



TaxAlert

Hungary to Adopt Country-by-Country Reporting

2 June 2017.

Dear client,

On 15 May 2017, an amendment to the *Act on Certain Regulations on International Administrative Cooperation in Field of Taxes and Other Charges* was accepted by the Hungarian Parliament, entering into force on 31 May 2017. Our newsletter summarizes the most crucial aspects of this regulation.

Country-by-country report

The country-by-country report (CbC) is an element of transfer pricing documentation which helps tax authorities to understand the operation of multinational enterprises (MNEs), and assess several tax risks (transfer pricing, tax base erosion, profit shifting).

In accordance with the Base Erosion and Profit Shifting (BEPS) Action Plan, the EU also introduced the Anti-Tax Avoidance Package (ATAP), the most important part of which is the harmonized introduction of the CbC report.

Based on this, Directive 2016/881/EU was adopted as regards mandatory automatic exchange of information in the field of taxation. Through the amendment, entered into force on 31 May, the automatic exchange of information in a CbC report is transposed into domestic law. The primary objective of the Directive is to facilitate information exchange between tax authorities, and thereby support transfer pricing audits and improve efficiency.

Regarding submission of the CbC report, only those MNEs are obliged that have achieved **annual consolidated group revenue of EUR 750 million or more in the fiscal year preceding the fiscal reporting year.**

Obligations related to CbC report

Since the authority to which the report was submitted, by means of automatic exchange, shares data with any other member state in which one or more "constituent entities" of an MNE group are resident for tax purposes, **only one group member – typically the ultimate parent company – shall file a CbC report on behalf of the MNE group.**

However, **every group member must indicate** whether or not they are obliged to file CbC reports. If a group member does not bear a reporting obligation, it shall report the **name and tax residence of the entity that is liable to report** to the tax authority.



| Members of an MNE group | Obligation | First submission | Deadline |
|--|--|---|---|
| Parent entity | Under general rule: CbC reporting obligation | Fiscal Year commencing on or after 1 January 2016 | Within 12 months of the last day of the fiscal year |
| Reporting entity | If none, the parent company submits the CbC report: CbC reporting obligation | Fiscal year commencing on or after 1 January 2017 | Within 12 months of the last day of the fiscal year |
| Hungarian resident entity (if not the parent, or reporting entity) | Notification obligation | Fiscal year commencing on or after 1 January 2016 | Last day of the reporting fiscal year* |

**The first notifications to be filed for the fiscal year commencing on or after 1 January 2016 can be made within 12 months of the last day of that fiscal year.*

Any change in the information reported must be filed within 30 days of such change occurring.

Therefore, if a Hungarian entity is not a parent, or a reporting entity, it has only an obligation of notification under the new regulations.

Contents of a CbC report

A CbC report shall contain aggregate information relating to the amount and currency of revenue, profit (loss) before income tax, income tax paid, income tax accrued, stated capital, accumulated earnings, number of employees and tangible assets other than cash or cash equivalents with regard to each jurisdiction in which the MNE group operates, an identification of each constituent entity of the MNE group, and the nature of the main business activity or activities of that constituent entity.

Fulfillment of the obligations

Both notification and reporting obligations shall be submitted by **electronic means** using an electronic form provided for this purpose by the tax authority. This form is currently unavailable.

Sanctions

In cases of failure to submit reports or notifications, late submission, or providing incorrect, false, or incomplete information, liable parties may be subject to a **default penalty of up to HUF 20 million** imposed upon the taxpayer, or the reporting entity.

If you have any further questions concerning the points above, please do not hesitate to contact us. Alternatively, please contact your regular Tax advisor at KPMG Advisory Ltd.

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