Doing Business in Hungary 2021

Audit / Tax / Advisory / Bookkeeping / Payrolls

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Welcome

To Doing Business in Hungary

Welcome to the Crowe Global “Doing Business in Hungary 2021 guide. This guide forms a part of the “Doing Business” series and provides a quick reference for those interested in investing in Hungary. While it is not exhaustive, this guide aims to answer some of the key questions that may arise. When specific issues arise in practice, it will often be necessary to consider the relevant laws and regulations and to obtain appropriate professional advice.

This guide covers the following topics:

- Fact Sheet
- Business entities and accounting
- Finance and Investment
- Employment Regulation and Social Security
- Taxation

This guide has been prepared by Crowe FST, an independent member of Crowe Global. It is designed to provide information on a number of subjects important to those considering investing or doing business in Hungary.

Crowe Global is the world's 8th largest network of independent accounting and business advisory firms by combined fee income and is represented by 200 firms in 145 countries and 42,000 people worldwide. Its members provide high quality accounting, assurance, tax and specialist business advice to privately held businesses and public interest entities.

Doing business in Hungary has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this guide may not be comprehensive and recipients should not act upon it without seeking professional advice. Facts and figures as presented are correct at the time of writing.

Up-to-date advice and general assistance on Hungarian matters can be obtained from Crowe FST; contact details can be found at the end of this guide.

January, 2021

Contents

Fact Sheet

Geography	
Location	East of Central Europe
Area	93,036 km^2
Land boundaries	Austria (west), Slovakia (north), Ukraine (north-east), Romania (east), Serbia and Croatia (south), Slovenia (south-west)
Coastline	None (landlocked)
Climate	Temperate
Terrain	Mostly flat to rolling plains; hills and low mountains in the northern and western areas
Time zone	GMT +1
People	
Population	9.8 million
Ethnic groups	Hungarian (85.6%), Romani, German, Slovak, Croat, Romanian, Serbian, Slovenian, other
Religion	Roman Catholic, Presbyterian/Calvinist, Lutheran, Greek Catholic, Orthodox, Jewish
Language	Hungarian

Government

Country name	Hungary
Government type	Republic
Capital	Budapest
Administrative divisions	19 counties
Political situation	Parliament consists of 199 members; members are elected for a four-year term. The prime minister is elected by the members of Parliament. The President of the Republic is elected by parliament for a five-year term. Hungary is a member of the EU and NATO.

Economy

GDP per capita	US$ 17,466 (2019)
GDP real growth rate	4.9% (2019)
Labour force	6.3 million (2020)
Unemployment	4.3% (2020)
Currency (code)	Hungarian forint (HUF)

2 Business Entities and Accounting

2.1 Company forms

Act V of 2013 on the Civil Code (Civil Code) regulates company structures.

It is possible to apply electronically for the registration of a company at the Court of Registration. If no issues arise, registration can be completed within a week from the allocation of the tax number. At the allocation of the tax number the tax authority (NAV) examines whether the majority shareholders and executive officers of the company have significant overdue tax liabilities, or whether they were shareholders or executive officers in companies which ceased with tax liabilities or other defaults.

The registration application must be filed with the Court of Registration by the attorney-at-law representing the company within 30 days of the conclusion of the Articles of Association. If there is a foreign legal entity among the founders of the company, its extract of corporate records along with a certified translation should be attached to the documents of the company court procedures. Once the registration is submitted, the company may start its operations as a pre-company until registration is finalised (or refused). A pre-company may pursue business activities but may not conduct activities requiring an official license.

The Civil Code permits the following corporate forms:

- Company limited by shares
- Limited liability company
- Joint enterprise
- Limited partnership
- Unlimited partnership.

Two additional types of business entity foreign investors may choose in order to establish a presence in Hungary:

- A representative office, which can be useful if a foreign company intends to familiarise itself with local business conditions before embarking on an investment. Representative offices may perform normal liaison functions, including assisting with contract negotiation, advertising and exhibiting products and other forms of marketing on behalf of the parent company, but are not allowed to pursue core business activities

- A branch office, an organisational unit of a foreign company authorised to carry out normal business activities independently.

New forms of corporations have appeared following Hungary's accession into the EU, namely European Economic Interest Groupings (EEIG), European companies (European joint stock companies) and European co-operative societies.

Companies limited by shares and limited liability companies are the most popular structures among foreign investors (see sections 2.1.2 and 2.1.4). Recently, however, several foreign companies are choosing to open branch offices instead of establishing subsidiary companies. Hungarian law may prescribe that certain business activities can only be carried out in a particular corporate form. For example, banks can only be established and operated as companies limited by shares or branch offices of companies limited by shares.

