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Accountants & business advisers

PKF TAX NEWSLETTER – March 2013

Our newsletter gives an overview on tax changes effective from 2013 that our readers may already find useful in the annual closing process.
In addition, we present the audit guidelines of the Tax authority (NAV) for 2013.

Should you have any questions related to the current newsletter, or any other tax-related issues, please feel free to contact us.

Headlines:

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- *Adjustments of the Accounting act*
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Changes in the local business tax base

The deductibility of cost of goods sold and intermediated services (hereafter: decreasing items) from the net revenue is restricted from 2013. The deductibility of subcontractors and material costs has not changed.

Please note that when the local business tax return for 2012 is prepared, the tax advance should be determined according to the new legislation.

The decreasing items will be deducted in the following way:

- up to 500m HUF net revenue: 100% of the decreasing items is deductible (no limitation to the deduction),
- between 500m and 20,000m HUF net revenue: decreasing items are deductible up to 85% of the net revenue,
- between 20,000m and 80,000m HUF net revenue: decreasing items are deductible up to 75% of the net revenue,
- above 80,000m HUF net revenue: decreasing items are deductible up to 70% of the net revenue.

In the case of related parties, the group has to determine the aggregated tax base first, and then it is divided between the related parties proportionate to their net revenue. Only those related companies are considered where the value of the decreasing items exceeds 50% of net revenue.

Adjustments the Accounting act

One of the most important modifications in the Accounting act is that the limit of major error has been changed: it is now the higher of the 2% of total asset and 1m HUF. Besides, there is no obligation to publish the annual report in the case of a significant error. The new legislation can already be applied to the financial year beginning in 2012.

In asset revaluation, a difference in market value can be deemed permanent and significant even if it has not yet been observed for one year but it is expected to be permanent (i.e. it is likely to be observed for more than one year).

Already in the financial years beginning in 2012, the unrealized exchange losses on current asset-credits can be accrued and they related provision can be created. The former legislation only allowed this in the case of loans connected with investments, and concessions and similar rights.

Simplified financial statements for micro enterprises

The new legislation allows the preparation of simplified financial statements for enterprises that are not audited and do not exceed at least two out of the following three indicators in two consecutive years:

- total asset: 100m HUF;
- net sales revenue: 200m HUF;
- average number of employee: 100 person.

The lines of the balance sheet and profit and loss statement of the simplified financial statements for micro enterprises are the same as those of the simplified annual financial statements, but it includes special supplementary information as well. Supplementary notes, management report and accounting policies need not be prepared. If the enterprise uses chart of accounts included in the Government Decree, the preparation of system of accounts is not compulsory either.

Suspension of the tax number for a definite period of time and its cancellation

A 180-day suspension period is introduced for taxpayers who do not fulfil their tax return reporting and tax payment liabilities within 365 days. If the failure is not corrected within 180 days from resolution about the suspension, the tax number will cancelled and the Tax authority will notify the Registry Court about it. The Court of registration will delete the company from the Registry within 15 days after the notification. It is possible to appeal against this decision, or the Court may reverse the procedure if the Tax authority revoked its resolution about the cancellation or a court cancelled it.

The audit guidelines of the Tax authority (NAV) for 2013

The main goal of NAV is – similarly to the previously years – to reach a larger taxpayer basis and to fight black and grey economy, with the application of new investigation tools.

At the selection of the audit targets, risky tax relations and risks related to the taxpayer's business cycle will be dominant factors. In order to focus on the current economic processes, shorter audited periods can be expected in the case of overall tax audits (1-3 years). The information from the detailed VAT reporting introduced from 2013 will also be used for the selection.

VAT will continue to be in the centre of attention of the audits, being the main source of income for the state. Companies subject to domestic reverse VAT and those trading with companies registered for a special VAT status are the most likely to be audited.

There is a larger emphasis on e-commerce, and the audit of transfer pricing documentation is still an important field, similarly to the previously years. Due to recent changes in the legislation, the correct carry-forward of losses and the tax credits for development and sport sponsorship will be audited in the field of corporate income tax.

The taxes overtaken by the Tax authority from the Customs administration (environmental protection fee, energy tax and public health product tax) will be subject to tax audits.

Besides the above, companies operating in the following fields can expect an increased level of audits:

- sugar, sweet wholesale,
- live animal and meat product wholesale,
- wholesale of electronics and computing tools,
- retail sale of second-hand goods in store,
- insurance agent, broker activity,
- HR services,
- retail of ornamental plants, seed, fertiliser.