October 2023

WTS Klient Newsletter

People you can rely on.

Dear Readers,

Financial service professionals working with accounting rules and tax law are accustomed to the fact the only constant thing in their lives is change. WTS Klient staff are currently experiencing an even busier time than usual. Our days are spent working with constant change, renewal and development.

As we previously informed you, our company merged with Finacont Kft. this summer. Besides our many common values, identifying the differences and planning for operating uniformly in the future requires a lot of attention and effort. Given that we have little experience of organisational integration in our company's history to date, we are trying to manage this process with due care and diligence. The integration process is well underway, and we aim to be stronger and more unified in serving our clients going forward, while retaining the values and best solutions of both companies. We believe that by complementing each other well we will continue to provide our clients with the highest quality of service on an even wider scale.

At the heart of our slogan "People you can rely on" you find our staff, whose expertise you can certainly rely on. We want to provide them with even better working conditions, and so at the end of the summer we started renovating our more than 2,000 square metres of office space in Budapest. Our modern and comfortable office – best suited to 21st century working conditions – should be ready by the end of November at the latest, and we plan to move in together with our colleagues from Finacont.

We are proud of our tax advisers, who this year again achieved outstanding ratings in the ITR international ranking (see page 4).

We also want to keep our readers up to date. This is why I recommend the articles in our current newsletter to you, which cover both domestic and international trends, legislation and technological innovations.

Szabolcs Szeles
Senior Partner

Contents

New services at WTS Klient

Thanks to the merger with Finacont, the range of WTS Klient's services has been expanded. In addition to tax consulting, payroll, bookkeeping, financial-accounting advisory and business automation, we are also ready to operate our clients' HR administration and HR management functions with the assistance of a well-prepared HR team. We cover and supervise the whole employment process, from hiring/recruitment to payroll, and from HR administration to "exit interviews". Click here for more information about our new services!

Selecting a currency when starting a company

Gains from exchange differences can significantly increase tax liabilities

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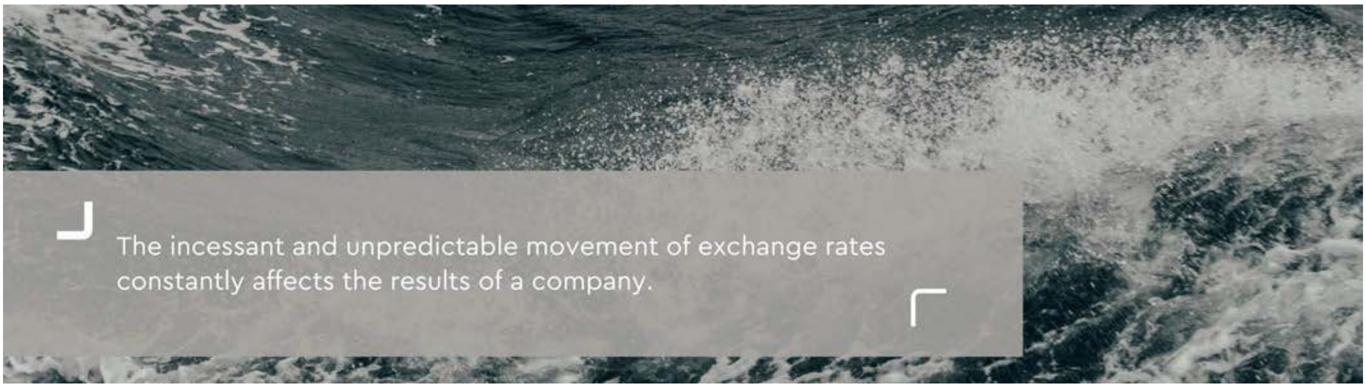

When setting up a business in Hungary, there are a number of issues that need to be clarified and then decided upon. In an earlier article we explored the obligations of start-ups, and now we take a closer look at the issue of selecting a currency.

