

## SME INFO HU

### CORPORATE TAX PAYMENT OPTION IN EUR OR USD CURRENCY



The purpose of SME INFO is to provide general information and to draw the attention to the current changes in law which we believe to be important for the business operation of our clients. It is not a replacement for careful review of the acts and rules, and the consultation with your tax advisor.

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Even though on 30 July the Ministry of Finance's portal published news about the possibility of paying both the local business tax and corporate tax in EUR or USD currency, according to the 134<sup>th</sup> Hungarian Gazette which was published on 9 August, the option to pay the tax in EUR or USD in addition to HUF, only applies to the corporate tax (CIT) and its advances. Why the local business tax was excluded from the modifying

regulation, what further taxes can be paid by the mentioned currencies in the future, will there be new currencies as well? Unfortunately to these questions we are unable to answer but based on the already published Government Decree we can share essential information about CIT with our Clients.

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According to the communication of Ministry of Finance it can be favorable for those companies who (also) have income in EUR or USD, if they choose to settle the CIT liability (and regular advances) in those currencies instead of paying exclusively in HUF to the public finances. Observing the past periods' movements of HUF/EUR and HUF/USD exchange rates, the modifying regulation gives a chance to the companies to avoid the hassles and complications with transferring between bank accounts and managing exchange rate differences.

Here we would like to draw attention to the fact that the decree applies to the time of the war emergency and will expire when it ceases, but according to our expectations, the payment option set out in the decree will be raised to the level of law in the future.

Pursuant to the amendment, taxpayers based on their choices, can pay the **CIT** and its advances **in euros or US dollars** in addition to forints. **The first year** for which they can make the choice to pay CIT in USD or EUR is **the tax year starting after 30 September 2022**.

The first step in the application of tax payment in different currency, is that the taxpayer should declare its intention by submitting a dedicated form issued by the Tax Authority. The deadline for submitting the declaration is the first day of the month preceding the first day of the tax year. Newly established companies during the year can submit the declaration with their general tax registration.



Those, whose business year starts on 1 October 2022 and want to take advantage of the choice, should make the submission by 1 September! If the taxpayer's business year is the same as the calendar year, the application for 2023 should be filed by 1 December 2022.

The choice applies to the entire tax year, if the taxpayer wants to change it (e.g. from euros to dollars) or cancel it (i.e. he wants to return to paying CIT in forints), he can make the submission until the last day of the tax year, and the amendment will be valid from the first day of the following tax year.



All kind of amendment or change can be submitted by the taxpayer until the last day of the tax year, late filing will be rejected by the Tax Authority and there is no possibility of legal remedy, because failure to meet the deadline results in forfeiture. Although the decree does not state it precisely, but our understanding is that if the company does not submit a request for cancellation (or amendment) until the end of the tax year, its previous choice of payment will be renewed.



**Example:** A calendar year taxpayer declares on 29 November 2022 that he wants to pay CIT in euros in 2023. On 15 January 2023, the taxpayer realizes that US dollar would be better. This change of choice can be submitted to the Tax Authority as early as 16 January 2023, but the amendment will only be valid from January 2024. At the same time if in connection with the declaration as of 29 November 2022 the taxpayer does not submit an amendment (change to another currency) or cancellation request in 2023 (until 31 December 2023), it's choice for the year 2023 will be valid for 2024, as well.

The taxpayer must transfer the tax advance and tax amount in the chosen currency. Considering the fact that the tax advances and tax amounts are still being recorded in HUF on the taxpayer's dedicated tax account by the Tax Authority, the decree determines the exchange rate of the conversion, which will be the exchange rate published by the Hungarian National Bank (HNB) for the date of debiting the taxpayer's bank account. If there is no published HNB exchange rate on the given day, the last valid daily exchange rate will be applied.



**Example:** Taxpayer's monthly CIT advance is HUF 5,000,000, chosen payment currency is USD. The taxpayer decides to transfer the advance on the 10<sup>th</sup> due to the favorable trend of the exchange rate, which will also be debited to his account on the 10<sup>th</sup>, when the USD exchange rate is HUF 400. The taxpayer must transfer USD 12,500 to the Hungarian State Treasury's dedicated USD account, in order to meet the required HUF amount, which, in case of a strengthening forint, may also mean less USD expense for him than if he had waited until the deadline of the 20<sup>th</sup>.



The start date of the transfer and the day of debiting may differ, with regard to the exchange rate, the latter applies. For example, if, due to any technical interruption, compared to the initiation of the transfer, the debit is only carried out in the afternoon of the next day when the forint is stronger than what the taxpayer calculated, tax debt may arise

The date of payment of the corporate tax amount will be the day, the transfer is credited. In case of a transfer from an account nominated in a different currency than the one, reported to Tax Authority, the cost of the conversion will burden the taxpayer.



If the taxpayer waits until the deadline and e.g. he initiates the CIT advance transfer only on the 20<sup>th</sup> and with the amount his account will be debited on the same day, but the credit to the Hungarian State Treasury's dedicated foreign currency account will only take place on the 21<sup>st</sup>, the taxpayer's payment is late.

We would like to point out, that in case of payments affected by enforcement, the above rules do not apply.



**Example:** Taxpayer is required to pay monthly CIT advance, his chosen and declared payment currency is USD. The taxpayer did not transfer the amount until the 20<sup>th</sup> of the current month, and since there is no overpayment on his tax account, he has a net tax liability. After the necessary legal steps, the Tax Authority can collect the debt from any of the taxpayer's registered bank accounts, regardless of the taxpayer's previous legal choice of payment in USD.

