



Doing business in Hungary 2018

Introduction

The Moore Stephens Europe *Doing Business In* series of guides have been prepared by Moore Stephens member firms in the relevant country in order to provide general information for persons contemplating doing business with or in the country concerned and/or individuals intending to live and work in that country temporarily or permanently.

Doing Business in Hungary 2018 has been written for Moore Stephens Europe Ltd by Moore Stephens Wagner Kft. In addition to background facts about Hungary, it includes relevant information on business operations and taxation matters. This Guide is intended to assist organisations that are considering establishing a business in Hungary either as a separate entity or as a subsidiary of an existing foreign company. It will also be helpful to anyone planning to come to Hungary to work and live there either on secondment or as a permanent life choice.

Unless otherwise noted, the information contained in this Guide is believed to be accurate as of 1 September 2018. However, general publications of this nature cannot be used and are not intended to be used as a substitute for professional guidance specific to the reader's particular circumstances.

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1. Hungary at a glance

Geography, climate, population, language

Geography

Hungary (officially *Magyarország* in Hungarian) is situated in Central Europe, between latitudes 44° and 48° North and longitudes 16° and 23° East and occupies an area of 93 036 km². It is bordered by Slovakia to the north, Ukraine and Romania to the east, Serbia, Croatia and Slovenia to the south and southwest, and Austria to the west.

The majority of the landscape consists of plains and low mountains.

The highest point in the country is Mount Kékes at 1014 m. The rivers Danube and Tisza – the two longest rivers in Hungary – are navigable. Lake Balaton – the largest lake in Central Europe – is also located in Hungary. Natural treasures of the country are arable land and water above and under the ground. In addition to a large number of rivers and lakes, Hungary is rich in high-quality artesian springs and various types of thermal springs.

Administratively, Hungary is divided into 19 counties. In addition, the capital, Budapest, is independent of any county government. The counties and the capital are the 20 NUTS third-level units of Hungary.

The counties are further subdivided into 174 (as at 1 January 2011) sub-regions (*kistérségek*), and Budapest is its own sub-region. Since 1996, the counties and City of Budapest have been grouped into seven regions for statistical and development purposes. These seven regions constitute NUTS second-level units of Hungary.

There are also 23 towns with county rights (singular: *megyei jogú város*), sometimes known as ‘urban counties’ in English (although there is no such term in Hungarian). The local authorities of these towns have extended powers, but these towns belong to the territory of the respective county instead of being independent territorial units.

Climate

Hungary has a continental climate but is also influenced by the oceanic climate from the west and the Mediterranean climate from the south. Summers are generally warm and sunny with temperatures in the 25-30°C range. For a few weeks, daytime temperatures can reach around 35 to 38°C. Winters are cold with temperatures in the -10 to 0°C range. Spring and autumn are often short and usually wet.

Population

In terms of ethnic composition, the vast majority of the population is Hungarian (92.3%). Minorities include Roma (1.9%), German (0.6%), other (5.2%).

According to the preliminary information provided from the national census conducted in 2011, the population of Hungary fell slightly under 10 million. Close to 20% of Hungarians live in Budapest and its suburbs. In addition to the high concentration in Budapest, the number of people living in large and midsize towns is also significant, and migration from small towns is typical.

Language

93.6% of the population speak Hungarian, a Uralic language unrelated to Indo-European and distantly related to Finnish and Estonian.

History

The lands now included in modern Hungary (principally the Pannonian plain and the Carpathian basin) west of the Danube were part of the Roman Empire until the end of the 4th century of the Modern Era. A number of invasions, initially by the Huns, then followed. Towards the end of the 9th century, the ancestors of the modern Hungarians (Magyar) had settled in the territory and were united under their ruler Árpád as early as 895. Under his successors, Hungary became part of Christian Western Europe and reached the zenith of its power under the kings László (Ladislaus) I (1077-1095) and Béla III (1172-1196) of the Árpáadian dynasty. Hungary was able to withstand the Mongol invasions in the 13th century, becoming an elective monarchy (like its northern neighbour Poland-Lithuania) in 1301. For much of the Mediæval period, the Kingdom of Hungary extended over much of modern Croatia, Serbia and western Romania (Transylvania) as well as modern Hungary itself. However, in 1526, defeat at the battle of Mohács signalled the beginning of Ottoman rule over much of Hungary, with the north-west annexed by the Hapsburgs. Ottoman rule lasted for nearly 200 years, but they were finally driven out of Hungary by 1718, after which Hungary became part of the Austrian Hapsburg Empire. Although the Revolution of 1848, led by Lajos Kossuth was ultimately unsuccessful, growing pressure led to the *Ausgleich* of 1867, under which the dual monarchy was established, and the Emperor Franz Josef (1848-1916) was also crowned King of Hungary. The two parts of the Empire had separate governments and separate parliaments, united under a common crown. The Hungarian part of the Austro-Hungarian Empire consisted of modern-day Hungary, Croatia and Transylvania (now in Romania), including parts of what are now Serbia, Slovakia and Ukraine. Following the defeat and collapse of the Austro-Hungarian Empire at the end of the First World War, Hungary was shorn of most of its territory by the Treaty of Trianon in 1920 and left more or less within its current frontiers. As the last Hapsburg King-Emperor (Charles I and IV) never formally abdicated, Hungary remained officially a kingdom, under a Regent, Admiral Horthy (1920-1944). Although Hungary initially joined the Axis powers in the Second World War, it was itself occupied by German forces in 1944 after it had been conducting secret peace negotiations with the Allied powers. Towards the end of the war, Hungary fell under Soviet occupation, and a Stalinist-style communist régime was established under the leadership of Mátyás Rákosi. Rákosi was overthrown by the Hungarian Revolution of 1956, but Communist rule was restored by Soviet forces in November 1956. Under the leadership of János Kádár, a slightly more relaxed form of Communism ('goulash Communism') was eventually introduced. With the collapse of Communist rule throughout Central and Eastern Europe in 1989/1990, the present democratic republic of Hungary emerged. Hungary became a member of the European Union and of NATO in 2004.



Politics and government

Since 1990 Hungary has been a parliamentary republic. The Parliament (*Országgyűlés*) is a unicameral body, consisting of 199 members elected by a complex system of regional and national party lists (proportional representation) and single-constituency majority voting. Parliament is the highest organ of state authority and initiates and approves legislation sponsored by the Prime Minister. Its members are elected for a four-year term.

The head of state is the President, elected by the members of the Parliament every five years, who has a largely ceremonial role, but he is nominally the Commander-in-Chief of the armed forces and his powers include the nomination of the Prime Minister who is to be elected by a majority of the votes of the Members of Parliament, based on the recommendation made by the head of state. The current incumbent is János Áder.

The 15-member Supreme Court is an independent forum designated to observe compliance of specific laws with the constitution. Enacted in 1949 and amended in 1989 on the occasion of the democratic transformation, the constitution was replaced on 1 January 2012 with a new constitution stated to reflect European and general international principles. The new constitution repealed the words 'Republic of' from the country's official name.

The Prime Minister, who is the head of government, is Viktor Orbán of the conservative Fidesz party, who has held this office since 2010. In the elections of April 2018, the second under the new constitution, Fidesz and its ally, the Christian Democratic People's Party (KDNP), won 49.27% of the vote, earning it 133 out of the 199 seats.

Currency, time zone, weights and measures

The national currency of Hungary is the forint (ISO abbreviation: HUF). At the time of going to press (early November 2018), the forint was quoted at EUR 1 = HUF 323.80 and at 1 USD = HUF 275.29. Although, like its fellow 2004 accession nations, committed to adopt the euro by its Treaty of Accession to the European Union, Hungary has not yet announced a date for this to take place.

Hungary uses Central European Time (GMT + 1 hour) and in common with the rest of Europe, adopts summer time (GMT + 2) between the last Sunday in March and the last Sunday in October).

The metric system of weights and measures and the Celsius temperature scale are in exclusive use.

General Economic Outlook

Economic information

The sectoral structure of the Hungarian economy is mostly compatible with other countries at the same level of development. The service sector accounts for slightly less than two-thirds of GDP. Within the service sector, the private services (trade, tourism, finance and other economic services) are highly developed. Services, especially economic services, represent a sizeable portion of the country's exports. The transportation sector (with some companies owned by the state and others by private corporations) offers optimum conditions for transit traffic due to Hungary's favourable geographical location. The state-run service sectors (health, education, public administration) are considered to have failed to keep pace with the other service sectors and their fundamental transformation is therefore high on the political agenda.

The agricultural sector, for which Hungary has especially favourable climatic conditions, represents approximately 4% of the country's GDP. Crop yields vary greatly from one year to the next, which is not sufficiently compensated by subsidies, capital supplies and investment incentives. In line with international trends, the industrial sector accounts for around one-quarter of the country's GDP. Recently, primarily export-focused industries have been able to increase their output. These include the automobile industry, telecommunications and computer technology, while food and light industries have fallen back and the construction industry, as a result of the crisis, remained in a poor condition in 2012. The shortfall in the food industry is mostly attributed to the adverse conditions generated by Hungary's accession to the European Union. However strong it may once have been, Hungary's light industry is now almost non-existent, as Hungary has also lost out to Southeast Asian export markets.

Current economic situation

Expected global economic growth may accelerate to 4.4% in 2018. The main driver of the global economy will continue to be the United States, experiencing a growth of 2.7%. In addition to favourable unemployment and growth figures, the Fed has begun to raise its policy rate since 2016, which is creating new conditions in the global money and capital markets and may also influence the economic processes of the eurozone. Although imbalances (balance of payments, general government) are receding in Europe, the financial sector is slow to stabilise and monetary policy is becoming more accommodative, the US rate increase may siphon funds away from the eurozone, thus hindering growth momentum. The Greek crisis has recently abated, but the tension remains.

The migration crisis is a great new source of tension in Europe whose political, economic and social implications are impossible to foretell today. From a purely economic perspective, immigration may support growth in the long run, but it entails a number of short-term risks. The economic impact of the Volkswagen scandal is also impossible to predict. Despite all the aforementioned risks on the downside, we expect to see some acceleration of economic growth in Europe. The European Union may grow by 1.9% while the eurozone and our key economic partner, Germany, is expected to grow by 1.7%. We still do not see any major inflation risks although oil prices may rise by almost 10% to USD 65-66 a barrel.

The difficulties of emerging markets, for years the main drivers of growth, are expected to prevail in 2018. Tensions have already made their presence felt in the deceleration of growth, which is further enhanced by the US rate increase. The combination of balance of payments difficulties, money-market turbulences, economic-policy mistakes and the unavoidable model shift make growth even more fragile than previously; nevertheless, we expect to see a slight acceleration in the European Union as a whole.

2. Doing business

Company law

The regulation of Hungarian business entities is contained in Part 3 (Business Entities) of Book 3 (Legal Persons) of the Civil Code. The rules relating to the cooperative company form are included in Part 5 of Book 3 of the Civil Code. These provisions of the Civil Code have replaced the former separate Business Entities, Act VI of 2006 (the 'Companies Act').

The main types of business entity under Part 3 of Book 3 of the Civil Code are identical to those regulated in EU countries. However, there are some others under EU law, such as the European Economic Interest Grouping (EEIG) regulated in Act XLIX of 2003, on the basis of Council Directive 2137/85/EEC, and the European Company (*Societas Europaea*) regulated on the basis of Council Directive 2157/2001/EEC.

The procedures for incorporating, amending the statutes and winding up Hungarian companies are primarily governed by Act 5 of 2006 on Public Company Information, Company Registration and Winding-up Proceedings (hereinafter, 'the Company Procedures Act').

Although the Civil Code does not specify the persons who may establish a business association, it is basically foreign and domestic natural and legal persons who may do so. Hungarian law does not provide an exhaustive list of legal persons but, based on Book 3 of the Civil Code, legal persons include associations, business entities and foundations as well as the state when acting as a legal person in civil-law relationships.



In most cases, enterprises are founded to conduct economic activities but they may be founded and regulated in any company type regulated under the law for purposes other than common economic activities (e.g. as a non-profit enterprise). Non-profit enterprises may only engage in business operations in the form of ancillary activities; the profit from these operations may not be distributed among the members (shareholders).

The law may require a special permit from the authority for the foundation of an enterprise (foundation permit), such as companies with an interest in financing, insurance or capital market activities, which may only be founded with approval from the Hungarian Financial Supervisory Authority (PSZÁF). Where authorisation is prescribed as mandatory by law to engage in a certain economic activity, the enterprise may only begin and pursue the activity in question when in possession of such authorisation. Activities subject to qualification may only be pursued by enterprises if there is at least one person among its participating members, employees, or persons working for the enterprise under a permanent civil law contract concluded with the enterprise who satisfies the qualification requirements set out in the legal regulations.

Main forms of business organisation

Branches

Foreigners may conduct their business in Hungary by opening a branch (*fióktelep*) in the country. Such a branch is a separate organisational unit of the foreign enterprise without legal personality and registered by the Hungarian Court of Registration (*Cégbíróság*). Through their branches, foreign enterprises are entitled to carry out business activities in Hungary and represent them vis-à-vis the authorities and third parties.

Each branch must be registered with the Company Registry (*Cégjegyzék*). Branches may be represented by natural persons employed at or assigned to the branch or with a permanent contract of employment and a domestic place of residence. Representatives of branches and their close relatives may only conclude transactions within the activities of the branch if the deed of foundation of the branch or the foreign enterprise contains approval for this. The foreign company's approval is needed if the person authorised to represent the branch intends to acquire shares in another enterprise conducting the same business activities as the branch, excluding the buying of shares in public limited companies.

The laws applicable to companies with domestic registered offices apply to the business activities and the domestic business behaviour of branches, and their books must be kept in accordance with the Hungarian laws on accounting. Special rules apply to the branches of foreign businesses conducting financial activities.

The foreign enterprise must continue to provide the assets necessary for the operation of the branch and the settlement of its debts. No permit is required for the purchase by an enterprise registered in an EEA member state of immovable property required for the business operations of its Hungarian branch. In all other cases a permit is required unless otherwise specified by an international agreement or no such property may be purchased based on the principle of reciprocity.

The foreign company and the branch bear joint and several liability for debts incurred during the activity of the branch. When judicial enforcement to collect debts is initiated against the foreign company, all its assets in Hungary become subject to enforcement. The enforcement procedure may also be initiated directly against the branch, and creditors may enforce their claims even in a liquidation procedure initiated against the foreign business.

A branch is closed by being deleted from the Company Registry. Deleting a branch does not in all cases require its being free from public debt, the publication of an announcement about the termination, or verification that there are no authority or court procedures in progress against the foreign company in Hungary with regards to its activities conducted through the branch, provided that the country of registration of the foreign company and Hungary have signed an international agreement on the competences of courts, the enforcement of court rulings and the collection of public debts for civil and commercial cases, or in the event such issues are governed by EU law.

Commercial representative office

A commercial representative office (*kereskedelmi képviselet*) is an organisational unit without legal personality of a foreign company, which can operate from the time it is registered in the Company Registry. The scope of activities of commercial representative offices are limited to mediating and preparing contracts and carrying out information, advertising and promotional activities on behalf of the foreign company.

In their own names, commercial representative offices may not conduct business activities that yield profits or other proceeds; however, they may conclude operative contracts in the name and for the benefit of the foreign company.

Enterprises

The Civil Code regulates the following types of enterprise.

General partnership (közkereseti társaság: Kkt.)

This is an enterprise whose members jointly undertake the obligation to engage in business operations with unlimited and joint and several liability. General partnerships do not have a legal personality, which, however, does not mean that they cannot be subject to rights and obligations or that they are transparent in terms of taxation. The lack of legal personality only refers to the collective of partners rather than to the partnership capital.

Limited partnership (betéti társaság: bt.)

At least one member (general partner) has unlimited liability for the debts of the partnership, while the liability of the limited partner or partners is limited to the amount of that partner's contribution to the partnership capital.

Limited-liability company (korlátolt felelősségű társaság: Kft.)

