

EXPERIENCES IN CONNECTION WITH THE SYSTEM OF ONLINE INVOICE *

ZOLTÁN VARGA

Associate professor, Department of Financial Law
University of Miskolc
civdrvz@uni-miskolc.hu

Introduction

The digitalization has a great impact to the Hungarian tax procedures in the last years, so in this short article I will review these and present the major milestones. One of them was the Online Account system, which can effectively help to ensure the highest possible level of tax revenues.

From the 1 January 2016 every online billing programs had to have data service function. In case of an audit the billing program provides data about a defined period or defined invoices. It is important that in case of amount of 100.000. Ft VAT it was obligatory to report about the invoices to the tax authority. The system was under testing from 1 January 2017. The aim of the tax authority was to introduce the automatic data services. Similar systems are used in Turkish and Brazil with the exception that in those countries only the tax authority is entitled to issue online invoices. From 1 January 2017 the invoice shall contain the tax number of the buyer if the amount of VAT is or over 100.000 Ft. After the testing period the system entered into force. Advantage of the system that the data service is full and clear. Together with the EKÁER it could be a great tool to filter out fictional invoicing and of course it contributes to environmental protection because it can decrease the amount of the paper invoicing. The disadvantage of the system is that cause huge administrative burdens and costs to the companies. In order to reduce the costs the government enhance to issue free billing programmes to the companies.¹

As of 1 July 2018 it is obligatory to provide data on the invoices containing charged value added tax at least of 100,000 HUF, issued of the transactions between domestic taxpayers.

As of 1 July 2018 the data disclosure regarding the data of the invoices issued (and documents to be regarded as equivalent to invoice) shall be fulfilled after the issuance, within a short period of time, by electronic means. In case of invoicing with the use of billing/accounting software the invoice data shall be transmitted to the NTCA without human intervention, via the public internet immediately, after the preparation of the invoice.

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¹ Zoltán NAGY - Beáta GERGELY- Balázs KATONA: *Problems relating to tax avoidance and possible solutions in the European Union's and Hungarian Regulation*. Curentul Juridic, The Juridical Current, Le Courant Juridique, Petru Maior University, Faculty of Economics Law and Administrative Sciences and Pro Iure Foundation, vol. 74, page 65, September 2018.

Data of the invoice shall be recorded on web interface in case of invoicing with the application of form, e.g. invoice pad (accordingly manual invoicing). The data report shall be fulfilled within five calendar days. This deadline is shortened if the invoice contains charged tax of 500,000 HUF or more than this amount. The data of the invoice containing of HUF 500,000 or more charged tax shall be recorded on web interface on the day after the day on which the invoice was issued.

The data disclosure liability in principle is covered by such an invoices issued on the transactions between domestic taxpayers in which there is HUF 100,000 or more charged tax.

The objective of the introduction of the online data report and of the establishment of the data management system is to further whiten the economy by discouraging tax frauds. This is complemented by the free online invoicing function, as a service of the NTCA. With this development a large amount of invoice turnover become visible and traceable for the NTCA consequently the risk management can be more effective and the VAT revenues can be significantly increased.²

Within the system of online invoice

- real-time data on the issued invoices arrive to the NTCA,
- issued invoices can be queried by recipients of invoices and issuers of invoices as well,
- large amount of the invoice data is rapidly available for the purpose of effective risk analysis and audit which is assisting the detection of tax frauds,
- with the automation of the data report, the administrative burdens are reducing for users of billing/invoicing software,
- the new system substitutes the consolidated data report of issuers of invoices.

The basis of the solution is such a combined IT system which is able

- to receive and to control the invoice data that were sent in an electronic standard message as well as to confirm the sending, with the application of a system-system connection provided to taxpayers,
- to support manual recording of invoice data on a web portal,
- to trace economic activities and processes via the immediately available invoice data.

The online invoice assists the tax audit work of the NTCA, it makes the economic processes more transparent and broadens the group of the compliant taxpayers.³

Registration procedure

Pursuant to point 9 of Schedule No. 10 of the Act CXXVII of 2007 on Value Added Tax⁴ being in force as of 1st July 2018 the data disclosure within the meaning of points 5 to 8 of the Schedule referred to above shall be fulfilled on the electronic platform provided by our Administration (in the case of issued invoices containing input tax reaching the amount

² https://onlineszamla.nav.gov.hu/a_rendszerrol (2019.11.14.)

