News Flash
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VAT Exchange rate differences in Hungary
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The VAT exchange rate may be different in the matter of taxation and accounting. The reason is that it is not necessary to synchronize the applied exchange rates, but the legal requirements must be followed; the exchange rate of the Tax Law must be used in taxation, while the exchange rate of the Accounting Act must be used in accounting matters. However, these two can be the exact same, facilitating the work of businesses and accountants.

Using cloud-based enterprise management systems, nowadays, invoices, and even foreign exchange transactions, can be issued at the touch of a button from anywhere in the world, ensuring speed and efficiency.

However, will invoices issued in such an efficient way comply with the Act CXXVII of 2007 on VAT (hereinafter referred as VAT Act)? The answer to the question lies in the article below.

Currency exchange and transactions

Suppose that based on contract, the consideration to be paid in HUF is determined at the current exchange rate of a foreign currency or at a fixed exchange rate. In this case, the tax base will be expressed in HUF on the invoice issued for the transaction. It is a lucky situation: the exchange rate does not have to be tested.

Care should be taken, when parties agree on the consideration of the transaction in a foreign currency other than HUF, and then VAT exchange rate difference may occur. In such cases, when transaction falls within the VAT Act, the tax base determined in foreign currency must be 'converted into HUF'.

The reason for the imperfection of the automated billing and enterprise management systems lies in the dual exchange rate technique. Depending on the accounting policy of the company, the accounting exchange rates of the outgoing and incoming invoices in foreign currency may differ from the VAT exchange rate according to the VAT Act.

How is the conversion into HUF done based on the Act C of 2000 Accounting (hereinafter referred as Accounting Act)?

The value of an invoice issued in a foreign currency must be converted into HUF and set into the accounting according to the exchange rate of the day of fulfilment or – if there is contract made – to the date of fulfilment marked in the contract. This can be the average of the daily selling and buying rate of the selected credit institution, or the official exchange rate of the MNB (Hungarian National Bank), or ECB (European Central Bank). However, if the valuation of these exchange rates causes significant distortion in the values of assets and liabilities or in the result, then for the sake of a true and reliable outcome, there is an option for businesses to use only the selling or buying rate, when converting the value of an invoice issued in foreign currency.

Therefore, to avoid the dual exchange rate technology, it is advised to set an exchange rate that can be matched to the VAT exchange rate according to the VAT Act. If a company does so, the same exchange rate can be applied in the general ledger as in the VAT analysis, so the accounting system does not have to operate at double rate.

If, however, the company decides to use dual exchange technology, the items recorded in the general ledger based on the accounting policy may differ from the exchange rate of the VAT analysis for each reporting period, which may arise in exchange rate differences. The principle is that accounting should match with the VAT return, so at the end of the recording periods, the ledger must be adjusted to the return in HUF, i.e. the differences on the accounts of 466-
467 are to be adjusted against exchange rate gains or losses.

**How does the conversion into HUF happen according to the VAT Act?**

It has already been mentioned that the tax base must always be determined in HUF. When determining the tax base for foreign exchange transactions, the taxpayer liable for tax payment must apply the provisions of Section 80 (2) of the VAT act, and either of the exchange rates discussed in 80/A §.

Important, that only the tax charged on this given tax base in HUF can be deducted, so we recommend to each invoice receiver, to check whether the supplier partner has calculated with the correct tax base.

For the purpose of determining the expressed tax base of a foreign currency in HUF, the applicable rate on the day of fulfilment must be taken into consideration. Except, if the special circumstances of the transaction triggers extraordinary method.

**When does fulfilment occur based on the VAT Act?**

It implies the factual realization of the transaction, when all elements of the transaction have occurred; when all conditions laid down by the parties in the contract, and all requirements imposed by the law meet. Handling of some types of transactions are indicated explicitly in the VAT Act itself. Such are the normal product sales, payment in instalments, commissioning, and free of charge transactions. If the subject of the transaction is divisible in nature, and there is no further obstacle for partial fulfilment, than each partial fulfilment can also be considered as date of fulfilment.

Thus, based on the general rule, the conversion to HUF shall be done at the exchange rate of the day of fulfilment.

