December 2023

WTS Klient Newsletter

People you can rely on.

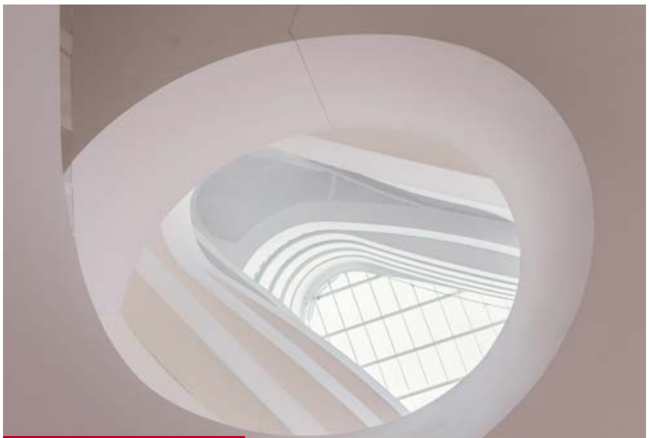
Dear Readers,

We've often mentioned how busy the current period is, and how much change and renewal are underway at WTS Klient. We don't want to be like the boy who cried wolf in the fairy tale, but nevertheless, we have to say that what is happening to us as we head into 2024 is truly unprecedented. I don't know when a company comes of age, but for us, this year's celebration of a quarter century is like a giant leap into dizzying, roaring adulthood. A dynamic period of organic development, but slow and quiet compared to now, has ended, and with the WTS Klient – Finacont merger we have suddenly grown. Our revenue is ploughing towards HUF 4.5 billion, and our staff number 280.

At our 25th birthday reception recently, we were finally able to show our cherished clients our new and modern office, now expanded to 2500 square metres. In addition to multimedia meeting rooms, this is where we can now also conduct online meetings from soundproof phone booths for two people, where colleagues completely at home with their hybrid working arrangements can work in spacious open offices, at adjustable desks suitable for both standing and sitting, where they can discuss professional matters (too) sitting in armchairs at the coffee points, and where everything suggests that working here is fun. We want the people previously working at Finacont to know and feel how good it is to be part of WTS, and we want our clients who were previously with Finacont to know that their accounting, payroll and tax affairs are still in good hands. In fact, together they are in better hands.

In the last newsletter of this year, we cover accounting and taxation as well as payroll topics. And as is tradition, early next year we will provide our clients with a free webinar summarising the most important tax changes, which you have already been able to read about in the latest WTS Klient Newsflash. In the meantime, we wish you a very Merry Christmas and a cosy holiday season!

Zoltán Lambert
Managing Patner



Contents

WTS Klient turned 25

Photo: Szabolcs Németh

On 30 November WTS Klient celebrated its quarter-century anniversary and its merger with Finacont in the StefániaPark Office Building. More than 100 of our clients participated in the event, and we cut the 150-slice cake together with our founders and first clients.

Introducing new accounting software – the accountant's perspective

What to look out for when rolling out a new system?

Author: **Veronika Hilovszky**
veronika.hilovszky@wtsklient.hu

The time comes in the life of every company when tried-and-tested accounting software loved and known by the accountant needs to be replaced by another one to meet the changing needs of the business. The time and energy invested in implementing new accounting software pays off in the long run, but the implementation process itself can be very stressful.

In this article I present an example where the company's accounting is based not only on Hungarian legislation (HU GAAP), but also on US laws (US GAAP). Since accounting under US GAAP rules may differ from the rules of HU GAAP both at the level of accounting policies and legislation, these differences must be integrated into the new system. I describe the circumstances of this process – as I have experienced them – in my article.

When to roll out new accounting software

I believe the new system should be introduced at a time when the accountant's life is relatively calmer. Starting something new always requires extra effort, and it can be advisable to take this into account when making your decision. Implementing new accounting software can equate to a year-end close, and the amount of energy required is influenced by the volume of work, daily tasks and other circumstances at the given company.

Consideration must also be given to **whether there is sufficient capacity to roll out the system, whether there are enough people** to take on this extra task alongside day-to-day activities, and whether all the needs of all parties can be taken into account.