This is an enterprise incorporated with an initial capital (subscribed capital) consisting of capital contributions of a pre-determined amount, in the case of which the liability of members to the company extends only to the provision of their capital contributions, and to other possible contributions as set forth in the articles of association. With the exceptions set out in the new Civil Code, members are not liable for the debts of the company.

Joint-stock company (részvénytársaság: rt.)

This is an enterprise incorporated with a share capital (subscribed capital) consisting of shares of a pre-determined number and face value, in the case of which the obligation of members (shareholders) to the limited company extends to the provision of the face value or the issue price of shares. With the exceptions defined in the new Civil Code, shareholders are not liable for the debts of a joint-stock company. Joint-stock companies may be established privately or be open to the public and, consequently, they may operate in the form of a public (*nyilvánosan működő részvénytársaság: Nyrt.*) or private (*zártkörűen működő részvénytársaság: Zrt.*) limited company.

Grouping

A grouping (*egyesülés*) is a cooperative society vested with legal personality, founded by its members in order to facilitate the success of their business activities and to coordinate such business activities, as well as to represent their professional interests. The purpose of a grouping is not to make a profit for itself; its members have unlimited, joint and several liability for debts in excess of the grouping's assets.

Foundation or incorporation of an enterprise

An enterprise is founded by signature of its articles of association by its members. The articles (the enterprise's statutes) are drawn up in an authentic instrument prepared by a notary public, or in a private document countersigned by a lawyer or the legal counsel of the founder.

General partnerships, limited partnerships, limited-liability companies, single-member companies and private joint-stock companies may be founded in a simplified procedure by enclosing with the application for the registration of the company the deed of foundation drawn up on the basis of a template in the annex of the Company Procedures Act. In the latter cases, the deed of foundation is required to be prepared in a notarised deed and countersigned. In the case of this simplified procedure, the enterprise is registered by the Court of Registration within one working day of the receipt of the notice regarding the issue of the tax identification number. The tax authorities must issue the tax identification number within one working day. If, as a result of the examination conducted on the basis of the tax identification number(s) disclosed by the Court of Registration it can be assumed that the issue of the tax number is subject to an impediment specified in the Act, the tax authorities must make their decision on whether or not to issue the tax identification number within a period of eight working days. In the event that a tax identification number is refused, on grounds not subject to appeal, the Court of Registration is bound to reject the application for registration.

The articles of association must include (in addition to an expression of the founders' wish to establish a legal person) the following for all enterprises:

- The corporate name and registered office of the enterprise
- The enterprise's purpose or main activity
- The name and address or seat of the person or persons establishing the enterprise
- The financial contributions to be provided to the enterprise, their value, and how and when the contributions are made available
- The subscribed capital of the enterprise, the financial contribution of each member, and how and when the subscribed capital is made available
- The enterprise's first executive officer



Members' (shareholders') contributions may be in cash or in kind. A contribution in kind may be any marketable thing of value or intellectual work, any intangible property, or any claim that is acknowledged by the debtor or that has been granted by a final and definitive court decision. Any member (shareholder) providing a contribution in kind must accept responsibility towards the enterprise for a period of five years from the provision of the contribution in kind, to the effect that the value indicated in the articles of association does not exceed the real value of the contribution in kind as effective at the time of its provision.

Pre-foundation period

As of the date when the articles of association are countersigned or executed in an authentic instrument, the enterprise may operate *avant la lettre*, i.e. as an enterprise undergoing registration. It may obtain rights and responsibilities but may carry out business activities

only after the issue of its tax identification number. With certain limitations (e.g. non-transferability of shares), the same rules apply to enterprises undergoing registration as to registered enterprises. The pre-registration period ends when the enterprise is registered in the Company Registry and all legal transactions signed in the registration period become the legal transactions of the enterprise. Under the effective regulations, enterprises are required to file a separate financial statement and tax return for the pre-registration period where the enterprise began its business activity in the pre-registration period or where the enterprise is registered in the business year of its establishment.

Enterprise governing bodies

In most cases, the highest governing body of an enterprise is the general meeting of members (*közgyűlés*). In the case of sole-member companies, the sole member has the powers otherwise vested in the governing bodies of other enterprises. The governing body makes strategic decisions for the enterprise. Matters under the exclusive competence of the governing body are defined by the law for the different forms of enterprise.

In most cases, the members (shareholders) attend the meeting of the governing body in person but they may also delegate proxies. The articles of association may allow members (shareholders) or their proxies to exercise their membership rights by means of electronic communication instead of attending in person. Decisions may also be made in writing. In this case, the articles of association need to specify matters in which members can make decisions without holding a meeting. The possibility of attendance by means of electronic communication as well as the admissibility of written decisions provide foreign owners with flexibility in exercising their rights.

Management of enterprises

For the purposes of the new Civil Code, 'management' means the passing of decisions other than those under the competence of the governing body or other company organ, and which are necessary in connection with the company's operations.

The executive officers or a board made up of executive officers conduct the management of the enterprise pursuant to the provisions governing the specific forms of enterprises. The management of general partnerships (Kkt.) and limited partnerships (Bt.) are handled by the partner or partners entitled to do so in the capacity of executive officers. The management of companies is exercised by the general manager(s) for limited-liability companies (Kft.) and by the management or a board of directors (*igazgatóság*) for joint-stock companies (Nyrt. and Zrt.), except for private limited companies, where management is performed by a single person, the chief executive officer. However, the Civil Code now provides greater flexibility in the use of differing forms of management bodies.

With the exception of general partnerships and limited partnerships, executive officers must be natural persons. Executive officers must discharge their duties relating to the company's internal affairs and its bodies and other officers in person; no representation is allowed. Executive officers may act on behalf of the company under company law and employment law.

Executive officers discharge their duties independently and are governed only by legal regulations, the articles of association, and the resolution of the enterprise's governing body and, with the exception of sole-member companies, may not be instructed by the members (shareholders) of the enterprise. The enterprise's governing body is allowed to reduce the powers of executive officers or the management body in relation to the management of the company only where so authorised by the new Civil Code or under the articles of association. Providing they are not subject to disqualifying factors, executive officers may be appointed for an indefinite term, or for a defined period no longer than five years, and may be recalled at any time. No person who has been sentenced to imprisonment by final verdict for the commission of a crime until relieved from the detrimental legal consequences related to his criminal record, who has been banned from accepting an executive office or from performing the main activity of the enterprise, who served as an executive officer in an enterprise terminated in cancellation proceedings (for a period of three years after the cancellation of the enterprise) and whose managerial and member's liability for the debts of other companies has been established by the court in the course of winding-up proceedings may be an executive officer of an enterprise. In addition, if a new enterprise is founded, or there is a change in the owners or the position of executive officers, an executive officer or majority owner who has long-term outstanding tax liabilities, or who used to be the executive officer or member of another enterprise that has accumulated or failed to settle significant amounts of long-term outstanding tax liabilities, is also excluded from office. In such a case the tax authorities are bound to refuse to issue the tax identification number of the enterprise, thereby preventing it from starting or pursuing its economic activity with the participation of such a member or executive officer.

The responsibility of executive officers primarily covers the following:

- The foundation or incorporation of the enterprise, announcement of any changes in the data registered in the company register and submission of the annual financial statements to the Court of Registration
- Upon request by the members, the executive officers have to provide information concerning the affairs of the enterprise, and allow inspection of its books and documents
- Exercise employer's rights over the employees of the enterprise
- Representation of the company before third parties, authorities and courts

Executive officers have to conduct the management of the enterprise with the level of care generally expected from persons occupying such positions and give priority to the interests of the enterprise. In the event of an imminent threat to the enterprise's solvency, the executive officers have to conduct the management of the enterprise giving priority to the company's creditors.

In addition to the executive officers, an employee of the enterprise may be appointed as company manager. The company manager may be authorised to sign independently for the company.

Rôle of the supervisory board

The supervisory board (*felügyelő bizottság*) consists of at least three and at most 15 members. In some cases, the appointment of a supervisory board is mandatory, while in others it is only optional. The governing body of an enterprise that is supervised by a supervisory board may adopt a decision concerning the annual financial statements only once in possession of the written report of the supervisory board.

Pursuant to the Civil Code, the establishment of a supervisory board is mandatory:

- For public joint-stock companies limited by shares, except for those that are subject to a single-tier structure, i.e. where the board of directors (executive board) also performs the duties of a supervisory board
- For private joint-stock companies if requested by the founders or members (shareholders) controlling at least 5% of the total number of votes
- Where the annual average number of full-time employees employed by the enterprise exceeds 200, in which case one-third of the supervisory board is to be made up of employee representatives..



Minority rights

Members having at least 5% of the votes have certain minority rights. These minority rights include the option of these members (shareholders) at any time to request the management to call a meeting of the governing body of the enterprise, and request the Court of Registration to order the annual financial statements or any other event in the management history of the past two years to be audited if such request has been refused by the governing body of the enterprise or no decision has been adopted in the matter.

If the governing body of an enterprise has refused the request to enforce a claim against the members, executive officers, supervisory-board members or the auditor, or, if the enterprise's governing body has failed to adopt a decision regarding a proposal that has been properly presented, the members with minority rights may enforce the claim themselves on behalf of the enterprise in court proceedings.

Protection of creditors

In certain cases, the Civil Code excludes the limited liability of the members. In the event of the dissolution of a limited-liability company or a joint-stock company without a legal successor, any member who has abused his limited liability may not rely on that

limited liability. Any members of limited-liability companies or joint-stock companies who have abused their limited liability or the company's legal personality to the detriment of the creditors have to bear unlimited and joint and several liability for the unsatisfied obligations of the defunct enterprise.

If an enterprise does not have sufficient funds to cover the subscribed capital prescribed for its form of enterprise over two consecutive financial years, the members of the enterprise have to provide the required funds within three months of the approval of the annual financial statements prepared pursuant to Act C of 2000 on Accounting (hereinafter, 'the Accounting Act') for the second year. If the enterprise fails to do so, it has to adopt a decision to reorganise itself into a different enterprise, or for its dissolution without succession.

Acquisition of qualifying holding

If any member of a joint-stock company acquires an influence ensuring a qualifying holding of over 75% once the company has been incorporated, the owner of this qualifying holding has to give notice of this fact to the Court of Registration. Unless excluded by a unanimous decision of the members in the articles of association, any member of the company may request the owner of the qualifying holding to purchase his shareholding at market price or at least a valuation proportionate to the proportion his shareholding bears to the company's equity capital as a whole.

Dissolution and reorganisation of enterprises

Enterprises may be dissolved with or without a legal successor. Examples of dissolution without a legal successor are where:

- The defined life of the enterprise as specified in the articles of association comes to an end or any other condition giving rise to dissolution occurs
- The governing body of the enterprise adopts a decision to dissolve the enterprise without succession (voluntary winding-up or liquidation)
- Except in the case of a limited-liability company or joint-stock company, the number of members keeps decreasing
- The company is dissolved by the Court of Registration for reasons provided in the Civil Code
- The company is required to do so by law

If the enterprise is terminated by liquidation, the provisions of Act XLIX of 1991 on Bankruptcy and Liquidation Proceedings apply.

An enterprise is dissolved with succession in the case of conversion, merger and demerger (hereinafter, 'reorganisation'). A 'merger' here means the procedure whereby two or more companies are wound up without going into liquidation and combine into one legal entity. 'Demerger' is the opposite process, whereby a single enterprise is split into two or more enterprises.

General rules on change of form are included in the Civil Code while detailed rules are included in Act CLXXVI of 2013 on the Conversion, Combination and Separation of Legal Persons, also effective from 15 March 2014, and the Act on Accounting. An enterprise created by reorganisation has no pre-registration period, as the legal successor enterprise may start its activities after being registered by the Court of Registration. Until the changes are registered, the predecessor company continues its activity unchanged.

The enterprise established by way of a reorganisation is the universal successor of the enterprise that has undergone reorganisation. The rights and obligations of the predecessor enterprise are assumed by the successor enterprise. In the event of a demerger, the demerger agreement has to divide the rights and responsibilities of the enterprise undergoing reorganisation; however, the successor enterprises will bear joint and several liability for the obligations that have not been so divided.

In the event of a conversion, draft statements of assets and liabilities and draft inventories of holdings will be prepared for the company undergoing conversion and its successor company. The draft statements of assets and liabilities and the draft inventories of holdings will be approved by an independent auditor, who may not be the auditor of the enterprise undergoing conversion.

In the event of a merger, the provisions of the Competition Act also have to be observed. In certain cases, permits from the competent competition authority and the European Commission also have to be requested.

In accordance with Act CXL of 2007 on Cross-Border Mergers of Limited-Liability Companies, limited-liability companies and joint-stock companies may pass resolutions for cross-border mergers with another enterprise established in the European Union. The abovementioned Act is designed to help compliance with Directive 2005/56/EC, supports flexible mergers of enterprises within the European Union and provides an opportunity for financial and tax planning.



Limited-liability companies

As a result of its limited liability and simple formal requirements, the limited-liability company is the most widely used form of enterprise in Hungary.

In addition to the data to be included in the deed of foundation of any enterprise, the deed of foundation (articles of association) of a limited-liability company has to include the material contributions of all members, as well as their voting rights.

The subscribed capital of limited-liability companies is composed of the capital contributions made by its members. The minimum amount of subscribed capital is HUF 3 million. If a member makes a contribution in kind, the value of the contribution is determined by that member and accepted by the other members. If the enterprise does not use an independent auditor to evaluate the contribution in kind, the criteria for evaluating the contribution need to be defined.

The value of a capital contribution by any one member may not be lower than HUF 100 000 and must be divisible by 10 000. Each member may make one capital contribution only, but one capital contribution may have multiple owners. In addition to making their capital contributions, the members may also undertake to fulfil certain other services of value (hereinafter: ancillary services) in the articles of association. Members may be entitled to remuneration for such ancillary services.

In order to cover losses, the articles of association may authorise the general meeting to order members to provide supplementary capital contributions. The maximum amount payable by members on this basis, the method, frequency and timing for making supplementary capital contributions, and the order of repayment must be specified in the articles of association. The amount of supplementary capital contributions may not comprise a part of a member's initial contribution to the capital. Capital contributions not needed to cover losses must be repaid to the members.

Following registration of the company, the rights of members and their share in the assets of the company are embodied by their shares. In most cases, members' shares are consistent with their respective capital contributions. The articles of association may, however, invest certain shares with membership rights that differ from those of others. Accordingly, shares with different rights may grant entitlement to more favourable dividends or voting rights.

Shares may be transferred by written agreement, but only to a third person if the member concerned has paid his capital contribution in full. The members, company or person designated by the general meeting have pre-emption rights for the transfer of shares by a contract of sale, but this right may be excluded or limited in the articles of association. The right to pre-emption is non-transferable. Members may render any transfer of shares to non-members subject to the consent of the company. The transfer of shares based on legal grounds other than a contract of sale may be excluded or restricted in the articles of association.

The company may effect a disbursement from its equity to a member, on account of his membership and in accordance with the provisions of the Civil Code, with the exception of a reduction of the share capital, from the after-tax profit for the current year, or from the profit reserves or capital reserves. No disbursement can be made if the company's equity capital is below its authorised share capital or would be reduced to below the authorised share capital if the payment were made.

Members are entitled to receive a share of the company's after-tax profit, according to the annual financial statements, in the percentage consistent with their share (dividend). A general meeting may pass a decision on the disbursement of interim dividends if the interim balance sheet verifies that the enterprise has the financial collateral for it and the members agree to pay back the interim dividends if there prove to be no legal grounds for the disbursement of dividends on the basis of the subsequent annual financial statements.

The general meeting is the governing body of the limited-liability company. It has to be convened at least once a year.