Choosing exchange rates

If businesses have their **assets and liabilities in a currency other than their bookkeeping currency**, these **must be translated** into the currency of their choice **at a fixed exchange rate**, which then enables them to be recognised in the books. To this end they can choose the average of the buying and selling rates of a credit institution chosen by the company, or apply the official foreign exchange rate published by the National Bank of Hungary or the European Central Bank.

Eligible currencies

When setting up a business in Hungary, it is easy to think automatically of the Hungarian forint to keep your books in and fulfil your reporting obligations. But it is worthwhile considering whether this really is the best option for your company. Of course, you can choose to use the Hungarian forint. However, if it is deemed a more optimal solution, there is **nothing stopping you choosing the euro or US dollar**. This can happen, for example, if the parent company's accounts or most of the invoices received from partners are in a particular currency. In any case, selecting a currency requires careful consideration, as the next time it can be changed is for the third financial year following the decision, and the accounting policies and articles of association must be amended accordingly too. Although this change used to be only possible for the fifth financial year at the earliest, and has now been reduced to three years, it still means a lengthy period.

You can also decide to choose a **different currency** from the euro or the US dollar, but this **is subject to conditions**. This is possible if the currency of the company's primary business environment is not one of the above-mentioned currencies, and more than 25% of its income, costs and expenses, financial assets and liabilities are denominated in that currency.

In terms of selecting a currency it is also important to note that, as of 2019, the Hungarian Act on Accounting requires that **the currency used for reporting and accounting must be the same as the currency recorded in the articles of association**. Among other things, this means that the registered capital cannot be recorded in a currency other than the currency you later want to keep your books in.

Importance of selecting a currency

Essentially, choosing the right currency is not significant because of how you can review your accounting records, although this may be taken into account in the case of reporting in a different currency. What is much more important is the **effect of realised and unrealised exchange rate differences arising from transactions in other currencies**. The incessant and unpredictable movement of exchange rates constantly affects the results of a company. So if you know that the large and significant transactions of the company will mainly be in a particular currency, when selecting a currency you should aim to avoid any problems with this.

Let's look at what this might mean in concrete terms:

Accounting in Hungarian forints	
Value of supplier invoice	EUR 1,000,000
Exchange rate for accounting purposes	390 HUF/EUR
Amount booked in HUF	HUF 390,000,000
Exchange rate on settlement of invoice	375 HUF/EUR
HUF amount when settling invoice	HUF 375,000,000
Exchange gain accrued	HUF 15,000,000
Corporate tax on gain	HUF 1,350,000
Accounting in euros	
Value of supplier invoice	EUR 1,000,000
Exchange rate for accounting purposes	1
Amount booked in EUR	EUR 1,000,000
Exchange rate on settlement of invoice	1
EUR amount when settling invoice	EUR 1,000,000
Exchange gain accrued	HUF 0
Corporate tax on gain	HUF 0

In the case of accounting in Hungarian forints, income is booked based on the difference between the exchange rate when the invoice is recorded and the exchange rate when it is settled, which is included in the corporate tax base at the end of the year, thus increasing your tax liability. By contrast, in the case of euro accounting, no exchange rate difference had to be accounted for, so this has no impact on your result.

Of course, it is also possible for an exchange loss to arise upon settlement of the invoice, which reduces profit and hence the tax liability as an expense on financial transactions.

It is also worth noting the impact of the mandatory year-end revaluations, where all foreign currency items must be recorded in forints using the chosen exchange rate as of the reporting date of the financial year.

HUF bookkeeping – accounting for unrealised exchange differences				
Income	HUF 500,000,000	Value of foreign currency assets	EUR 641,026	HUF 250,000,000
Cost, expense	HUF 490,000,000	Value of foreign currency liabilities	EUR 273,973	HUF 100,000,000
Profit without unrealised loss	HUF 10,000,000	Year-end exchange rate	375 HUF/EUR	
Unrealised loss	HUF 12,355,000	Foreign currency assets after revaluation	EUR 641,026	HUF 240,385,000
Profit with unrealised loss	HUF -2,355,000	Foreign currency liabilities after revaluation	EUR 273,973	HUF 102,740,000
		Total unrealised loss		HUF 12,355,000

Our example shows how much of an impact gains from exchange rate differences can have on your company, as they **can significantly increase your tax liability**, but also, exchange differences can even **turn your profit into a loss**. This impact can be reduced by making the best choice for your company when selecting a currency.

