

# ACCOUNTANCY INFOSHEET

## HELPERS FINANCE

**Before we set up your Hungarian company, we need to be clear on the following issues:**

- ▶ the company's planned working site (office, warehouse, or other)
- ▶ any employees that are planned in the short term and their salaries/positions
- ▶ the precise nature of the company's planned activity
- ▶ the role and salary of the managing director(s)

Based on this information, we can choose **the most suitable accountancy package for your company**, find out if your activity requires a permit or license, and determine what basic taxes or other contributions you'll need to pay to the state.

While we are always here to assist you during the operation of your business, and also you can turn to your accountant with your questions, we ask that you read through the following information carefully and ask any questions you may have before the start. In working with you, we will assume that this basic information is clear to you, and cannot assume liability for consequences resulting from our clients neglecting their basic obligations. **In your own interest, please ask us if anything is not clear!**

Once the company is operational, you will need to be aware of the following

## 1. INVOICING AND TRACKING EXPENSES/INCOME

**INVOICES TO BUYERS/CLIENTS** can only be issued through a licensed invoicing software (recommended) or an official 'invoice booklet' (not very convenient). Invoices issued in Excel, foreign invoicing programs or other means are not acceptable in Hungary. We can recommend a Hungarian licensed invoicing software with an English user interface. Please ask your account manager for more information.

**EXPENSE INVOICES** (when you buy a product or a service for business purposes) must always contain the name and full address of the company, otherwise they are not deductible. We understand that in many countries simple receipts that you get at the shop are deductible as business expenses but this is not the case in Hungary. You must ask for such a tax invoice when buying computers, flight tickets, hotel rooms, services from providers, goods from your suppliers, or anything else that is a cost. Please note that not all expenses are deductible; please consult your accountant.

**CASH TRANSACTIONS** are severely limited in Hungary, and while the precise regulations change periodically, the basic principle is that there are limitations for single cash transactions with a ceiling of HUF 1,500,000. If your business deals a lot in cash, please discuss this with us in advance.

**ZERO VAT INVOICES** (i.e. invoices where you do not charge your buyers VAT) can be issued in two cases: when your buyer is a corporate entity outside the EU, or when the buyer is a non-Hungarian EU company with a valid EU VAT number. In the latter case, it is your responsibility to check that the buyer's VAT number is valid, and to indicate this on the invoice. If your buyer is an individual (based anywhere in the world) or a Hungarian company, VAT must be charged (although there can be some exemptions). There are some types of sales (e.g. real estate) that are not considered cross-border, and as such cannot be exempted from VAT. If you are unsure, please consult your accountant first – if you issue an unjustified zero-VAT invoice, you will have to pay the VAT content of the invoice anyway, which can be quite costly.

## 2. CAPITAL, LOANS, PERSONAL EXPENSES, ASSETS

**SHAREHOLDERS' LOAN:** The minimum starting capital is quite low in Hungary (currently HUF 3,000,000 or **about EUR 10,000**). This is not normally enough for starting a business, so if the company does not have income from the start, the most common solution is for the shareholders to provide a loan for the company. If you choose this option, you need to arrange for the relevant extra paperwork with your lawyer and accountant (also indicating the amount you wish to loan to the company), and after this you can wire the money to the company's bank account. Once the company starts making money, it will return this loan to you (with interest).

**TAKING MONEY OUT OF THE COMPANY:** There are only three legal ways you can take money from the company and use it for your personal expenses. You can choose to take a salary (in which case your accountant will put you on payroll and you'll need to pay income tax and social contributions based on the salary); you can take a dividend (if the company makes a profit, it can pay out dividends to the shareholder, which are to be taxed according to the relevant tax treaties); or, if you cannot wait until the year end closing, you can take dividend advance (which requires special paperwork, so you need to discuss it with your accountant in advance). All personal expenses can only be covered from your own money (not via the company's bank account or debit/credit cards); if you pay personal expenses with a company card and do not provide a fiscal invoice to prove that it was a business expense, you will have to pay it back to the company as if it were a loan,

**TOOLS, MATERIALS AND OTHER ASSETS:** When you incur 'business expenses', we must differentiate between direct costs and general costs. Direct costs are expenses incurred in direct relation to your sales. For example, when you buy goods that you later re-sell, or buy services that you mark up and sell forward, these are direct costs. These are fully deductible without any limitations, meaning that they reduce your profits (i.e. 'tax base'). Some general expenses like salaries or office rental are also fully deductible. Investment into assets, however, may not be fully deductible in one go; for example, IT equipment can only be deducted at a rate of HUF 100,000/item/year, meaning that if a computer costs HUF 300,000, it will be deducted from your profits over three years. If you are making material investments, please consult us or your accountant to clarify these details.

