



January 2023 DOING BUSINESS IN HUNGARY

The Essential Guidebook
on investing in Hungary

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GENERAL OVERVIEW

Location	Central Europe with its capital Budapest
Population	9.75 mln
Language	Hungarian
Ethnic groups	Hungarian (85.6%), Romani, German, Slovak, Croat, Romanian, Serbian, Slovenian, other
Currency	Hungarian Forint (HUF) Fully convertible: 1 EUR = 356,09 HUF 1 USD = 315,4800 HUF
Trade organisations	EU, OECD, AIIB, WTO



ECONOMIC OVERVIEW

Hungary is a country located in Central Europe and is a member of the European Union as well as the Schengen Area. Today, Hungary is an upper-middle-income country with a very high Human Development Index, which looks at life expectancy, education and the standard of living. The economy is primarily driven by exports, making it vulnerable to external market shocks.

The agricultural sector, the dominant force in the country's economy for many years, now represents 3.5% of the GDP and employs 5% of the working population (World Bank, 2019). Cereals, fruits, maize, vegetables and wine are the main crops.

Industry accounts for 26% of the country's GDP and employs 33% of the working population. Hungarian industry is very open to foreign investment, with manufacturing almost consistently ranking top receiver of foreign direct investment. The automotive and electronics sectors are the two main industrial sectors.

Within the service sector, private services are highly developed. With financial services (trade, tourism, finance and accounting) performing particularly well worldwide, Budapest has a globally reputable economic climate for shared service and business service centres.



These are few main index numbers from 2021 as per ranking of World Bank:

Hungary Business	Nov-Dec 2021	2020
Business Confidence	4.4	-13.40
Industrial Production	2.60	2.20
Industrial Production Mom	-0.30	2.30
Manufacturing Production	1.70	-1.60
Competitiveness Index	65.08	64.31
Competitiveness Rank	47.00	48.00
Ease of Doing Business	52.00	53.00
GDP Annual Growth Rate (%)	0.70	-4.6
Unemployment Rate (%)	3.6	4.4
Inflation Rate (%)	3	3.4
Interest Rate (%)	7.4	2.4

Investment Risk Ratings for Hungary

Agency	Rating	Outlook	Date
Moody's	Baa2	positive	Sep 24 2021
S&P	BBB	stable	Apr 28 2020

SETTING-UP BUSINESS

LEGAL ENTITIES

The following five types of business entity are available under the Companies Act:

- Company limited by shares (*Részvénytársaság – Rt.*)
- Limited liability company (*Korlátolt felelősségű társaság – Kft.*)
- General partnership (*Közkereseti társaság – Kkt.*)
- Limited partnership (*Betéti társaság – Bt.*)
- Trade Association (*Egyesülés*)

Each of these entities can be 100% foreign-owned or foreign-controlled.

Companies limited by shares and limited liability companies are the most popular structures among foreign investors. 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.

Two additional types of business entity foreign investors may choose:

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

The procedure of forming

Legal representation is a must in company formations and modifications. All company's constitutive documents must be signed by founders and countersigned by a Hungarian attorney. The articles and the appointment of the directors have to be signed in person at attorney; if signed outside Hungary, those must be notarised or apostilled.

A company is considered as formed if it is admitted to the register of companies. The company may start its operations as a “pre-company” when signing the constitutive document and may only engage in business operations after receiving its VAT registration number.

The Court shall register the company within one business day of the receipt of its VAT number in case of a simplified procedure. The usual procedure may take up to 15 days.

The registration process is fully electronic, with electronic signatures either from the side of the attorney or the court of registration. A Bank account shall be opened upon registration of the company, the electronically signed registration documents will be required by the banks and the finally the „Share capital payment” can be made.

