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Below you will find the tasks and potential issues arising from key tax law changes of the past month and recent weeks. We would be ready and glad to discuss with you any of your company specific issues.

Sponsoring popular team sports

As we informed our Clients in the frame of **our newsletter about the changes in tax laws,** as of 19 May 2013 the rules on corporate income tax allowance related to the sponsoring of popular team sports were amended. Besides the already presented significant changes, we would like to draw the attention to the following. The 1 per cent payment liability – to be exercised on the payment account kept by the minister responsible for sport politics simultaneously with the amount of sponsoring – should not be considered as an additional payment but it should be included directly in the amount of sponsoring.

During the implementation, it was not clear whether the aim of this modification is to dissolve the prior uncertainty (i.e. the clarification of the rule) or to put a new, different rule into force.

The answer of the tax authority to this question was given in the **guideline** published on 6 June 2013. In the guideline, the tax authority states that this liability – *in opposition to the prior practice* – is not to be fulfilled additionally but to be included in the amount of sponsoring. Consequently, this 1 per cent shall be considered upon determining the tax allowance.

Based on the wording of the tax authority, we are of the view that the prior practice was different, i.e. the 1 per cent payment liability was to be fulfilled as an additional payment. However, the amended **guideline** published on the website of the tax authority on 15 July 2013 does not include the expression *"in opposition to the prior practice"* anymore, thus we can conclude that the tax authority has modified its position in this respect.

Quick Reaction Mechanism and extending the scope of the reverse taxation – modification of Community rules to tackle VAT fraud more effectively

In order to fight more effectively against VAT fraud, the European Council approved the Quick Reaction Mechanism (QRM) as of the end of July, furthermore the optional and temporary extension of reverse taxation. The two directives adopted on 22 June 2013 amend the community rules accordingly.

QRM

The aim of QRM is that the Member States facing severe abuses in any sector of their economy can initiate the reverse taxation mechanism concerning the given economic sector in the frame of an accelerated procedure. The practice might replace the current complicated and long procedure. As per the amendment, the requests of Member States – in case the State provides the Commission with all necessary information – shall be approved or rejected by the Commission within one month. According to the new regulation, the Member State is required to initiate simultaneously a derogation procedure, but – as of the date of the approval received through the QRM – the reverse taxation can be temporary effectuated for the requested transactions and for a period no longer than nine months.

Scope of reverse taxation to be extended

Besides the initiation of the above procedure, the directives extend the list of products and services which the reverse taxation can be optionally initiated for, for a period of a minimum of two years. Such transactions include the sale of mobile phones, devices of integrated circuit, videogame consoles, tablets, laptops, cereals and industrial plants – including oil seeds and sugar beet –, raw or semi-manufactured metals, the sale of gas and electricity to resellers, furthermore the telecommunication services.

Nevertheless, reverse taxation can be used by Member States only in case the usual measures against fraud should not be effective. By extending the scope of reverse taxation and by the QRM, the long term goal of the European Union is not to make the reverse taxation generally accepted but to provide a temporary solution for the period during which the Commission sets out measures to make the VAT system more resistant on a long term basis. Accordingly, the above measures are to be used only in reasonable cases during a limited period – until the end of 2018 – to repel VAT fraud.

Considering the above, the list of transactions falling under reverse taxation in Hungary will likely be broadened.

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