Changing currency

If there is a change in the company's operations, or if it becomes clear **in the meantime** that the chosen currency is not the most optimal, **it is possible to switch** currency. We covered this in detail in an earlier publication.

Support with changing to a foreign currency

Since selecting a currency and switching currencies are complex processes comprising accounting, tax, legal and IT challenges, it is advisable to do your research and ask for help as to what really is the best solution for your company. Do not hesitate to contact our financial and accounting advisers, they will be happy to help.

Our expert

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Areas of Expertise
- accounting
- accounting advisory

New WTS Klient experts at the top of the ITR ranking

Besides retaining existing rankings, we now have two new tax advisers rubbing shoulders with the best

The top of the ITR ranking features Zoltán Cseri and Tamás László, two senior managers at WTS Klient, who are rated as "Rising stars" in the indirect tax category of the World Tax Leaders 2024 list. As in previous years, senior partner Tamás Gyányi was once again awarded the title of "Highly regarded". In the ranking of tax and transfer pricing advisory firms, WTS Klient, led by division partner András Szadai, retained its rating of excellent.

Read our article on the results!

Software robots

Ever-evolving intelligence and expanding areas of

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Software robots are revolutionary developments. Blending information technology and artificial intelligence they have been developed to automate and optimise various activities and processes. These robots can perform human tasks on servers or user machines thanks to their ability to be **programmed and configured**, and they work quickly, efficiently and reliably. Their fields of application are wide-ranging: from administration to healthcare, from finance to manufacturing.

Software robots in the business world

In business, software robots exert a significant impact on efficiency and costs. Robots can perform **repetitive and routine tasks** – such as entering data or processing documents – much faster and more accurately than human workers. Meanwhile, the **intelligence** of software robots is **constantly evolving**. Machine learning and artificial intelligence algorithms enable them to adapt to new situations and circumstances. This allows them to efficiently perform tasks other than basic programming, which contributes to the flexibility and scalability of the system.

Using software robots not only **reduces the potential for error**, it also **frees up human resources** to focus on higher-level tasks that require creativity and critical thinking. As previously mentioned in an interview by Zoltán Lambert of WTS Klient Hungary with the Hungarian online financial journal Portfolio (available in Hungarian here), automation will reduce the need for junior employees who used to handle data entry. At the same time, the senior staff will be given an expanded role and analytical function in the business world of the future. The basic work will involve transferring databases between systems, and the jobs that were previously linked to data recording will be transformed into business informatics.

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The latest WTS Global VAT Newsletter has been released

The #2/2023 edition of the WTS Global VAT Newsletter wants to share with you insights on the latest developments in terms of VAT and GST in six countries: Germany, the Netherlands, Poland, Spain, China and Switzerland. You can download the newsletter in PDF format here: WTS Global VAT Newsletter #2/2023

Challenges

However, the introduction and use of software robots can be challenging. In addition to staff having to **learn new skills** and adapt to change during the transition, **data security** and **privacy** are also important considerations, as robots can work with sensitive information from companies.

Software robots are ultimately reshaping the future of work. While some worry about job losses, others see new opportunities in human-robot collaboration. The key is to properly manage and integrate this new technology into our daily lives and the business environment, so that we can harness its potential for **efficiency and innovation**.

Digital business administration solutions, process optimisation

The Business Automation division of WTS Klient pays great attention to understanding and applying new technologies. Since the use of software robots in our field is becoming more and more prominent, the trends and opportunities in this area deserve special attention. As with all innovations, we first test these systems on our internal processes and then share our experience with interested clients.