The following specifically fall within the exclusive competence of the general meeting:

- Approval of annual and interim accounts; decisions on the disbursement of dividends and interim dividends
- The order and repayment of supplementary capital contributions
- The exercise of pre-emption rights on behalf of the company; designation of a person for the right to exercise pre-emption rights
- The granting of consent for the transfer of any shares to a third person
- A resolution for initiating the expulsion of a member
- The election and removal of the managing directors and the establishment of their remuneration (unless those rights have been transferred to the supervisory board)
- The election and removal of the members of the supervisory board and of the auditor and the establishing of their remuneration
- The approval to conclude contracts between the company and one of its members, its managing director or their close relatives or domestic partners

- The enforcement of claims vis-à-vis members, managing directors, supervisory-board members and the auditor
- The ordering of an examination of the company's report, management and financial operations by an auditor
- A decision to dissolve the company without succession or to reorganise the company
- Amendments to the articles of association, including an increase or reduction of the equity capital and related rights
- All issues that are assigned exclusively to the competence of the general meeting by law or the articles of association

As a general rule, general meetings are convened by the managing director at the registered office of the company. In accordance with the Companies Act, general meetings may be held in such a way as to allow the members to participate not in person but by way of proper electronic means of communication, designed to handle dialogues between members and providing adequate facilities for debate without any restrictions whatsoever.

The articles of association may contain provisions to allow for the option of adopting resolutions without a meeting. In this case, the draft resolution needs to be sent to the members, who cast their votes in writing or any other verifiable manner. The resolution is regarded as adopted on the day following the day when the last vote is received.

Single-member companies

A company may be founded by a single member, or a single-member company may be established in such a way that the ownership of all shares in an already operating company is acquired by one member. In single-member companies, the decisions falling within the competence of the general meeting are taken by the sole member. A critical formal requirement for a contract concluded between a single-member company and its sole member to be valid, is that such contract be drawn up in an authentic instrument or in a private document representing conclusive evidence.

Joint-stock companies

Joint-stock companies may only be founded as private companies. Public limited companies may not be established ab initio; they must first be founded as private joint-stock companies, which may then change their form of operation by listing their shares on the stock exchange.

The minimum registered capital of a joint-stock company is HUF 5 million for private joint-stock companies and HUF 20 million for public joint-stock companies. A joint-stock company may increase its registered capital by the issue of new shares from assets other than the share capital of the company, by the issue of employee shares and by the conversion of convertible bonds into shares. Increasing the capital of the assets above the registered share capital and by the issue of employee shares, however, is only allowed for a private joint-stock company. Shares issued by joint-stock companies are equity securities representing membership rights that are registered, have a face value and are marketable. The relevant regulations are included in Act CXX of 2001 on the Capital Market (hereinafter, 'the Capital Markets Act'). The sum total of the face value of all shares comprises the share capital of a public or private joint-stock company.

In accordance with Hungarian law, only registered shares may be issued in a printed or dematerialised form. Public joint-stock companies may only issue dematerialised shares. When using dematerialised shares, the data representing the shares are recorded on a securities account. A shareholder may only exercise his rights as such if registered in the share register kept by the Board of Directors.

Share types regulated by the Civil Code are:

- Ordinary shares
- Preference shares
- Employee shares
- Interest-bearing shares and
- Redeemable shares



Within the class of preference shares, the articles of association may define classes of shares to provide the following rights:

- Priority dividends
- Upon dissolution of the company without succession, priority for a share from the assets to be distributed (preferential right to any liquidation surplus)
- Preferential voting rights
- Priority for the appointment of executive officers or supervisory-board members
- Pre-emption rights (for private joint-stock companies)
- Priority rights defined under a specific provision of the law
- two or more of the above preference rights simultaneously

Limited companies may issue registered bonds that must be converted into shares if requested by the holder of the bond and those that grant subscription rights to its owner upon the increase of registered capital.

Rights of shareholders

Shareholders have the right to participate, request information, make remarks and proposals, and vote if holding shares with voting rights. Public limited companies may stipulate the maximum level of voting rights that may be exercised by a single shareholder.

A group of shareholders controlling at least 5% of the votes may request the management board to place an issue of their choosing on the agenda.

Shareholders are entitled to dividends and interim dividends. Limitations on the disbursement of dividends are the same as those listed for limited-liability companies.

General meeting

The following measures are within the exclusive competence of the General Meeting:

- Decisions approving or amending the articles of association
- Decisions on the modification of the operating form of the limited company
- Decisions on the reorganisation or dissolution of the limited company without a legal successor
- The election and removal of directors, the general manager, members of the supervisory board and the auditor, and the fixing of their remuneration
- Approval of the financial statements prepared according to the Accounting Act, decisions on the disbursement of interim dividends, unless the Companies Act contains provisions to the contrary
- Decisions on the conversion of printed share certificates into dematerialised shares
- Changing the rights attached to the individual classes of shares, and the transformation of categories or classes of shares
- Decisions on the issue of convertible bonds or bonds with subscription rights, unless the Companies Act contains provisions to the contrary
- Decisions on increases in share capital, unless the Companies Act contains provisions to the contrary
- Decisions on reductions in share capital, unless the Companies Act contains provisions to the contrary
- Decisions not to exercise priority subscription rights, and on authorising the board of directors to limit or waive priority subscription rights
- Decisions on all issues assigned to the exclusive competence of the General Meeting by law or the articles of association.

The general meetings of public or private limited companies may be held by electronic means of communication.

In the case of a public limited company, the General Meeting has the exclusive right to pass decisions concerning the guidelines and framework for a long-term salary and incentive scheme for executive officers, supervisory-board members and executive employees.

Board of Directors

As a general rule, the administrative duties of limited companies are handled by the Board of Directors, consisting of at least three and at most eleven members, all natural persons. The Chair of the Board is elected either by the board members or directly by the general meeting. The board is an independent body that sets its own agenda.

In the case of private limited companies, the articles of association may provide that a board is not required, and the rights conferred upon the Board of Directors are exercised by a single executive officer (general manager).

Where the articles of association of a public limited company so provide, it may be controlled by the Board of Directors under a one-tier system instead of by an executive board and a supervisory board.

Labour relations and working conditions etc

Employment law

Employment law is codified in Act I of 2012 as from 1 July 2012 (hereinafter, 'the New Employment Code').

Contracts of employment, any modification thereof, and the termination of employment must be incorporated in writing. The contract of employment and all employment-related documents may be inspected by the tax and labour authorities at any time. Hungarian employment law is very similar to the employment laws of other European countries in that it has only minimum requirements as to the content of contracts of employment. Contracts of employment are usually concluded for an indefinite period of time. At the beginning of the employment relationship, the parties may specify a probationary period for a maximum of three months, or in the case of a collective-bargaining agreement, for a maximum of six months. Contracts of employment may also be signed for definite terms, but they may only be extended within a period of six months upon the termination of the contract where there are objective reasons that are independent of the employer's *modus operandi*. In the event that a definite-term contract of employment is extended for an additional definite term, the competent employment tribunal may declare it to be a contract of employment for an indefinite term.

Termination of employment is usually based on mutual agreement of the parties or a unilateral notice given by one of the parties. Note that the employer is required to provide a reason for his termination of the employee's contract and that the reason must be realistic and rational. Employees may terminate their employment by regular notice without the obligation to provide a reason. In case of a notice with immediate effect, both the employer and the employee are required to provide a substantial and verified reason. Employees have a 30-day forfeit period for legal remedies if the reason provided for either form of notice is contrary to the law.

Employees may freely join or not join a trade union. In Hungary, trade-union membership is currently very low (around 12% of the employed workforce) although about 33% of employees are covered by collective-bargaining arrangements. Unions tend to be strong in the public sector: national railways, public transport companies, airports and the national airline, healthcare professionals etc.

Even though the law has provisions for part-time employment and distance working, these methods are not yet widely used. Regular working hours are 40 hours per week, Monday to Friday. Working-time conditions (e.g. the maximum permitted) and extra payment for overtime are strictly regulated by the law.

The minimum annual paid holiday is 20 workdays, which increases with the age of the employee in categories, with the maximum being 30 days. Pregnant women are entitled to 24 weeks of maternity leave. As of 1 January 2011, childcare benefit is available for up to three

years. Employment law protects women on maternity leave and those receiving childcare benefit against regular termination of their employment. The age limit for the full old-age pension varies between 62 and 65 years, depending on the date of birth.

Rules for employment of foreigners

With a few exceptions, foreigners need work permits to work in Hungary. The first question to answer is whether the employee is a citizen of an EU country or of a third country.

Individual work permits are usually valid for a maximum of two years, with the option of extension for another two years. Officially, the employee applies for the work permit, but first the employer must state that he has already tried to fill the position with a Hungarian citizen with the help of the employment centre. Next, the employer submits an application for the work permit, using certified copies of documents verifying the personal data and qualifications of the employee. Employers have to comply with strict regulations regarding the employment of foreign employees.

In certain cases, the law allows for the issue of a work permit for third-country nationals without any investigation of the job market. These special cases include, but are not limited to, employment of a foreign national in a key position at a foreign-interest company established in Hungary or where the majority of an enterprise is owned by foreign nationals and the percentage of foreign employees does not exceed 5%.

In other cases, third-country nationals may be employed simply by making a formal announcement without the need for a work permit. These positions include the managing directors of branch offices and representative offices of foreign companies. The employer is responsible for making the appropriate announcement and issuing accurate documentation verifying the conditions of employment of foreign nationals without a work permit.

On the basis of their appropriate visas, foreign nationals are required to apply for a residency permit from the Office of Immigration and Nationality if they do not file applications under a consolidated permit procedure.

Non-EU citizens may only begin their employment in Hungary after they have obtained all permits and documents necessary for their employment.

As regards nationals of EU Member States, in general, since 1 January 2009, they and their family members may be employed in Hungary without a work permit. The employer is required to report the employment data of EU nationals to the employment centre. The employment centre registers this reported data for statistical purposes.

No residence permit is necessary for EU citizens who plan to spend more than three months in the country for employment purposes. Nevertheless, they are required to report the details of their extended stay to the Office of Immigration and Nationality and to apply for a residence card.

Work permits, resident permits, visas etc

The visa regulations of Hungary are in compliance with the regulations and recommendations of the European Union and the Schengen Agreement. Hungary joined the Schengen area in December 2007. Regarding Hungary's Schengen membership, the following need to be highlighted:

- Visas and residence permits issued by any member state of the Schengen area are valid in Hungary, and vice versa
- Visas issued by Hungarian legations abroad, and residence permits granted by Hungarian national authorities, are valid for the

Schengen area as specified on the stamp of the visa issued in the member states: "ETATS SCHENGEN", i.e. valid for all Schengen states. The Schengen visa and entry regulations apply only for stays that do not exceed 90 days. For periods longer than 90 days, the visa regulations of the respective Member States apply.

3. Finance and investment

Business regulations

Capital investment

Net foreign direct investment (FDI) in 2017 was USD 2492 million. This follows two years of net disinvestment. The main investing countries were the Netherlands (30%), Switzerland (17%) and Austria (13%). The total FDI stock in 2017 was USD 93 332 million. By far the greatest share (59%) of FDI in 2017 was in the wholesale and retail sectors and vehicle repair.

The volume of Hungarian direct investment abroad is more than EUR 11 520 million, also one of the highest per capita figures in the Central and Eastern European region. The majority of such investment comes from the service sector and the crude-oil and processing industries. 53% of Hungarian foreign direct investment is located elsewhere in Central and Eastern Europe.

The stock market: the Budapest Stock Exchange

The Budapest Stock Exchange (BSE) is the venue for trading shares of public limited companies registered in Hungary, securities issued by businesses, and Hungarian state and other securities. The BSE has four trading sections: equities, securities, derivatives and commodities.

The Budapest Stock Exchange is one of the most active and vital in the Central European region. Its market capitalisation amounts to 63% compared to GDP, the highest in Central Europe, and its average daily turnover reaches HUF 64 000 million. Major Hungarian securities are also traded in important stock exchanges such as Frankfurt, London or New York.

The Budapest Stock Exchange is a fully fledged member of a number of international professional alliances and organisations.

Protection of intellectual property

The Hungarian Intellectual Property Office

A Hungarian patent may be obtained by national or European application or by an application submitted in the framework of the Patent Cooperation Treaty (PCT), provided that the application and the invention comply with requirements set out in laws and regulations.

In foreign countries, patents may be obtained by application filed with the national offices or, beyond that, by a European application for the Member States of the European Patent Convention (EPC). The application may be filed directly or in the framework of the Patent Cooperation Treaty.

The patent will be issued as result of the granting procedure before the competent authority.

Other proceedings in connection with patent protection fall also under the competence of the Hungarian Intellectual Property Office. The Board of Experts on Industrial Property operating at the Hungarian Intellectual Property Office gives opinions on the debated legal issues arising within Hungary in connection with industrial property, by mandate or upon request of the court.

In the absence of a provision of an international treaty to the contrary, foreign applicants must be represented by an authorised patent attorney or an attorney-at-law in all patent matters within the competence of the Hungarian Intellectual Property Office.

Foreign applications are supported by a Financial Support System.

The possibility of searching published patent documents is open to everybody. By searching such documents substantial information helping the technical development may be gained.

Acquiring a patent through a European procedure

The European patent is a patent granted on the basis of the Munich Convention concerning the granting of the European patent protection of 5 October 1973.



A European Patent Application can be filed either with the European Patent Office (EPO) or the Hungarian Intellectual Property Office.

The application will be published by EPO after the expiration of a period of eighteen months from the date of priority. Before publication EPO carries out the formal examination of the application and if possible, the novelty search. The search report, if completed, is published together with the application; if not, it will be published later.

The applicant may decide in light of the search report whether he or she would like to request the substantive examination of the application. The EPO decides on the patentability conditions of the application in the framework of the substantive examination. In case of a positive outcome the EPO grants a European patent on the subject matter of the application, the scope of which extends to the territories of all countries indicated in the application.

Within nine months of the publication of the grant of the European patent, any person may give notice to the European Patent Office of opposition to the European patent granted. Depending on whether the opposition is established or not, the EPO may in the opposition procedure revoke the European patent or maintain it with or without limitations.

Against the individual decisions of the EPO appeal may be filed to the boards of appeal.

In countries indicated in the application, a provisional protection will only be established, or the granted European patent will only become effective, if the conditions prescribed by national legal regulations have been satisfied within a certain period of time.

Taking the costs and legal effects of the European application into consideration, it is advisable to resort to the help of patent attorneys.

Trademarks

A trademark is any sign that is capable of being represented graphically and which can in the course of trade, distinguish the goods or services from those of other undertakings. Such signs may include words, including personal names, designs, letters, and the shape of goods and their packaging. It is a basic tool of economic competition and plays a very important role in marketing and advertising.

Signs that may be granted trademark protection are:

- Words, combinations of words, including personal names and slogans
- Letters, numerals
- Figures, pictures
- Two- or three-dimensional forms, including the shape of goods or of their packaging
- Colours, combinations of colours, light signals, holograms
- Sound signals and
- Combination of the previous signs

Registration is not allowed for marks excluded from protection by the law (absolute grounds for refusal and/or relative grounds for refusal) e.g. those that:

- Consist exclusively of signs that may in the course of trade, refer to some characteristic, e.g. the kind, quality, quantity or intended purpose of the goods or services
- Are customary in the current language or in the practices of trade
- Consist of a shape that results from the nature of the goods
- May deceive consumers as to the nature, quality or other characteristics of the goods or services
- Are identical or similar to, a mark already on the register in respect of the same goods or services, or similar goods or services
- Are identical or similar to a mark having a reputation in the country in respect of even dissimilar goods or services
- Are identical or similar to a mark that is well-known in the country even if the mark is unregistered.

Any natural or legal person may obtain trademark protection.

Protection consists of the right to use a trademark in relation to the goods or services for which it is registered or to let others use the trademark under terms agreed with the registered owner. Also the right to take legal action against others who might be infringing the registration by using the same or similar trademark on the same or similar goods or services for which the trademark is registered.

Registration of trademarks in Hungary

This is achieved by filing a national trademark application with the Hungarian Intellectual Property Office or an international trademark application governed by the Madrid Agreement and/or the Madrid Protocol on the International Registration of Trade Marks.

Foreign applicants have to be represented by representatives residing in Hungary. Domestic applicants do not have to have representatives; however, professional help offered by patent agents is advisable.