**The list of rules differing from the general rule**

1. **EU acquisition of product**

   In case of product acquisition within the Community, transactions subject to the domestic reverse charge (R/C) taxation, and in case of importation of product, conversion into HUF shall be done on the exchange rate applicable at the time of upraise of tax liability.

   To determine the tax base in HUF in the case of EU acquisition of product, the exchange rate date must be the day of the issue of the invoice, but no later than the 15th day of the month following the fulfilment.

   In transactions, between two Hungarian taxable persons, which are subject to domestic R/C as referred in Section 142 of the VAT Act (such as labour hiring, sales of scrap metal), the following three events must be identified to determine the tax base in HUF: - arrival of invoice / - crediting of the counter-value / - 15th day of the month following the fulfilment. Of these events, the exchange rate of the earliest occasion shall be used.

   In case of product import, the same exchange rate shall be applied for the conversion of the tax base into HUF, which is used for the determination of the customs value. The customs value of the product shall be converted into HUF based on the foreign currency exchange rate issued by the Hungarian National Bank (MNB) on each penultimate Wednesday of the month preceding the date of customs clearance.

2. **Advance Payment**

   In case of advance payment, the determination of the tax base in HUF must be done by applying the exchange rate valid on the date of crediting of advance payment. At the same time, in connection with „import services“– according to some interpretations – the practice is not objectionable that the domestic taxpayer, who pays the advance payment, applies the exchange rate of the date when the advance
payment has been debited from the account, (since the date of credit is not known by him).

In case of a transaction effected by advance payment, at the time of fulfilment – since the advance payment and the remaining amount constitute separate tax bases at different dates – the tax base must be split up, having regard to the fact, when converting the tax base into HUF, the advance payment and the remaining amount apply different exchange rates.

Thus, the amount of the VAT already paid on the advance is not influenced by the change of exchange rate occurred between the date of advance payment, and date of final fulfilment.

3. Transactions with periodic settlements

In case of transactions with periodic settlements (Article 58 of the VAT Act), the determination of the tax base in HUF is simpler than main rule, the exchange rate valid at the time of issuing the invoice must be applied.

4. Intra – Community Sales

To convert the tax base of intra-community sales to HUF, under the conditions specified in Section 89 of the VAT Act, the following two dates should be identified as the first steps: - the date of issuing the invoice/ -the 15th day of the month following the date of fulfilment. Of these, the exchange rate applicable at the earlier date shall be applied.

After selecting the daily exchange rate to be applied as discussed above, there is only one more issue to decide on.

What should be the applicable VAT rate?

This exchange rate may be the official currency sell-exchange rate of the selected credit institution or the official exchange rate of the Hungarian National Bank (MNB) or the European Central Bank (ECB).

The one that issues an invoice and chooses the official exchange rate of the Hungarian National Bank (MNB) or European Central Bank (ECB), must formally notify the National Tax and Customs Administration of Hungary (NAV) using the form no. 18T201T, and may not depart from the chosen method of exchange by the end of the following calendar year.

If the one that issues an invoice did not exercise the right of choice, must use any exchange rate quoted as the selling price of foreign currency offered by any credit institution that possesses the permit of currency exchange in Hungary. Taxpayers are free to choose between credit institutions that have a permission of currency exchange.

Why is it necessary to identify the appropriate daily rate to be applied?

Because according to the Section 172 of the VAT Act, the VAT charged in foreign currency must be indicated on the invoice in HUF as well,
using the exchange rate described above, and the recipient of the invoice may only deduct the tax expressed in HUF, if entitled for deduction.

Talking of intra-community acquisitions, in case of service import or related advance payment, where R/C is applicable, the receiver of the invoice must be aware of the above-mentioned since the invoice received must not include HUF value and applied exchange rate. In this case, the receiver of the invoice, when assess the tax to be paid, does not apply the exchange rate applied by the supplier, but the exchange rate chosen by him/her. The same rate that is used in case of normal sales.

If the used invoicing software can handle all of these, then the invoices issued in foreign currency will in compliance with all the requirements of VAT Act and will be no need for invoice corrections or adjustment of VAT analysis / general ledger registers.
News Flash | Accace | VAT Exchange rate differences in Hungary

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