2.1.1 Capital requirements

No minimum capital is required to establish and operate an unlimited partnership, a limited partnership, or a joint enterprise. For other company forms, the Civil Code determines the following minimum amounts of subscribed capital:

Company form	Minimum Share Capital HUF'000
Limited liability company (Kft.)	3,000
Private company limited by shares (Zrt.)	5,000
Public company limited by shares (Nyrt.)	20,000

Subscribed capital may be contributed in cash, contributions in-kind, or a combination of the two.

2.1.2 Company limited by shares (Rt.)

The Rt. is similar to the German AG or the English plc and is the most strictly regulated corporate form. It is particularly suitable for large business entities with several investors, but it is also possible to establish such an entity as a single member company. The Rt. may either be a public company (Nyrt.) or a private company (Zrt.).

The Rt. may issue several classes of shares, namely ordinary, preference, employee and interest-bearing shares. Each share class confers identical rights on its holders. In general, shareholders' voting rights are in proportion to the sum of the nominal value of the shares they hold, but the statutes of the company may provide otherwise by creating different share classes.

The Rt. is ultimately controlled by its shareholders via shareholders' meetings. The administrative duties are handled by the board of directors, consisting of a minimum of three and a maximum of 11 members, all of them should be natural persons. In case of private companies, a sole chief executive officer may exercise the powers of the board of directors. The election of a supervisory board is mandatory for public companies. In case of a private company it is mandatory only in special cases described by relevant legislation.

The Rt. is the only corporate form that may issue securities. The Civil Code specifies three types of bonds that a shareholding company may issue. The convertible bond guarantees the right of conversion to shares upon the request of the holder of the bond. The second bond form grants subscription rights upon the issue of new shares. The third type of bond converts to shares under objective conditions.

2.1.3 Real estate investment trust (REIT)

A special form of public company is the real estate investment trust. A public company limited by shares, which has at least HUF10 billion start-up capital, may be registered by the state tax authority as a REIT (on the basis of a declaration of the company) if it complies with all conditions specified by law. The most important conditions are:

- The value of the property portfolio of a REIT should be at least 70% of the total assets as presented in balance sheet
- A REIT should record the difference between the market value and the book value of the property at least quarterly based on independent appraisal
- No individual property or shareholding in other REITs in the portfolio of the company should exceed 20% of the total assets as presented in the balance sheet of the company

- At least 25% of total subscribed capital of the company should be held by shareholders individually possessing less than 5% of the total nominal value of the series of shares

Insurance companies and banks may possess maximum 10% of the shares or voting power

- The company should make dividend payments of at least 90% of the profit available to be paid as dividend
- The REIT has strict record keeping and reporting obligations.

REITs may perform exclusively the following activities:

- Sales and purchases of own property
- Letting out and use of own property
- Property management
- Holding activity.

Special taxation rules applicable for REITs are as follows:

- The rate of duty on the acquisition of property is 2%
- Such companies are exempt from local trading tax.

In case of compliance with certain conditions, they are free from corporate tax, even on the profit arising from sale of properties.

2.1.4 Limited liability company (Kft.)

The Kft. is the most widely used form of business entity among investors due to the lower minimum capital requirements, the simplicity of the corporate governance system and few operational administrative procedures. However, the transfer of shareholdings, capital increases or decreases etc. are less flexible than those of companies limited by shares.

The legal characteristics of the Kft. are very similar to those of the German GmbH or the US limited liability company, while its nearest British equivalent is the private limited liability company.

The Kft. is suitable for a small number of shareholders (single member companies are permitted) who actively participate in the operations of the company.

Members have limited liability: under normal circumstances they are not liable for the obligations of the company. The Civil Code, however, determines certain cases when the corporate veil can be lifted.

Ultimate control of the Kft. rests with the members via members' meetings. The daily operations are led by one or more managing directors who may be either the members of the company or third parties. The Kft. is not required to appoint a supervisory board.

2.2 Auditing, Accounting and Filing Requirements

2.2.1 Reporting

Act C of 2000 on Accounting has been brought into line with the EU accounting directives and International Financial Reporting Standards (IFRS).

All companies, public and other organisations registered in Hungary, are obliged to prepare financial statements according to one of the following methods:

- Annual financial statements, comprising a balance sheet, income statement, cash-flow statement, notes to the financial statements and a business report
- Simplified annual financial statements. In this case, the balance sheet, income statement and notes to the accounts are less detailed and no business report is required. Companies are entitled to present simplified financial statements if they fulfil at least two of the three criteria listed below in two consecutive years:
    - Total assets not exceeding HUF 1,200 million
    - Annual sales revenues not exceeding HUF 2,400 million
    - Average number of employees not exceeding 50 persons.