Our expert

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Areas of Expertise

- business process automation
- ERP system integration
- implementation of IT developments
- IT consultation
- fraud examination

The latest WTS Global TP and FS Newsletters have been released

Insights on transfer pricing and financial services from all over the world

In the first edition of the WTS Global Transfer Pricing Newsletter in 2023 WTS experts from 13 countries provided an update on recently introduced legislations and cases. Apart from the country-specific TP topics, the Transfer Pricing Digital Team in Germany explores the opportunities of utilising data analytics tools like Alteryx and visualisation platforms such as PowerBI to enhance transfer pricing documentation projects. The newsletter is available in PDF format here: WTS Global TP Newsletter #1/2023

The latest WTS Global Financial Services Newsletter presents taxation related news from seven countries with focus on the international financial services industry. You can download the newsletter in PDF format here:
WTS Global Financial Services Newsletter #2/2023

Social security status of third-country workers in Hungary

Benefits depend on given agreement

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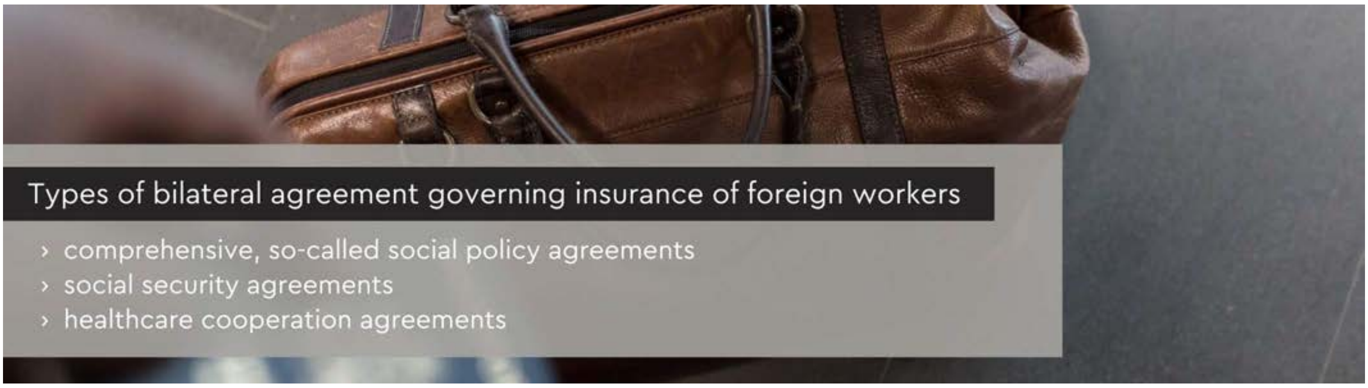

We have already written a lot about the taxation, social security and labour law issues of foreign workers, and we deal with expat employees on a daily basis in our work. In the case of posted workers from **European Union** countries, Hungary, just like other Member States, must apply the **coordination regulation** on the coordination of social security systems, as well as the relevant implementing regulation. This is the basis for the workers' social security status.

However, employees frequently arrive to work in Hungary from outside the European Union, from a third country. In terms of social security, **third countries** include **states not falling under the scope of the bilateral social security convention** between the European Economic Area and Hungary.

Legal status of third-country workers as a general rule

Third-country workers **as a rule become insured in Hungary** based on their employment concluded with the Hungarian host company (provided there is no social security agreement with the given country and the employee is not on a posting from a third country), so their social security status is identical to that of employees in Hungarian employment relationships. This means that third-country nationals are subject to the same rights and obligations as Hungarian citizens, i.e. the employer deducts **18.5%** from the insured person's income underlying their personal income tax advances, and pays **13% social contribution tax**. In return, the third-country workers are entitled to healthcare services, and after a certain number of years in employment, to pension benefits.

In practice though, it is difficult to decide how to treat third-country workers in Hungary from an insurance point of view. Hungary has bilateral agreements with many countries outside the European Economic Area in the fields of social policy, healthcare cooperation and social security. These agreements can be divided into different groups depending on the benefits available to the third-country nationals working in Hungary.

