

TAX CONSULTING



VAT AUDIT – IN-HOUSE AUDIT PERMITTED

This leaflet outlines the opportunities within our VAT audit service, which helps uncover and minimise the risks and possible errors in VAT documents and declarations prior to the audit of the tax authority.

WHY DO WE RECOMMEND OUR VAT AUDIT SERVICE?

Our experience shows that a number of businesses use the regulations in the EU directive and in Hungarian laws inaccurately and as a result, pay either more or less tax than required. Precise knowledge and information of EC and Hungarian VAT rules requires special expertise, which cannot be expected from companies without a sizeable team of tax experts in today's business environment where quick decisions are needed.

TO WHOM DO WE RECOMMEND THIS SERVICE?

We recommend this service to businesses who would like to present their VAT declarations and the supporting records to the tax inspectors well-prepared and with sufficient knowledge about the possible risks, and also to those who would like to get accurate information as to whether their documentation methods have any risks or hidden reserves, and if so, what type.

WHAT ARE THE BENEFITS OF THIS AUDIT?

The primary objective of the service is to help minimise the fines imposed by the tax authority, by reviewing the internal processes of transactions and businesses. Our findings may even contribute to more efficient optimisation of your cash-flow obligations. By using the findings and any proposals for modification by the audit, you can ensure that the procedures used for invoicing and the acceptance of invoices comply with the legal requirements, and follow up any changes in the law in an accurate and timely manner.

WHAT FINES CAN YOU EXPECT?

Description	Value
Tax fine	50 percent of tax unpaid, undeclared or illegally reclaimed and, for particularly serious cases, this rate may be as high as 200 percent
Default fine	HUF 500 000 multiplied by the number of default cases
Default interest	the amount of tax unpaid until the original date of declaration multiplied by twice the amount of the base interest rate of the Hungarian National Bank (MNB)

WHAT ARE THE MOST COMMON MISTAKES WE FIND?

- Missing and/or inaccurate contracts behind certain transactions. If there is no contract, the tax deducted from the accepted invoice may be rejected, which results in tax fine on tax arrears and default interest.
- Missing verification of the conditions for tax-free sales. In this case, the tax authority rules that the sale is taxable and imposes a subsequent tax, which may involve tax arrears, tax fine and default interest.
- EU transactions do not converge in every member state. The VIES control data do not support the authenticity of the EC transactions declared. In the course of their cooperation, the tax authorities of the member states share the summary declarations of their respective businesses and thus soon find out if the parties do not declare certain transactions or declare them in different

values. In such cases, the tax authorities may initiate tax audits at any of the affected businesses to clarify the reason for the contradiction.

- Late or inaccurate application of changes to the VAT act, resulting in invoices issued or accepted using incorrect tax rates. In this case, the tax authority may impose a default fine for every single invoice on the party issuing such invoices. As for the party accepting such an invoice, the tax authority may reject the tax deduction, which may result in a tax fine on tax arrears and default interest. It is an extremely high risk –when VAT rate changes occur from year to year or within an on-going tax year, in these cases the correctness of the incoming and outgoing invoices' VAT rate should be highly monitored based on the transitions rules.
- Providing the inspectors with documentation that is defective or improperly aligned and/or delaying access to such documents. In such cases, the tax authority may impose a default fine for obstruction of the audit.
- As of 1st January 2013 the structure of the VAT return has significantly changed, as it contains an additional report, the so called detailed domestic sales and purchase listing. As this report is part of the VAT return, the incorrect filing of this report has the same tax penalty consequences as the incorrectly prepared VAT

return (i.e. default fine). The total amount of the VAT return and the detailed report are not coherent, so it means that the liability of the person preparing the VAT return and the report is high, as they have no automatic control data in the system.

WHY SHOULD YOU USE OUR SERVICE?

The tax experts of RSM DTM Hungary Plc. are exceptionally well qualified and have many years of professional expertise. They have a thorough understanding of Hungarian and international VAT laws, and the regulations and international practice concerning their individual and joint application.

We personally monitor the audits of our clients by the authorities. Several of our colleagues have gained extensive experience as tax inspectors and have personally supported our clients in a number of tax audits. Our colleagues have detailed knowledge of tax audits.

We also remain in contact with our clients after the audit, and are happy to help them with any questions or new types of transaction they may have in order to implement an appropriate administrative system.

Within the international network of RSM International, we can contact our expert colleagues in 107 countries around the world to fully clarify our client's questions.

RSM HUNGARY TAX AND FINANCIAL ADVISORY SERVICES PLC.

Accounting, tax consulting, payroll and HR consulting – these are the pillars of RSM Hungary Plc. Thanks to the outstanding quality we deliver our company is now acknowledged as one of the dominant market players of the Hungarian consulting community. In order to provide our clients with full range of financial consulting services RSM Audit Plc.'s services complement the activities of RSM Hungary Plc.

In addition to medium-sized Hungarian enterprises, foreign-owned multinational companies also represent a significant part of our client portfolio.

IN CASE YOU ARE INTERESTED, OR IF YOU HAVE ANY QUESTIONS, PLEASE CONTACT US:

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OUR SERVICES

- Tax
- International tax representation
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- Audit
- HR
- Web solutions

ABOUT RSM NETWORK

We are members of the RSM network, the seventh largest network of independent audit, tax and advisory firms in the world.

RSM is the 7th largest network of independent audit, tax and advisory firms in the world. RSM has correspondent firms in 112 countries, 732 offices worldwide.

More information about RSM Network, please visit www.rsmi.com.