Companies limited by shares, consolidated companies and branch establishments of foreign companies are not permitted to prepare simplified financial statements even if they meet at least two of the three criteria listed above.

- Consolidated annual financial statements must be prepared by companies acting as a parent company. The parent company does not need to prepare a consolidated annual report for the financial year if, on the balance sheet date in two consecutive years preceding the financiall year, two of the following three criteria are met in respect of aggregated figures for the group:
  - Total assets not exceeding HUF 6 billion
  - Annual sales revenues not exceeding HUF 12 billion
  - Average number of employees not exceeding 250 persons.
- Simplified statements, comprising a simplified balance sheet and a simplified income statement. These may be prepared exclusively by companies with a single-entry bookkeeping system.

The annual financial statements must be filed in electronic way at the Ministry of Justice.

Financial statements must be prepared in Hungarian. Figures are generally presented in HUF'000 however there are several opportunities for companies to present their financial statement in currencies other than HUF:

- EEIG, European public limited liability companies, and European co-operative societies must prepare their annual financial statements in the convertible currency defined in their deeds of foundation.
- Any economic entity is authorised to prepare its annual financial statements in Euros or US Dollars, provided this is the currency defined in its deed of foundation and accounting policy. If the entity wishes to change the reporting currency, it must amend both the deed of foundation and its accounting policy. This is not permitted until the fifth financial year following the original deed of foundation.
- Any economic entity conducting operations in an economic environment using a functional currency other than Euros or US Dollars may define this currency as its reporting currency in its deed of foundation, provided more than 25% of each of its income; expenses and costs; financial assets; and liabilities for the previous and the current financial year are denominated in that currency.

The entity is not permitted to change its reporting currency until the fifth financial year following adoption of the defined reporting currency.

2.2.2 Audit obligations

Auditing of the financial statements is compulsory for all companies unless both of the following conditions are satisfied:

- Annual sales income does not exceed HUF 300 million on average for the two financial years preceding the financial year under review
- Average number of employees for the two financial years preceding the financial year under review does not exceed 50 persons.

If the relevant data is not available or not complete, calculations should be made using estimates.

3 Finance and Investment

3.1 Exchange Control

There are no exchange controls on inward or outward investment. Foreign currencies can be bought and sold freely and there are no restrictions on the maintenance of foreign currency bank accounts in Hungary.

3.2 Banking and Sources of Finance

The National Bank of Hungary (NBH) is responsible, inter alia, for setting base interest rates. The government makes decisions on the exchange rate system in agreement with the NBH. The current exchange rate system is classified as a band exchange rate system. The centre and edges of the exchange rate band, as well as the official exchange rate of the Forint in relation to the Euro, are set by the NBH.

The activities of commercial banks are subject to statutory regulation; supervision of commercial banks is the responsibility of the NBH, since in 2013 the Hungarian Financial Supervisory Authority (HFSA) was merged into the NBH.

Banks offer short, medium and long-term loans, as well as overdrafts. To obtain bank financing a business must provide adequate security, financial statements and in most cases a business plan.

3.3 Securities Market

The Hungarian Stock Exchange opened in Budapest in 1864. In 1948, the Budapest Commodity and Stock Exchange was dissolved, and its assets were nationalised. Following the change of regime in 1990, the Budapest Stock Exchange (BSE) was re-opened. Since the integration of the activities of the BSE and the Budapest Commodity Exchange in 2005, commodity trading also takes place on the BSE.

3.4 Insurance System

Insurance activities are subject to statutory regulation. The supervision of insurance activities is administered by the supervisory department of the NBH.

3.5 Investment Incentives

In order to promote and support local investment, the Hungarian government has implemented a variety of tax incentives, including:

- Corporate tax allowances (i.e. tax credit from corporate tax payable), such as:
  - Development Tax Allowances - In specific regions of the country, corporate tax may be reduced by 10%, 30% or 50% of the value of certain types of investments (up to 80% of the annual corporate tax base)
  - Investments or renovations to enhance energy efficiency
  - Production of films or video
  - Tax offsets of between 2.25 – 7.5% for certified contributions towards popular Hungarian team sports. In an effort to boost community and sports in Hungary, a taxpayer may opt to contribute up to 80% of their corporate tax payable towards popular team sports. Eligibility criteria is to be applied in all cases.
- Tax incentives for small and medium-sized companies. Immediate tax deduction may be available for the purchase of new fixed assets or intellectual products for small to medium sized enterprises.

