mailing leitner
hungary

Changes in the Accounting Act, introducing IFRS, increased capital requirements under the Civil Code

Dear Clients,

Changes in the Accounting Act, introducing IFRS, increased capital requirements under the Civil Code - 2016

In our current mailingLeitner newsletter we would like to provide information about the major changes in accounting effective as of 2016 and the possibility of conversion in IFRS book-keeping. We would also like to remind you about the grace period expiration date of March 15, 2016 regarding the increased capital requirements taking affect according to the new Civil Code.

Changes in the Accounting Act

The amendments mainly aim to comply with EU directives unification. In addition, the modifications also aimed to converge the Hungarian thresholds with the EU levels, and also to harmonize the accounting legislation with tax and civil law regulations.

<u>Amendment of thresholds applicable for the determination of the type of financial reports</u>

One of the key elements of the new regulation is the significant increase of the thresholds for the specific types of financial reports. Much more than before, approximately 90% of the Hungarian businesses may apply the simplified annual report form, but the thresholds for consolidated financial reporting obligations are also significantly increased as well. Therefore, due to the amendments many companies can prepare their annual financial statements with better terms and less administration. The statutory content of the Notes and the Business Reports to the financial statements were also amended.

The following three tables list the conditions for the application of the various types of financial reports. A form may be opted if any two of the three conditions are met:

leitner leitner
www.leitnerleitner.com

KIADó/PUBLISHER
Leitner + Leitner Tax Adótanácsadó Kft
Kapás utca 6-12, Víziváros Office Center
Irodaház B/IV, 1027 Budapest
T +36 1 279 29-30
F +36 1 209 48-74
E office@leitnerleitner.hu
www.leitnerleitner.com

The upper limit of preparing simplified annual report		
	actual	**from 2016**
balance sheet total (million HUF)	500	1200
annual net sales (million HUF)	1000	2400
average number of employees	50	50
The lower limit of preparing annual report		
	actual	**from 2016**
balance sheet total (million HUF)	above 500	above 1200
annual net sales (million HUF)	above 1000	above 2400
average number of employees	above 50	above 50
The lower limit of preparing consolidated financial statements		
	actual	**from 2016**
balance sheet total (million HUF)	5400	6000
annual net sales (million HUF)	8000	12000
average number of employees	250	250

Changes concerning dividend distribution

Another important change is **the termination of the balance sheet result category from the financial statements**. As of 2016, the dividend shall always be from the retained earnings free for distribution that already includes the after tax profit or loss of the previous business years. So in the 2017 financial year, the maximum distributable dividend may be the sum of retained earnings already increased by the after tax profit of 2016. The above described changes significantly affect the payment and accounting of dividends.

According to the existing rules, decision about dividend distribution is to be made after the preparation and adoption of the annual report on the member's or shareholder's meeting. Then the financial reports need to be prepared again after the dividend decision. From 2016, the decision on dividend shall not be booked back, but will be accounted for in the actual year.

Thereafter, negative retained earnings will directly limit dividend distributions, as dividend will only be considered from the after tax profit of the year that exceeds the negative retained earnings. Therefore, **businesses have to check at the end of the previous year whether the internal capital structure allows the payment of dividends,** and negative retained earnings need to be settled before the dividend decision.

leitnerleitner
www.leitnerleitner.com

KIADó/PUBLISHER
Leitner + Leitner Tax Adótanácsadó Kft
Kapás utca 6-12, Víziváros Office Center
Irodaház B/IV, 1027 Budapest
T +36 1 279 29-30
F +36 1 209 48-74
E office@leitnerleitner.hu
www.leitnerleitner.com

PAGE 3

Changes in the Accounting Act

The introduction of the IFRS in Hungary

Increased capital requirements under the Civil Code

Changes in the balance sheet and income statement items

The unpopular double-sided format of the profit and loss statements is abolished. The extraordinary item categories in the financials are ceased, the contents are reclassified as other or financial results. Due to conceptual changes new and P/L rows are added in the financials. For example, the concept of a substantial ownership share is appeared, and investments in other companies have to enlist in new rows. Deeper division of the annual statements and consolidated reports will affect mainly large companies.

Comparability of the report

Year 2015 should still be closed according to the old rules. However, in order to ensure already then need to be rolled over comparability with the 2016 financials, the 2015 data should rotated according to the new rules as well.

The competent accounting team of LeitnerLeitner is ready to assist in solving problems related to the changes in the Act on Accounting. Please contact us on 2015/2016 accounting rollover, in relation to the management of the capital structure and entrust us to prepare or update your accounting policies.