Main requirements when setting-up a new business in Hungary:

- **Reservation of company name:** Before documents are filed for the incorporation of a new company, the reservation of the company name shall be made at the court of registration for 60 days. This also prevents other companies from registering under the same company name.
- **Minimum capital requirements:** The minimum share capital requirements are HUF 3 million (approx. US\$10,725) for a KFT and HUF 5 million (approx. US\$17,900) for a ZRT. You can provide the share capital in cash contributions, contributions in kind, or a combination of the two. No minimum capital is required to establish and operate an unlimited partnership, a limited partnership, or a joint enterprise. For other company
- **Permits:** Usually, no administrative permit is required to establish a company in Hungary. Most manufacturing and services companies do not need a permit to operate. Exceptions apply to certain regulated industries (financial service providers, insurance companies, pharmaceuticals, etc.).
- **Executives and other officers:** For most types of businesses, a company in Hungary can have one or more executives and other officers who can be foreign nationals. Executives need not have permanent residence in Hungary. Where executives are not permanent residents, a local delivery agent must be appointed to receive official communication from the authorities.
- **EU Access:** As Hungary is a member state of the European Union (EU), if you set up a company in Hungary, you may use it to do business in other EU member states.
- **Differences between a KFT and a ZRT:** The KFT is the company form most used by Hungarian businesses. A ZRT will be used if required by law or if you intend to list your company on a stock exchange. The advantages of a KFT include (i) lower costs, (ii) greater flexibility, (iii) fewer formalities and administrative burdens, and (iv) the ability to conduct almost any kind of business.

Other way to start a business in Hungary:

- **Purchasing an existing business:** You may also decide to buy a business in Hungary as a going concern by (i) purchasing the shares of an existing company or (ii) purchasing all or part of its assets, e.g. through a newly established company.

ACCOUNTING



ACCOUNTING & BOOKKEEPING

The Act on Accounting (Act C of 2000) sets out the accounting rules which are harmonized with the relevant directives of the European Community and with international accounting principles.

Companies performing any activities subject to state regulatory function should primarily follow special accounting rules set out by relevant Government ordinances, whereas, in the issues not covered by such special accounting rules, the Accounting Act should be followed.

Companies may opt for the accounting rules under the IFRSs as adopted by the EU. Above that, preparing financial statements under the IFRSs as adopted by the EU is obligatory for any company whose shares are publicly traded on regulated markets of the European Economic Area (EEA) and any credit institutions, financial institutions subject to the prudential regulation.

Financial year

With respect to reporting, businesses may opt either for a financial year aligning with a calendar year, or for a financial year (of 12 months) other than calendar year. In the latter case, a notification should be filed with the Hungarian tax authority.

Functional currency

The functional currency for the general ledger is HUF, but the Accounting Act allows to use EUR or USD initially or from the first day of the next fiscal year (prior to that, the founding documents should be amended accordingly). Different currencies are also allowed under certain conditions defined in the Accounting Act.

Statutory financial reports

All entities registered in the Company Register are required to maintain a double-entry bookkeeping system. All entities subject to double-entry bookkeeping requirements shall prepare statutory Financial Statements and a Business Report in Hungarian language based on the data of the accounting closing of the financial year.

Filing requirements:

The Financial Statements and the audit opinion (if the company is subject to the audit requirement) need to be filed with the Ministry of Justice before the last day of the 5th month following the balance sheet day. After that the Financial Statements become publicly available on the website of the Ministry of Justice. Consolidated Financial Statements should be filed with the Ministry of Justice before the last day of the 6th month following the balance sheet day.

The above rules are also applicable to the Hungarian branches of foreign companies, with the difference that the Financial Statements and the audit opinion to be filed are those of their foreign company as prepared under the accounting rules in effect for that foreign company in the country of incorporation. The foreign company's Financial Statements and audit opinion should be translated into the Hungarian language. The filing deadline and public availability are the same as the above.

Companies are required to keep and preserve their accounting records, financial statements, annual reports and all documents for an 8-year period. Any documents related to employment must be retained for 50 years.

Financial Statements

The financial statements include:

- balance sheet;
- statement of profit and loss;
- notes to the accounts (including cash-flow statement);
- business report.

Revenues and costs, receivables and liabilities are shown in a gross way in the financial statements, no netting is allowed by the law. This applies to assets and liabilities as well as to the P&L items.

Consolidated Financial Statements in Hungary

Any parent company does not need to prepare the consolidated financial statements as of a financial year when two of the following three thresholds do not exceed the following limits on the balance sheet date in two consecutive years preceding the financial year:

- the balance sheet total does not exceed HUF 6,000 million (approximately EUR 16,800);
- the annual net sales revenues do not exceed HUF 12,000 million (approximately EUR 33,600);
- the average number of employees in a year does not exceed 250 people.