Changing chart of accounts

When making the switch, you might rightly think that the primary accounting in the new software will still be done in accordance with Hungarian law, but that's not necessarily the case. In the current situation, the primary accounting is US GAAP accounting which meant a corresponding chart of accounts. The HU GAAP general ledger numbers had to be assigned to these general ledger numbers, and any new ledger numbers had to be added in the new system. In preparation for this, a number of reconciliations were previously made to ensure **the same kind of HU GAAP ledger numbers were opened in accordance with the same kind of US GAAP ledger numbers**. However, it still happened, for example, that a payroll-type Hungarian general ledger account was opened as a service account under US GAAP, and the balance of the account had to be transferred to the appropriate place under Hungarian law.

Content of general ledger numbers

Despite the many preparations for reconciling the general ledger figures, **differences based on the various laws and accounting policies** still arose during the accounting process, which we were only able to deal with when they emerged. One such difference was the threshold for capitalising tangible assets. While capitalising tangible assets in the US GAAP general ledger only became relevant – in our case – for assets of USD 5,000 or more, in the HU GAAP general ledger all tangible assets must be capitalised, regardless of the threshold. It is also interesting to note that the tangible assets not capitalised under US GAAP are **booked on the profit and loss side of the general ledger, not among work-in-progress, as is common under HU GAAP**. The risk here is that if the accountant is not attentive enough, the tangible asset will be included under retained earnings on the HU GAAP side in the following year, which is very difficult to correct.

A similar example is the widely known deferred tax which is not a concept used in Hungarian law, but is applied in US GAAP, and as such, it has to be accounted for. In this case, it may be advisable to ensure – if possible – that this item cannot be recognised in the HU GAAP general ledger, or that it is adjusted by this amount no later than at the end of the year.

Integration of general ledgers into the new system – opening

In this case, the opening date was 1 July, so the new accounting software was introduced during the year. The balance of each general ledger number was opened under the corresponding general ledger number in the new system, based on HU GAAP. By comparison, **in the US GAAP general ledger, the profit and loss accounts were opened on the retained earnings ledger account**, which we had to take into account when eliminating the differences between the general ledgers at the year-end.

In addition, we had to check that the correct opening balance was entered in the system for the right general ledger number, and at the correct amount.

General ledgers in different currencies

In this case, **the two ledgers had different currencies**. The US GAAP accounting currency was USD, and the HU GAAP accounting currency was HUF.

These differences occurred during the year-end revaluation, and when accounting foreign-currency bank balances at the end of the year. In this case, for example, the USD bank account is denominated in the accounting currency under US GAAP, so there is no need to calculate the exchange rate. By contrast, in the general ledger under HU GAAP, this counts as a foreign-currency bank account, and as such, in accordance with Hungarian law any incoming items must be recorded at the chosen exchange rate, while outgoing items must be recorded at the average exchange rate. The USD balance should match in both cases of course, but the HUF amounts may differ.

Tasks during the year-end close

Since two general ledgers had to be managed within the one system, **the year-end close was extended to include other activities that were not previously carried out**. The first step was to eliminate all items in the HU GAAP general ledger that were legally recorded under US GAAP but are not allowed under Hungarian law. Furthermore, any items treated differently owing to the different legislation and accounting policies (see: content of general ledger figures) had to be eliminated. When all this was done, the classic accounting close could begin.

Audit

During the year-end audit you have to be prepared for routine things perhaps not running so smoothly after the introduction of the new accounting software. The auditors will be given a completely new general ledger, which they also have to understand and put through their own systems. Examining opening balances is also an additional task for the audit that previously didn't have to be conducted. This can also increase the time needed for the audit, and thus the **deadlines prescribed by the company's internal policies may also need extended**.

Post-audit work

Once the audit is over, you can finally start to deal with the current financial year. Any issues that the auditor or the accountant finds during the audit **must be remedied in the next financial year**, in preparation for the smoothest possible close of that financial year.

Advantages of new accounting software

It is clear that implementing new accounting software takes a lot of preparation and energy, but **this investment will have its benefits**. From a work perspective, for example, you can omit reports that were previously needed, but now that both general ledgers are managed in one system and everyone has access to the data, these are no longer relevant.

And last but not least, it can represent huge professional development for the accountant too.

Accounting advisory

In this article we endeavoured to give you a flavour of implementing a new system, and to highlight the most important things. Many other issues can arise during a system implementation of course, as every company is different and every accountant is different, so there is no one-size-fits-all solution to prepare for such an event. It follows from the above that differences between countries due to different legislation can cause minor surprises, which should be addressed by taking accounting advice before rolling out the new accounting software. Feel free to contact us.

