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# ACCOUNTING AND TAX ADMINISTRATION RISKS OF CORPORATE TRANSFORMATIONS: 5+1 CRITICAL AREAS FROM PRACTICE

# INTRODUCTION

**The process of a corporate transformation - whether a merger or a demerger** - typically begins as an ownership decision reflecting business intent, which initiates a legal procedure. Experience shows, however, that in order to ensure the efficient and smooth execution of the process, sufficient attention must be paid to **accounting and tax-related details**.

Our colleagues' professional experience clearly demonstrates that certain issues arise repeatedly. The following **5+1 areas** are those where **both clients and accounting service providers should remain conscious, as a lack of attention may later result in lost time, additional costs, or unnecessary administrative burdens**.

## SUMMARY

The following material highlights the most frequently encountered problematic areas over the past year in **corporate transformations (mergers, demergers)** affecting our clients, where in practice the disruptions and additional workload tend to arise:

- **the impact of the timing and scheduling** of the transformation on financial and accounting processes,
- **practical challenges in communication and coordination** between the legal predecessor and the legal successor,
- **typical accounting issues** at the legal successor,
- **tax administration** matters that may cause additional workload later,
- **invoicing issues** regarding the date of the transformation that directly influence business relationships,
- **post-transformation administrative follow-up** work related to data reporting obligations.

# 1. PLANNING AND TIMING

## when delays affect the accountant

In many transformations, we observe that the timeline is primarily developed from business and legal perspectives. Accounting and financial tasks only come into focus later, typically when multiple statutory deadlines are already approaching.

In such cases, the following issues typically arise:

- **tasks of the various participants in the process are not aligned** at their connection points,
- **a sense of urgency and pressure develops** in order to meet statutory accounting and tax deadlines.

Experience shows that these situations can be managed effectively if there is a clear and commonly understood timeline known by all participants, with defined responsibilities and deadlines, and if, where possible, one of the parties assumes coordination responsibilities as well.