Banking and local finance

The financial system in Hungary is basically privately owned: public-sector participation in the banking system is less than 20%, and in the insurance field is even less. The development and modernisation of the Hungarian financial system through the last decade took place with significant foreign participation. The presence of foreign financial institutions in the system is outstanding by all standards. Participation of international banks in the Hungarian system, taking into account its capital base, is more than 65%. Major European Union banking institutions as well as certain American banks are playing an active role in the Hungarian market, which consists of 42 different banks altogether. This may be attributed to the fact that the establishment and incorporation of foreign-controlled financial institutions is permitted by law once the legal requirements are fully met.

In the insurance sector foreign participation is close to 90%, while investment firms are now 70% foreign-controlled. The Hungarian financial sector is extremely open to international trends and developments, creating an organic link between the Hungarian and the global marketplace.

The legal background of the Hungarian financial sector and the relevant regulation is substantially in line with European directives and standards. All major sectoral laws relating to banking, insurance, securities, mutual funds and private pension funds are in the process of revision to ensure appropriate and EU-compliant legislation.

The national currency, the Hungarian forint, has been convertible since 1996. The forint exchange rate is pegged to the euro and it may move within a band of +/- 4.5%. International currency invisible operations are fully liberalised and most capital movement items are also restriction-free.

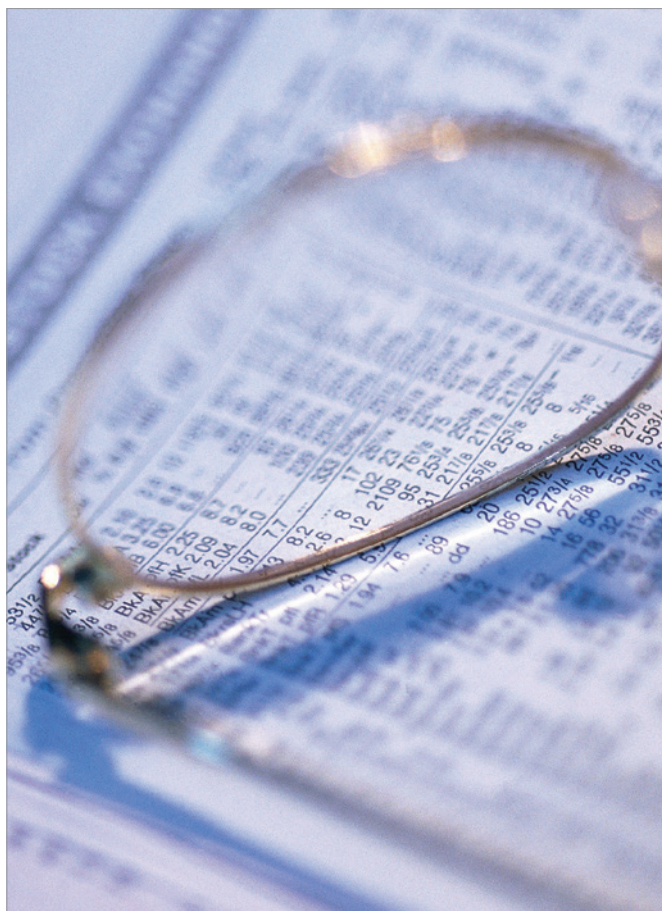
The Hungarian financial system provides an excellent financial infrastructure for all companies acting in Hungary, foreign and domestic alike. There is fierce competition among banks, insurance companies and other financial-service providers to obtain a larger market share in different market segments. The banking industry and other financial services are highly computerised and backed by the latest information technology. Bank and credit cards are very widespread: their extensive use is matching European levels.

Within the sector, the National Bank of Hungary is responsible for the conduct of monetary policy, oversees the appropriate functioning of the payment system and also acts as the foreign-exchange authority. The supervision of the banking, insurance, securities industries and private pension funds falls within the competence of the newly established integrated Hungarian Financial Supervisory Authority. The main role of the authority is to ensure the smooth and orderly operation of the financial markets, to maintain market confidence and improve consumer awareness about the financial markets.

Hungary has been a member of the IMF since 1982 and of the OECD since 1996.

Exchange controls

There are no restrictions on foreign-currency transactions. Foreign-exchange (forex) rules allow Hungarian residents to open forint and foreign-currency accounts abroad without applying for permission from the National Bank of Hungary (central bank) and foreign companies may hold foreign currency without restrictions.



The Hungarian government intends to further liberalise forex markets, in line with Hungary's accession to the EU's Exchange Rate Mechanism II and future adoption of the euro (although there is currently no target date for adopting the euro).

Under an anti-money laundering law, information on a beneficial owner must be submitted to the authorities when entering into a business transaction exceeding HUF 2 million in value. The identification requirement also applies to transactions that exceed HUF 300 000 at currency-exchange offices. The execution of suspicious transactions can be suspended for 24 hours. The import and export of cash or cash-like instruments (e.g. travellers' cheques or transferable securities) exceeding HUF 1 million in value must be declared to the customs authorities.

The removal of forex restrictions does not affect the provisions of other laws, including those applicable to insurance, foreign trade, finance and investment and customs. The restrictions incorporated in these laws remain in force.

Incentives to investment

One of the most important benefits offered by Hungary is its location in the heart of Europe, which makes the country a natural logistics centre. Hungary can serve as a basis for further expansion to investors who are looking further afield and are planning large-scale business developments, including those coming from distant countries and wishing to seize European markets.

Foreign capital is also attracted by the highly skilled and highly educated labour force, particularly in engineering, IT, pharmacy, economics, mathematics, physics and professional services. Around two-thirds of the workforce in Hungary have completed a secondary, technical or vocational education. As labour regulations are relatively liberal in international terms, labour-market conditions are far more flexible than in Western Europe. Also, wages are less than one-third of those in Western European countries. High English proficiency (90% of students speak English) and the high number of working hours (directly behind the United States) make the Hungarians a highly valuable workforce. Statistics have shown that labour costs associated with the production of one unit of GDP are the lowest in Hungary among regional competitors.

Foreign direct investment

Since the 1990s the Hungarian economy has gradually been transformed by FDI, resulting in the introduction of advanced technologies and innovation representing higher added value. Hungary can currently boast of having attracted foreign direct investment of approximately USD 93 000 million to date, more than one-fifth of all FDI invested in Central and Eastern Europe.

Subsidies for investment

The Hungarian Investment and Trade Agency (HITA) supports investments aiming to establish new manufacturing facilities and research and development projects with a one-stop-shop service. As part of the support package, HITA undertakes all-inclusive project management and provides VIP treatment and comprehensive information about the investment environment.

The main types of incentives related to investment are:

- Cash subsidies either from the Hungarian Government or
- Tenders co-financed by the European Union
- Development tax allowance
- Job creation and training subsidies

As a member of the European Union, Hungary can offer a broad scale of subsidies. An investment of an enterprise – depending on the location – can be entitled to receive state subsidies of up to 50% of the eligible costs of the investment. The legal basis for all investment subsidies within Hungary is provided by the common legal framework of the European Union.

The Hungarian Investment and Trade Agency (HITA)

HITA was founded by the Hungarian Government with the aim of promoting foreign investment and bilateral trade, besides helping SMEs develop an EU-integrated orientation. The Hungarian Investment and Trade Agency has representative offices in six regional centres in Hungary and a foreign network operating under Hungary's diplomatic services and special assignments in more than fifty countries.

4. The accounting and audit environment

Accounting regulations

Accounting and bookkeeping in Hungary are regulated by Act C of 2000 on Accounting (hereinafter, 'the Accounting Act') and the statutes issued by the Ministry for the National Economy. In addition to the Accounting Act, some special rules apply to financial institutions, insurance companies, state-owned enterprises and local authorities. Hungarian accounting regulations are harmonised with Directives 4 and 7 of the European Union and other international accounting principles.

The Act applies to all enterprises, but does not apply to sole proprietors, companies without a legal personality, building cooperatives or Hungarian commercial representations of businesses registered abroad.

Hungary is currently in the third stage of adoption and adheres to EU IFRS. All publicly listed companies in the European Union are required to prepare financial statements in accordance with IFRS from 1 January 2005 onwards. Hungarian companies listed on an EU securities market are required follow IFRS for consolidated financial statements. However, for statutory filing, IFRS is permitted but if used, local GAAP financial statements must also be prepared and filed with the Court of Registry.

Main accounting rules (Local GAAP)

Financial statements

Financial statements must be prepared in the Hungarian language and in accordance with Hungarian accounting principles. Enterprises are required to prepare a financial statement for each accounting year, the form of which depends on the net turnover, the balance-sheet total and the number of employees.

The Accounting Act generally recognises four types of financial statements:

- Annual
- Simplified annual
- Consolidated annual
- Simplified (or a particular version thereof)

A company using double-entry bookkeeping may prepare a simplified financial statement if any two values of the following three limits are not exceeded in two consecutive years on the balance-sheet date:

- Balance-sheet total: HUF 1200 million
- Annual net turnover: HUF 2400 million
- average number of employees during the accounting year: 50

Private limited companies, businesses involved in a consolidation (excluding the parent company), companies opting for an accounting year different from the calendar year and Hungarian branch offices of businesses with their registered offices abroad may prepare simplified financial statements.

Consolidated annual financial statements and a consolidated business report are required by any business that qualifies as a parent company in its association with one or more businesses, except if any two values of the following three limits are not exceeded in two consecutive years on the balance sheet-date prior to the accounting year:

- Balance-sheet total: HUF 6000 million
- Annual net turnover: HUF 12 000 million
- Average number of employees during the accounting year: 250



A business qualifies as a parent company if it has a controlling influence on another business either directly or indirectly through a subsidiary because it has one of the following:

- The majority (over 50%) vote of the shares
- Ownership of the majority of the votes on the basis of agreements with other shareholders
- Entitlement as a shareholder of the company to elect or recall the majority of the executive officers or the members of the supervisory board
- Decisive control of the company

Consolidated financial statements have more detailed data on the balance sheet and income statement than the annual financial statements. The consolidated annual financial statements consist of the consolidated balance sheet, the consolidated income statement and the consolidated annexes. The consolidated annual financial statements have to represent the property, financial and income situation of the businesses involved in the consolidation as if they operated as a single company.

No consolidated annual financial statements or consolidated business reports are required from a parent company that is a subsidiary of another parent company that prepares its consolidated annual financial statements (and consolidated business report) in accordance with the Accounting Act, Council Directive 83/349/EEC of 13 June 1983 and Regulation No 1606/2002/EEC of 19 July 2002 of the European Parliament and the Council. In this case, however, the consolidated annual financial statements and the consolidated business report of the superior foreign parent company, as well as the relevant audit report, must be published in Hungarian. The exempt parent company is required to have the above documents published within 60 days of the approval of the consolidated annual financial statements of the superior foreign parent company.

Method of bookkeeping and the chart of accounts

Businesses have to support their financial statements with double-entry bookkeeping.

Double-entry bookkeeping requires a structure of the bookkeeping system harmonised with the effective requirements of the chart of accounts.

International enterprise-resource planning systems may be used in Hungary but they have to comply with local rules.

The main accounting principles are:

- Going concern
- Completion
- Truth
- Clarity
- Consistency
- Continuity
- Comparability
- Caution
- Accruals

Accounting documentation

The enterprise is required to keep its financial statements, the business report, all supporting inventories, assessments and general ledger statements, chief books of account and any other records fulfilling the requirements of the law in a legible format for a minimum of 10 years. The records directly or indirectly supporting bookkeeping (including general ledgers, analytic and detailed records) must be stored for a minimum of eight years in a retrievable format. It is also possible to archive the documents in digital format provided that the form of storage ensures the generation of the documents without delay and excludes the possibility of subsequent modification.

Documents may be forwarded for bookkeeping and processing purposes to other locations but have to be presented within three working days if requested by the tax authorities.

If the accounting records necessary for the authorities' review are only available in a foreign language and the facts of taxation may not be clarified otherwise, the taxpayer is required to present the tax authorities with certified Hungarian translations of the documents.

The general formatting requirement of the accounting records is references to the relevant bookkeeping accounts, the date when they were recorded in the bookkeeping system and proof thereof. These items of information may be printed out of the accounting software.

Accounting year

Generally, the accounting year must be coextensive with the calendar year.

The accounting year may differ from the calendar year in the following cases:

- For the Hungarian branch of a company registered abroad if the foreign-registered company also uses a different accounting year
- With the exception of credit institutions, financial businesses and insurance companies, for the affiliates involved in the consolidation of a foreign parent company and the affiliates of these affiliates if the accounting year is different from the calendar year for the foreign parent company and in the consolidated report of the foreign parent company
- For European companies (SEs) and European cooperatives, with the exception of those that qualify as credit institutions, financial businesses or insurance companies
- For international institutions of higher education

Accounting policy

Accounting policy has to be incorporated in writing within 90 days of the establishment of the enterprise. The accounting policy must include:

- The rules, requirements and methods by which the enterprise determines what it considers essential, important, not important and non-essential in terms of bookkeeping and assessment
- Which selection and qualification options provided under the law are to be used and under what conditions the practice may be changed
- Inventory and stocktaking rules for assets and liabilities
- Valuation rules for assets and liabilities
- Internal rules for calculating net cost
- Fund-management rules

Disclosure of financial statements

As of 1 May 2009, businesses are obliged to disclose the following documents:

- Financial statements (balance sheet, income statement, supplementary notes)
- The members' resolution on the application of after-tax profits
- The receipt issued by the Hungarian State Treasury confirming payment of the publication charges (HUF 3000) and
- The independent auditor's report (for businesses obliged to have an audit)

The documents listed above must be attached to an electronic form downloaded from the website of the Service of Company Information and Electronic Company Registration (hereinafter, 'the Company Information Service'), and the whole package must be submitted to the Company Information Service by the last day of the fifth month following the balance-sheet date.

Businesses required to prepare consolidated annual financial statements have to disclose their report by the last day of the sixth month following the balance-sheet date in the same way indicated above.

Submission of the electronic disclosure package is effected through the so-called customer gateway (*Ügyfélkapu*). Access to the *Ügyfélkapu* is granted by preliminary registration of one of the authorised representatives of the enterprise, or a person (organisation) with power of attorney. The following persons may be given power of attorney:

- Legal counsel, attorney at law, law office, Community lawyer
- A tax expert, certified tax expert, tax consultant
- An accountant
- An employee or member of a business association authorised to provide accounting, bookkeeping or tax consulting services to any other organisation

The person submitting the disclosure package has to certify that the enclosed documents are identical to those prepared on paper and to undertake the obligation to store one copy of each paper-based document for a period of eight years.

The Company Information Service then sends the submitted electronic form, the enclosed balance sheet, the income statement and the annexes to the tax authorities. On the basis of the electronic form received, the tax authorities verify the publication of the report and the date thereof, and if the authorities conclude on the basis of the electronic forms that the business has failed to publish the report or, on the basis of the notification received by the Company Information Service, to pay the publication charges, they will impose a default fine of up to HUF 500 000 and will issue an order to the business to fulfil the missing requirements within a 30-day deadline. After the above deadline, the tax authorities impose a default fine of up to HUF 1 million and repeatedly call upon the business to publish the report within a 60-day deadline. Once the deadline expires, the tax authorities have the power to cancel the company's tax number without suspension and initiate the procedure to declare the business as terminated.

Audit requirements

Auditors

The auditor is responsible for determining whether the annual report of the enterprise is in conformity with legal requirements, and whether it provides a true and fair view of the company's assets and liabilities, financial position and profit or loss.

Undertakings using double-entry bookkeeping are required to appoint an auditor. In accordance with the Accounting Act, the appointment of an auditor is not mandatory if both of the following conditions are met:

- Its annual net turnover (calculated for the period of one year) did not exceed HUF 300 million on average over the two financial years preceding the financial year under review, and
- The average number of people employed by the undertaking did not exceed 50 on average over the two financial years preceding the financial year under review

If the undertaking is not obliged by any legal regulation to appoint an auditor it may still do so at any time. If an undertaking appoints an auditor, it is the governing body of the undertaking that defines the essential content of the contract to be concluded with the auditor. The auditor's name must be included in the articles of association and registered with the Court of Registration. The auditor may not develop such a degree of relationship with the management of the undertaking as could jeopardise the impartiality of the audit.