Our expert

Veronika Hilovszky
Manager | Accounting
Mobile: +36 20 397 5254

Areas of Expertise
› accounting
› accounting advisory

The latest WTS Global Financial Services Newsletter has been released

Insights on financial services from all over the world

The third edition of WTS Global Financial Services Newsletter in 2023 presents taxation related news from ten countries – including Hungary – with focus on the international financial services industry. It covers a diverse range of FS tax topics, e.g. the new double tax treaty with impact on FS industry concerning Belgium and the Netherlands, the tax incentives rolled out to boost capital investments in China or the latest changes on rules of financial transaction tax in Hungary. You can download the newsletter in PDF format here: WTS Global Financial Services Newsletter #3/2023

Taxation of capital income from the USA from 2024

Legislator responds to termination of Hungarian-American tax treaty

Author: **Emese Balog**
emese.balog@wtsklient.hu

The taxation of capital income from the USA was not left unscathed by the US Treasury Department's announcement on 8 July 2022 terminating its 1979 double tax treaty with Hungary. The tax treaty previously drafted in 2010 did not enter into force, and no treaty relationship between the two states has otherwise been restored in recent years. This situation means that **from 1 January 2024**, none of the provisions of Hungary's tax treaty with the United States will be applicable, and **the countries will apply their own domestic rules for taxing income.** Avoiding double taxation will only be possible if these internal rules provide for it.

As part of the autumn tax law amendments, the **Hungarian legislators reacted to** what is an unfavourable situation in many respects. In this article, we will examine how the taxation of certain capital income from the USA will change, or more precisely remain unchanged, from the Hungarian perspective as a result of the amendment to the Personal Income Tax (PIT) Act.

Capital gain or regulated market transaction? The distinction matters.

If the previous PIT rules were to remain unchanged from 2024, the preferential tax rules (net income assessment, tax equalisation) would not be applicable to the taxation of capital gains transactions previously deemed regulated market transactions, and a (limited) social contribution tax liability could arise. **A transaction may still be construed a regulated market transaction** from 1 January 2024 and thus subject to the preferential tax rules if entered into with the assistance of an investment service provider in the US conducting money market activity.

Interest is still interest

Until the end of 2023, interest paid from a state with which Hungary does not have a tax treaty in force is considered other income. This means that if the rules were to remain unchanged from 2024, then in terms of capital income from the USA, besides personal income tax, interest income would be subject to (an unlimited) social contribution tax liability with a tax base adjusted to 89%. The relevant provision is to change from 2024 as follows, given the absence of the treaty with the USA: the **rules on other income do not apply to income from securities issued by a person with a registered office in an OECD Member State**, or to **interest paid by a person** with a registered office in an OECD Member State. So the rules on interest will continue to apply for interest paid from the United States. As written earlier, from 1 July 2023 and during the state of emergency, interest income is also subject to (an unlimited) social contribution tax payment.

Withholding tax and offsetting

However, the autumn tax law amendments cannot fully compensate for the adverse effects of the terminated treaty: **a new tax burden** could arise, US withholding tax (i.e. the tax imposed by the state where the income is earned). From 2024, Hungarian taxpayers may have to face a minimum additional tax burden of 30% on capital income from the USA.

Tax paid abroad may be offset against Hungarian tax liabilities when calculating Hungarian tax payments, but depending on the type of income, a minimum 5% PIT liability will have to be taken into account in addition to any social contribution tax liability. One important change is that from 2024, the offsetting rule will essentially only apply under the Hungarian definitions, to the tax on foreign-source income according to the place it is earned.

Let us consider the change in the taxation of US-source dividend income as an example. Until now, the treaty meant the withholding tax deductible from the income was capped at 15%. However, without the treaty, this **limit** will **no longer apply** from 2024. In addition to the US withholding tax, a minimum 5% Hungarian personal income tax liability may also arise after the US withholding tax is offset, in addition to a (limited) social contribution tax.

Social security agreement remains in force

Interestingly, the termination of the tax treaty **does not affect the provisions of the social security agreement** with the United States. Although our article mostly focuses on changes to the taxation of capital income from the USA, the taxation of income subject to consolidation may also change significantly from 1 January 2024. For example, the tax affairs of expatriates on postings to or from the United States may be affected, as well as securities benefit schemes. It is important to note that under the Personal Income Tax Act, a different offsetting rule from that outlined above must be applied in these cases to avoid double taxation. It is therefore worth reassessing all international transactions and the tax consequences of these transactions by carefully analysing Hungarian and other national legislation.