³ Act CXXVII of 2007 on the Value Added Tax Chapter X INVOICING Rules on the Issue of Invoices

⁴ Hereinafter referred to as VAT Act

determined by the referred legal regulation, the taxpayer obliged to do so has to perform data disclosure in relation to the data of concerned invoice to the state tax and customs authority). Registration is needed for the fulfilment of data disclosure obligation, which has to be accomplished either by the ones using invoicing program or by the ones using an invoice pad (invoice issued manually).⁵

Taxpayer registration

The precondition for the fulfilment of data disclosure is an existing so-called “client gateway” access (KÜNY storage) of the taxpayer, the legal representative of the taxpayer or rather the appointed agent of the taxpayer.

30 minutes are available for carrying out the registration, however, because of security reasons, which are the re-identification at the client gate, 5 minutes are granted for tax identification code to be provided.

In the possession of the Client Gateway access the single registration of the taxpayer, the legal representative of the taxpayer or the appointed agent of the taxpayer is necessary for the fulfilment of the data disclosure on the electronic platform of the Online Invoice System.

A person registered by the state tax and customs authority can be considered as *legal representative* of the taxpayer who is entitled to represent the taxpayer according to the legislation applicable to the taxpayer. In the case of legal representatives, the state tax and customs authority ex officio provides the procedural right of the legal representatives as of 2014 (the so-called automatic right creation).

Appointed agent of the taxpayer registered by the state tax and customs authority is entitled to perform the registration if

- s/he is entitled for full representation in all types of cases before the state tax and customs authority;
- s/he is entitled to administer all taxation cases;
- s/he is entitled to administer all declaration, data disclosures/-supplies related to taxation and all report, submission and application;
- s/he is entitled to administer all data disclosure;
- s/he is entitled to administer the data disclosures related to value added tax.

Process of the registration of taxpayer’s representative

As it was already mentioned before, the taxpayer liable to data disclosure must be registered in the *Online Invoice System* to secure the fulfilment of obligation a registration, which can be conducted by the legal representative or appointed agent entitled thereto on behalf of the taxpayer liable to data disclosure. The natural person registering the taxpayer is a so-called “*primary user*”.

⁵ HONOSI Krisztina Elvira: Az Online Számla felület használata kapcsán felmerült kérdések és válaszok. [*Questions and Answers related to using the Online Invoice interface*]. ADÓVILÁG 2019.április, p. 29-32.

In order for the person liable to data disclosure to be able to perform his / her obligation according to legal provisions and without any human intervention in connection with data from his / her invoices produced by his / her invoicing programme, registration of a so-called “*technical user*” is also necessary. After registration of the technical user, those data will be available that are necessary for the communication between the taxpayer’s invoicing programme and NTCA’s server.

In order to perform data disclosure obligation, a so-called “*secondary user*” can also be created. The secondary user is created by the primary user with access rights defined by him / her.

In the course of client registration, technical user and secondary user can be created in one step as well; however, a user can also be created later on after the successful registration, after logging in the Online Invoice portal.

Practical rules on the Issue of Invoices

Subject to the exception set out in next subsection, as regards the obligations relating to invoicing, the rules of the Member State where the goods or services are supplied, is respect of which the invoice is made out, shall apply.⁶

Subject to the exception set out in next subsection, invoicing shall be subject to the rules applying in the Member State in which the supplier of the goods or services has established his business or has a fixed establishment that is most directly involved in the transaction in question, or in the absence of such place of establishment or fixed establishment, the Member State where the supplier has his permanent address or usually resides, where:

- a) the supplier of the goods or services is not established in the Member State in which the supply of goods or services is deemed to be made, or the supplier’s fixed establishment situated in that Member State is not involved according to the Section 137/A in the supply of goods or services, and the person liable for the payment of the VAT is the person to whom the goods or services are supplied, or
- b) the supply of goods or services is deemed not to be made within the Community.⁷
In the case provided for in previous Paragraph *a*), invoicing shall be subject to the rules applying in the Member State in which the supply of goods or services is deemed to be made where the invoice is issued by the customer to whom the goods and/or services are supplied.⁸