The three categories of agreements are:

- comprehensive, so-called social policy agreements
- social security agreements
- healthcare cooperation agreements

Social policy agreements

Comprehensive, social policy agreements state that all monetary and non-monetary benefits are provided by the competent body of the country in which the given **worker has their permanent address**, in accordance with that country's own legislation. Hungary has such agreements with the former Yugoslavia (Macedonia, Kosovo) and the former Soviet Union (Russia, Ukraine). However, there are also some differences between these social policy agreements.

For example, if the employee is a Ukrainian citizen, has permanent residence in Hungary and provides credible evidence that they have ceased to be resident in the third country, they will be treated as if they were a Hungarian employee, i.e. the normal individual contributions and taxes will be deducted. This person will therefore be insured, and may be entitled to Hungarian cash benefits if gainfully employed. That said, **if they keep a permanent address**

in Ukraine, they will not receive these **benefits in Hungary**. In this case, the authority assesses and pays the cash benefit to the third-country worker in the country they come from, because that is where they have their permanent address. They cannot apply for a social security number in Hungary, so they are not entitled to in-kind benefits, and they can only use healthcare services by paying for them, except for emergency care, as they are insured in another country. In this case, the Hungarian employer does not pay social contributions either.

However, for a **worker coming from Macedonia**, the legislation provides for different insurance obligations. As a general rule, nationals of the two countries working or residing temporarily or permanently on each other's territory must be insured **in the country where the worker performs the activity that is the decisive factor** in terms of insurance. This shows that each agreement with a third country must be examined individually.

Social security agreements

Besides the comprehensive social policy agreements, Hungary has concluded **social security agreements** with a number of countries (e.g. USA, Mongolia, South Korea, Australia, India, Japan). These agreements are not comprehensive, they only lay down rules on benefits provided under social security frameworks (sickness and maternity benefits, accident benefits, retirement benefits) and unemployment benefits. The main criterion under such agreements is that the insurance obligation applies in the country **where the given person conducts their gainful activity**, even if the person concerned is a resident or the employer is based in the territory of the other state. For social security agreements, the obligation to pay contributions arises in the country where the work is carried out. Third-country workers are entitled to cash and in-kind benefits in the country where they work.

Healthcare cooperation agreements

The third group includes **healthcare cooperation agreements** (Angola, North Korea, Iraq). As their name suggests, these agreements provide free care for nationals of the contracting parties in the **event of acute illness or urgent medical intervention.**

With bilateral agreements (e.g. Albania, Australia, Bosnia, Canada, India, Japan, North Macedonia, Moldova, Montenegro, Russia, Serbia, South Korea, Turkey, and the United States of America), people from the countries concerned **may have a form that allows them to remain insured by the country they come from**. This means that in Hungary, they are not subject to either contributions or social contribution tax on their income.

Payroll

As our article shows, payroll for third-country workers requires special expertise. In addition to the rules described above, various circumstances can affect the payment of contributions by foreigners in Hungary, so each case must be examined individually. Our payroll experts are happy to help our clients navigate the maze of agreements and rules. Feel free to contact us.

Our expert

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Areas of Expertise

- payroll
- social security
- fringe benefit

Reporting obligation for digital platform operators

Will the tax authorities know about all online sales?

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A group of Hungarian taxpayers will have to prepare for a new type of data reporting this year. The taxpayers are digital platform operators, who must complete the due diligence procedures for the data reporting by 31 December, and comply with the first reporting obligation by 31 January next year.

DAC7 Directive

Member States had time until 31 December 2022 to transpose the provisions of the DAC7 Directive into their national law. Similarly to its predecessor, in Hungary the directive resulted in an obligation to report information to the tax authorities, and in this case the taxpayers are the digital platform operators.

Known as DAC7 (2023/514/EU), the amendment to Directive 2011/16/EU on administrative cooperation in the field of taxation aims to prevent tax fraud, avoidance and evasion by businesses that offer their products or services on digital platforms, mainly in cross-border transactions.

Who is subject to the obligations?

