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REAL TIME INVOICE REPORTING IN HUNGARY

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The last few years have seen the introduction of a whole range of digital tax solutions across Europe. These digital solutions are not necessarily independent of each other, there is a very typical trend. In Hungary, this process started with the introduction of online cash registers, followed by the introduction of the EKAER system for the provision of data related to road freight transport (Electronic Public Road Trade Control System), and offering a prepopulated personal income tax returns can also be mentioned as examples. The real time reporting of invoice data, which in Hungary is embodied in the Online Invoice System, also fits into this range.

If you look at digital solutions in different countries in the EU, you will find more places offering transaction-based invoices, real time data reporting like the Hungarian Online Invoice solution. Spain and Italy are good examples. The obvious advantage of this solution is that tax administrations using them can react much faster and more efficiently to certain tax risks. The Hungarian tax administration has not only considered invoice data reporting as a new obligation, but has also had emphasis on the services related to the Online Invoice System from the very beginning.

The services of the Online Invoice System include the free invoicing program commissioned by the tax authority and the mobile application, which is available to all Hungarian taxpayers. The Online Invoice System also provides a significant service to accountants by storing the invoice data in the system available for retrieval on both the invoice issuer and the customer side. This means that the entry of supplier invoices in the books can be significantly automated through a proper accounting process and the time and capacity spent on data entry can be

significantly reduced. All the tax administration had to do was to share the data with the taxpayers. The Online Invoice system has significantly increased the overall level of digitalisation of Hungarian businesses indirectly and has also increased the use of electronic invoicing.

Digitalisation is not only seen as a positive trend, many question its future implications. Doubts have been phrased about its pace and also about the process as a whole. Accountants and tax advisers fear that they will have less work and their expertise will be less needed. In a world described by algorithms, in the end, the accounting process could essentially be a job done by machines.

The future is not necessarily black or white, however. It is very difficult to digitalise all processes currently managed by people. Human intelligence has to remain in this world. It is now clear that the introduction of the Online Invoice System has transformed the everyday life of businesses, as well as the accountant and tax advisor community. Digitalisation is no longer just a buzzword, it has become tangi-

ble in daily practice.

Development of the Online Invoice System

The Online Invoice System is a proven solution developed through continuous and collaborative learning, but it is not the secluded work of a few people. For the tax administration, it was very important to strike a healthy balance between obligation and service. It is perhaps the first tax administration solution that started as a liability, but the service perspective was equally important during the implementation. For companies today using these services, the Online Invoice System is not just an obligation, but an essential element of their digital processes.

The reporting obligation started on 1 July 2018, with at that time the reporting obligation for invoices issued to domestic taxpayers with a tax amount exceeding HUF 100,000. Subsequently, the obligation was continuously extended in 2020 and then again in 2021, so now all invoices issued by Hungarian taxpayers are subject to the data reporting.

The basic technical background of the system has not changed since 2018, but the data structure has undergone changes. This is partly due to changes in legislation and partly due to suggestions made by taxpayers to the tax administration. In the Hungarian public administration, the Hungarian National Tax and Customs Administration (NTCA) was the first organisation that used the GitHub forum to engage directly with customers and software developers. Many suggestions made during this dialogue have been incorporated into the system.

How the Online Invoice System works

The requirement to disclose data is twofold, it is an obligation on the part of the taxpayer on the one hand and an obligation for the software on the other. This means that if a business issues an invoice from a manual invoice pad, it has a maximum of four days to upload the invoice data to the tax administration's system. In case of an invoicing software, the data reporting is not a requirement of the person but of the machine. So in this case, the invoicing software is required to send the invoice data to the tax authority in XML format immediately after the invoice is issued, in an automated way and without human intervention.

Only a small proportion of invoices are generated from invoice pads, and using an invoicing software is the most typical method. The invoicing software starts the data transfer process after the invoice is closed. When the tax administration receives the XML, an automatic verification process starts. The XML file is validated by the Online Invoice System and filtered for both format and consistency errors. If the XML does not meet the format requirements (the XML is technically not valid) or if there are serious content deficiencies in the data, it will not be processed. Typical administrative errors are also filtered and although these data transmissions are processed, an automatic warning message is sent by the System to the client's invoicing program.

Impact of data reporting

The system has had a clear impact on businesses and invoicing software as well. Many businesses have changed decades of incorrect invoicing practices as a result of data reporting. It is a very typical experience that a significant proportion of businesses have reviewed their invoicing processes prior to implementing the new legislation. Since 2018, there has been a significant improvement in the invoicing processes of businesses, with a significant increase in compliance due to the prompt response messages and tax authority alerts.

Perhaps the most significant change has been in the invoicing software market. At the beginning of 2018, there were a relatively large number of invoicing software in Hungary, and their quality varied on a wide spectrum. The data reporting requirements presented a clear technical challenge for some software developers. Although the tax administration organised forums, provided detailed documentation (which is also available in English) and supported developers with test programs, more software developers were not technically able to meet the requirements. A number of invoicing software - typically of poor quality and outdated - disappeared from the market. In a number of cases, the NTCA found invoicing software that had already been operating in compliance with the legal environment for 10 years.

Data reporting has brought a drastic change. Software developers, cannot afford not to follow invoicing rules because of data reporting. This is also reflected in the fact that more than half of the questions from software developers were not technical, but rather of a legal nature following the introduction in 2018.

The way invoicing software works, supporting legal compliance and communication between software developers and users have evolved significantly in recent years. The invoicing software currently in use in Hungary

is of significantly higher quality than before.

Next steps

The legislative change in 2021 has not only changed the invoicing obligation, but has also broken new ground in the field of electronic invoicing. It is now possible, if both parties choose, to issue their electronic invoices in XML format via the tax administration's system. This requires that the information provided includes not only the legal minimum, but also the full invoice details and the relevant decision. There is still room for further automation and digital development in the area of invoicing, which at the time of writing this article is seen as a future of possibilities. The tax administration is continuously gathering input from taxpayers and invoicing software developers on electronic invoicing and is continuously developing the Online Invoice System looking for these possibilities.

This year's ambitious tax administration project is also related to the Online Invoice System, offering a prepopulated, draft VAT return for businesses. Of course, the tax authority also needs sufficient quantity and quality of invoice data to achieve this. Offering prepopulated tax returns for taxpayers clearly does not pose any new obligations, but rather it is a new service.

Using the real time cash register and invoice data available, the tax authority prepares a prepopulated, draft tax return, which can be reviewed by businesses or their accountants and, with minimal further effort, they may submit it as their tax returns. Offering VAT returns thus relieves businesses of many administrative difficulties.

The prepopulated, draft VAT return is obviously not a complete and automatically acceptable tax return for all businesses. Also, taxable persons will still have the option of using the traditional method of filing their VAT return, so they do not necessarily need to use this method. In essence, they will have the freedom of choice in filing their VAT return by being able to see the data available to the tax authority, their context and also indication of any problems.

There is no doubt that the range of digital solutions will continue to grow in the coming years. The IT solutions may seem isolated at first, but over time the right synergies can be found between them, creating a more efficient tax administration and a seamless tax process in the long run.

ISSUING

RECORDING DATA → INVOICE APPROVAL

XML

NTCA online invoicing system

INVOICE WRITING → DATA ENTRY

ISSUING