Tax&Legal Highlights

Hungary

Regulatory changes pertaining to cross-border transactions

In this newsletter we have summarised the key details of the modifications adopted by European Council in December pertaining to the simplification of the cross-border supply of products and services.

On 5 December 2017 the European Council adopted the new regulation, which facilitates easier VAT compliance for companies engaged in the online, cross-border supply of products and services.

Electronic trading

One of the greatest achievements of the regulation is that it extends the system of MOSS (mini one-stop-shop) – which currently only applies to distant services – to distance product sales from 2021. This development may greatly reduce the administrative burden of companies supplying to other EU member states.

What is the current procedure?

Under the current regulation the supplier may decide whether to pay VAT according to the buyer's member state on the whole amount or only above the limit prescribed in the given member state (this is typically around EUR 35 thousand). For example, it could be reasonable for a Hungarian supplier to pay VAT at a rate lower than the Hungarian 27%, but several administrative costs are added to that while obtaining a VAT number in the given member state and meeting all the relevant administrative requirements. In the light of the above it is not sure that the other member state's VAT is a reasonable choice below the value limit.

What is the system like from our perspective?

Suppliers from the other member state may have a competitive advantage against Hungarian counterparts if they can offer lower prices using their own VAT rate in addition to the costs of supply. They are required to apply the Hungarian rate after exceeding the value limit (EUR 35 thousand), but in practice it is difficult to enforce such a limit.

What does the change mean?

As a general rule, the supplier is required to pay VAT according to the member state of the buyer from the first euro on. This could eliminate distortions of competition and ensure balanced positions in terms of VAT.

The new system removes the administrative burden by stipulating that companies under the MOSS are exempted from the VAT registration obligation related to the member states affected by their activities. Accordingly, rather than filing VAT returns by member states, companies are only required to file a VAT return in the member state where they are registered with the actual place of consumption and VAT of the supplies specifically indicated.

The Council believes that by extending the MOSS system to distance sales, companies concerned will be able to save about 95% of costs related to VAT liabilities. At the same time – in harmony with the EU's former intention that transactions should be taxed in the member state of actual consumption – the member states concerned may expect increasing VAT income due to the more transparent regulation.

In addition to the above, as a way of further simplification, under an EUR 10,000 sales limit start-ups and SMEs may apply the VAT rules of the member state of their registration (instead of those of the member state of consumption), which will further decrease their administrative obligations.

What happens to goods coming from third countries?

Under the current system – greatly simplified – products from third countries are classified as follows:

- no VAT and customs duties are incurred between EUR 0-22
- between EUR 22.1-150 no customs duty applies but the shipment is subject to a 27% VAT
- above EUR 150 the customs duty applies according to the commercial customs tariff + 27% VAT

The regulation also abolishes the import VAT exemption of supplies from outside the EU under EUR 22. The entry of these goods to the EU is currently exempt from import VAT despite the fact that their sale within the EU – irrespective of the value – is subject to VAT, which gives way to significant imbalances and fraud.

Distance services

In the field of services the reform has already taken place and VAT is charged based on the place of consumption from the first EUR, without significant administrative charges. However, certain rules (e.g. compliance with the rules of documentation of the buyer's member state) still proved to be an administrative burden. Accordingly, from 2019 companies currently supplying distance services under the MOSS system may apply the VAT rules of the country of their registration basically in all respects (invoicing rules, document storage etc.).

New non-refundable R&D grant options also for large companies

We wish to draw your attention to two new calls for applications published on 9 January 2018 by the National Research, Development and Innovation Office offering non-refundable grants for the R&D projects of SMEs and large companies:

The call for applications entitled Grant for the R&D&I Activities of SMEs and Large Companies (2018-1.1.2-KFI) provides a non-refundable grant between HUF 100-600 million for R&D projects to be implemented in the Central Hungarian region.

Under the call for applications entitled Competitiveness and Excellence Cooperation (2018-1.3.1-VKE) a grant of up to HUF 1.5 billion may be requested for R&D projects organised by the consortium of companies and R&D organisations.

Under the new call (2018-1.1.2-KFI - grant for the R&D&I activities of SMEs and large companies) large companies and SMEs are entitled to non-refundable grants in the Central Hungarian region (Budapest and Pest county).

The aim of the grant is to facilitate the R&D&I activities of innovative businesses through the funding of in-house development of exportable and marketable new products, services and technologies. The grant budget is HUF 20 billion.

Grant applications are welcome from independent companies or consortia of 3 members as a maximum.

Amount available per application: HUF 100-600 million. The grant is provided at a rate of 25-60% for experimental development and 50-80% for applied research depending on the size of the company and the efficiency of cooperation.

The project receiving the grant shall produce a prototype, marketable product, technology or service that can be utilised at a rate equalling 30% of the grant amount as a minimum within two years. Under the project the experimental development may be individually supported, and other eligible activities include industrial research, procurement of tools, marketing, protection of industrial right as well as infrastructural investments.

Companies shall submit the applications by 14:00 15 May 2018 (if the grant budget is not depleted before), and results are expected to be announced on 31 August 2018.

R&D grants to facilitate the cooperation of Hungarian companies and research and education organisations.

The new call for applications (2018-1.3.1-VKE – Competitiveness and Excellence Cooperation) offers non-refundable grants for R&D projects implemented by way of a consortium in Hungary.

The aim of the grant is to facilitate long-term, sustainable strategic cooperations between Hungarian businesses and research agencies that yield scientific results with business utilisation.

The grant budget is HUF 26 billion.

Maximum 5-member consortia may submit applications if the members have registered offices or branches in Hungary, they are business or non-profit organisations, and higher education institutions or government agencies that qualify as research and education organisations.

The amount of the grant per application is HUF 500 - 1500 million maximum. The rate of the grant for businesses in 25-100% depending on the activity and the size of the company.

The project receiving the grant shall produce a prototype, marketable product, technology or service that can be utilised at a rate equalling 30% of the grant amount as a minimum within two years on the consortium leader's level. The grant may be provided for applied research and experimental development, as well as basic research, coordination activity, marketing, procurement of assets and intangible assets and the protection of industry rights.

Grant applications may be submitted until 28 February 2018, 14:00. Expected date of announcing the results is 18 June 2018.

Detailed rules of online data reporting have been published

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Taxpayers have been waiting for the information that is now available on the government website with respect to the online invoice data reporting obligation. You will find the draft decree which provides the regulatory background for the new obligation, and two further documents addressed typically to developers with all the relevant system requirements. The draft decree precisely lays down the steps of data reporting, responses in case of successful or erroneous data supply, repeated reporting after an error was remedied, as well as protocol to follow in case of a system breakdown.

This Government information confirms that the obligation is effective as of 1 July 2018, which gives us less than six months for preparation. Deloitte is ready to support its clients and has developed a solution (with various functionalities based on individual needs) which ensures compliance with the statutory obligations and provides support services for the implementation and updating of the software.

You will find more information with respect to VATOnline, the software that helps you meet the online invoice data reporting obligation on our website (https://www2.deloitte.com/hu/hu/pages/ado/solutions/VATOnline.html), and we are also pleased to present this solution at a personal meeting. Also, Deloitte is happy to help its clients that develop their own solutions but need assistance with the implementation either in terms of legal interpretation or technical issues.

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