The provisions of Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors apply to auditing services and other services providing certainty, as do certain other reporting regulations.

Undertakings that are required by law to prepare and file audited financial statements, such as credit institutions, savings banks, consolidated companies, the Hungarian branches of foreign entities and companies who in order to reflect the true and fair view of their operations opt to exercise the freedom to diverge from the regulations of the Accounting Act cannot be exempted from a financial audit on the basis of the above limits. Mandatory audits may exist in other cases, too, for example where, in certain circumstances, the undertaking participates in European Union projects, or applies for grants provided by the European Union.

Auditing standards

The audit has to be carried out in line with Hungarian legal regulations and in accordance with the Hungarian National Auditing Standards effective since 1 January 2012, approved and issued by the Hungarian Chamber of Auditors in harmony with International Auditing Standards.

The person and qualifications of the auditor

Audits may only be conducted in Hungary by individuals who are current members of the Chamber of Auditors. Audits may also be conducted by audit companies and persons having an audit licence, but even if an audit company is appointed, the responsible auditor must also be selected and appointed.

The Chamber also determines specific qualifications for the auditors of enterprises in certain areas of activity. A special audit licence is required for auditing financial, investment, insurance and pension funding institutions.

The auditor's appointment may be for a fixed term of a maximum five financial years if the enterprise is one of public interest and may not thereafter be reappointed within two years of the expiry of the previous mandate.

External quality control system

Quality control over the audits of enterprises of public interest is exercised by the Authority for Public Oversight of Statutory Auditors as from 1 July 2013. In other cases, this responsibility lies with the quality-control committee set up in accordance with the internal regulations of the Chamber of Hungarian Auditors.

The Audit Directive

In 2006, twenty-five EU Member States agreed to certain mandatory steps to clarify and strengthen the role of the auditor. On the basis of the new Directive (2006/43/EC) which, inter alia, repealed the Eighth Audit Directive (84/253/EEC), a new Act regulating auditing in Hungary came into force on 1 January 2008.

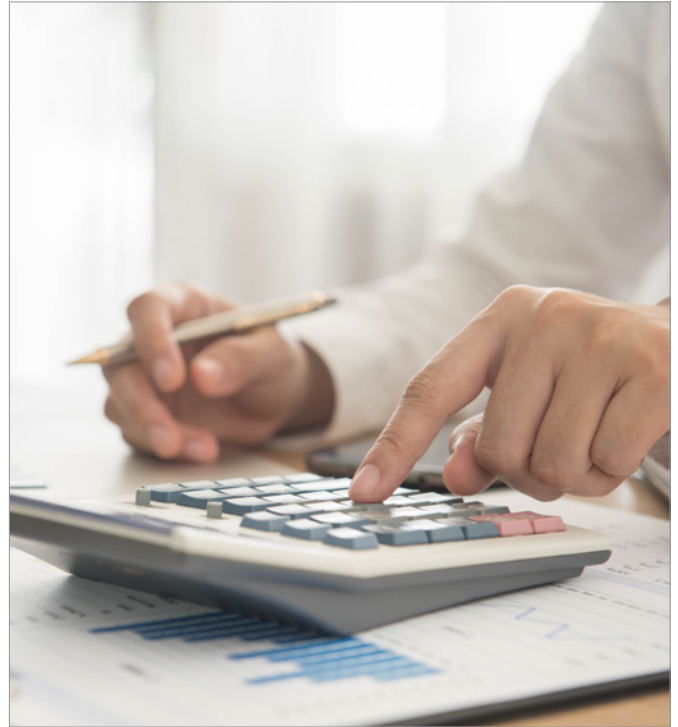
5. Overview of the tax system

Main taxes

The main national taxes are:

- Corporate income tax (*társasági adó*)
- Personal income tax (*személy jövedelemadó*)
- Local business tax
- Value added tax (VAT) (*általános forgalmi adó*)
- A special surtax on certain companies (e.g. the financial, energy, retail, and telecommunications sectors)
- Excise duties
- Immovable property tax

Hungary's corporate tax rate is competitive in the region, although the relatively low corporate rate is balanced by high local business taxes levied by local authorities. Other taxes include transfer tax. A minimum tax can apply in certain circumstances. There is no branch profits tax, excess profits tax or wealth tax. No withholding tax is levied on dividends, interest or royalty payments made to foreign entities. The absence of withholding tax, combined with the participation exemption available for capital gains on qualifying shareholdings and the 50% exemption for royalty income, makes Hungary an attractive location for holding and licensing companies.



Hungary has fully implemented the EU Parent-Subsidiary, Interest and Royalties, Merger and Savings directives into domestic law.

Tax laws in Hungary are passed by the parliament and apply uniformly throughout the country, although the Local Taxes Act empowers local governments to levy certain taxes within their jurisdiction

Tax Authorities

The National Tax and Customs Administration (NAV), is responsible for the enforcement and collection of tax.

Local authorities are empowered to levy and collect certain taxes through their local tax offices.

6. Taxes on business

Corporate income tax

Scope and extent

Corporate entities resident in Hungary are subject to corporate income tax on their worldwide income. Non-resident companies are taxable only on income derived in Hungary, but since there is no withholding tax on dividends, interest, royalties or other types of income paid to non-residents, in practice liability is limited to those foreign companies with permanent establishments in Hungary and those foreign companies whose Hungarian subsidiaries qualify as immovable-property companies (see under 'Capital gains' below).

Taxable entities

Corporate entities founded under Hungarian law include general partnerships and limited partnerships (see Chapter 2), so these entities are also subject to corporate income tax. However, for the sake of simplicity, all entities subject to corporate income tax are referred to in this Chapter henceforth as companies.

Among others, the following are therefore liable to corporate income tax:

- Public limited (joint-stock) companies
- Private limited (joint-stock) companies
- Limited-liability companies
- General and limited partnerships
- Non-profit companies
- Cooperatives (*szövetkezet*)
- Real-estate investment trusts (*szabályozott ingatlanbefektetési társaság*)
- Law firms
- Foundations (*alapítvány*)
- Institutions of higher education, student hostels

Residence

Companies are treated as resident if they are incorporated or founded under Hungarian law or have their place of management in Hungary.

Taxable income

For domestic and foreign businesses alike, the corporate tax base is the accounting profit or loss before taxation modified by the items identified in Act LXXXI of 1996 on Corporate Tax (hereinafter: 'the Corporate Tax Act').

For non-deductible expenditure, see under 'Deductions' below.

For capital gains, see under 'Capital gains' below.

Deductions

Normal business expenses are generally deductible in computing taxable income. The Corporate Tax Act specifies certain items that do not qualify as costs and expenses incurred in the interests of the business operations and must thus be added back when computing taxable profits. These include:

- Consideration in excess of HUF 200 000 (excluding VAT) paid to the same provider for services without a genuine business purpose
- The book value of missing assets, if, with proper care, the shortfall could have been avoided
- Consideration paid to a controlled foreign company, unless the taxpayer is able to prove from separate records that the transaction is directly related to the operations of its business

- Any grant or subsidy provided without obligation of repayment to a non-resident person, non-repayable liquid assets, the book value of assets provided without consideration, liabilities assumed without consideration, and costs and expenses accounted for services provided free of charge (with the exception of charitable donations)
- The direct cost of research and development if it is not related to the business activity of the taxpayer

Depreciation

For tax purposes, tangible and intangible assets are depreciated on a linear (straight-line) basis. Land, with the exception of mining land or land used for the storage or disposal of waste is not depreciable. For some assets, companies may claim accounting depreciation as an option.

Normal rates of tax depreciation are shown in Table 1 below.

Table 1

| Type of asset | Rate of depreciation (%) |
|--|--------------------------|
| Structures of long duration ¹ | 2.0 |
| Structures of medium duration ² | 3.0 |
| Temporary structures ³ | 6.0 |
| Plant and equipment | 14.5 |
| Motor vehicles | 20.0 ⁴ |
| Office equipment | 33.0 ⁴ |
| Computer equipment | 50.0 |
| Intangible assets | 50.0 ⁵ |

Notes

¹ e.g. steel, concrete, brick buildings

² e.g. light-steel and other metal structures, wooden structures

³ e.g. timber partitions

⁴ Alternatively, accounting depreciation may be claimed

⁵ Where created or acquired after 2002. Alternatively, accounting depreciation may be claimed

All tangible assets with a cost not exceeding HUF 200 000 may be depreciated according to accounting rules. Tangible and intangible assets costing no more than HUF 100 000 may be written off immediately on being put to use.

Companies may claim tax depreciation at less than the stipulated rate, provided that the amount claimed is not less than the accounting depreciation for the asset concerned.

Interest and royalties

Interest and royalties paid for the purposes of the business are generally deductible up to their arm's length value, subject to thin-capitalisation restrictions in the case of interest, for which see below.

Research and development

A super-deduction of three times the R&D expenditure incurred for business purposes is available in respect of basic or applied research or experimental development if carried out in partnership with an institute of higher education, the Hungarian Academy of Sciences or certain other scientific institutions.

Charitable etc donations

These are not deductible in full but a partial 20% deduction may be made if the recipient is a qualifying organisation in the public interest. Certain donations to designated national funds or institutions of higher education may qualify for a 50% deduction.

Capital gains

Generally speaking, capital gains are included in a company's taxable income.

However, certain capital gains are exempt. These are gains on the disposal of qualifying participations and of certain intangible property. A qualifying participation is a shareholding of at least 10% of the registered share capital in a company (wherever resident) which the company making the disposal has held for an uninterrupted period of at least 12 months. Shares in controlled foreign companies are excluded. It is a condition for the exemption that the acquisition and any subsequent additional acquisitions must have been reported to the tax authorities within 75 days.

Gains from the disposal of intangible property are exempt if the acquisition or creation of the property was reported to the tax authorities within 60 days; the property entitled the company to receive royalty income and it has been held for at least one year. There is an anti-avoidance rule to prevent churning.

Certain capital gains arising on mergers, divisions and split-offs may be deferred.

Non-resident companies without a permanent establishment in Hungary may nevertheless be subject to tax in Hungary on capital gains if their Hungarian subsidiaries qualify as 'property-holding companies'. A Hungarian company qualifies as a property-holding company if the book value of its Hungarian immovable property, when aggregated with the book value of the Hungarian immovable property held by all other Hungarian subsidiaries in the group and by the Hungarian permanent establishments of affiliated foreign companies, exceeds 75% of the book value of the company's total assets. Where these conditions are satisfied, capital gains arising to a shareholder from a transfer of the property-holding company's shares are taxed at 9% (see under 'Tax rates' below). However, the gains are exempt unless there is at least one day during the tax year in question in which a shareholder in the property-holding company or in any other member of the group is resident in a jurisdiction that does not have a tax treaty with Hungary. Alternatively, the gain will be taxable if the shareholder is resident in a jurisdiction whose tax treaty with Hungary allows Hungary to tax the gain.

Dividends, interest and royalties**Dividends**

Dividends received are normally exempt (strictly speaking, fully deductible) unless the distributing company is a CFC of the taxpayer company. See under 'Controlled foreign companies' below.

For withholding taxes on outbound dividends, see under 'Withholding taxes' below.

Interest

Interest received is normally fully taxable.

For withholding taxes on outbound interest, see under 'Withholding taxes' below.



Royalties

It is a feature of the Hungarian tax code that companies may deduct 50% of royalties received. As a result, only 50% of royalties received are taxable. However, the deduction may not exceed 50% of total pre-tax profits.

For withholding taxes on outbound royalties, see under 'Withholding taxes' below.

Foreign tax credits

Foreign tax credits are unilaterally awarded on a per-country and per-item basis but may not exceed the lower of 90% of the foreign tax paid and the Hungarian corporate tax on the item of income concerned.

Group taxation

Hungary has no taxation provisions in respect of groups. However, VAT grouping is possible (see under 'Value added tax' below)..

Losses

The set-off of losses brought forward from previous years is limited to no more than 50% of current-year profits. As from 1 January 2015, losses may be carried forward for no more than five years.

Losses incurred before 1 January 2015 may be carried forward until no later than 31 December 2025.

Following corporate restructuring, the legal successor may only use losses incurred by its legal predecessor if the person (or any affiliated undertaking thereof) acquiring direct or indirect majority influence in the successor had the same influence in the predecessor prior to the restructuring. Another condition is that the successor must realise revenue from at least one activity carried on by the predecessor in the next two tax years following the restructuring.

In the case of change of ownership, the company may only use losses brought forward if the new owner acquiring direct or indirect majority influence in the company was connected to the company for a continuous period of at least two years prior to the acquisition. However, this condition does not apply where the target company or the new owner is a quoted company or if there is no significant change in the target company's business in the two tax years following the change of ownership and it derives revenue from this business in both tax years.

Withholding taxes

Hungary levies no withholding tax on dividends, interest, royalties, service fees or rents paid to resident or non-resident companies or other corporate entities.

For withholding taxes on payments to natural persons, see Chapter 7.

Thin capitalisation

If the liabilities of the company (except for those towards financial institutions) are in excess of three times the company's equity, the excess proportion of the company's interest expense is disallowed.

When calculating the thin-capitalisation ratio, the open market rate of interest on liabilities towards an affiliated undertaking must also be taken into account if, due to the application of transfer-pricing regulations, the taxpayer reduced its earnings before tax by the amount of the open market rate of interest. Thus, interest-free loans provided by a related party may adversely affect the thin-capitalisation ratio even if the taxpayer does not deduct the related interest when computing its profit or loss.

The value of liabilities may be reduced with a specific proportion of accounts receivable.

Transfer pricing

Transfer pricing rules are the applicable regulations for transactions between related parties as defined by the Hungarian Corporate Tax Act. In general, we can say that if companies meet at least one of the following criteria, then they will be deemed to be related parties for income tax purposes:

- One company directly or indirectly owns more than 50% of the voting rights in the other company or two companies have all their directors in common
- One company holds by way of any agreement with another member of the other company more than 50% of the voting rights in that company
- One company is entitled to appoint/dismiss the majority of the executive officers or the supervisory board members of the other company

In addition, the Hungarian head office and the foreign PEs/branches, as well as the Hungarian PEs/branches and the foreign head office qualify as related parties; thus, the transfer pricing rules also apply to these enterprises.

The Corporate Tax Act defines the cases when entities are obliged to apply transfer-pricing adjustments. According to section 18 of the Corporate Tax Act, a transfer-pricing adjustment is required if the price used between related parties based on their agreement is lower or higher than the consideration used by independent parties within comparative conditions. The profit before taxation has to be modified by a transfer-pricing adjustment in the following cases:

- Where the profit before taxation is higher than it would otherwise be due to the non-arm's length consideration paid between related parties, the profit before taxation must be reduced by the appropriate amount
- Where the profit before taxation is lower than it would otherwise be due to the non-arm's length consideration paid between related parties, the profit before taxation has to be increased by the appropriate amount

Reduction of the profit before taxation is only allowed if both parties are in possession of a declaration signed by both, declaring the difference between the arm's length price and the price used, and the other party is subject to Hungarian corporate tax or a similar tax abroad and increase(d) its tax base by the same amount. The reduction cannot be validated if the related party is considered as a controlled foreign company (CFC).

Controlled foreign company (CFC) rules

A foreign entity will qualify as a controlled foreign company where a Hungarian-resident taxpayer either alone, or together with related persons:

- Holds, directly or indirectly, more than 50% of the voting rights or more than 50% of the registered capital or is entitled to a share in excess of 50% of the after-tax profit of the foreign entity and
- The foreign tax corresponding to Hungarian corporate income tax actually paid by the foreign entity for the tax year is less than half of the corporate income tax rate that would have been payable by the entity in Hungary (i.e. it is less than 4.5%).

