

WTS Klient Newsletter

People you can rely on.

Dear Readers,

We are now past the end-of-May filing of financial statements and corporate tax returns, a period we closed with a tropical cocktail party, in keeping with the tradition we started two years ago. There was much to celebrate too, since this year's reporting and corporate tax return period was not easier than in previous years. After lengthy preparation, WTS Legal Attorneys Association working closely with our firm, was established on 1 June under the WTS brand to round off our portfolio of accounting, payroll, tax and business advisory with a broad spectrum of legal services. Through our website you can now access (in Hungarian) the [Fiona invoice-management system](#), and on this website you will find eight new and excellent [experts](#) "inherited" from the former Finacont.



In the meantime, we continue to keep our clients and readers informed about the latest tax and legal changes and opportunities. Our accounting director, Anita Marinov has compiled a very thorough and detailed guide for the deferred tax reporting that is available to companies this year for the first time, and we give you a taste of this in the first article of our newsletter. The tax opportunities related to attending the European Football Championship and the Olympics – both feverishly popular around the world – are covered by our tax advisory director, Réka Kiss and János Németh, expert of WTS Klient Business Automation also helps you navigate through the difficult-to-understand issues of e-VAT that require a bit of IT knowledge. Anita Ritter, who recently joined the WTS Klient team of experts and is currently broadening her professional expertise at ICON, WTS Global's partner company in Linz, reports on a recent European Court of Justice case concerning foreign VAT reclaims.

We hope these topics will offer some useful reading for you, and we wish you a relaxing and enjoyable summer!

Tamás Gyányi
Senior Partner



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WTS Legal Attorneys Association is established

Under the name of WTS Legal, and led by the Nádasdy Law Office, the legal attorneys association cooperating closely with WTS Klient and WTS Global started its operations on 1 June 2024. With a team of 15 legal experts under the WTS brand, and located under the same roof as us in the StefániaPark Office Building, WTS Klient now also supports its clients with a wide range of legal services in all areas of financial consulting. Have a browse around the [WTS Legal website](#), and feel free to contact either them or us.

Deferred tax asset and liability in practice

Practical guide to applying the new option

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In one of our [previous articles](#) we presented the theory behind and the significance of one of the most important changes in the Act on Accounting this year, the introduction of deferred tax in Hungary, and what exactly a deferred tax asset or deferred tax liability is.

In addition to the [Newsflash we published on 3 May as a "quick help"](#), with this article we want to provide you with a practical guide with detailed examples and useful information if you want to reflect your company's future corporate tax position in your books and financial statements.

For such companies, the profit after tax is calculated from the profit before tax, tax payable and the reporting-year change in the deferred tax difference.

What does all this mean in practice?

This article focuses only on the differences between balance sheet figures under the Hungarian Act on Accounting and the carrying amounts (tax values) under the Corporate Tax Act, as well as on the resulting future tax effects. [International practice](#) may differ from this. In financial statements prepared under IFRS or some other national reporting framework, the tax effects should be explored based on the differences between Hungarian corporate tax rules and the international/group accounting rules.

It is important to stress that in Hungary, deferred tax is only relevant for corporate tax, since only this tax has a carry-over effect through items adjusting the tax base. The purpose of applying deferred tax is to determine the company's actual tax expense, i.e. to account for future tax effects in addition to the tax in the reporting period, as this may differ from the tax liability. This is based on distinguishing between the following three key concepts:

- > **Reporting-year tax:** amount of tax payable calculated based on the pre-tax profit for the given period, in accordance with the provisions of the tax legislation
- > **Deferred tax asset:** amount of income tax deductible in the future and reclaimable if certain conditions are met
- > **Deferred tax liability:** amount of income tax payable in the future based on taxable temporary differences

Initial steps

It is important that the decision to present deferred tax should be recorded in writing in the company's accounting policies. There are 90 days to do this.