- Immediate tax deductions (up to 50% of pre-tax profit and HUF 10 Billion) for future significant asset purchases if the future investment is financed from retained earnings tied in so-called development reserve which is to be used up for investment into assets in the subsequent 4 years. It is to be noted that this is not a permanent tax saving but only a deferral, since the assets to be purchased from development reserve cannot be depreciated for tax purposes (up to the amount of the development reserve).
- Tax allowances are available to companies undertaking research and development (R&D) activities via a reduction of the tax base for the direct costs (including salaries) of basic research, applied research and experimental development performed by the organisation itself. In certain cases - for example, research performed in collaboration with the Hungarian Academy of Science, institutions of higher education and/or non-profit organisations, may treble the corporate tax benefit available up to a maximum of HUF 50 million.
- Depreciation charged according to the Act on Accounting on assets used exclusively for R&D activities may also be deducted for corporate tax purposes. Accordingly, there is double tax deduction on R&D expenses that qualify for this kind of incentive.
- A tax allowance for development is available for capital investments between HUF 100 million and HUF 6 billion if certain conditions are met (depending on the characteristics of the
- Hungarian companies may also be eligible to apply for direct European Union grant funding for certain investments.

4 Employment Regulation and Social Security

4.1 Work Permits

With limited exceptions, a foreigner undertaking work in Hungary must possess a work permit. Work permits, however, are not required for:

- Recognised foreign refugees, as well as foreigners possessing an immigration permit or settlement permit
- Citizens of EU member states, as well as those of Norway, Iceland and Liechtenstein (and their close relatives) who are authorised to reside in Hungary.

The obligation of requesting a work permit for a prospective employee falls on the employer. The necessary application forms can be obtained at employment centre offices.

The regional employment office will assess all work permit applications and provide a determination. If granted, work permits may last up to 2 years, however, may be renewed.

Crowe has a number of partners we work with who can aid and facilitate work permit compliance.

4.2 Labour contracts

Employment and labour issues are regulated by Act I of 2012 of the Labour Code. The regulations stipulated by the code are wide-reaching and unconditionally mandatory – meaning, in the absence of an exemption, the provisions must be observed in all circumstances and cannot be circumvented in an employment contract, even with mutual consent.

The employment relationship between employers and employees is exclusively established or terminated via written labour contracts, and contracts can only be modified by mutual consent of the parties and in writing (official forms are available).

Labour contracts must contain the names and designations of the parties, information relevant to the work relationship, as well as:

- The scope of duties to be performed by the employee (in addition, a listing of the defined tasks must be recorded within the job description)

- Place of work (if different from the usual place of the performance of the work)
- The employee’s basic wage or salary.

Labour contracts may also contain provisions regarding the parties’ legal relationship within the framework of the Labour Code, e.g. probation period, fixed-term employment relationship etc. should these differ from usual conditions.

On or before the first day of employment, the employer is required to notify the relevant tax authority of the employment arrangement and its conditions.

In 2012 Hungary adopted Directive 2008/104/EC on temporary agency work. Consequently, the same conditions are applicable for employees employed in the framework of temporary agency work as if they were employed by the employer itself.

4.3 Trade Unions

The Labour Code regulates the relationship between employer and employee as well as their relationships with trade unions and similar entities.

4.4 Social Security System

Employers are required to withhold and pay social contribution tax on gross salaries of employees. A flat tax rate of 15.5% is applied and the liability must be calculated and paid within 12 days of the end of the relevant month.

Vocational training contribution of 1.5% of gross salary is payable by the employers.

Social insurance contribution paid by employees is 18.5%.

In order to encourage employment, several allowances are available to reduce the social contribution tax obligations:

- Employers who hire new employees entering into the labour market, who have less than 92 days of employment history in the 275 days before this employment, do not have to pay social contribution tax for the component of gross salary that does not exceed the designated national minimum wage. The standard rate of 15.5% is payable on all gross salary in excess of the threshold. This benefit is available during the first two years of employment. In the third year, the benefit is 7.75% on the minimum wage.