The provisions of this Section shall not apply to the obligation for the storage of invoices.⁹

⁶ VAT Act 158 /A § (1)

⁷ VAT Act 158/A § (2)

⁸ VAT Act 158 /A § (3)

⁹ VAT Act 158 /A § (4)

The most common faults in connection with the Online invoice reporting

For nearly a year, in Hungary taxpayers have been required to report their invoices issued to domestic taxpayers in real time, whenever the chargeable VAT exceeds HUF 100,000. Pitfalls of online invoice reporting

Experience shows that the internal audit practice related to online invoice reporting is not yet mature on the taxpayers' side, while the tax authority, following European trends, rapidly progresses towards the most comprehensive and extended reports possible.

It is the taxpayers' own responsibility to subsequently verify the data they submit via the online invoice reporting interface of National Tax and Customs Administration, Hungary (NAV), but not all taxpayers have taken steps to ensure this. However, it is highly recommended to detect and correct any errors. Partly because the ultimate, and not very distant goal of the tax authority is to be able to prepare tax returns(s) based on invoices reported. On the other hand, given that it is the taxpayer's responsibility to correct both the invoice and its reporting for invoices not accepted by NAV, if they fail to perform this, they may face fines. The most common online invoicing faults – HUF 500,000 per invoice

1. Failed invoice reporting

The experiences show that there are still taxpayers with failed real-time invoice reports. One year after the introduction of online invoices, this is no longer a matter of discretion. In such cases, the tax authority may use its powers set out by law, and impose a default penalty of HUF 500,000 after every invoice not reported. The tax authority's system technologically provides an opportunity for taxpayers to subsequently report any missing data, thereby avoiding the risk of future sanctions. However, as of 4 June 2019, subsequent data reporting for a former period is allowed using the new of XSD (1.1) version only; the use of the former XSD 1.0 version is excluded.

2. Failure to check NAV receipts returned

For each invoice XML submitted on the online invoicing interface, taxpayers are returned an NAV message. The receipt/notification tells whether the invoice reported has been accepted by the tax authority, and if so, certain details are checked by the tax authority and errors are reported back. Based on our experience, there are still companies that either fail to or cannot read the notifications returned by the tax authority. These messages are important because if they contain any error requiring correction, it must be addressed in all cases, in order to avoid fines.

3. Incorrect reporting of corrective invoices

We still find a lot of mistakes on the taxpayers' side for corrective invoices. These are attributable partly to incorrectly issued invoices (the issued corrective invoice itself fails to comply with the VAT Act), partly to correctly issued, but incorrectly reported invoices (where the structure or content of the submitted XML schema fails to comply with the regulatory requirements). For corrective invoices, particular attention must be paid to the

details of the original transaction affected by the correction. These data must appear on both the invoice and the associated XML schema. It is a common mistake when a correction is posted as an ordinary transaction instead of a correction, while this results in an invoice and invoice reporting with incorrect content for the tax authority.

4. Incorrect tax numbers specified

As regards tax numbers, the tax authority defines which characters of the tax number should be included in the XML schema (country code, number of digits). It is important that there is a difference between the definitions of the Hungarian and Community tax numbers, which results in issues for many taxpayers when they include the incorrect format. The tax number is of particular importance as, amongst others, the tax authority uses these to associate an invoice report submitted by the issuer of the invoice with the M-sheet submitted by the invoiced party. It may result in unnecessary inspections by the tax authority if the authority's risk analysis team indicates the need for an inspection due to different or missing tax numbers.

5. Incorrect dates specified

For invoices reported by taxpayers, the reported date and the one actually specified on the invoice often fail to match. In such cases, the tax authority may suspect that the data was not reported in real time or via exclusively a machine-machine interface. The tax authority's system provides an opportunity to remedy the error, but this basically requires the detection of the error.