The deferred tax system essentially comprises an assessment of the deferred tax effect of the current cumulative tax base adjustment items of assets and liabilities on the balance sheet. If an adjustment has no future tax impact, then the deferred tax effect does not need to be addressed. Only temporary differences reversing in the future have a deferred tax effect, where such may be a deferred tax asset or a deferred tax liability.

The **first step** in determining the deferred tax for a given financial year is to calculate the **opening deferred tax asset / tax liability**. This involves looking at previous years and **identifying temporary differences** – that will reverse in the future – between the carrying amounts of assets and liabilities in the balance sheet and their tax values. The value calculated using the effective tax rate will be the deferred tax asset or liability for the temporary differences.

Most common temporary differences:

- > Depreciation difference stemming from differences between accounting and corporate tax law
- > Impairment of receivables
- > Provisions
- > Development reserve
- > Loss carry forwards

Differences that do not reverse in the future increase the tax base in the year in which they arise. These are **permanent differences** (e.g. fines, dividends received), which only appear in the reporting-period tax and have **no deferred tax effect**.

Tax assets and tax liabilities from previous years, determined based on the practice described below, are presented on a net, consolidated basis. This **opening deferred tax must be recognised by the company against Retained earnings**. Since the deferred tax **asset or liability is deemed non-current**, the retained earnings will increase or decrease against the Deferred tax asset recognised under Fixed assets or the Deferred tax liability recognised under Long-term liabilities.

T 1 Deferred tax assets	K 413 Retained earnings	or
T 413 Retained earnings	K 4 Deferred tax liabilities	

Determining deferred tax asset and tax liability for given year

Once the opening figure has been determined and entered in the accounts, the next step is to determine the deferred tax for the financial year in question. One way of doing this is to explore the differences between the accounting balance sheet and the tax balance sheet. This method involves comparing the carrying amounts and tax values of individual assets and liabilities to calculate the amount of deferred tax.

The **cumulative difference** between the carrying amounts and tax values identified during the financial year, **calculated using the expected income tax rate** (effective tax rate) is the deferred tax asset or deferred tax liability, which is also **accounted for on a consolidated and net basis**. In doing so, **the opening values of the previous year must be taken into account**, since the deferred tax difference for the given year stems from the change in the opening deferred tax asset or liability. Hence, depending on whether positive or negative, the following accounting entries are possible:

T 1 Deferred tax assets	K 89 Deferred tax difference (±)
T 89 Deferred tax difference (±)	K 4 Deferred tax liabilities

Before booking year-end deferred tax differences in the form of expenses or income, you always have to check the opening figures. If the deferred tax asset or deferred tax liability from the previous year increases, you simply book the increase for the reporting year. However, if a deferred tax liability arises in the given financial year after a previous deferred tax asset, or vice versa, firstly the opening deferred tax asset or liability is reversed against the deferred tax difference, and then the deferred tax for the given year is recognised again. As an example, if a deferred tax liability arises in the given financial year following a deferred tax asset from the previous year, the following accounting treatment is required:

T 89 Deferred tax difference (±)	K 1 Deferred tax assets (Release of previous year's opening figure)
T 89 Deferred tax difference (±)	K 4 Deferred tax liabilities (Reporting-year liability)

If the carrying amount of the assets is lower than the tax value, then there is a deferred tax asset. If it is higher, a deferred tax liability arises. The reverse is true for liabilities. If the carrying amount of the liabilities is higher than the tax value, then there is a deferred tax asset. If it is lower, a deferred tax liability arises. The figure below illustrates the system well:

	Carrying amount < Tax value	Carrying amount > Tax value
Assets	Deferred tax assets	Deferred tax liabilities
Liabilities	Deferred tax liabilities	Deferred tax assets

In the extended online version of our article we use some examples to demonstrate how the deferred tax asset or liability evolves for the five most common temporary differences mentioned above. [Click here for the extended article with examples!](#)

Deferred tax asset and liability in financial statements

Carrying amounts of a deferred tax asset and deferred tax liability: the amount of the calculated deferred tax asset that is expected to be recovered in the subsequent financial year(s). For a deferred tax liability, the carrying amount is the same as the calculated deferred tax liability.