- A 5-year reduction to social contribution tax is available for women with at least 3 children entering to the labour market. In the first 3 years, 0% social contributions tax is payable on gross salary up until the designated national minimum wage, which then increases to 7.75% in the 4-5 years.
- An allowance reducing social contribution tax is available for up to HUF 500,000 gross salary for employees with PhD or higher degree, working in R&D positions. The rate of the allowance is 15.5%. For employees who are also PhD students, the rate of allowance is 7.75% and it is applicable for up to HUF 200,000 of the salary. For other employees who directly participate in R&D activities, the allowance is 7.75% of that part of the salary which is directly attributed to R&D activities.
- An allowance reducing social contribution tax is available for unskilled workers and agricultural workers. The rate of the allowance is 7.75% and it is applicable for the amount up to the minimum wage.
- An allowance reducing social contribution tax is available for employees with changed working ability (handicapped employees). The rate of the allowance is 15.5% and it is applicable for the amount up to the double of the minimum wage.
- An allowance reducing social contribution tax is available for public employees. The rate of the allowance is 7.75% and it is applicable for the amount up to 130% of the guaranteed wage valid for public employees.

A rehabilitation contribution is payable by companies if the number of employees is greater than 25 and fewer than 5% of the employees have reduced capacity to work. The contribution is calculated as 5% of the number of employees multiplied by 9 times of the minimum wage effective on the first day of the year (in 2021: HUF 1,506,600).

The rates stated above only apply for income sourced within Hungary. For income received from foreign sources different rates apply.

EU regulations generally state that individuals are subject to the social security system of the country where they perform their work activities. Therefore, if EU nationals perform their work activities in Hungary, they are generally subject to the Hungarian social security system. However, there are certain exceptions to this rule. Third country nationals will not automatically fall under the EU social security provisions and will continue to be exempt provided appropriate criteria are met.

For social security purposes residents in Hungary are classified as follows:

- Hungarian citizens living in Hungary
- Individuals holding a permanent residence permit
- EEA citizens (and their family members) holding an EEA residence permit
- Fugitives and immigrants.

The following benefits are available to individuals participating in the Hungarian social security system:

- Daily compensation in the event of interruption of professional activities due to illness
- Retirement pension
- Family allowances
- Accident and medical coverage.

5 Taxation

5.1 Business Taxation

5.1.1 Corporate income tax

The rate of corporate tax in Hungary is 9%.

Tax losses may be carried forward, however in any one year losses brought forward may only be utilised only up to 50% of the available tax base. Losses incurred in 2015 onwards may be accrued for corporate taxation purposes for 5 years. Losses incurred in the tax year starting in 2014 may be accrued for corporate taxation purposes until the tax year including 31 December 2030.

Since 1 January 2019 it is possible to form corporate taxpayer groups, if certain conditions are met e.g. one taxpayer controls at least 75% of the voting rights of the other taxpayers, or another person controls at least 75% of the voting rights of the taxpayers. The advantages of corporate taxpayer groups include:

- Greater efficiency in utilising tax losses
- Simplification in the preparation of transfer pricing documentation for intra-group transactions
- Reduction and simplification in overall tax compliance

Depreciation charges and gains or losses arising on disposal of assets of a capital nature are typically treated the same for tax and accounting purposes. Taxpayers are permitted to apply depreciation rates which are lower than those stipulated in the Act on Corporate Tax, with the limitation that the amount of the depreciation charge for tax purposes should not be lower than depreciation shown in the accounting records.

Companies are typically assessed on a calendar year basis. However, a fully consolidated subsidiary or a branch of a foreign parent company may choose to adopt a substituted accounting period, which brings the entity in line with the tax year for the other jurisdictions.

Companies must file their corporate income tax returns and pay any balance of tax due by 31 May of the year following the tax year, or by the 150th day following the end of the substituted accounting period, should one apply.

Advance payments of corporate tax should be paid:

- In 12 equal instalments for companies with a corporate income tax liability exceeding HUF 5 million in the preceding tax year
- Quarterly for companies with a corporate income tax liability not exceeding HUF 5 million in the preceding tax year.

Several allowances are available against corporate tax, as mentioned in 3.5 above.

5.1.2 Transfer pricing

Hungarian transfer pricing legislation is modelled on OECD transfer pricing guidelines. Transfer pricing rules apply to related party transactions where the relationship is determined on the basis of either direct or indirect majority control. The term “parties” (for transfer pricing purposes) includes resident and non-resident entities as well as branches and permanent establishments.

The basic transfer pricing rule provides for adjustments of pre-tax profit if prices prevailing between related parties differ from those applied between unrelated parties in comparable circumstances. The pre-tax profit must be increased by the price difference if this difference leads to a lower pre-tax profit. On the other hand, the possibility of decreasing the pre-tax profit, when justified by the arm’s length price, is subject to further conditions.

