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Hungary submits new proposal for 2016 tax law changes and publishes IFRS transition timeline

Tax law changes for 2016

The Hungarian Government recently submitted to Parliament a new draft bill on proposed tax law changes to take effect as of 2016. This is in addition to the 2016 tax law amendment package approved in June. Among other changes, the proposal establishes a classification system for taxpayers and implements certain changes concerning the stamp duty.

If approved, the draft bill would introduce a classification system whereby taxpayers would qualify as "reliable" or "risky" based on certain aspects of their operations, their tax and legal status as well as their law-abiding practices. Those taxpayers that would be classified as "reliable" would benefit from reduced tax authority deadlines in the case of tax audits and value added tax (VAT) refunds, as well as reduced penalties for missing or incomplete filings and tax underpayment. In the case of "risky" taxpayers, tax audit deadlines would be extended, late payment charges as well as non-compliance and tax penalties would be increased. Mandatory tax audits upon liquidation would be restricted to "risky" taxpayers.

Taxpayers are urged to review their past and current tax practices, as the new classification system may result in certain benefits (or penalties) concerning quantifiable tax risks as well as cash-flow planning and liquidity.

The proposed tax package also introduces certain changes to the stamp duty legislation that may be of interest primarily to the transportation and logistics industry. Among other changes, the proposed amendments provide that acquisition of buses, trucks and certain trailers, as well as environmentally friendly motorized vehicles would be exempt from stamp duty from 2016.

IFRS timeline approved

In a recent decree, the Hungarian Government approved the timeline for the introduction of the international financial reporting standards (IFRS) in Hungary. IFRS based reporting can result in significant cost savings for multinationals through the decreasing administrative burden of maintaining separate financial records under Hungarian GAAP.

According to the decree, IFRS based reporting would be first available for certain publicly traded entities, and for entities with ultimate parents preparing consolidated financial statements in IFRS. With certain exceptions, these entities may elect to use IFRS with respect to their 2016 financial statements for the first instance (for publicly traded entities, IFRS would be optional for 2016 but mandatory for 2017).

The transition for entities regulated by the National Bank of Hungary, as well as for other entities that are subject to statutory audit (but not mentioned above) is to take place with respect to the 2017 financial statements for the first time. IFRS based reporting for 2017 would be mandatory for banks and certain financial institutions, and optional for insurance companies, certain other regulated entities and entities that are subject to statutory audit in Hungary.

Although IFRS based reporting is expected to be applicable first with respect to the 2016 financial statements, the transition requires careful and thorough planning. Multinationals with Hungarian operations should start preparations for an IFRS transition in a timely manner.

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