In terms of presentation in the financial statements, it is important to note that **both the balance sheet and income statement structures under the Act on Accounting have been expanded** with the following rows:

Balance sheet / Assets	A. Fixed assets	IV. Deferred tax assets
Balance sheet / Equity and liabilities	II. Long-term liabilities	10. Deferred tax liabilities
Income statement	X. Tax liability	X/1. Deferred tax liabilities (±)

An amendment affecting equity has also been introduced into the Act on Accounting on account of the deferred tax. Accordingly, the carrying amount of the deferred tax asset **must be transferred** from retained earnings to the **allocated reserve**, so the deferred tax asset caps the dividend payment.

Furthermore, any changes in deferred tax assets and liabilities **must be broken down by title in the supplementary notes**.

Accounting advisory

Should you have any questions on this topic, or need expert help in understanding how deferred tax can be applied, calculated and managed at your company, please do not hesitate to contact the accounting advisers at WTS Klient Hungary.



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Areas of Expertise

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- > IFRS
- > accounting advisory

Plastic Taxation in Europe 2024: an updated survey has been released

Across the EU, Member States have implemented significant updates to plastic taxes and levies in recent years. From 2023 to 2024, several countries have introduced various measures, including new taxes, EPR systems and changes to existing regulations concerning single-use plastics and related products. The comprehensive WTS Global survey gives an overview of the current state of plastic taxation across 22 European countries, including Hungary. Download the publication in PDF format [here!](#)

Tickets for sporting events abroad from employers

Terms and conditions for free Euro 2024 and Olympics tickets

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Tax-free tickets can also be granted for Olympic sports events without Hungarian competitors and for the opening or closing ceremonies.

This summer's two main sporting events are the European Football Championship in Germany and the Olympic Games in Paris. However, the prices and availability of such high-profile tickets for sporting events abroad and the other travel costs are often too high for those who want to follow these matches and competitions live. One solution to this problem, which is also important for employer branding, is that **employers can offer free or discounted tickets or season tickets to their employees for events covered by the Act on Sports**. However, do these rules apply to tickets for sporting events abroad, i.e. to the two events mentioned above? This is what our article takes a closer look at.

Who can give such benefits and to what extent?

According to the Act on Personal Income Tax, an employer or paying agent may provide tax-free tickets or season tickets for sporting events covered by the Act on Sports to the same individual **up to the amount of the minimum wage per fiscal year**. This is not new, but before 2019 there was no limit on the value of such tickets and season tickets that could be given to employees. The minimum wage as the upper limit was introduced in 2019. However, the tax exemption is subject to strict conditions.

What tickets to sporting events abroad can be given tax-free?

The fact that a particular match takes place abroad is not a problem in itself since the tax exemption can be applied to tickets for sporting events abroad as well. However, as stated in the NAV information published on 5 April, **only the following benefits**

qualify for tax exemption under the Act on Personal Income Tax:

- › Tickets to sporting events abroad concerning matches **involving a Hungarian club team or the national team at a foreign venue**, as the relevant Hungarian association or sports organisation is involved in organising them;
- › Tickets for events which only have **foreign participants but are organised in Hungary**, since the relevant Hungarian association or sports organisation is involved in organising them;
- › Tickets or season tickets for a series of events or a match of a series of events in a competition which is **included in the calendar of the Hungarian association, involves a Hungarian individual or team**, but the Hungarian participant may not reach the level (e.g. the final, semi-finals) for which the tickets were purchased in advance.