All entities subject to Hungarian corporate income tax, with the exception of small and medium-sized enterprises, are required to prepare transfer pricing documentation with respect to all contracts concluded with related parties provided that transactions were carried out based on the contract in the respective tax year.

Companies are obliged to report their related parties within 15 days from the date of the first business transaction with the relevant related party. The cessation of the related party status should also be reported to the tax authority.

5.1.3 Local taxes

Local municipalities may impose taxes on land and buildings situated in their territory. They may also impose taxes on entrepreneurial activity carried out in the territory of the municipality.

The most important and frequently introduced local tax is the latter one – local business tax. The amount of local tax is deductible for corporate income tax purposes and is calculated by reference to trading profit. The maximum rate is

- up to 1% of the tax base for small and medium sized enterprises
- up to 2% of the tax base for large businesses.

Within this limit, it is at the discretion of local municipalities to set the applicable tax rate.

Several local municipalities impose taxes on land and buildings.

In the case of land:

- Tax is applied based on area – the applicable rate is HUF 200 per m^2, or
- Tax may be based on the corrected market value, as defined by law, and the rate is up to 3% (this method is used rarely).

In the case of buildings:

- Tax is applied based on area – the applicable rate is HUF 1,100 per m^2, or
- Tax may be based on the corrected market value, as defined by law, and the rate is up to 3.6% (this method is used rarely).

5.1.4 Real estate transfer tax

In general, real estate transfers are subject to a 4% transfer tax levied on the VAT inclusive transfer price or the market value of the property. The tax is payable by the transferee. This rule is also applicable to transfers of shares in companies holding real estate in Hungary which, together with its related parties, accounts for 75% or more of total assets by market value.

- Companies purchasing, selling, or leasing real estate in the course of their ordinary business are liable to a 2% preferential transfer tax when purchasing the property, provided the sale of the property is completed within two years of the date of purchase or the real estate is leased under such terms where the lessee automatically assumes the title to the real estate upon the expiry of the lease period. (For companies engaged in finance leasing, the preferential 2% duty on obtaining real estate is applicable only if at least 50% of the net sales income of the company is derived from the finance leasing of real estate.)

5.1.5 R&D tax (innovation contribution)

The R&D tax rate is 0.3% based on trading profit.

Newly incorporated entities in the calendar year of their incorporation and small and medium-sized entities (SME) are not subject to R&D tax. In order to determine whether an entity qualifies as an SME, the entity must be reviewed on a consolidated basis. The Hungarian entity of a group of companies is exempt from innovation contribution, if

- the total number of employees of the group is less than 50, and
- combined sales income and balance sheet total is less than the equivalent value of EUR 10 million.

Direct costs of basic research, applied research and experimental development may be deducted from base of innovation contribution – see 5.1.3.

Several grants are available for companies performing R&D activities in order to finance this activity from the innovation contribution collected by the tax authority.

5.1.6 Company cars

Tax on company cars is payable quarterly. The amount of the tax depends on the environmental classification of the car and the power of its engine, ranging from HUF 7,700 to HUF 44,000 on a monthly basis.

The amount of tax on cars payable to the local municipalities is deductible from the amount of this tax.

5.1.7 Itemised tax of small taxpayers (KATA)

This tax is available for taxpayers with annual income of less than HUF 12 million. When a customer signs a contract with a KATA subject, it should obtain a certificate from the supplier that it is subject to KATA. The customer should maintain records about the amounts (net of VAT) invoiced to it by the KATA subject.

If the KATA subject receives income in excess of HUF 3 million from the same customer in one financial year, the customer should pay a 40% tax on the income in excess of HUF 3 million (it is a tax burden on the customer and not a tax deducted from the KATA subject).

If a KATA subject receives income from a customer with which it is in a related business relationship, the customer should calculate, declare and pay 40% tax after the income provided to the KATA subject (net of VAT) until the 12th day of the month following the month of the income.

5.2 Individual Taxation

5.2.1 Personal income tax

The general rate of tax is 15%.

The law classifies income under different categories. Any revenue received by an individual is classified on the basis of the relationship between the provider and the recipient, any third parties related to them and the actual circumstances of receiving the income. The categories are as follows:

Income from employment

The tax base is the gross salary and other income (combined total income).

Family allowance is deductible from the personal income tax base. If the tax allowance is not fully utilised against personal income tax, the unutilised amount may be deducted from social security contribution and pension contribution.

For persons making savings for pension or health insurance (voluntary pension insurance, voluntary health insurance, pre-pension savings account), 20% of the relevant annual payments, - up to the limits listed below - is deductible from personal income tax liability. The amount of the tax reduction is added to the relevant savings.