Where these conditions are satisfied, the appropriate proportion of the CFC's attributable income is deemed to be that of the Hungarian-resident taxpayer. The attributable income includes interest, royalties, and the proceeds of sales between related parties (in this case, only if little or no value is added by the CFC) but only if it constitutes more than 33.33% of the CFC's income. In addition, income from finance leasing, banking, insurance and other financial activities is attributable if more than 33.33% of the CFC's income is derived from transactions to which related entities were a party.

The CFC rules do not apply if the foreign entity carries out genuine economic activity.

General anti-avoidance rule

Hungary also has a general anti-avoidance rule ('substance over form'), which allows the tax authorities to look beyond the legal form of a transaction at the underlying economic reality. Furthermore, if the object of a transaction or contract is merely to obtain a tax advantage, the costs and losses associated with such a transaction are not recognised for tax purposes.

Tax incentives

Tax credits related to funding film making and performance arts

If certain conditions are met, a company may claim a tax credit for the specific tax year and for the following six years up to the amount of funding for films certified by the appropriate authority. The maximum credit allowed for all sponsors is 25% of the direct production costs incurred in Hungary in the tax year concerned. If certain conditions are met, a company may also claim a tax credit for the specific tax year and for the following three years up to the amount of the funding for performance arts organisations approved by the appropriate authority.

Tax credits for small and medium-sized enterprises (SMEs)

Taxpayers qualifying as an SME on the last day of the tax year when signing a loan agreement may claim a tax credit of 40% of the interest paid on a loan granted by a financial institution after 31 December 2000 for the purchase and production of tangible assets. The tax credit is capped at HUF 6 million per year.

Development tax credit

A taxpayer is entitled to a tax credit for an investment:

- Worth at least HUF 3000 million at present value
- Installed and operated in the administrative area of a designated local authority and worth at least HUF 1000 million at present value;
- Worth at least HUF 100 million at present value in establishing food-hygiene processes in an existing facility producing food of animal origin
- That is an independent environmental-protection investment worth at least HUF 100 million at present value
- Designed to promote basic or applied research or experimental development, worth at least HUF 100 million at present value
- Designed to promote films and videos, worth at least HUF 100 million at present value
- Designed to create jobs or
- In the case of an investment by an SME worth at least HUF 500 million at present value
- An investment of at least HUF 100 million at present value put into operation and operated within the territory of a free enterprise zone

Additional specific conditions must be met in the case of most of these. For example, for the first two types of investment include there is a qualifying condition that for the four tax years following the year in which the tax credit is first claimed, the average number of the workforce employed by the taxpayer exceeds the number of employees before the investment by at least 150 people (in certain cases by at least 75 people), or that the taxpayer's payroll costs exceed the annual payroll costs prior to the tax year of the investment by the equivalent of at least 600 (in certain cases 300) times the minimum wage calculated for the tax year.

Sports sponsorship tax credit

A tax credit of up to 70% of the amount of sponsorship or benefit given to promote spectator team sports is available, provided that the sponsorship is given as a grant, without the obligation to be repaid in the tax year concerned or in the three subsequent tax years.

A condition for the tax credit is that the sponsored organisation have a sports-development programme approved by its supervisory body.

Tax rates

As from 1 January 2017, the rate of corporate tax is only 9%.



Returns and payment

A self-assessment system operates. Companies are required to file their corporate tax returns and pay corporate income tax by 31 May of the year following the tax year. If the taxpayer opts for a tax year other than the calendar year, the filing and payment deadline is the last day of the fifth month after the last day of the business year. If the company's final tax liability in the previous tax year exceeded HUF 5 million, it must make monthly payments on account; if it did not exceed HUF 5 million, advance payments are made quarterly. The payments on account are one-twelfth or one-quarter, as the case may be, of the previous year's final liability.

If the company's turnover in the preceding tax year exceeded HUF 100 million, its twelfth monthly payment on account must be such as to cover the balance of tax expected to be payable in respect of the current tax year.

Simplified taxation

Simplified entrepreneurial tax (EVA)

EVA offers an opportunity to companies whose annual turnover does not exceed HUF 30 million to reduce both their administrative and their tax burden.

EVA is charged at 37% on the VAT-inclusive turnover of the business, as adjusted for certain items.

As a general rule, EVA replaces corporate income tax, VAT, personal income tax on business income (in the case of sole traders) and members or partners of the business are exempt from personal dividend tax. However, businesses under the EVA regime must continue to show VAT on their sales invoices, so that their customers may deduct input VAT.

Taxpayers not subject to the Accounting Act (e.g. sole traders) are required to file their EVA returns by 25 February of the following tax year, whereas the deadline for taxpayers subject to the Accounting Act is 31 May of the following tax year.

Advance payments of EVA must be made quarterly, by the 12th of the month following the end of the previous quarter, except in the final quarter, when payment must be made by 20 December to cover the balance of tax expected to be due for the year.

The tax is self-assessed. Any balance of tax payable must be paid on filing the return.

Small business tax

Single-member limited-liability companies, cooperatives and foreign traders with a permanent establishment in Hungary may opt for another simplified form of tax, known as the small business tax (abbreviated in Hungarian to KIVA).

To be eligible, they must satisfy certain size and other criteria, namely:

- The average number of employees during the year must not exceed 25
- Neither their turnover nor their balance-sheet total may exceed HUF 500 million
- Their tax registration number was not cancelled or suspended in the two years preceding the tax year
- The balance-sheet date is 31 December
- The financial statements are prepared in HUF
- Their financial year must be coextensive with the calendar year

Where there are related entities, their employees and financial performance must be taken into account.

KIVA is charged at the rate of 13% on the difference between liquid assets of the current and previous year, as adjusted for payroll costs and certain other items. The base calculated in this way may not be less than the payroll cost.

The tax is payable in quarterly advance instalments, due by the 20th of the following month.

KIVA replaces corporate income tax, social security contributions and the vocational contribution.

Small business itemised lump-sum tax (KATA)

Eligible entities may opt for an alternative form of itemised taxation involving limited administration (KATA). By the payment of the tax, the company is released from corporate income tax, personal income tax, social security contributions, health insurance contributions, pension contributions, labour market contributions, health care contributions and vocational training contribution liabilities.

Eligible entities are sole traders, single-member companies, law firms as well as general and limited partnerships having only natural persons as partners.

Entities liable to KATA pay a lump-sum tax of HUF 50 000 monthly for each full-time employee (or, optionally, HUF 75 000 in return for higher social security coverage) and HUF 25 000 for each part-time employee (i.e. workers employed for less than 36 hours per week, old-age pensioners, employees qualifying as insured abroad, entrepreneurs performing non-auxiliary activities in another enterprise).

Where the eligible entity's annual turnover exceeds HUF 12 million, additional tax amounting to 40% of the excess turnover is levied. KATA is payable monthly, no later than the 12th of the month following the current month. If the entity's annual turnover exceeds HUF 12 million, it must file a tax return by 25 February of the following year.

Appeals

The tax authorities will raise an assessment if it appears to them that the company's self-assessment return contained errors.

Companies have the right to appeal against these assessments to the tax office that raised them in the first instance. The appeal should be lodged within 30 days of the assessment date. New facts and evidence may also be presented in the appeal. Unless the tax office concerned allows the appeal, it must forward the case to a higher, second-instance office within 15 days of receiving the appeal.

The appeal must be forwarded to the superior authority with all documents attached within eight days following the deadline for appeal unless the tax authority has withdrawn the appealed resolution or made the requested amendment or correction. The superior tax authority may uphold, amend or annul the original assessment or decision. It must do so within 30 days (in some instances, 60 days) of receiving the appeal.

Appeals against a decision of the superior authority may be made to the competent court within 30 days of the superior authority's decision.

Value added tax

Value Added Tax (VAT) as regulated by the European Union is generally charged on the supply of goods or services where the place of supply is in Hungary, no matter whether the customer is a private person or a business. It is thus a multi-stage tax charged at each stage of the product cycle but is ultimately borne by the end-user (final consumer). It is also levied on imports of goods from outside the European Union. The overall framework of the tax is the competence of the European Union, as legislated in the VAT Directive (2006/112/EC) and associated Directives and Regulations. These allow Member States several options in application of the tax, not the least of which is the power to set rates (within certain broad parameters).

In Hungary, it is Act CXXVII of 2007 on Value Added Tax (hereinafter 'the VAT Act') that is the chief VAT statute and is in conformity with the EU VAT Directive (2006/112/EC).

As elsewhere in the European Union, supplies may be taxable, exempt (with or without the right to deduct) or outside the scope. Exempt supplies with the right to deduct are sometimes referred to as 'zero-rated'. Businesses making exclusively taxable or zero-rated supplies generally qualify for full deduction of input VAT (the VAT they have incurred making supplies). Businesses making exclusively exempt supplies without the right to deduct do not qualify for deduction of input VAT. Businesses making a mixture of exempt supplies without the right to deduct and taxable or zero-rated supplies may fully deduct only the input VAT directly incurred on making the taxable or zero-rated supplies. Partial deduction will be available for overheads and other indirect costs.

Taxable entities

Businesses ('taxable persons') charging VAT to their customers are liable to report and pay this VAT to the Hungarian tax authorities. Any VAT incurred in the course of the taxable person's taxable activity (e.g. charged by the taxable person's suppliers), can in principle be deducted or set off against the VAT due. Only the net amount must be paid to the tax authorities. If there is a balance of deductible VAT, the amount is in principle recoverable from the tax authorities (but see below). Consequently, the real burden of VAT falls on the final consumer, with the intervening business effectively acting as a collecting agent for the tax authorities.

Although most taxable persons are businesses and most businesses are taxable persons, a taxable person is any person independently carrying on an economic activity. The definition of 'economic activity' is quite wide, so that on occasion, even persons not carrying on a business in the generally understood sense of the word may have to charge and pay over VAT.

VAT rates and exemptions

The standard rate of VAT in Hungary is 27% (the highest in the European Union). There is also a reduced rate of 18% and a super-reduced rate of 5%.

The 5% rate applies, *inter alia*, to:

- Livestock and meat
- Most books, newspapers and magazines
- Certain pharmaceutical products
- Medicines and chemicals for medicinal use

The 18% rate applies, *inter alia*, to:

- Certain basic foodstuffs
- Hotel accommodation
- District heating
- Certain cultural events

When the place of supply of goods or services is deemed to be outside Hungary, no Hungarian VAT should be charged. This is, for example, the case for most types of services supplied to foreign businesses and intra-EU supplies. This is also the case with exports of goods from the European Union to third countries.

In the case of so-called 'zero-rated' transactions, although no VAT is charged, a taxable person who is fully established in Hungary can in principle still normally deduct VAT incurred for the purpose of these activities ('exemption with the right to deduct'). There are also other exempt transactions, such as supplies of land, insurance, certain legal services as well as postal, financial, educational and health services, which do not carry the right to deduct. In other words, the taxable person making these exempt supplies cannot deduct or recover the VAT he has incurred on his purchases and expenses related to this activity ('exemption without the right to deduct').

Registration

Anyone who is liable to pay VAT to the Hungarian tax authorities and any taxable person 'established' in Hungary (whether based in Hungary or having a fixed establishment there from which taxable transactions are carried out) must in principle register for VAT purposes and obtain a VAT identification number.

Foreign taxable persons with a fixed establishment for VAT purposes in Hungary must register in the same way as a Hungarian taxable person.

Foreign taxable persons without a fixed establishment in Hungary from which taxable transactions are carried out should only register for Hungarian VAT purposes if they carry out taxable activities in Hungary for which they are liable to pay Hungarian VAT (i.e. where there is no application of the reverse charge, which makes the customer liable for payment of the tax due). This can, for example, be the case where the taxable person:

- Imports goods from outside the European Union
- Makes intra-EU acquisitions of goods from other Member States or
- Makes local supplies of goods or services to non-taxable persons

Registration thresholds

The small-business registration threshold in Hungary is HUF 6 million (by reference to the VAT-exclusive turnover in the previous 12 months). This threshold applies only in the case of Hungarian taxable persons. Taxable persons not established in Hungary who make taxable supplies there must register no matter what the value of their transaction(s).

The distance-selling threshold (for taxable persons selling into Hungary) is the HUF equivalent of EUR 35 000. The registration threshold for non-taxable persons making intra-EU acquisitions in Hungary is the HUF equivalent of EUR 10 000.

VAT returns

The standard return period is one calendar quarter. Businesses whose net VAT liability in the previous calendar year but one (i.e. in respect of 2018, in 2016) exceeded HUF 1 million must file monthly returns. Businesses in their first two years of registration must also file monthly returns.

Returns must be filed no later than the 20th day of the month following the end of the return period, which is when payment is also due. VAT returns must be filed electronically.

If there is an excess of input tax over output tax for a period, it is normally carried forward, but will be repaid if it exceeds HUF 1 million for monthly returns or HUF 250 000 for quarterly returns.

VAT grouping

Related parties may form a VAT group

Domestic reverse-charge VAT

If certain conditions are fulfilled, it is the customer and not the supplier who becomes the person liable to taxation. This is the so-called reverse-charge mechanism. In Hungary, it applies, inter alia, to:

- Sale of turn-key property by the contractor
- Services related to properties requiring a building permit, and building construction and other construction work aimed at the expansion or remodelling of properties
- The leasing or assignment of workforce for the supply of goods and services, the placement of staff, services of school associations, the sale of waste

- The sale of immovable property in respect of which the vendor has opted to waive exemption
- The sale of collateral assets
- The sale of grain and certain products
- The sale of certain iron and steel industry products

Foreign traders wishing to register for VAT in Hungary without establishing a permanent place of business in Hungary should contact the Northern Budapest Directorate of National Tax and Customs Administration (NAV) of Hungary.

Other taxes on business

Local business tax

Local authorities may, but are not obliged to, charge a local business tax. The local business tax is payable by all businesses whose registered office or branch office is located within the area of the local authority concerned. The maximum rate of the local business tax is 2%. The tax is charged on the net sales revenue of the business, less the following:

- The cost of goods sold
- The cost of mediated services
- Costs of subcontracting
- Costs of research and development

attributable to activities carried on in the local-authority area.

The tax is also payable in respect of temporary business activities. A business activity is considered temporary if, within the area of the local authority concerned, the business, while having no registered office or permanent establishment:

- Carries out construction activities, the duration of which within the tax year (either continuously or in more than one phase) exceeds 30 days but does not exceed 180 days. If the duration of activities exceeds 180 days, the location of the business activity qualifies as a permanent establishment or
- Generates revenues from carrying on any other activities

The maximum amount of the local business tax for temporary business activities is HUF 5000 per day.

Advance payments of local business tax are made twice a year: on or before 15 March and on or before 15 September on the basis of the previous year's liability. Any business that derived revenue of above HUF 100 million in the previous year is required to top up the amount of tax paid to the expected tax liability for the current year and also file a tax return.

The local business tax return has to be filed and any balance of tax due paid by 31 May of the year following the relevant year. If the taxpayer opts for a financial year different from the calendar year, the tax advance is due by the 15th day of the third month and the 15th day of the ninth month of the financial year.

If the taxpayer opts for a financial year different from the calendar year, the top-up payment and the related filing deadline (where applicable) is the 20th day of the last month of the financial year. Annual tax returns must then be made and the balance of any tax due paid by the last day of the fifth month following the last day of the financial year.

Innovation contribution

Medium-sized and large companies are required to pay an innovation contribution in Hungary. The tax base for the innovation contribution is the same as that of the local business tax. The rate of the innovation contribution is 0.3%. Companies liable to pay this contribution must pay quarterly instalments on account by the 20th day of the month following each quarter. The tax return has to be filed annually by the last day of the fifth month of the following year.

Vocational contribution

Employers, such as companies and sole traders, among others, are required to pay a 1.5% vocational contribution. The tax base of the vocational contribution is the same as that of the social security tax. Employers organising practical training may claim a tax credit of HUF 480 000 per person per year subject to conditions.