According to the NAV, an employer can legally provide tickets for the matches of the European Football Championship to be held in Germany in 2024 and the events of the Paris Olympics up to the 2024 minimum wage, i.e. up to **HUF 266,800**, tax-free. Any Olympics event can be attended since it is a single competition covering many sports. In other words, it is not possible to stipulate that only events in which a Hungarian competitor or team will be competing are eligible events for the public. Consequently, tax-free tickets can also be granted **for Olympic sports events without Hungarian competitors and for the opening or closing ceremonies**.

Further conditions for tax exemption

As shown by this information from the NAV, it is important that the **employer or paying agent** buys the tickets and has an **invoice issued in their name**. If the ticket is purchased by an individual, an invoice must be requested in the name of the employer or paying agent.

However, if – for any reason – the purchase of digital tickets can only be invoiced in the name of the individual, the reimbursement of the digital ticket is considered a reimbursement of expenses, not an employer or payer benefit, and therefore does not qualify for the tax exemption. If the employer reimburses the price of a ticket purchased in this way, the amount paid will be taxable as employment income for the individual and as other income if paid for by a paying agent.

It is also good to know that free tickets cannot be converted into cash, and that **benefits given by the employer in excess of the minimum wage are taxable as wages**. **Paying travel or accommodation expenses** incurred in connection with tickets for sporting events abroad is also considered employment income given the legal relationship between the parties, which is subject to 15% personal income tax, social contribution tax and other contributions. Please also note that when attending a match during a business trip, mixing business with pleasure, it is risky to treat travel or accommodation expenses as tax-free benefits.

Tax consulting

If you have any questions regarding tickets for sporting events abroad or any other benefits given by the employer, our tax experts are here to help.



Our expert

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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

E-VAT – what does M2M data exchange mean?

The benefits and conditions of machine-to-machine VAT returns

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The purpose of the M2M data exchange is to enable businesses with large volumes of data to fulfil their VAT return obligations efficiently and securely.

As [we reported on](#) earlier this year, from 1 January 2024 there are three possible ways to submit a VAT return in Hungary. You can still prepare form 65 through the ÁNYK system and submit it electronically, while the [e-VAT system](#) has also been introduced, offering taxpayers two submission methods: modifying and accepting the draft via a web interface, and access via a machine-to-machine connection, i.e. an M2M data exchange.

The e-VAT system

The e-VAT system is an **electronic VAT return system developed by the Hungarian tax authority (NAV)** to digitalise and simplify taxation processes. The system allows tax returns to be filed electronically, thereby reducing paper-based administration, tax errors and administrative burdens. Use of the system helps to ensure an accurate and up-to-date submission of tax data, thereby contributing towards the efficiency of the tax process. The rollout of the electronic system is also in line with the European Union's digital transformation efforts, which are summarised in the [EU's ViDA proposals](#).

Conditions and preparatory work

So using the e-VAT system is **not compulsory, it's an option, but before using it, taxpayers must have the right technical infrastructure in place, including the right software**. Preparation includes setting up the systems and training users. The first step for connecting to the system is to register and set up user rights. The NAV provides taxpayers with a range of support materials and guides to facilitate the transition to the electronic system. The system is constantly being improved and the NAV is regularly updating and improving the service based on user feedback.

The M2M data exchange

Of the two possible solutions for the e-VAT system, **submitting tax return data via a machine-to-machine (M2M) interface undoubtedly requires more technical and software preparation work**. With the M2M data exchange, the data is reported in the manner and with the data structure as published by the tax authority, and the connection

enables an automated data exchange between the taxpayer's systems and the NAV's system. The purpose of the M2M data exchange is to enable businesses with large volumes of data to fulfil their VAT return obligations efficiently and securely. And the automated data reporting further **reduces the possibility of human error** and allows for **faster data processing**. The technical implementation includes the use of APIs and data security protocols. The M2M data exchange also implies a software module that communicates with both the administration system and the NAV database, manages the data from these systems in an integrated way, and implements and manages the workflows required for the returns.