Tax planning and consulting based on international and Hungarian standards

If your company has any US interests, you should definitely review and re-evaluate your international transactions and their tax implications. Our experts have significant experience both in double taxation issues affecting companies and in the taxation of capital income from the USA, and they are here to help our clients map out how the termination of the Hungarian-American tax treaty may affect them.

Our expert

Emese Balog
Manager | Tax Consulting
Mobile: +36 20 568 3081

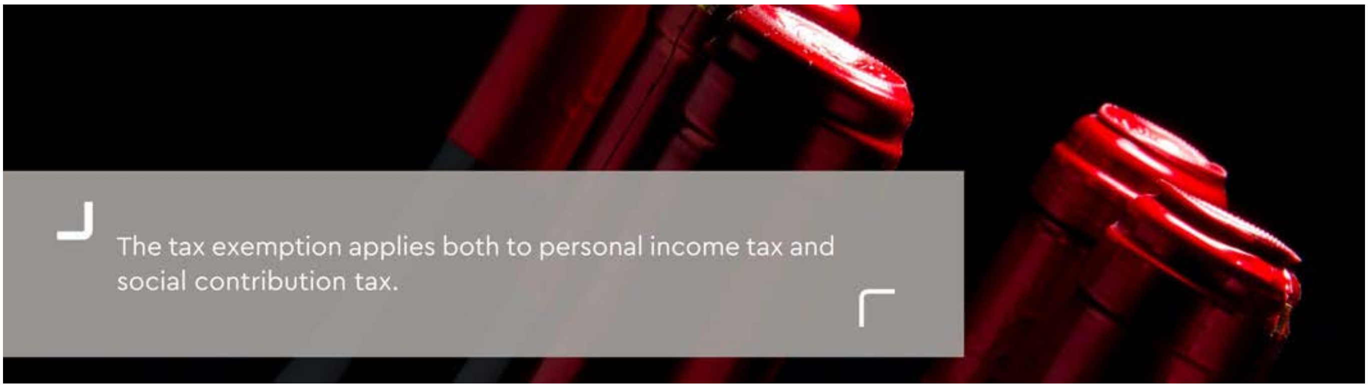
Areas of Expertise

- international taxation of foreign workers
- compliance, preparation of tax returns in all taxes
- VAT-registration of foreign companies and related tax consulting

Tax-free gifts of wine products

New rule applies from mid-November, but subject to conditions

Author: **Gábor Kis**
gabor.kis@finacont.com



As already mentioned in our summary of the autumn tax law amendments, a government decree entered into force in Hungary on 16 November (enacted in law on 30 November) exempting certain wine products from tax as a non-cash benefit. However, the tax exemption is only available under certain conditions.

What qualifies as wine products given as business gifts?

According to the current Hungarian legislation, under Section 70 of Act CXVII of 1995 on Personal Income Tax, income determined in the fiscal year based on the **provision of entertainment and business gifts falls into the category of other benefits**, with the proviso that tax-free benefits under the provisions of the same legislation are to be disregarded when assessing said income.

Other benefits currently include:

- **taxable income received** once a year **by way of a low-value gift** (a low-value gift is a gift of goods or services worth less than 10% of the minimum wage), as documented;
- taxable income provided by means of free or discounted goods or services to which **several individuals are entitled at the same time, and the payer, despite acting in good faith, is unable to determine the income earned by each individual;**
- expenses incurred by the payer (including expenses for gifts given to participants at such events, provided that the individual value of the gift does not exceed 25% of the minimum wage per person) **in connection with a free or discounted event** organised for multiple individuals (including business partners) at the same time (if the event or function is predominantly hospitality or a leisure activity, as determined by the circumstances of the benefit).

However, **based on Government Decree 451/2023 (X.4)** on the rules applicable in the state of emergency to the taxation of other benefits, which **entered into force on 16 November**, certain wine products can now be gifted tax-free in Hungary. This means that these **wine products** will no longer be subject to 15% personal income tax and 13% social contribution tax on 1.18 times the value of the benefit, as an other benefit.

What wine products can be given tax-free?

As a result of the rule change, the following are exempt from tax in Hungary under Section 9 (1) of Act CLXIII of 2020 on Viticulture and the Wine Industry (hereinafter: Wine Act): **wine products**

- **from the winery licence holder that initiated their placing on the market**
- **purchased in bottles,**
- **with a protected designation of origin or protected geographical indication,**
- **in accordance with Section 1 (3) of the Wine Act**

in the context of hospitality for entertainment and non-entertainment purposes, furthermore as a business gift or a low-value gift.

