
# Tax&Legal Highlights

## Hungary

### Adoption of IFRS accounting seems to be a reasonable answer to HTA audits

**According to a recent announcement of Hungarian Tax Authority (HTA) and the Chamber of Hungarian Auditors, HTA will more seriously treat cases where Hungarian members of multinational groups do not keep their books in accordance with Hungarian accounting standards (i.e. in line with US GAAP or IFRS) but adjust such accounting manually to meet the Hungarian requirements.**

The announcement emphasises that the accounting practice of Hungarian members of multinational groups often fail to comply with the Hungarian accounting requirements, which makes tax audits more difficult to conduct. The purpose of the announcement is to prevent the application of legal consequences by informing taxpayers in advance.

According to the joint announcement of HTA and the Chamber of Hungarian Auditors, it is a frequently applied, but not acceptable practice, when Hungarian members of multinational groups retrospectively and manually adjust their US GAAP or IFRS accounting to meet the statutory Hungarian accounting requirements (e.g. by the application of supplementary calculations). In the opinion of the tax authority and the chamber, companies shall keep their books in a bookkeeping system that meets the Hungarian statutory accounting requirements (i.e. the standard chart of accounts prescribed by the Accounting Act should be used and the books should be kept in a concise and transparent manner in Hungarian language). If companies deviating from this rule, the HTA may conclude that the tax audit cannot be carried out due to improper bookkeeping.

Pursuant to the Act on the Rules of Taxation, the accounting records of the taxpayers should be appropriate to assess the tax base, as well as tax exemptions and tax benefits. If the accounting records of the company do not comply with the Hungarian accounting requirements, the company may face the following legal consequences:

- The tax authority may call the taxpayer to prepare accounting records in a system that complies with the Accounting Act, and present them to the tax authority.
- The tax authority may assess default penalty due to the breach of the bookkeeping obligations.
- The tax authority may challenge the accounting treatment of certain business transactions, as a result of which the application of certain tax base decreasing items, tax benefits and tax exemptions may be challenged, or certain expenses could be qualified as not deductible expenses for corporate income tax purposes.
- In extreme cases the tax authority may even come to the conclusion that the company's books and records are inappropriate for the purpose of a tax audit and therefore the tax authority may estimate the tax base.

A solution to the above risk could be the full adoption of IFRSs for the purposes of bookkeeping and preparation of the statutory, standalone financial statements. This option is available to all companies whose direct or indirect parent company prepares its consolidated annual financial statements in accordance with IFRSs. Such transition will eliminate the risk in bookkeeping as the tax authority should accept the IFRS based accounting records.

As opposed to the above, entities having their bookkeeping and financial statements prepared in line with US GAAP are in a more difficult situation. For them a safe solution can be if they keep the accounting records simultaneously in the same accounting system in accordance with both the Hungarian GAAP and the US GAAP. However, this may trigger a significant administrative burden on them.

Consequently, the adoption of IFRSs for statutory reporting purposes or the modification of the bookkeeping practice could be the solution for the companies concerned. However, the IFRS transition requires in-depth planning and preparation, even if the company has already prepared some kind of IFRS reporting package for the parent company's consolidated financial statements. For more information on the adoption of IFRSs please contact Deloitte's IFRS team. Deloitte's IFRS team comprises experienced auditors, tax experts and advisors who – with their up-to-date knowledge and complex services – have already assisted many companies in the IFRS transition process and the subsequent audit and tax issues.

The announcement of HTA and the Chamber of Hungarian Auditors can be found HERE.

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