It follows from the above and from the NAV's information that during the M2M data exchange, the client-side administration system must also be able to handle the specific features of the e-VAT M2M system. This is why the NAV drafted development documentation, which is available to everyone on the GitHub development platform [here](#) (in Hungarian).

IT / Business Automation

Despite the help from the Hungarian tax authority, if you still get stuck using the M2M data exchange or have other questions about the e-VAT system, experts at the [IT / Business Automation division](#) of WTS Klient Hungary will be happy to help. Please do not hesitate to contact us.



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VAT refund application – one-month deadline is not peremptory

Judgment of the European Court of Justice is in favour of taxpayers

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In the company's view the requirement that it cannot refer to new facts already in its possession in the course of an appeal constitutes a substantive restriction of the right of appeal.

Directive 2008/9/EC lays down detailed rules for the refund of value added tax, provided for in Directive 2006/112/EC, to taxable persons not established in the Member State of refund but in another Member State. These allow one month to provide missing information for an incomplete VAT refund application. But what if this happens only later on, during an appeal process? The **European Court of Justice ruled on** such a case on 16 May 2024, and we take a look at it in this article.

Consequences of incomplete VAT refund application

If the Hungarian **tax authority** is unable to make a well-founded decision based on information available to it regarding a VAT refund application submitted by a taxable person not established in Hungary, it **can request additional information or documents to fill in the gaps**. The deadline for providing this information is **one month**.

If the applicant fails to provide any information despite being requested to do so by the tax authority, they fail to meet this obligation. For lack of such information, the VAT refund application cannot be assessed, and the tax authority will terminate the VAT refund procedure.

In this case the applicant can appeal, but **in the procedure initiated based on an appeal, the applicant may not refer to new facts or evidence which they were aware of before the first-instance decision** – in the case of an inspection, before the expiry of the deadline for submitting comments – but did not present them or refer to them despite being called upon to do so by the tax authority.

Favourable decision regarding deadline for providing missing information

A company established in a Member State of the European Union submitted a VAT refund application to the Hungarian tax authority. The tax authority could not make a meaningful decision based on the information available to it, so it asked the company to provide some more information. The tax authority set a deadline of one month for doing so, as stipulated in the VAT Act.

The company did not send the documents to the tax authority by the deadline as required for the assessment of the application, so the tax authority terminated the procedure. The company appealed against the decision, and in doing so provided the tax authority with the documents it had previously asked for in the request for information.

The appeal was dismissed by the second-instance authority given that the applicant had referred to evidence that was already available to it before the first-instance decision, but which it had not produced when requested to do so by the authority.

The company subsequently filed an action with the Budapest-Capital Regional Court because in its view, the requirement that it cannot refer to new facts and evidence already in its possession in the course of an appeal constitutes a substantive restriction of the right of appeal, and in its opinion this does not apply in the VAT refund procedure. In those circumstances, the Budapest-Capital Regional Court decided to stay the proceedings and to refer the certain questions to the European Court of Justice for a preliminary ruling.

Judgment of European Court of Justice (C-746/22)

The Court found that it is **contrary to the principles of VAT neutrality and effectiveness** if national legislation prohibits a taxable person submitting an application from providing information requested by the first-instance authority for the purposes of assessing the VAT refund application during any appeal to the second-instance authority, since **the one-month deadline is not a preceptory time limit**.

Generally speaking, where can a VAT refund application be submitted and until when?

For Member States of the European Union, a VAT refund application may be submitted in the Member State of establishment by 30 September of the year following the refund period.

We recommend that taxpayers established in Hungary and in EU Member States should abide by this deadline, and review the local regulations of each Member State regarding applications and the required documents to ensure that VAT refund procedures receive a positive outcome.

Value added tax consulting and compliance work

We are happy to help with submitting foreign VAT refund applications and the subsequent procedure for both domestic and foreign applications, and we are happy to provide further information on the detailed rules. Please do not hesitate to contact our VAT experts.



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Areas of Expertise

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

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.

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