

News Flash

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**VAT impact on income generated
from sale of mobile applications in
Hungary**

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With effective date 1st January 2015, a new VAT regulation entered into force in the European Union related to the services may be provided remotely. The place of fulfillment of such services is determined according to the customer's place of residence from 2015. The electronically supplied services contain the service provided by the distributors of mobile applications also. According to the law modification the place of fulfillment and thus the applicable VAT rate will be determined according to the principle of destination, the location of the end user, instead of the state of distributor or the intermediary platform (AppStore, Google Play). If the case is not clear (e.g. travelling on vacations, holidays) the country code of the SIM-card of the user's cell phone defines the state of taxation. We examine in our current summary how can the VAT declaration and payment liability fulfilled with the lowest administration burden.

Whom it affects?

It's important to highlight that this regulation only affects the services provided to costumers (B2C), but not the services between businesses (B2B).

This means that a developer who is selling a popular application may have tax obligations in all the 28 member states.

In order to simplify the administrative process, the European Union introduced the MOSS system.

Procedure and rate of taxation

This regulation introduced unified taxation for every member of the European Union, and the same rules apply to every developer and distributor. However, as a result of the principle of destination, different VAT rates will be applied in each member state.

The administrative system

The so called mini-one-stop-shop system (MOSS) is a one-window administrative system, which allows distributors to perform their activities in every state of the European Union with tax return and taxpaying liability only to their domestic tax authority. The collected tax is divided between the states in the proportion of the transactions

Who benefits?

The aim of this regulation is to create equal competition and by the same conditions state members with higher VAT rates suffer no detriment, furthermore to decrease the administration burden of the service providers thereby increasing the cost effectiveness. This has a positive effect on Hungarian distributors, as they can charge abroad with more favorable VAT rates, but has negative effect on Hungarian costumers who wants to order the same services from abroad because they will be charged with the domestic VAT rate of 27 percent.

Procedure of administration

This administrative system is only optional, but a huge help to avoid having to register at the tax authority of all states where they provide services. In case of the taxpayer choose this system to fulfill the VAT liability, the system can be reached through the link of the webpage of the tax authority.

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The tax return should be declared until 20th of the month following every quarter, the payments should be made with same deadline (in currency EUR). After the administrations the authorities transfer the collected tax to the state of the final consumption.

If you or your company is interested in this taxation form or need further information, contact us, our tax advisors would be pleased to help you.

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