When determining the above thresholds, the total figures of the parent company, its subsidiary companies and jointly controlled entities before consolidation shall be taken into consideration. The statistics of jointly controlled entities shall be taken into consideration in the percentage of capital share. If any of the subsidiary companies or jointly controlled entities of the parent company did not exist in the financial year preceding the subject year, then the above thresholds shall be established based on average figures estimated for the subject year.

Companies listed on the Stock Exchanges of the European Union member states are obliged to prepare their consolidated financial statements in accordance with the International Accounting Standards/ International Financial Reporting Standards (IAS/IFRS). Companies not listed on the Stock exchange are not obliged to apply the IAS/IFRS rules with regard to consolidation.



Audit Requirements

An auditor is compulsory for all companies having double-entry bookkeeping. There are exemptions from this requirement, but the company's supreme body may decide to assign an auditor to review its general ledger.

Those companies are exempted from the annual audit requirement, whose annual net sales do not exceed HUF 300 million (approximately EUR 840,000), and the average number of employees does not exceed 50 persons. The above thresholds shall be calculated based on the average of the two financial years preceding the financial year under review.



Notwithstanding the above, the audit requirement stands for the following cases:

- if so prescribed by the Accounting Act or by any other law;
- for the companies subject to consolidation;
- for the Hungarian branch office of a foreign company.

TAXATION



The Hungarian tax system is based on self-assessment. Taxpayers must register with the tax authorities, determine their payable tax, make advance payments, and file tax returns, and shall keep a record of their tax liabilities.

Taxpayers with Hungarian residences have tax-paying obligations for their income originating both from Hungary and from abroad. Non-resident businesses are only taxable on activities conducted at their Hungarian branches (foreign entrepreneurs) and proceeds from the sale or withdrawal of their shares in a company that owns real estate.

Foreign individuals are subject to taxation in Hungary if they make any income from the sale or withdrawal of their shares in a business association that owns real estate. A business association qualifies as a company that owns real estate if the value of the real estate located in Hungary represents more than 75 percent of the market value as of the balance sheet date of the assets recognized in the financial statements of either the taxpayer independently, or together with its affiliates resident in Hungary or affiliates qualifying as foreign entrepreneurs.

BUSINESS TAXATION

CORPORATE INCOME TAX

The rate of corporate tax in Hungary is 9%.

Domestic and foreign businesses alike assess their corporate tax base as the earnings before taxation modified by the items set out in the Corporate Tax Act, such as:

- Loss carried forward
- Provisions
- Depreciation and amortisation
- Declared share
- Declared intangible goods and chattels
- Dividends
- Royalties received
- Research and development
- Costs and expenses not incurred in the interest of business operations
- Penalty
- Thin capitalisation
- Controlled foreign company (CFC)

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 owns at least 75% of the voting rights of the taxpayers. The advantages of corporate taxpayer groups include the following:

- 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

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 aligns the entity 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.

Transfer pricing

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 must report their related parties within **15 days** 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.

Hungarian transfer pricing legislation is modelled on OECD transfer pricing guidelines. Transfer pricing rules apply to related party transactions, whether 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.

Local taxes

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

The most important and frequently introduced local tax is the latter one – the 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 of local business tax is **2%** of the tax base. 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 HUF200 per m², or
- Tax may be based on the corrected market value, as defined by law, and the rate is up to **3%** (this method is rarely used).

In the case of buildings:

- Tax is applied based on area –the applicable rate is **HUF 1,100 per m²**, 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).

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.

R&D tax (innovation contribution)

Pre-tax profit may be reduced by the direct costs of research and development performed in relation to the taxpayer's business activity. R&D activity carried out by related parties may be deducted from tax base if the related party hasn't used such a relief. The R&D activity shall relate to the income generating activity of the tax payer and its related party.

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 HUF7,700 to HUF44,000.