### 3. OVERVIEW OF IMPORTANT DATES, DEADLINES AND OBLIGATIONS

At the start of the company, the following tasks must be carried out:

- ▶ **reporting the company's registration to various authorities** (local municipality, statistical office, tax authority, social security office, chamber of commerce)
- ▶ **risk assessment questionnaire:** the authority issues this questionnaire to find out the risk level involved with a new business (it is similar to a simple business plan) and if the company is deemed 'high-risk', it may be required to submit extra reports during the first year
- ▶ **preventive inspection:** most foreign-owned companies are inspected by the tax authority in the first couple of months of their existence, where it is checked that the company is real, is reachable at the registered address, and has a certified local accountant

All of these tasks are carried out by Helpers, with the assistance of your contracted accountant. **We need only the following assistance from you:**

- ▶ information for the risk assessment questionnaire and signed accounting agreement (at the time of registration)
- ▶ signed authorizations (POA) so we can represent you at the inspection
- ▶ signed declaration regarding other EU companies you or your next of kin hold majority shares in.

We ask that you cooperate with us fully and promptly, to ensure a smooth launch for your business.

Once the company is operational, **we ask that you inform us without delay about any changes in the company**, including modifications of company structure, address or activity, employees or salaries, new bank accounts opened inside or outside of Hungary, or anything else that affects accountancy or reporting. We are under strict deadlines and obligations to report these changes to the authorities, and failure to do so will result in serious fines for your business.

#### IMPORTANT DATES:

- ▶ fiscal year closing / reports due: May 31<sup>st</sup> for the previous fiscal year
- ▶ VAT declarations and payments: on the 20<sup>th</sup> of each month, for the preceding month
- ▶ payroll taxes & social contributions: on the 12<sup>th</sup> of each month, for the preceding month
- ▶ corporate tax advances: paid quarterly on the 20<sup>th</sup> of July, October, January and April, in 4 equal installments, calculated on the basis of the previous closed fiscal year

#### ACCOUNTING DEADLINES:

- ▶ submitting invoices and bank statements to the accountant: 5<sup>th</sup> of each month, for the preceding month
- ▶ reporting sick leaves, salaries or bonuses: 1<sup>st</sup> of each month, for the preceding month
- ▶ reporting any changes in the company's operations (changes in ownership, owner's or director's personal data, bank accounts, activity, employees, etc.): within 5 working days

## 4. TAXATION BASICS

Taxation can be a complex matter, and if you want to be sure that you fully understand what to expect, the best solution is to prepare (or ask us to prepare) a simple business and financial plan before you get started. We will do our best to make sure you are not faced with any surprises – in order to best assist you, however, we need to understand the basics of your business operation.

Still, you may find the following list of basic corporate taxes useful:

- ▶ **local business tax:** 2% on net revenues (meaning: your income minus any direct costs such as cost of goods or services that are re-sold)
- ▶ **corporate tax (also known as profit tax):** 9%; applies to profits after the deduction of all expenses including direct and general expenses
- ▶ **dividend tax:** the company's taxed profits can be retained in the company's budget or paid out to shareholders as dividend; in Hungary, dividend tax is 15% and there is an additional 19.5% social contribution tax payable which is maximized in HUF 697,320 (EUR 2,150) per year – however, this only applies to Hungarian residents; in the case of non-local residents, specific bilateral agreements between Hungary and your country of residence may apply.
- ▶ **VAT** (value added tax, or also known as sales tax in some countries) is 27%; you will charge VAT only towards individual (retail) buyers (whether they are from Hungary, the EU, or any third country) or corporate EU-based buyers who are not registered for VAT, meaning that if you are an international trader, you may not charge VAT at all. When declaring VAT (monthly or quarterly, based on the volume of the payable VAT of your company), we will calculate the difference between VAT that you have received from your buyers (if any) and VAT that you have been charged by your suppliers or when purchasing products/services (if any). If the balance is positive, you'll need to pay the difference to the state. If the balance is negative (e.g. if you are not charging VAT but still have expenses that contain VAT), you can reclaim this difference. In the case of international trade, there are some additional specific regulations pertaining to VAT, especially if you are going to be reclaiming VAT regularly; please bring this up with your accountant. Please also note that companies formed after January 2015 will be only able to reclaim the VAT when they reach a HUF 1 million (EUR 3,100) limit.
- ▶ **payroll taxes:** when you have employees on payroll, you will need to pay various taxes (including taxes deducted from the employee, like income tax, and also contributions payable by the company, like health insurance and pension) monthly. These taxes will be calculated by your accountant. Payroll taxes are quite high in Hungary, and may amount to 50% of the total spending by the company (with the other 50% being the net salary that the employee actually receives). Moreover, in Hungary there is a minimum salary to be paid to all employees. As such, it is important to calculate all salaries, taxes, and contributions in advance, before entering into salary negotiations with future staff members. Also, please bear in mind that in most cases it is obligatory to pay taxes/contributions for the managing director and/or the members of the company even if they do not actually take a salary (e.g. at the start of the company's operation). Only directors who are already registered, employed and insured elsewhere in the EU and can provide official verification of this can be exempted from this requirement. Please discuss this with us in advance, so we can make sure these taxes are included in your calculations.