- The maximum tax allowance available for payments into voluntary mutual funds is HUF 150,000 irrespective of age.
- The upper limit of the tax allowance for pension insurance policies concluded after 1 January 2014 is HUF 130,000.
- The tax allowance for pension savings accounts is between HUF 100,000 and HUF 130,000 depending on retiring age.
- The upper limit of total tax allowances is HUF 280,000.

Most non-cash benefits provided by employers to employees (by organisations to private persons) are taxed similarly to normal salary. The exceptions are as follows:

- Széchenyi Recreation Card (SZÉP card). If the amount provided within a year does not exceed HUF 450,000, 15% personal income tax and 15.5% social insurance tax and 1.5% vocational training contribution is payable. Above the limit, the tax base is 118% of the amount provided, while the tax rates are the same as above.
- 86% of the value of the monthly commuters' pass is exempted from taxation.
- Tickets or season-tickets for sports events, tickets for cultural events up to the value of the actual minimum wage are exempted from taxation.
- Company phones: the tax base is 118% of the 20% of the value of the phone bill, and 15% personal income tax and 15.5% social insurance tax and 1.5% vocational training contribution is charged on this.

Directors' fees are subject to tax in the same way as employment income.

Income from independent activities

All activities that are not included in employment (dependent) activities are considered to be independent activities (for example the activities of private entrepreneurs, agricultural producers, appointed auditors). The individual receiving income from an independent activity is entitled to deduct either a 10% lump sum for their costs, or the actual substantiated costs incurred.

Investment income and capital gains

Interest income from a Hungarian source is subject to 15% withholding tax.

Dividend income is subject to 15% personal income tax and 15.5% social contribution tax. A taxpayer is only required to pay social contributions tax on dividends to the extent that his/her dividend income together with other income is under 24 times the national minimum wage. All dividends in excess of this threshold will not give rise to a social contributions tax liability.

Profit made on the transfer of capital assets are subject to 15% personal income tax and 15.5% social contribution tax.

Income from the letting of property should be added to the total annual income of the person i.e. it is taxed at 15%. The tax base is the rental fee.

The persons letting out the property may either deduct 10% from the rental fee tax base, as the amount covering their costs, or deduct actual costs on the basis of proper documentation (invoices, contracts etc).

5.2.2 Real estate transfer tax

Individuals are liable to 4% real estate transfer tax in respect of transfers of apartments and dwelling houses.

5.3 Value Added Tax (VAT)

The standard rate of VAT is 27%. There are some goods and services which are subject to tax at a reduced rate of 18% for example dairy products, pastries, district heating, tourist accommodation services; and at a rate of 5%, for example certain pharmaceutical products, milk, daily papers, intermediary products from gross livestock. VAT is chargeable on the selling price plus the fees for related services and other related costs, but excluding discounts in most cases. Imports are subject to VAT on the sum of the customs value, customs duties, fees and other government levies.

Certain transactions carried out in Hungary are exempt from VAT, including: the sale, rental, or lease of real estate (with the option to pay tax under the general rules in the case of business property); the letting of residential properties; public radio and TV services; postal services; financial services; insurance; and the transfer of equities and credits. However, mediation of VAT exempt services is not always exempt from VAT. Businesses providing VAT exempt services are not able to recover input VAT in full. Small businesses may elect to be VAT exempt under certain conditions.

The frequency of VAT returns may be monthly, quarterly or annual, depending on the amount of VAT payable. All taxpayers possessing EU VAT numbers are obliged to file monthly VAT returns.

In order to facilitate data cross checks the National Tax and Customs Administration (NAV) has implemented requirements to electronically disclose the details of all customer and vendor invoices.

- For customer invoices NAV requires this information to be transmitted via the taxpayers' invoicing software, which must be certified and integrated to the NAV online tax portal.
- For vendor invoices the lists of invoices of each vendor (invoice number, net amount, VAT) should be included in the VAT returns.

The Electronic System to Control the Transportation of Goods on Road (EKÁER) is applicable for goods transported on rode. The purpose of this system is to monitor the real route of the goods, to charge taxes related to the sale and purchase of the goods, and to report the release of goods to the tax authority. It is compulsory to submit an electronic report to NAV about every consignment transported on road with such means of transport, for which road toll is payable (weigh more than 3.5 tons). The detail of data to be provided is very similar to those contained in customs documents (name of the product, customs tariff number and article number, gross weight, value). After this, as second message, the time of the actual start and arrival should be reported.