# 2. COMMUNICATION AND COORDINATION

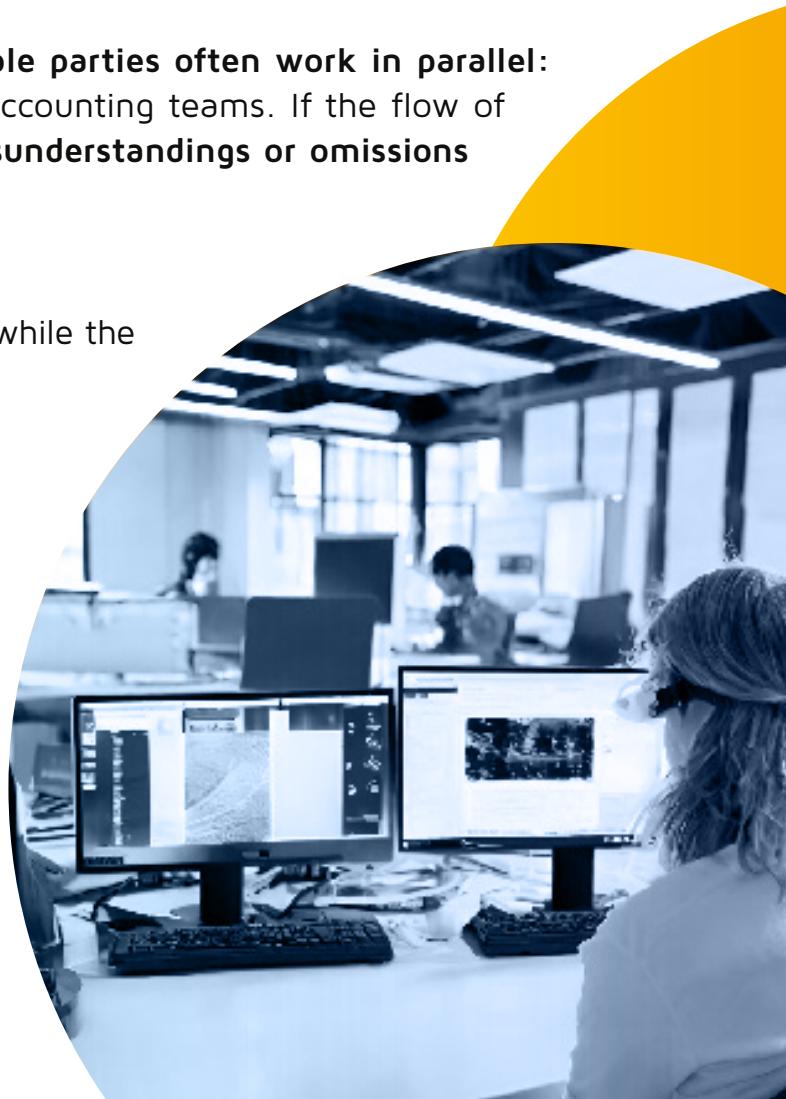
## when information flow is inadequate

During corporate transformations, **multiple parties often work in parallel**: management, legal advisors, auditors, accounting teams. If the flow of information is not continuous, **minor misunderstandings or omissions can easily escalate into real problems**.

In practice, this typically results in:

- **participants waiting for one another** while the process does not move forward,
- **important deadlines being missed**,
- **the number and duration of reconciliation processes increasing** unnecessarily.

These situations can be avoided if clear coordination also takes place from financial and accounting perspectives, ensuring that complete and timely information reaches the accountant.



### 3. ACCOUNTING ISSUES

when even the smallest detail matters

During the transaction-level reflection of the transformation, **the assets, liabilities and equity elements taken over by the legal successor(s), as well as the preparation of the legal successor(s)' cash flow statement**, may require particular attention and careful consideration. The absence of proper treatment often only becomes apparent during the audit of the legal successor.

Based on our recent practical experience, the following areas deserve particular attention:

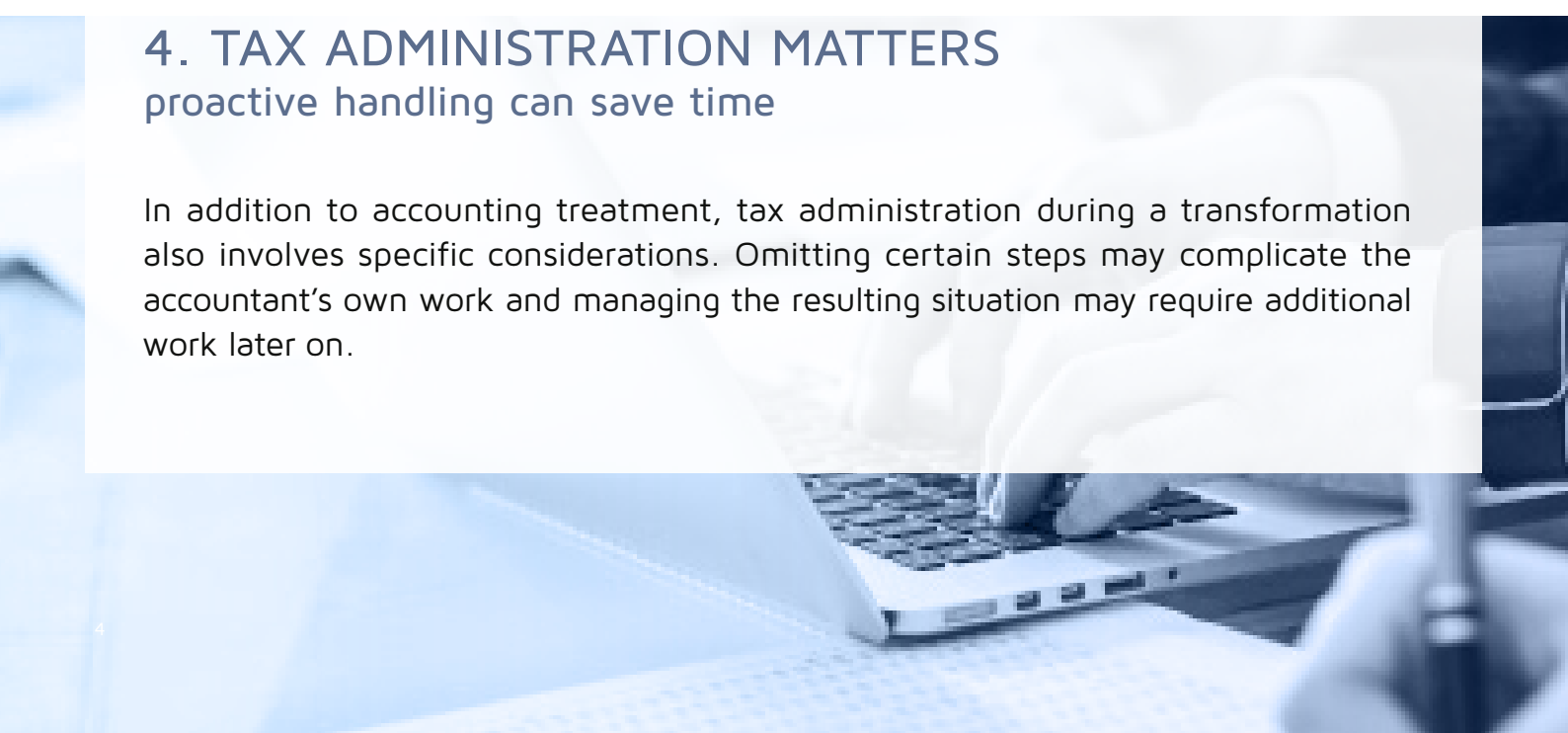
- **the opening value of tangible assets taken over** by the legal successor and the presentation of these opening values in the tangible asset movement table,
- **the correct presentation in the cash flow statement of assets and liabilities** transferred or received during the transformation,
- **whether equity adjustment items included** in the closing balance sheet need to be recorded by the legal successor, even if its own equity position would no longer justify this.