The obligations included in the Hungarian legal system with the amendment of Act XXXVII of 2013 **increase the administrative burdens for digital platform operators.** (Similar to various other elements of the 2023 tax law amendments, this amendment took effect at the beginning of 2023.) Digital platform operators are organisations that provide sellers (including organisations and individuals) with platforms accessible to users (buyers). Whether we are talking about websites or applications, this can cover any platform that **allows for the establishment of a link between the seller and the user** for the direct or indirect performance of the so-called "relevant activity" for the users.

However, the reporting obligation does not extend to software that is used only for

- handling payments related to the relevant activity;
- users to display or advertise the relevant activity;
- redirecting or moving users to some platform.

Moreover, it is not only **Hungarian companies** that are subject to the obligation, but also **EU companies** that are registered in Hungary and have their permanent establishment and place of business in Hungary. In certain cases, **non-EU companies** can also be subject to the reporting obligation.

This means, for example, that in addition to a Hungarian company offering an online marketplace, well-known multinational platform operators such as Amazon, eBay, Booking.com or Airbnb must also report data to the authorities.

What needs to be done, and by when?

1. Registration

The platform operator must register with the tax authority **within 15 days** of becoming a platform operator subject to the reporting obligation. (The first registration deadline for existing digital platform operators was 15 February 2023.)

EU businesses that meet the above conditions must register with the Hungarian tax authority even if they choose to report their data in another Member State.

2. Due diligence

The due diligence tasks include obtaining and verifying the details of the selling individual or organisation (e.g. checking tax number), establishing their domicile, and in the case of a property rental, obtaining information about the property. The due diligence procedures required for reporting the data must be completed by the end of the reporting period, by **31 December**.

3. Keeping records

Records of the due diligence and reporting arrangements as well as of the underlying information **shall be kept and retained for a period of ten years**.

4. Data reporting

The data must be reported once a year, for one calendar year, but on a quarterly basis, by **31 January** of the following year. **The first reporting deadline** for 2023 is **31 January 2024**.

What has to be reported?

In specific cases, the data must be provided for the following relevant activities carried out for consideration:

- the rental of immovable property, including both residential and commercial property, as well as any other immovable property and parking spaces;
- personal services;
- the sale of goods;
- the rental of any mode of transport.

However, exemptions are possible, among others, for sellers to whom digital platform operators have facilitated less than 30 sales of goods for less than EUR 2,000, or facilitated more than 2,000 relevant activities by means of the rental of immovable property.

In addition to a range of information on the sellers, the reporting must also include the **number of transactions**, the **amount of consideration**, and where applicable, the **bank account** used.

Penalties

If the digital platform operators fail to fulfil their registration, change notification, data reporting and record-keeping obligations, or fulfil them late, incorrectly, with untrue content or incompletely, the tax authority may impose a default penalty of up to HUF 2 million.

What do the tax authorities use the information from the digital platform operators for?

Reporting is the responsibility of digital platform operators, but sellers should also be aware of the potential tax inspection implications. This is because Member States use the data to exchange tax information in order to support the controls carried out by the authorities of each Member State.

With the proliferation of online sales platforms, cross-border services and product sales have become easy for all businesses to carry out, but at the same time, these transactions have often provided a breeding ground for aggressive tax planning. If the tax authorities have uniform information from platform providers at a European level, it will be easier for them to assess – in the context of local risk assessment procedures – the likelihood that a foreign person or organisation will incur a tax liability in their country for a business activity, be it VAT (see: distance selling) or income tax.

Tax reviews and compliance works

From the perspective of digital platform operators, the new reporting obligations require caution given the detailed rules and the numerous deadlines. A foreign seller also needs to assess exactly what tax obligations their cross-border activity entails. Whichever side you are on, if you need assistance with the related compliance work, our tax department will be happy to assist you.

Our expert

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Areas of Expertise

- compliance, preparation of tax returns in all taxes
- VAT-registration of foreign companies and related tax consulting
- transfer pricing, preparation of transfer pricing documentation
- tax advisory related to international postings

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 adviser or use any of the contact details below.

Services of WTS Klient Hungary:

- Tax consulting
- Financial & accounting advisory
- Accounting
- Payroll
- IT / Business Automation
- HR services

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