** is treated differently from the above. The Personal Income Tax Act only includes cooperative member loans under taxable interest income. If a Hungarian company has extended a member loan to its Hungarian owner and pays interest to the individual on it, this counts as earned income in respect of this relationship. By definition, it is not interest, so it does not fall under the scope of the Social Contribution Tax Act on this basis, but the details of the member relationship must be examined and personal income tax and social contribution tax must be accounted for accordingly.

When do you have to pay?

The government decree **enters into force from 1 July**, so if your money is sitting on a current account, you will have to pay the 13% extra tax on any interest earned on that current account after 1 July. For fixed-term deposits, the additional burden applies to deposits fixed after 30 June, and in the same way for securities, to interest on securities acquired after the decree enters into force, furthermore, to insurance settlements of insurance contracts concluded after the decree enters into force.

Tax consulting

Due to the nature of the tax changes brought in by this decree, and the lack of consultation and opinions given the swift decision process, there are still many uncertainties and unanswered questions surrounding the social contribution tax on savings. Our tax specialists, however, will be happy to provide more information to our clients and delve into the more complex tax situations. Feel free to contact us.

Our expert

Réka Kiss
Director | Tax Consulting
Mobile: +36 20 373 5735

Areas of Expertise

- tax advisory and tax planning in all tax types
- due diligence
- tax authority inspections
- preparation and reviews of transfer pricing documentation
- international taxation of foreign workers

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Should you have any questions regarding the above or any other professional issues, please do not hesitate to get in touch with your WTS adviser or use any of the contact details below.

Services of WTS Klient Hungary:

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WTS Klient Business Advisory Ltd.
Registered seat: H-1143 Budapest | Stefánia út 101-103. | Hungary
Company registration number: Cg.01-09-730729
Telephone: +36 1 887 3700
info@wtsklient.hu | wtsklient.hu