A well-functioning approach requires that the accounting treatment of special transactions arising from the transformation be thoroughly considered in advance, and, if necessary, proactively coordinated with the affected entities and the auditor. This ensures that the financial statements are not only formally compliant but substantively accurate, and that they support the most appropriate presentation and future treatment of the legal successor(s)' business operations.

### 4. TAX ADMINISTRATION MATTERS

proactive handling can save time

In addition to accounting treatment, tax administration during a transformation also involves specific considerations. Omitting certain steps may complicate the accountant's own work and managing the resulting situation may require additional work later on.





Our practical experience shows that particular attention should be paid to the following tax administration tasks:

- **obtaining the tax accounts of terminating legal predecessors** before they are merged, in order to facilitate the reconciliation of the legal successor's tax account,
- **reclaiming overpayments of legal predecessors prior to their termination**, as subsequent handling may result in prolonged reconciliations with the authorities.

Our experience shows that by **proactively managing these tasks**, the accountant can avoid frustration later on and, not least, save time.

## 5. INVOICING AND OPERATIONS

### with impact on business relationships

Invoicing often appears to be a purely technical or operational detail. However, **problems or bottlenecks arising in this area can quickly affect daily operations** and supplier–customer relationships. **Incorrect invoices still issued in the name of the legal predecessor** may require **additional correction rounds**, such as a series of cancellation invoices, delayed payments, and can **immediately impact cash flow and business relationships**.

In order to avoid such undesired effects:

- invoicing **rules must be clearly defined in advance**,
- invoicing **systems must be properly configured**,
- affected **suppliers must be informed** in a timely manner about the changes and about the invoicing acceptance process during the transitional period.

A well-designed and managed invoicing process is therefore not an administrative burden, but one of the fundamental conditions for uninterrupted business operations.

# +1. THE ADMINISTRATIVE “AFTERLIFE” OF THE LEGAL PREDECESSOR

when termination does not mean final closure

Even months **after the termination of a legal predecessor, data reporting or reconciliation requests may still arrive from the National Tax Authority**, the Hungarian Central Statistical Office, or the National Bank of Hungary. This is typically not an error but a systemic issue; however, **it can only be handled effectively if accounting anticipates this possibility** and proactively seeks to close the administrative “afterlife” of the terminating company with the relevant authorities. Based on experience, conscious follow-up attention around termination generally results in fewer subsequent reconciliations and reduced resource requirements.

## Professional experience in accounting support for corporate transformations

In recent years, we have encountered numerous cases of varying complexity in the accounting aspects of corporate transformations – from domestic mergers and consolidations to multi-party, multi-deadline, cross-border transformations. The experience gained enables us to maintain visibility not only over technical tasks, but over the entire process and its efficiency-related risks.

In practice, this means that the support we provide is not limited to the preparation of required statements and submission of tax returns. Instead, adopting a process-oriented approach, we assist in the following areas:

- competent handling of accounting and financial matters throughout the full lifecycle of the transformation,
- proactive management of related tax returns and tax administration tasks,
- support of invoicing processes during the transformation period,
- proactive handling of administrative and authority-related tasks following closure.



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