

TaxAlert

2009

The Tax Authority's investigation guidelines for 2009

The subject of our current tax alert is the publication of the Tax Authority's investigation guidelines for 2009.

In the following we draw your attention to the most important parts of the Tax Authority's investigation guidelines for 2009, which have already been published.

Guidelines for the investigation aiming to counter the black economy:

- The Tax Authority selects at least 20% of business entities established without a legal predecessor for investigation based on risk analysis. Within 90 days after the tax number is established, the genuine content of the submitted information and the fulfillment of certain tax liabilities will be reviewed.
- The Tax Authority gives special attention to business entities which change headquarters several times or change their ownership structure continuously, which permanently accumulate losses, and have significant amount of shareholder loan, and to taxpayers, which have the same headquarter, ownership and executive manager.
- If the facts of tax fraud have been established, then the Tax Authority extends the investigation also to other enterprises belonging to the owners or the representatives of the investigated taxpayers.
- The investigations related to the companies' minimum tax base will be continued in 2009, focusing on the real content of the tax base
- The investigation relating to illegal employment has high importance, therefore besides others the Tax Authority examines those entrepreneurs whose social contribution liability per employees is less than twice of the minimum wage and taxpayers having a permanent establishment abroad.
- Another important scope of the investigations is the examination of real performance of services accounted for by the enterprises.
- In case of VAT related investigations, the Tax Authority pays increased attention to the disclosure of carousal frauds, the examination of trade activities carried out with enterprises situated in other EU member states and third countries, and the development of cooperation with foreign tax authorities and with the Customs Authority.

Guidelines for investigation of special types of business processes in order to reduce risk for tax revenue loss:

- The review of transfer prices will have more importance; if the tax base has been adjusted due to the application of non arm's length price, the Tax Authority investigates the determination of the arm's length price.
- Increased attention is paid to the investigation of taxpayers which apply unjustified tax allowances and tax base decreasing items, or which decrease the innovation contribution and corporate income tax liability by costs accounted for as R&D activity.
- The investigation of taxpayers committing VAT fraud is extended to enterprises which declare high turnover and accordingly great expenses in their VAT returns on a regular basis, and also to enterprises which declare a large amount of payable and deductible VAT in pre-company period.
- Foundations and non-profit organizations are subject to increased control, regarding the utilization of received donations.
- In order to reveal hidden revenues, the Tax Authority investigates the companies' cash management regulations and inventories and the fulfillment of cash payment reporting obligations.

Guidelines for investigation of liabilities due to the changes of law:

- Activities falling under the scope of the reverse charge mechanism and also the application of VAT grouping are subject to increased investigation.
- The Tax Authority pays extra attention to investigate certain kinds of transactions among taxpayers obliged to open bank accounts. Particular areas will be the examination of the practice of the settlement of the so called consolidated payment prescribed by the law and the daily closing amount of cash of enterprises subject to the Accounting law.
- Other important scopes of investigation in 2009 are the review of the utilization of development or investment allowance, furthermore the review of the applicability of tax base decreasing items, such as the non-realized foreign exchange difference, if these have been accounted for as tax base increasing items in previous years.

Special attention will be paid during 2009 to taxpayers engaged in the car rental services, advertising services, or adult and other education not classified elsewhere, and enterprises providing recruitment services, freight companies, participating in the distribution chain, and entities engaged in provision of e-commerce services.

Should you have any questions regarding the above, please do not hesitate to contact Enikő Vadon (tel.: 887-7359, eniko.vadon@kpmg.hu) at the tax department of KPMG Advisory Ltd. or your regular tax advisor.

Partners

Michael Glover

Partner
+36 1 887 7405
michael.glover@kpmg.hu

Gergely Demetrovics

Partner
+36 1 887 7366
gergely.demetrovics@kpmg.hu

dr. Csaba László

Partner
+36 1 887 7420
csaba.laszlo@kpmg.hu

Philippe Norré

Partner
+36 1 887 7449
philippe.norre@kpmg.hu

Mergers & Acquisitions Group

Gábor Beer

Director
+36 1 887 7329
gabor.beer@kpmg.hu

dr. Zoltán Kádár

Manager
+36 1 887 7404
zoltan.kadar@kpmg.hu

Indirect Taxes, Customs and International Trade Group

Balázs Földes

Senior Manager
+36 1 887 7232
balazs.foldes@kpmg.hu

Ian McNicholls

Senior Manager
+36 1 887 8902
ian.mcnicholls@kpmg.hu

dr. Tamás Kosztolányi

Manager
+36 1 887 7256
tamas.kosztolanyi@kpmg.hu

Péter Pataky

Manager
+36 1 887 7409
peter.pataky@kpmg.hu

Tax Advice for the Financial Services Sector

Gábor Farkas

Senior Manager
+36 1 887 7415
gabor.farkas@kpmg.hu

Bálint Gombkötő

Senior Manager
+36 1 887 7159
balint.gombkoto@kpmg.hu

International Tax Structures Group

Tamás Mlinárik

Director
+36 1 887 7498
tamas.mlinarik@kpmg.hu

Personal Income Tax Group

Kornélia Mitrik

Senior Manager
+36 1 887 7410
kornelia.mitrik@kpmg.hu

dr. Katalin Boncsér

Manager
+36 1 887 7321
katalin.boncser@kpmg.hu

Gabriella Joó

Manager
+36 1 887 6630
gabriella.joo@kpmg.hu

Corporate and International Taxation Group

Mihály Gerhát

Manager
+36 1 887 7180
mihaly.gerhat@kpmg.hu

Tibor Jároli

Manager
+36 1 887 7416
tibor.jaroli@kpmg.hu

Enikő Vadon

Manager
+36 1 887 7359
eniko.vadon@kpmg.hu

Transfer Pricing Advisory Group

Mónika Mindszenti

Senior Manager
+36 1 887 7170
monika.mindszenti@kpmg.hu

Balázs Pethő

Manager
+36 1 887 7368
balazs.petho@kpmg.hu

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