The exempted **wine products** are **grapevine products** listed in Part II of Annex VII to Regulation (EU) No 1308/2013 of the European Parliament and of the Council. This document defines the categories of grapevine products in 17 points.

Accordingly, grapevine products include, among others:

- wine;
- new wine still in fermentation;
- liqueur wine;
- sparkling wine;
- quality sparkling wine;
- aerated sparkling wine;
- semi-sparkling wine;
- aerated semi-sparkling wine;
- grape must, etc.

Other conditions of tax exemption

The tax exemption applies only to the free supply of wine products obtained by the payer/beneficiary directly from the winery licence holder, i.e. directly from the winery or from the winery's own distributors, and which are purchased in bottles and labelled in accordance with the rules.

Purchases in other commercial transactions, such as drinks bought in shops or served in restaurants, are **not tax-exempt**.

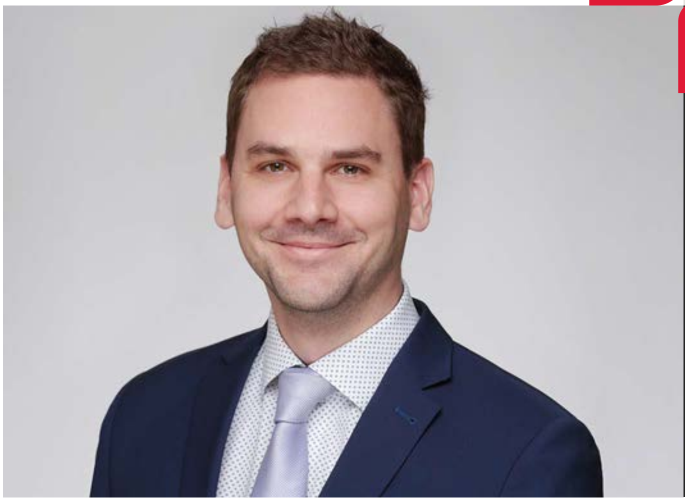
The tax exemption applies both to personal income tax and social contribution tax.

What is useful to know, however, is that if an individual receives income as consideration for an independent or non-independent activity carried out by them or by another person, the rule on non-taxable income, on fringe benefits and on other income will still not apply for the purposes of assessing their tax liability. It follows, for example, that year-end bonuses cannot be exchanged for a tax-free gift package from a winery.

And for example, if wine is served on the spot to the participants of a wine tasting in the cellar of a winery, this can be exempt from tax without any limit. However, wine products as a low-value gift may only be claimed once a year by a given individual, provided that the individual has not received a low-value gift in any other form from the payer during the fiscal year, and can provide documentation to prove this.

Tax consulting

If you have any questions about the tax rules on gifts of wine products or any other aspects of the autumn tax law amendments in Hungary, please contact the tax experts of WTS Klient Hungary who will be happy to assist you.



Our expert

András Szadai
Partner | Tax Consulting
andras.szadai@wtsklient.hu
Mobile: +36 20 596 0017

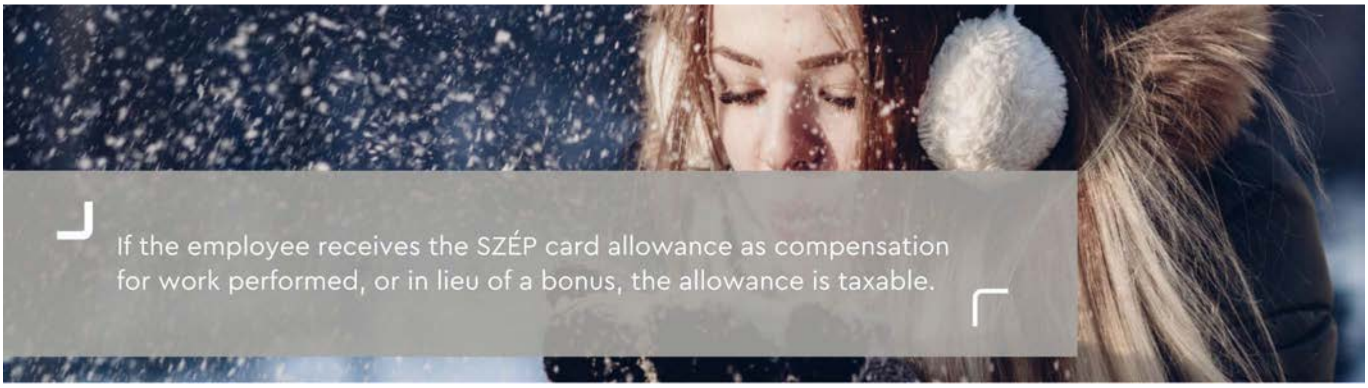
Areas of Expertise

- transfer pricing, preparation of transfer pricing documentation
- preparation of tax returns in all taxes
- VAT-registration of foreign companies and related tax consulting
- international taxation of foreign workers
- representation of companies during tax inspections
- project management