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

Tax penalties

There are four basic penalty types in effect:

- default penalty for mistakes in the reporting or invoicing up to HUF 500,000 (approximately EUR 1,600)
- tax penalty for tax shortage up to 50 percent of the tax shortage (in certain cases up to 20 percent or 200 percent)
- late payment penalty in the amount of the double of the interest rate of the National Bank of Hungary
- self-revision penalty up to 50 percent of the late interest penalty (that is the interest rate of the National Bank of Hungary)

If taxpayers don't meet the transfer pricing documentation obligation or meet with delay or if the prepared transfer pricing documentation doesn't comply with the requirements, the tax authority may impose a penalty of up to HUF 2 million. In the event of repeated infringement, the penalty is up to HUF 4 million. The penalties are to be meant for each missing or improper transfer pricing documentation. In the event of repeated failure to meet documentation obligation affecting the same documentation, the penalty imposed may be four times higher than the penalty imposed in the first case.

INDIVIDUAL TAXATION

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 based on 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 (combined total) income. The 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 health insurance contributions and pension contributions.

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 certain limits –is deductible from personal income tax liability. The amount of the tax reduction is added to the relevant savings.

Income from independent activities

All activities not included in employment (dependent) activities are considered independent (for example, the actions of private entrepreneurs, agricultural producers, and appointed auditors). The individual receiving income from an independent activity can 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 a 15% withholding tax. Dividend income is subject to a 15% personal income tax and a 17.5% 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 over this threshold will not give rise to a social contributions tax liability. Profit made on the transfer of capital assets is subject to a 15% personal income tax and a 17.5% 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.).

REAL ESTATE TRANSFER TAX

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

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, and 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 excludes 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) have implemented requirements to electronically disclose the details of all customer and vendor invoices that have a VAT element of over HUF 100,000. NAV requires this information to be transmitted via the taxpayers' invoicing software, which must be certified and integrated into the NAV online tax portal.

The Electronic System to Control the Transportation of Goods on the Road (EKÁER) is applicable for goods transported on the road. 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 the road with such means of transport, for which a road toll is payable (weighing 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 the second message, the actual start and arrival time should be reported.

OTHER TAXES AND DUTIES

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. A 0.6% duty is imposed on all cash withdrawals. The Act also lists exceptional rates e.g. trading in government securities, derivative transactions etc.

Tax on advertisements

This tax is payable on

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

The tax rates are as follows:

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.

Excise duty

Products falling within the scope of excise duty are as follows: crude oil, products from alcohol, beer, wine, champagne, intermediary alcohol products, and 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.

Environmental product charges

Environmental product charges are payable for the following products based on their weight: tyres, packaging material (plastic, layered boxes for drinks, metal, paper, wood, glass, other), lubricating oil, rechargeable batteries, the paper used as advertising media, the 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 based on the customs tariff numbers of the products.

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, and alcoholic beverages.

The tax is based on the physical quantities of the products. In the 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.



Overview of Hungarian taxes and their rates:

Rates and other important information	
Corporate income tax (CIT)	9% (alternative minimum taxation may apply in certain cases)
Value added tax (VAT)	27% (18% and 5% reduced rates)
Personal income tax (PIT)	15%
Local business tax (LBT)	Maximum 2% based on the discretion of the municipality
Withholding tax on dividends, interest and royalties paid to non-individuals	None
Surtax	Various surtaxes are levied at a range of rates on financial institutions, telecommunication services and energy companies
Social security (covering social tax and vocational training contribution) payable by employer	19.5% plus 1.5%
Social security withheld from gross salary of employees	18.5%
Transfer tax on the acquisition of real estate and shares in real estate companies	4% up to a value of HUF1 billion (approx. US\$3,6 million) and 2% on the value exceeding HUF1 billion (approx. US\$3,6 million), capped at HUF200 million (approx. US\$715k) per property – payable by the purchaser
Statute of limitation	Five years from the last day of the year in which the tax return was due or was filed
Transfer of a “going concern”	Out of scope of VAT under certain conditions
Capital duty	None
Real property tax	Building tax / plot tax are levied at the discretion of the municipalities
Tax penalty	50% (200% in certain cases); in addition, late payment interest of 5% plus the base rate issued by the National Bank of Hungary is also levied
Tax treaties	More than 80 tax treaties

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