5.4 Other taxes and duties

5.4.1 Duty on financial transactions

The Act on Duty on Financial Transactions sets out a detailed list of transactions falling under the scope of this duty. The general rate of the duty on transactions is 0.3%, with two limitations: the upper limit of the duty is HUF 6,000 and no duty is charged for remittances of private persons up to the value of HUF 20,000. 0.6% duty is imposed on all cash withdrawals. The Act also lists exceptional rates e.g. trading in government securities, derivative transactions etc.

5.4.2 Excise duty

Products falling within the scope of excise duty are as follows: crude oil, products from alcohol, beer, wine, champagne, intermediary alcohol products, tobacco products. The act on excise duty determines the rates of duty according to the customs tariff numbers of the specific products and the rates are linked to the physical quantities of the products.

5.4.3 Tax on advertisements

This tax is payable on

- Income stemming from publishing advertisements of other entities, or
- Direct cost of advertisements published by the entity itself.

The tax rates are as follows:

Tax base	Rate (%)
up to HUF 100 million	0.0
Above HUF 100 million	7.5

The tax is payable by the publishers of the advertisements by the 31st day of the year following the subject year. Tax advances are payable twice a year and the advance should be filled up to at least 90% of the final amount by the 20th of December of the subject year.

In case an entity has its advertisements published by another entity, it should obtain a certificate from the publisher confirming the payment of the tax.

5.4.4 Environmental product charges

Environmental product charges are payable for the following products on the basis of their weight: tyres, packaging material (plastic, layered boxes for drinks, metal, paper, wood, glass, other), lubricating oil, rechargeable batteries, paper used as advertising media, paper used in offices, cosmetic products, household chemicals, electronic appliances.

The charge is payable by the entity which sells the given product in Hungary for the first time. Tax rates are determined on the basis of the customs tariff numbers of the products.

5.4.5 Public health tax

Public health tax is payable for the following products: energy drinks, soft-drinks containing sugar, pre-packed products with sugar, cocoa powder with sugar, salty snacks, artificial food seasonings, alcoholic drinks.

The tax is based on the physical quantities of the products. In case of drinks the tax rate is less if the drinks have higher fruit milk content, while it is higher if the drinks have higher alcohol or artificial flavouring content. There are flat rates for snacks and artificial food seasonings.

APPENDIX

Countries with which Hungary signed an agreement on the avoidance of double taxation are as follows:

Arab Republic of Egypt
Armenia
Australia
Azerbaijan
Bahrein
Bosnia and Herzegovina
Canada
Channel Islands
Czech Republic
Eastern Republic of Uruguay
Federal Republic of Germany
Federative Republic of Brazil
Georgia (country)
Grand Duchy of Luxemburg
Hong Kong
Ireland
Islamic Republic of Pakistan
Isle of Man
Japan
Kingdom of Belgium
Kingdom of Denmark
Kingdom of Morocco
Kingdom of Norway
Kingdom of Spain
Kingdom of Sweden
Kingdom of Thailand
Kingdom of The Netherlands
Macedonia
Malaysia
Malta
Mongolia
Montenegro
People's Republic of China
Principality of Liechtenstein
Republic of Albania
Republic of Austria
Republic of Belarus
Republic of Bulgaria
Republic of Croatia
Republic of Cyprus
Republic of Estonia
Republic of Finland
Republic of France
Republic of Greece
Republic of Iceland
Republic of India
Republic of Indonesia
Republic of Italy
Republic of Kazakhstan
Republic of Korea
Republic of Kosovo
Republic of Latvia
Republic of Lithuania
Republic of Moldova
Republic of Poland
Republic of Portugal
Republic of San Marino
Republic of Singapore
Republic of Slovakia
Republic of Slovenia
Republic of South Africa
Republic of the Philippine Islands
Republic of Tunisia
Republic of Turkey
Republic of Uzbekistan
Romania
Russian Federation
Saudi Arabia
Serbia
Socialist Republic of Vietnam
State of Israel
State of Kuwait
State of Qatar
Swiss Confederation
Taipei
Taiwan
Ukraine
United Arab Emirates
United Kingdom of Great Britain and Northern Ireland
United Mexican States
United States of America

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In cooperation with our strategic advisory and legal service partners we offer complete solutions to our clients. We believe that our competitive pricing, the quality of our service delivery add real value to our clients' business and meets their expectations. We are confident that our client focus and quality services support our commitment.

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Our clients comprise Hungarian and international companies from a large number of business segments. Some of the world's biggest and best- known multinational companies come to us and rely on our international expertise and local knowledge.

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