Minimum wage already increased from December

Important mid-year changes in payroll

Authors: **Viktória Kocsy, Eszter Balogh**
viktoria.kocsy@wtsklient.hu
eszter.balogh@wtsklient.hu



Both employers and employees will have to prepare for some major changes next year in Hungary. However, unlike in previous years, some of the rules on the minimum wage and the guaranteed wage minimum must already be applied this year, and it's also worth noting that some of the benefits will not be continuing next year. There will also be a new form.

Minimum wage

Breaking with tradition, this year the decision to raise the minimum wage and the guaranteed wage minimum was taken in November. The amounts and the detailed rules were set out by the government in Decree 508/2023 (XI.20).

It is important to know that this time the change will be applied in two stages. **The new minimum wage and the guaranteed wage minimum will be taken into account for the first time when determining wages due for the month of December.**

According to the government decree, the amounts are as follows:

The Hungarian minimum wage has increased to HUF 266,800 gross, while the guaranteed wage minimum is now HUF 326,000 gross.

One related change is the **tax payable on simplified employment**, since this rate is based on the minimum wage. The **minimum contribution threshold for employees** has also changed, and is now 30% of the minimum wage, so from 1 December the social security contribution and social contribution tax will be payable on HUF 80,040. **When assessing insurance** in the case of **contract work**, the increased minimum wage in force from 1 December will also be used to determine whether or not the individual becomes insured. If the income underlying the contributions for the given month reaches 30% of the minimum wage or, one-thirtieth of the minimum wage when broken down by calendar days, i.e. HUF 2,668, the contractor is obliged to register, declare, deduct and pay.

In other respects, such as with social security benefits, rehabilitation contribution, social contribution tax allowance, personal tax allowance or remote-working cost reimbursements, which are linked to the minimum wage, the change will be applicable in Hungary until January 2024.

Social contribution tax

An important change was also made during the year in relation to employer social contribution tax allowances, according to which, from 14 August 2023, a worker considered a third-country national does not qualify as a person entering the labour market. This means that the **labour market entrants' allowance may not be applied** for employees who are citizens of countries that do not fall under the scope of the bilateral social security convention between the European Economic Area and Hungary.

SZÉP card allowances

Under a government decree adopted this summer, employers were enabled to transfer **up to HUF 200,000** to their employees as a fringe benefit to a restricted payment account opened for SZÉP card allowances, on a **one-off basis between 1 August and 31 December 2023**, in addition to the HUF 450,000 annual recreational allowance. This type of one-off benefit is not prorated even for employees who do not have a full year of employment behind them. The same Government Decree 237/2023 also allowed employees **to use the money on their SZÉP cards to buy cold food** until 31 December.

It is important to note, however, that **if the employee receives the SZÉP card allowance as compensation for work performed, or in lieu of a bonus**, the favourable rules on fringe benefits and other benefits do not apply, and the allowance is **taxable** as employment income in Hungary.

Employment certificate

From 1 January 2024, upon terminating employment, the employer must issue an employment certificate to exiting employees, which combines the previous certificates issued upon the termination of **employment** into a single form. The employment certificate can be issued electronically, but the employee can also request a hard copy.

The employer must issue the employment certificate to the employee on the last working day if the employment is terminated by the employer, and otherwise within five working days of the termination of employment.

Payroll

In this article, we have highlighted only the most important mid-year changes to payroll accounting from those affecting the minimum wage and the guaranteed wage minimum, or other changes affecting employers and employees. Our payroll experts will be happy to provide you with more information on other benefits and legislation, and how they may be applied at your company. Please do not hesitate to contact us.

Our expert

Eszter Balogh
Partner | Acounting
Mobile: +36 30 964 4155

Areas of Expertise
- accounting
- IFRS
- accounting advisory
- payroll

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

You can request for our online offer by one single click:

Online offer >

You can sign up for our newsletter by one single click:

Sign up >

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