Taxpayers liable to pay this contribution are required to make an advance payment each month for the first 11 months of the given year. The advance payment must be made on a monthly basis by the 12th day of the month following the month under review. The difference between the advance payment and the annual net payment liability must be paid by 12 January of the year following, and any overpayment may be reclaimed from this date also.

Energy supply tax

This tax, sometimes referred to as the 'Robin Hood tax' (although this name is usually reserved for financial transaction taxes), is charged on energy suppliers, including the Hungarian branches of foreign entities. It is payable by mining enterprises, suppliers of and traders in gas, electricity and fuel oils and by the operators of power stations.

The rate of the tax is 31% and it is charged on adjusted pre-tax profits.

Returns and payment follow the cycle for corporate income tax. Hence, companies must make either monthly or quarterly payments on account depending on their previous year's liability (see above, under 'Corporate income tax: returns and payment'). The tax advance must be topped up to the expected total amount of tax payable in the tax year by the 20th day of the last month of the relevant year.

Financial transactions tax

Financial institutions and other payment-service providers are subject to financial transactions tax (FTT) on a wide range of money transfers. The tax is normally borne by the institution of the person initiating the transaction.

The tax is charged on the amount of the transaction (normally equated to the amount debited to the transferor's account) at a rate of 0.6% on cash transactions (although certain cash withdrawals by individuals are exempt) and 0.3% on other transactions. The tax on any one transaction is limited to HUF 6000, except with respect to cash transactions, where there is no cap.

Hungary is not one of the nine EU Member States that have so far agreed to participate in the proposed EU financial transaction tax, which would extend also to transactions in derivatives, which the Hungarian FTT currently does not.

Bank levy and bank surcharge

A special levy is payable by banks and other financial institutions (other financial-services providers, investment-services providers, stock exchanges, commodity exchanges, venture-capital funds etc). The tax base and the rates differ as between the different institutions. For credit institutions, the tax is charged on the adjusted balance-sheet total of the previous financial year, at a rate of 0.15% on the first HUF 50 000 million and at 0.24% on the excess. For other financial organisations, it is 5.6% and 6.5% of the tax base, respectively.

Bank-levy returns with a self-assessment of the tax due must be filed by 10 March and payment is made in four instalments due on the 10th day of the last month of the quarter.

Banks and other credit institutions are also subject to pay over 5% of their interest and interest-type income less the amount of the interest-rate difference payable by them to the state on their loan portfolio relating to state interest subsidy and interest supplementation. This is deductible from the bank levy and may also be deducted as a credit against corporate income tax.

Credit institutions must pay the contribution in advance by the 12th of the month following the given quarter and by the 20th day of the last quarter.

Credit institutions must also pay a special tax, assessed using a 30% tax rate.

Telecommunications tax

This tax is payable by providers of telecommunication services over public telecommunications networks in Hungary. The tax is charged at HUF 2 per minute spoken or text message sent by an individual customer or at HUF 3 per minute message by subscribers who are not individuals. However, the tax may not exceed HUF 700 per month for any one account held by an individual or HUF 5000 per month on any one account held by non-individuals.

Advertisement tax

The Hungarian advertisement tax is payable in respect of the publication or commissioning of advertisements in media services, in media published or distributed in Hungary, on outdoor advertising spaces, properties, vehicles, printed materials or on the internet in Hungarian or on a Hungarian language website is taxable in Hungary.

Taxpayers are the media-content providers and news publishers that qualify as the publishers of the advertisement as well as persons using the designated device for advertising purposes or publishing the advertisement on the internet.

Taxable persons may be resident or non-resident. Foreign enterprises not registered in Hungary are required to request a tax number from the Hungarian tax authority. If the foreign entity fails to comply with this or any other obligation associated with the advertisement tax, it may be subject to an increased penalty. Subject to certain specific exceptions, the publisher of the advertisement is required to make a statement to the party commissioning the advertisement about his advertisement tax liability. Should he fail to do so, the party commissioning the advertisement will be obliged to pay the advertisement tax.

The base of the tax payable by the publishers of advertisements is the adjusted net sales revenue derived in the tax year from the taxable activity. As of 2017 advertising for the advertiser's own purposes is free of tax. For the party commissioning the publication of the advertisement, the tax base is the monthly advertising spending.

No advertisement tax is payable by the publisher of the advertisement on the tax base up to HUF 100 million. This exemption can be used as a de minimis support in line with the EU rules relating to state subsidies. The tax rate on the amount exceeding this limit is 7.5 percent from 1 July 2017 on the net sales revenue derived from published advertisements.

The advertisement tax rate payable by the party commissioning the advertisement is 5% of the monthly advertising spending in excess of HUF 2.5 million.

The advertisement tax must be declared and paid annually by the publisher of the advertisement no later than the last day of the fifth month of the following tax year. Taxpayers obliged to make advance tax payments must pay the tax twice a year in advance and also have a top-up obligation to be fulfilled by the 20th of the last month of the tax year.

Insurance premium tax

This is payable by insurers at a rate of 15% on premiums for comprehensive motor insurance and 10% on other premiums.

7. Personal taxation

Income tax

Territoriality and residence

Resident individuals are subject to personal income tax in respect of their worldwide income. Non-resident individuals are subject to personal income tax on income that originates in Hungary and on income taxable in Hungary on the basis of an international convention or on a reciprocal basis.

An individual is considered to be resident in Hungary if he or she is:

- A citizen of Hungary (with the exception of dual citizens without a residence or place of abode in Hungary)
- A national of another EEA member state who is present in Hungary for more than 183 days in the year
- A citizen of a third country with a valid Hungarian residence permit
- A person whose only permanent home is in Hungary

Status of partnerships

Partnerships are subject to corporate income tax at the partnership level.

The family unit

All individuals, including minor children, are taxed separately, regardless of their marital or family status.

Structure of income tax

With a few exceptions, all types of income of resident individuals are taxable.

Most types of income (reduced where appropriate by allowable expenses) are aggregated into a single taxable base. Certain types of income are, however, taxed separately. These include income from a business, benefits-in-kind and capital gains from the disposal of immovable and movable property.

Exempt income

The principal kinds of exempt income are:

- Pensions (both the state old-age pension and private pensions)
- Inheritances and gifts
- Social security benefits
- Benefits-in-kind on which the tax is borne by the paying agent (see under 'Benefits-in-kind' below)

Taxation of employment income

All types of remuneration in consideration for dependent personal services are classed as income from employment. This includes salaries, wages, bonuses, directors' and office-holders' remuneration.

Only a limited number of deductions are available. These include trade-union subscriptions and reimbursement for fuel used on business travel by employees.

Social security contributions are not deductible, but reimbursements of duly substantiated employment expenses are generally not taxable.

Benefits-in-kind

In Hungary, fringe benefits are regularly referred to as cafeteria benefits. This means that apart from salary, employees may receive a 'non-salary compensation'. The various fringe benefits or cafeteria elements offer more favourable taxation options than regular salary – this is why many employers decide to offer cafeteria benefits to their employees.

In Hungary, approximately 45% of the total salary cost is taxes and contributions (part paid by the employee, part paid by the employer). In comparison, cafeteria elements are taxed at lower rates. Moreover, in this case, the payment of tax is the employer's liability, while cafeteria elements are tax-free for employees, thus further increasing their net income. In the following list, the amounts are net amounts, on which the employer pays the indicated tax to the authorities.

Cafeteria elements at a tax rate of 34.22%

- Cash payments up to HUF 100 000 per year
- Széchenyi Recreation Card ('SZÉP' Card). This card has 3 'pockets', enabling the employee to choose how much to allocate between three different forms of benefit (the employer and the employee have to agree on this beforehand). These are:
 - SZÉP Accommodation (max. HUF 225 000) for paying for accommodation when on holiday
 - SZÉP Catering (max. HUF 150 000), for paying for meals
 - SZÉP Leisure (max. HUF 75 000), for paying for theatre tickets or museum entrance fees, exhibitions etc

The cafeteria elements listed above may be combined in any amount, but they are limited to HUF 450 000 per year.

Cafeteria elements at a tax rate of 40.71%

- Reimbursement of the monthly local travel pass (for local public transport)
- 'Erzsébet' vouchers (which may be used to purchase food, clothes, electrical devices, school starting support, cultural and sporting programmes etc)
- Contribution to a voluntary health fund
- Contribution to a voluntary pension fund
- Hot meals at the workplace
- Spending on holidays at a company resort

Cafeteria elements that are also tax-free for the employer

- Tickets to cultural events, programmes, services (max. HUF 50 000 per year per family member)
- Tickets or passes to sporting events (unlimited)
- Children's day care
- Housing support (max. HUF 5 million, over five years)
- Rental support for employees living at a distance
- Financial support for student-loan repayment
- Whole-life insurance
- Risk insurance (monthly 30% of the current minimum wage)
- Computer usage (unlimited)

Tax free cafeteria elements are often subject to more thorough investigation.

Taxation of personal business income

It is important to distinguish between individuals providing independent personal services and sole business people deriving so-called business (entrepreneurial) income, since the two are taxed differently.

Independent personal services

Individuals providing independent personal services include:

- Original agricultural producers (e.g. farmers)
- Appointed auditors
- Lessors
- Sole traders and artisans without a business certificate
- Certain professionals

These individuals' taxable income consists of gross revenues (broadly calculated as for companies and sole business people (see below)), reduced by actual costs incurred in deriving that income or by a lump-sum notional deduction. In the case of depreciation, 'actual costs' are capped at 1% of annual gross revenues and 50% of the book value of the assets.

Those opting for a lump-sum deduction deduct 10% of revenues, regardless of actual costs.

Certain creative artists, sportspeople, journalists etc who receive fees in respect of civil-law agreements with employers, promoters, agents etc may opt for a simplified regime (abbreviated to EKHO) under which they pay income tax of 15% on the gross fee and the (paying) agent pays a further 20%. The EKHO scheme is limited to individuals whose annual income is less than HUF 60 million (HUF 125 million for sportspeople and trainers, and HUF 50 million for coaches in certain kinds of sport).

Business income

Individuals treated as deriving business income include:

- Sole traders with a business certificate
- Practising notaries, lawyers and patent attorneys
- Practising veterinary surgeons
- Pharmacists

Taxable income is calculated similarly to that of companies. In addition, certain allowances are available for employing disadvantaged individuals and for taking on additional staff. The smaller of 50% of business income and HUF 500 million may be put aside free of tax to a development reserve, to be used for investing in fixed operating assets within a four-year period. The small-business investment credit (see Chapter 6 under 'Incentives for investment') is also available for those businesses employing fewer than 250 persons.

Persons in this category are subject to a special enterprise tax, at the same rates as corporate income tax (i.e. 9%).

Three options exist for alternative regimes.

Individuals whose business income has not exceeded HUF 15 million either in the current or previous tax year (this ceiling is increased to HUF 100 million in the case of retailers) may opt for presumptive taxation. Under this system, lump-sum deductions are available against business income. The general deduction is 40% of gross revenue, but certain activities qualify for higher deductions (e.g. grocers, greengrocers, butchers etc. may deduct 93%; hairdressers, beauticians and taxi drivers may deduct 80%). Tax is then charged at the 9% rate as for the full business tax.

Eligible sole traders may also opt for the simplified EVA regime (see under 'Simplified taxation' in Chapter 6), under which a tax of 37% is charged on adjusted turnover or for the itemised small-business tax (KATA), for which see also Chapter 6.

There is also the so-called entrepreneurial dividend tax, payable by individuals deriving business income. The tax is charged at 15% on the net-of-tax revenue of the business.

Losses

Losses are recognised under the business (entrepreneurial) tax, for the purposes of which they may be carried forward for up to five years but set-off in any one year is limited to 50% of the taxable profit.

Investment income

Dividends

Dividends received from Hungarian companies and foreign companies are subject to income tax at 15%; in the case of Hungarian dividends, these are received net of a final withholding tax of 15%.

Interest

Interest received from Hungarian and foreign debt-claims and deposits are subject to income tax at 15%; in the case of Hungarian-source interest, this is received net of a final withholding tax of 15%.

Royalties

Unless the underlying intellectual property was inherited, royalties are taxed as income from independent personal services.

Rental income

Rents from letting immovable property and from hiring movable property are treated as income from independent personal services.

Tax of 15% is normally withheld from rents by the paying agent..

Capital gains

Capital gains realised on the sale or other alienation of an asset are computed as the difference between the consideration for the alienation and the cost of acquisition, together with any additional costs of disposal.

Immovable property

Where immovable property has been held for at least six years, any gain on subsequent disposal is reduced by 10% for every year after the sixth. Consequently, if the disposal takes place after more than 15 years of ownership, the gain is completely exempt.

If the property is residential property, the gain is completely exempt if the disposal takes place after more than five years of ownership (there is a 20% reduction for every year after the first).

Securities

In general, there are no reliefs relating to gains from the disposal of securities or partnership interests. Such gains are in fact treated as income from capital and are part of the individual's aggregated taxable base.

Movable property

The first HUF 200 000 of the gain is exempt.

Withholding taxes

Tax is withheld at 16% from payments of dividends, interest, rents and sundry other payments to both resident and non-resident individuals. See Table 2.

Table 2

| Type of income | Rate of withholding tax (%) | |
|--------------------|-----------------------------|--------------|
| | Resident | Non-resident |
| Dividends | 15 | 15 |
| Interest | 15 | 15 |
| Royalties | - | - |
| Property rents | 15 | 15 |
| Securities lending | 15 | 15 |

Allowances and deductions

No deduction is allowed in respect of mortgage interest or other interest expense, medical expenses, donations or insurance premiums.

Family allowance

Family allowance is available to pregnant women and taxpayers with children. It is deductible from taxable income and is given in the first instance to one spouse but may be shared with or wholly transferred to the other spouse. The amount of the allowance is shown in Table 3.

Table 3

| No. of children | Monthly allowance per child (HUF) | Resulting increase in Employee's Net Salary (HUF) |
|------------------------|-----------------------------------|---|
| One child | 66 670 | 10 000 |
| Two children | 116 666 per eligible child | 17 500 per eligible child |
| Three or more children | 220 000 per eligible child | 33 000 per eligible child |

First marriage allowance

A first-marriage allowance of HUF 400 020 (HUF 33 335 per month) is awarded to a married couple in which this is the first marriage of either or both. The allowance is deductible from taxable income and is available to either spouse or may be shared between them. The allowance is available for the first 24 months of the marriage, during which time the couple must be living together.

Health and pension contribution credits

15 percent of the family tax credit not considered in personal income tax may also be deducted from personal health insurance and pension contribution (family contribution credit). The tax credit must be applied first from the personal health insurance contribution deductible from the gross salary. If any unused tax credit remains, it may be deducted from personal pension contribution.

Disabled person's credit

A disabled taxpayer may claim a tax credit of 5% of the statutory minimum wage (HUF 138 000 in 2018)..

Tax rates

With the exception of the business (entrepreneurial) tax, which is charged at the rate of 9%, all other types of income and capital gains are taxed at the single flat rate of 15%. Dividends received from Hungarian companies and foreign companies are subject to income tax at 15%; in the case of Hungarian dividends, these are received net of a final withholding tax of 15%.

Special expatriate regimes

Although there is no special expatriate tax regime in Hungary for assignees, they can be provided with certain tax-free benefits.

Returns and payment

Private individuals are required to file their tax returns for the tax year (identical to the calendar year). The deadline for filing these tax returns is 20 May of the year following the relevant year. For private individuals involved in business activities, this deadline is 25 February of the year following the relevant year. Employers are required to file monthly tax returns for tax withheld. Employees on foreign assignments in Hungary have to pay quarterly payments on account of income tax by the 12th day of the month following each quarter.

Although there is a self-assessment system, taxpayers who are not in business for themselves may request the tax authorities to calculate the tax due on their behalf and raise an assessment.

Appeals

The same rules apply to appeals regarding personal income tax as apply to appeals in relation to corporate tax, for which see Chapter 6.