The introduction of the IFRS in Hungary

Government Decision 1387/2015 has made possible to use the IFRS standards for Hungarian enterprises too. The legislative framework for IFRS implementation consisting of the transitional provisions, the IFRS record-keeping and the tax calculation rules have been published in the Official Journal on 26 November 2016.

From 2016 it will be optional to account by the IFRS for the stock companies whose shares are introduced to a regulated market of any member state of the EGT, and for those whose ultimate parent company consolidate their subsidiaries according to the IFRS.

Although the transition is expected to be massive in 2017 only, many have been thinking about starting with IFRS in 2016 already. Although the complete changeover of the accounting system is a challenging task, moreover it is recommended to map the expected effects in advance. In many cases it is also recommended in the first year to prepare parallel book-keeping, one under Hungarian GAAP and another by the IFRS.

Hungarian book-keeping however will not be a requirement for the IFRS adopters, since the determination of the **tax obligations** (corporate income tax, local business tax, income tax on energy suppliers, advertising tax) has to be assessed on the tax base defined by the IFRS's. The IFRS accounting items will need to be adjusted by special modifications first to narrow the Hungarian accounting standards, then after some further adjustments the usual tax calculations need to be performed.

Although the basic principle would be to achieve similar tax results for IFRS, this may not be possible in full. Therefore, the corporate income tax of the companies implementing the IFRS is freezed for two tax years (the year of transition plus the + following year) (**application of minimum tax**)

leitnerleitner
www.leitnerleitner.com

KIADó/PUBLISHER
Leitner + Leitner Tax Adótanácsadó Kft
Kapás utca 6-12, Víziváros Office Center
Irodaház B/IV, 1027 Budapest
T +36 1 279 29-30
F +36 1 209 48-74
E office@leitnerleitner.hu
www.leitnerleitner.com

For preparation, one should also consider to ensure comparability of the financials to transform the financial data of the period prior the IFRS transition.

The **preparation for the transition must be checked by an IFRS auditor**, the intention about implementation **must be reported** to the **tax authorities and the statistical office**, or in some cases to the Hungarian National Bank as well. According to the special transitional rules, such reporting deadline for 2016 implementers will be 15 days after the transition date, which is normally the 15th of January 2017.

LeitnerLeitner is at your kind disposal regarding issues related to the introduction of IFRS and accounting services according to IFRS.

Increased capital requirements under the Civil Code

On 15 March 2016 the grace period relating to the increased capital requirements of the new Civil Code will expire.

The new Civil Code took effect on 15 March 2014 and it introduced a number of amendments to the regulation of corporations. Among other things the requirements for the minimum share capital were increased, accordingly the minimum share capital of HUF 500,000 previously defined for LLCs is increased to HUF 3 million according to the new Civil Code. Registered companies must apply the amendment by the first modification in their Articles of Association following 15 March 2014, in case of LLCs by 15 March 2016 at the latest.

In practise this means that in case of LLCs where it was not necessary to make amendments in their Articles of Association in the past two years, must increase their share capital up to sixfold.

Please do not hesitate to contact our advisors at LeitnerLeitner regarding your questions on the changing of the capital structure.

For further information, please contact:

Siklós Márta
T +36 1 279 29-30
E marta.siklos@leitnerleitner.hu

Jancsa-Pék Judit LL. M.
T +36 1 279 29-46
E judit.jancsa-pek@leitnerleitner.hu

dr Rácz Nóra
T +36 1 279 29-48
E nora.racz@leitnerleitner.hu

Kálmán Veronika
T +36 1 279 29-34
E veronika.kalman@leitnerleitner.hu

Tamás Veronika
T +36 1 279 29-30
E veronika.tamas@leitnerleitner.hu

Zsömbölyné Révai Csilla
T +36 1 279 29-30
E csilla.zsombolyne@leitnerleitner.hu

Juhász Márta P LL. M.
T +36 1 279 29-36
E marta.juhasz@leitnerleitner.hu

dr. Menczel-Kiss Gellért
T +36 1 279 29-30
E gellert.menczel-kiss@leitnerleitner.hu

Balázs Péter
T +36 1 279 29-30
E peter.balazs@leitnerleitner.hu

leitnerleitner
www.leitnerleitner.com

KIADó/PUBLISHER
Leitner + Leitner Tax Adótanácsadó Kft
Kapás utca 6-12, Víziváros Office Center
Irodaház B/IV, 1027 Budapest
T +36 1 279 29-30
F +36 1 209 48-74
E office@leitnerleitner.hu
www.leitnerleitner.com