Recommended internal audit

The above errors can be controlled by monitoring the returned NAV online invoice report notifications, and a software solution is also available. As NAV checks the contents of invoice reports in an automated way, it is advised to run a test at least periodically, in order to detect and enable the addressing of risks and possible differences associated with online invoices before they are found by NAV. It is worth considering the above since a failure to report invoice data in real time can result in a fine of half million forints per invoice, which may lead, in a given case, to the risk of a tax penalty exceeding the VAT content of the invoice. What is more, NAV is already working on version 2.0 of the XSD foreseen for 2020, which builds on version 1.1, whereby compliance with the latter cannot be avoided.¹⁰

NAV Online invoice version 2.0

The Hungarian Tax Authority (NAV) published the missing, but most awaited component (the new XML template /XSD documentation/) of the real-time invoice reporting

¹⁰ Németh Lilla: Online invoice reporting - the most common faults
<https://www.rsm.hu/en/blog/2019/06/online-invoice-reporting-the-most-common-faults>
(2019.11.14.)

obligation, Online invoice version 2.0 for the last day of August. This template details the future structure in which automated invoicing applications, or ERPs must report data to the tax authority, including the type of data to be included in online invoice data reports.

The finalisation of online invoice reporting documentation was preceded by a multi-month period designed to make sure that both the developers and key Hungarian advisory firms can express their views about the draft published in May. It was a bit unconventional that in order to seek opinions a certain platform (called Git Hub) was also made available. Although this was unprecedented in Hungarian public administration, this not nothing new to software developers.

The new real-time invoice reporting version will surely represent some challenges for the developers of invoicing programs as the related template also offers or expects the provision of such data that, in the moment of closing and raising the invoice, are not always available. With these new data, the authority would like to receive such pieces of information that go beyond the original concept, which was the prompt reporting of the data of invoices raised. So far these data appeared neither in invoice images nor in the VAT Act, therefore (without enhancements) invoicing programs or ERPs will not be suitable for their reporting.¹¹

The first specific details about Online invoice version 2.0

Following the outage, on the last day of July the interface of NAV Online invoice (real-time invoice) featured a new version. However, the long awaited “big score” - the description of the new 2.0 XSD version of online invoice - remains yet to be seen, but development on the side of HU TA continues undiminished. Now, real-time invoice moved forward by updating API, a feature facilitating data inquiry.

By taking a single step, HU TA managed to move forward by two versions, as versions 1.9 and 2.0 went live simultaneously. On top of this, these were made available not only in the test environment, but immediately appeared on the live interface of Online Invoice.

Reading the related technical pieces of information, it turns out that functions made available so far may mostly attract increased interest among developers. This present announcement has not yet outlined the changes that will need to be made in the invoicing and reporting modules, and the final details of new XSD version 2.0 have also not yet been revealed. In addition to minor corrections and enhancements, the most important feature is that the machine interface of Online Invoice was updated. This can be regarded as the second generation of the tax authority’s development that was launched a year ago. The interface was expanded by adding useful inquiries and functions that both strengthen the digital service provider role of the tax authority and also assist in promoting the digitalisation of taxation and financial administration.

With the new version:

¹¹ Kóczé Péter: NAV Online invoice version 2.0 – more than just an invoice
<https://www.rsm.hu/en/blog/2019/09/nav-online-invoice-version-2-0-more-than-just-an-invoice>
(2019.11.14.)

- it is possible to inquire into the detailed data of invoices where our company appears not as a supplier but as a buyer, in cases where the seller indicated our tax number,
- regarding invoices reported it is possible to filter them according to periods based on either the date or even the date of the data processing of the invoice,
- based on the serial number of the original invoice, the related adjustment invoice chain can also be inquired into,
- whenever we look up invoices, in addition to mandatory search parameters, it is now also possible to enter further new optional search parameters.
- According to latest information provided by the Ministry of Finance, during the last 13 months the data of more than 50 million invoices were reported in the Online Invoice application. So currently this is the vast database in which corporate taxpayers can enter extended inquiries to obtain an increasing array of information about themselves.