Inheritance and gift taxes

Inheritance tax (*öröklési illeték*) is charged on the transfer mortis causa of all property, movable and immovable, situated in Hungary and of movable property situated abroad to a transferee who is a Hungarian citizen or any other individual who is resident in Hungary. A standard 18% rate applies to inheritances on their net value and gifts, while the rate is 9% where the transfer consists of the free-of-charge acquisition of residential property and related property rights. The tax is payable by the transferee.

Gift tax (*ajándékozási illeték*) is charged on the gratuitous lifetime transfer of movable and immovable property situated in Hungary. If the gift of movable property is executed outside Hungary, the gift is free of Hungarian gift tax. Property situated abroad is not subject to gift tax. Gift-tax rates are identical to the rates of inheritance tax.

Inheritances and gifts between direct descendants or forebears and spouses are exempt.

Wealth tax

There is no wealth tax in Hungary.

8. Other taxes

Property transfer tax

Immovable property

The acquisition of immovable property situated in Hungary and valuable rights over such property is subject to property transfer tax, payable by the acquirer. Taxable transactions include the acquisition of shares in a property-holding company (for the definition of which see Chapter 6, under 'Capital gains') provided that the acquirer (together with any connected persons) comes to hold 75% or more of the share capital as a result of the transaction.

The tax is charged on the gross fair market value of the property or right transferred. Where the transfer is of shares in a property-holding company, the tax is charged on the proportionate value of the underlying property assets attributable to the new shareholding, as reduced by that part of the value attributable to previous transfers that had been subject to the tax and by the value attributable to acquisitions made more than five years previously.

The rate of the tax is 4% on the first HUF 1000 million of the value of each property involved, and 2% on the balance, subject to a cap of HUF 200 million per property.

Movable property

Property transfer tax is also charged on the acquisition of certain other assets, namely:

- The title or valuable right over a motor vehicle or a trailer
- The acquisition of the right to practice as an independent physician

In the case of motor vehicles, the rate of the tax depends on the engine horse power and the age of the vehicle, and ranges between HUF 300 and HUF 850 per kW. In the case of trailers, the tax is HUF 9000 for trailers up to a weight of 2500 kg and HUF 22 000 for heavier trailers.

In other cases, the rate of tax is 4%.

Buildings tax

The buildings tax is a local tax payable by the registered owner of the building as at 1 January, regardless of whether or not the building is used for residential purposes.

The maximum rate of the tax is HUF 1852.1 per m² or 3.6% of the adjusted fair market value. This is 50% of the fair market value as defined for inheritance and gift tax.

The tax is payable to the local authority and is due in two instalments: on 15th March and 15th September.

Land tax

This is another local tax payable by the registered owner of a plot of undeveloped land as at 1 January. Land on which development is prohibited and agricultural land is exempt.

The maximum rate of the tax is HUF 336.78521 per m² or 3% of the adjusted fair market value.

Like the buildings tax, the land tax is also payable to the local authority and is due in two instalments: on 15th March and 15th September.

Environmental product fee

An environmental product fee has to be paid for the domestic production, intra-EU acquisition or importation of certain environmentally harmful products.

Table 4

| Description | Rate of product fee |
|-----------------------------------|---------------------|
| Batteries | HUF 57/kg |
| Packaging material | HUF 19-1900/kg |
| Other mineral oil products | HUF 114/kg |
| Other plastic products | HUF 1900/kg |
| Other chemical products | HUF 11-57/kg |
| Electric and electronic equipment | HUF 57-304/kg |
| Tyres | HUF 57/kg |
| Office paper | HUF 19/kg |
| Advertisement paper | HUF 85/kg |

Returns must be filed quarterly by the 20th day of the month following the quarter under review. For the fourth quarter, the amount of the payment is 80% of one-third of the product fee paid after the first three quarters of the year under review.

Public health product fee

Persons selling any of the following products containing more than a specified amount of sugar, salt or caffeine – soft drinks, energy drinks, pre-packaged sugared products, salted snacks, food flavourings, flavoured beers, alcoholic refreshments, jam and alcoholic beverages must pay a fee on their first sale of a specified amount of HUF per litre or kilogram.

Table 5

| Product | Tax rate |
|--|---|
| Syrup | HUF 200/litre |
| Other soft drinks | HUF 7/litre |
| Energy drink | HUF 250 or 40/litre |
| Sugared cocoa-powder | HUF 70/kilogram |
| Other pre-packed sugared products | HUF 130/kilogram |
| Salty snacks | HUF 250/kilogram |
| Food flavouring | HUF 250/kilogram |
| Flavoured beer, alcoholic refreshments | HUF 20/litre |
| Jam | HUF 500/kilogram |
| Alcoholic beverages | HUF 20-900/litre according to progressive brackets defined based on the percentage of alcohol by volume |

Energy levy

This tax is payable by commercial generators or suppliers of electricity, gas and coal, and is charged in addition to, and not in place of, the energy-supply tax. The tax rates are as follows:

- HUF 310.5 per MWh for electricity
- HUF 93.5 per GJ for natural gas
- HUF 2526 per 1000 kg for coal.

Excise duties

Hungary charges excise duties on alcoholic beverages, tobacco and tobacco products, and fuel and other mineral oils. The following excise tax rates apply from 1 January 2016:

- Mineral oil: from HUF 70 000 to HUF 124 000 per kilolitre or from HUF 12 725 to HUF 95 800 per tonne, depending on the type of mineral oil
- Alcohol products: from HUF 333 385 per HPA
- Beer: HUF 1620 per hectolitre, HUF 810 per hectolitre for small breweries
- Wine: HUF 0 per hectolitre for grape wine, HUF 9870 per hectolitre for other wine; grape wine for own consumption is tax exempt
- Champagne: HUF 16 460 per hectolitre
- Intermediate alcohol product: HUF 25 520 per hectolitre
- Cigarette: HUF 12 500 per thousand pieces and 31% of the retail sales price but at least HUF 24 920 per thousand
- Cigars, cigarillos: 28.5% of the retail sales price
- Other smoking tobacco: 32.5% of the retail sales price but at least HUF 12 460 per kg

Customs duty

Hungary is a member of the European Union, and hence customs duty under the Common Customs Code (Regulation (EC) No 450/2008) is imposed on the importation into Hungary of goods from outside the European Union. There are no customs duties on the movement of goods within the European Union.

Stamp duty

Stamp duty is chiefly payable on the registration of a business in the Commercial Register and on the occasion of any changes to the details registered. The duty varies from HUF 30 000 to HUF 600 000.

Vehicle taxes

Company car tax

Company car tax is payable on the following types of passenger cars:

- Passenger cars whose owners are not private individuals, regardless of whether or not the car is used for private purposes
- Passenger cars on which a private individual accounts for costs, expenditures or depreciation

Depending on the engine power and emission class of the passenger car, the monthly amount of the tax is between HUF 7700 and HUF 44 000 per month. No company car tax is payable in respect of environment-friendly cars. A tax return must be filed, and the tax must be paid quarterly, due on the 20th day of the month following the relevant quarter.

Local vehicle tax

Local vehicle tax (*gépjárműadó*) is payable on motor vehicles with Hungarian licence plates by the registered user or owner. The amount of tax depends on the year of manufacture and the power of passenger cars, and the weight of lorries and buses.

The tax varies between HUF 140 and HUF 345 per kilowatt for passenger cars. No vehicle tax is payable in respect of environmentally friendly cars.

The local vehicle tax is payable to the local authority and is due in two instalments: on 15 March and 15 September of the relevant year. In order to avoid double taxation of the same vehicle, the local vehicle tax is deductible from the company car tax.

Registration tax

Registration tax is payable on motor vehicles registered in Hungary. The tax is payable on the sale, importation or intra-EU acquisition of the vehicle. The tax amount for passenger cars ranges between HUF 45 000 and HUF 4 800 000 depending on the age, emission class and technical properties of the vehicle. The registration tax payable in respect of hybrid-drive cars is HUF 76 000. Electronically driven and only electronically rechargeable cars are exempt from registration tax.

Other special taxes

Tourist tax

Any private individual who spends at least one tourist night within the jurisdiction of a local authority and is not a permanent resident is subject to the tourist tax. The maximum amount of the tax is HUF 505.1 per person per tourist night or 4% of the room charge.

The tourist tax is to be collected by the host. The deadline for payment of the tourist tax is the 15th day of the month following the month of collection.

9. Social security contributions

Employers

Employers are required to pay the following taxes and contributions on the gross salaries of their employees:

- 22% social security tax
- 1.5% vocational contribution (for which see Chapter 6)

Various credits are available in respect of certain kinds of employee.

Employees

Social security contributions

Employees are subject to social security contributions, made to three funds, as shown in Table 4. The contributions are charged on gross earnings, and there is no ceiling on contributions. However, any surplus family allowance (see Chapter 7) that the individual is unable to deduct against taxable income due to an insufficiency of income may be deducted from earnings for this purpose.

Table 6

| Social security fund | Contribution rate (%) |
|------------------------|-----------------------|
| Old-age insurance | 10.0 |
| Unemployment insurance | 1.5 |
| Health insurance | 7.0 ¹ |
| Total | 18.5 |

Note

¹ If the total deducted by the employer on the employee's behalf is less than HUF 450 000, the employee must pay a health-care contribution at 14% (see below) at least sufficient to make up the shortfall

Health-care contributions

These are payable in addition to income tax at one of three rates on selected income.

Health-care contributions at 5% are payable:

- on interest income of an individual (with the exception of interest on HUF-denominated bonds issued by Hungary or another EEA state)
- yield from term deposits realised on long-term investment contracts terminated prior to the last day of the three-year deposit period

Health-care contributions are payable by individuals at 14% on the following types of income, but only to the extent necessary to bring the individual's health-insurance contributions to an amount of HUF 450 000 per annum

- Dividends and the entrepreneurial dividend base (i.e. after-tax earnings from self-employment: see Chapter 7)
- Drawings from business income by a sole trader
- Capital gains
- Income in excess of HUF 1 million from the letting of immovable property
- Income from lending of securities, dividends and exchange gain
- income received by a non-resident performing artist for activities performed in Hungary

Health-care contributions of 22% are paid by employers and other providers of benefits-in-kind on 'certain defined benefits' (see Chapter 7).

The self-employed

Self-employed individuals providing independent personal services pay 18.5% contributions on their gross aggregate revenue from the provision of those services.

Individuals deriving business income, on the other hand, pay 18.5% contributions on the greater of:

- The minimum wage (or 150% of the minimum wage in the case of health insurance) and
- Their drawings

They must also pay the employer contribution of 23.5%.

In some cases of simplified taxation, payment of the simplified tax cancels the obligation to pay social security contributions (see Chapter 7).

10. Moore Stephens in Hungary

Moore Stephens is represented in Hungary by five firms:

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International liaison: Anna dr. Sugárné Kéri, anna.keri@kesaudit.hu

Appendix 1: Double tax treaties

Hungary has comprehensive double taxation treaties with the following countries:

| | | |
|---------------------------------|-------------------------|--------------------------|
| Albania | India | Portugal |
| Armenia | Indonesia | Qatar |
| Australia | Ireland | Romania |
| Austria | Israel | Russia |
| Azerbaijan | Italy | San Marino |
| Bahrain | Japan | Saudi Arabia |
| Belarus | Kazakhstan | Serbia ² |
| Belgium | Kosovo | Singapore |
| Bosnia Herzegovina ¹ | Kuwait | Slovakia |
| Brazil | Latvia | Slovenia |
| Bulgaria | Liechtenstein | South Africa |
| Canada | Lithuania | South Korea |
| China | Luxembourg | Spain |
| Croatia | Macedonia | Sweden |
| Cyprus | Malaysia | Switzerland |
| Czech Republic | Malta | Taiwan |
| Denmark | Mexico | Thailand |
| Egypt | Moldova | Tunisia |
| Estonia | Mongolia | Turkey |
| Finland | Montenegro ² | Ukraine |
| France | Morocco | United Arab Emirates |
| Georgia | Netherlands | United Kingdom |
| Germany | Norway | United States of America |
| Greece | Pakistan | Uruguay |
| Hong Kong | Philippines | Uzbekistan |
| Iceland | Poland | Vietnam |

¹ Treaty concluded with the former Socialist Federal Republic of Yugoslavia

² Treaty concluded with the former Federal Republic of Yugoslavia (Serbia and Montenegro)

Hungary has also concluded a treaty with Iran, but this is not yet in force.

Inheritance and gift tax treaties

Hungary has a limited number of these treaties, and none covers lifetime gifts.

| | | |
|---------|---------|--------|
| Austria | Romania | Sweden |
|---------|---------|--------|

Administrative-assistance and information-exchange treaties

Within the European Union, mutual administrative assistance is governed by the Directives on exchange of information (2011/16/EU), together with its implementing Regulation (Regulation (EU) No 1156/2012), and the recovery of claims (10/24/EC). As regards VAT, the same function is performed by Council Regulation (EU) No 904/2010. Outside the European Union, Hungary is a party to the Convention on Mutual Administrative Assistance in Tax Matters and has separate agreements on exchange of information with **Guernsey** and **Jersey**.

Social security agreements

The interaction of national social security systems within the European Economic Area is governed by EU Regulations (883/04/EC and 987/09/EU, as amended by Regulation 465/12/EU) which also extend, by agreement (and with some differences), to Switzerland. The following non-EEA countries have social security agreements with Hungary, the terms of which differ from case to case.

| | | |
|-------------------------|-------------------------|---------------------------|
| Armenia ¹ | Japan | Russia ¹ |
| Azerbaijan ¹ | Kazakhstan ¹ | Serbia |
| Australia | Kyrgyzstan ¹ | Tajikistan ¹ |
| Belarus ¹ | Macedonia ² | Turkmenistan ¹ |
| Bosnia Herzegovina | Moldova | Ukraine ¹ |
| Canada | Mongolia | Uzbekistan ¹ |
| Georgia ¹ | Montenegro | |
| India | Québec | |

¹ Agreement concluded with the former USSR

² Agreement concluded with the former Socialist Federal Republic of Yugoslavia

Hungary has also signed social security agreements with Albania, Macedonia (new), Turkey and the United States, but these are not yet in force.

Appendix 2: Moore Stephens around the world

Moore Stephens member firms may be found in 106 countries and territories around the world with correspondent firms in another ten

| | | | |
|------------------------|--------------|----------------|----------------------|
| Albania | Ecuador | Liechtenstein* | Saudi Arabia |
| Argentina | Egypt | Lithuania | Serbia |
| Australia | El Salvador* | Luxembourg | Seychelles |
| Austria | Finland | Macedonia | Sierra Leone |
| Azerbaijan | France | Malaysia | Singapore |
| Bahamas | Germany | Malta | Slovakia |
| Bahrain | Ghana* | Mauritius | South Africa |
| Bangladesh | Gibraltar | Mexico | South Korea |
| Belgium | Greece | Moldova | Spain |
| Belize | Guatemala | Monaco | Sri Lanka* |
| Bermuda | Guernsey | Mongolia* | Suriname |
| Bolivia | Honduras | Morocco | Sweden |
| Brazil | Hong Kong | Nepal* | Switzerland |
| British Virgin Islands | Hungary | Netherlands | Taiwan |
| Bulgaria | India | New Zealand | Tajikistan* |
| Burundi | Indonesia | Nicaragua | Thailand |
| Cambodia* | Iraq | Nigeria | Tunisia |
| Canada | Ireland | Norway | Turkey |
| Cayman Islands | Isle of Man | Oman | Uganda |
| Chile | Israel | Pakistan | Ukraine |
| China | Italy | Panama* | United Arab Emirates |
| Colombia | Japan | Paraguay | United Kingdom |
| DR Congo | Jersey | Peru | United States |
| Costa Rica | Jordan | Philippines | Uruguay |
| Croatia | Kazakhstan | Poland | Venezuela |
| Cyprus | Kenya | Portugal | Vietnam |
| Czech Republic | Kuwait | Qatar | Yemen |
| Denmark | Latvia | Romania | Zambia |
| Dominican Republic | Lebanon | Russia | Zimbabwe* |

*denotes a correspondent firm only

For more detail, see www.moorestephens.com under 'Locations'.

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