For the time being, the new, version 2.0 machine interface can be used in parallel with version 1.x that is currently used to report data. So far, no information has yet been provided by the tax authority about the process of mandatory migration to the new version. The opening of the new API is a small step for one man, but a significant (although not yet a giant) leap for companies in terms of the future of digital taxation. This may primarily promote the digitisation of financial processes, the further automation of control points and can take us one step closer to the practical application of eVAT, that has currently only been formulated as an objective.¹²

Closing remarks - All roads lead to digitization in taxation

Also as a result of electronic data disclosures – real-time invoice data reporting, EKAER, or online cash register data – the estimated VAT gap in Hungary has decreased considerably in the course of the past 5 years, to 9 per cent in 2018. In the meantime, the scope of tax information possible to be digitally queried from HU TA databases is extended significantly.

Although the proportion of the VAT gap has decreased significantly – already below the EU average – still, nearly HUF 350 billion per year does not flow in the budget. All this continues to motivate the Tax Authority to introduce further changes, such as the preparation of e-VAT schemes as soon as possible. In addition to real-time invoice data, the VAT return scheme – intended to be introduced by 2021 – can also be based on data received from online cash registers and ATMs. The plans of the HU TA include machine-aided processing of cash register log files, channelling them to accounting, and machine-aided electronic invoicing as well.

The digitization of taxation, the automation of invoicing and VAT returns entail both opportunities and risks for taxpayers. As shown by tax inspections considerably altered in recent years, there is an increased emphasis on continuous risk analysis based on the

¹² Kóczé Péter: The first specific details about Online számla version 2.0 <https://www.rsm.hu/en/blog/2019/09/the-first-specific-details-about-online-szamla-version-2-0> (2019.11.14.)

analysis and verification of information received online. Both domestic and international regulations build on data requests and data analyses more and more extensively. As a result, it is required to develop more efficient control and data processing strategies at management levels as well, in order to enable taxpayers to keep pace with following the information expected by and available to the Tax Authority.

For companies of rather complex operations, compilation of VAT analytics and VAT returns can be a challenge, tying up considerable capacities month by month. Where it is necessary to synchronize the work of several people and several systems, it is definitely worthwhile to take into consideration what means can be relied on for automation, even supported by databases made available by the HU TA.

As the first-round investigations by the HU TA are also conducted digitally, immediately, using risk analysis software products, those who do not want to fall behind the Tax Authority in terms of digitization are not offered the opportunity but are rather expected to compare information possible to be queried digitally with their own systems. Those who continue to perform manual checks only and still try to reconcile increasing data piles and to detect potential errors only manually, are required to make allowance for more and more potential errors and greater risks. The control process can be shortened and risks can be reduced by automation and software support.

All in all, by reason of the reporting obligations introduced by the tax authority, the lack of experts on the labour market and wage pressures, the solution for companies can be provided by investing into automation, perhaps by way of efficient risk management applications and software products developed by external service providers.

According to HU TA data, the number of taxpayers registered for the real-time invoicing system has exceeded 350 thousand, and real-time invoice data reports have been submitted by more than 260 thousand taxpayers. The number of invoices submitted is already around 60 million, associated with a total of 32 million successful data transmissions. Although the success rate is increasing, it is far from being perfect: on working days, the success rate is about 80% according to HU TA data. This is why on-going checks of real-time invoice data reports are required on the taxpayer side as well!

While major anomalies are eliminated by the system – for example, if data reporting of an invoice is attempted several thousand times by a system, even HU TA employees will become alerted and phone the taxpayer for reconciliation –, reports with errors must be dealt with by companies to find the root causes. To highlight some of the most frequent problems occurring in connection with real-time invoicing, it is important to establish a correct invoicing process and data content, to send them correctly to the HU TA, as well as to monitor – and correct, if necessary – certificates returned by the Tax Authority.

Real-time invoice data reporting will be extended by further data as from 01 April 2020; it is worthwhile to commence preparations for this as soon as possible, especially if the company uses its own individual ERP system or invoicing system. Reporting is feasible by external data disclosure modules, but XML files are required to contain the new data as well from April onwards. Such data include data that are not necessarily required to be indicated on the invoice itself pursuant to the VAT Act. Besides, there are data associated with relief or legal consequences by EU regulations in respect of displaying them on invoices, such as specifying the tax number of a (foreign) buyer. And companies need to start their switchover to the integration of new mandatory and recommended data content

into their invoices in due time. The test interface of real-time invoice 2.0 is already available for preparations.¹³

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