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ASB Group

DOING BUSINESS IN **HUNGARY**

ECONOMIC OVERVIEW

Location

Central Europe with its capital Budapest

Population

9.67 mln

Language

Hungarian

Currency

Hungarian Forint (HUF), fully convertible
1 HUF = 0,0028 EUR*
1 HUF = 0,0033 USD*

*data provided by Morningstar for Currency

ECONOMIC OVERVIEW

Hungary is a country located in Central Europe and member of the EU 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 largely driven by exports, making it vulnerable to external market shocks.

The agricultural sector, which has been the dominant force in the country's economy for many years, now represents 3.5% of 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 economic services (trade, tourism, finance and accounting services) performing particularly well worldwide, Budapest has a globally reputable economic climate for the shared service and business service centres.

These are few main index numbers from 2020 as per ranking of World Bank:

HUNGARY BUSINESS	LAST	PREVIOUS
Business Confidence	-13.40	-15.10
Industrial Prodcution	2.20	- 2.00
Industrial Production Mom	2.30	- 6.80
Manufacturing Production	- 1.60	- 8.00
Competitiveness Index	65.08	64.31
Competitiveness Rank	47.00	48.00
Ease of Doing Business	52.00	53.00
Unemployment Rate	4.4%	4.6%
Inflation Rate	3%	3.4%
Interest Rate	0.6%	0.6%

Investment Risk Ratings for Hungary:
Standard & Poor´s BBB
Moody´s analytics Baa3

HOW TO SET-UP BUSINESS IN HUNGARY

TYPES OF BUSINESS ENTITY
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**, an organisational unit of a foreign company authorised to carry out normal business activities independently.

- **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.

POSSIBILITIES TO START UP

A) To establish a new company

Legal representation is a must in company formations and modifications. All company's constitutive documents have to 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, then those must be notarized 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” on the date of signing the constitutive document and may only engage in business operations after having received its VAT registration number.

The Court shall register the company within **1 business day** of the receipt of its VAT number in case of a simplified procedure.
The normal 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.

POSSIBILITIES TO START UP

A) 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 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 the form of 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.

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 for certain regulated industries (such as 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 a permanent residence in Hungary. Where executives are not permanent residents, **a local delivery agent** must be appointed to receive official communication from the authorities.

POSSIBILITIES TO START UP

A) **Main requirements when setting up a** new business in Hungary:

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 would 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) less formalities and administrative burdens, and (iv) the ability to conduct almost any kind of business.

POSSIBILITIES TO START UP

B) To buy a shelf company (a ready-made company)

It´s the way to start business within **a few days**, buyer is being given a newly established company ready to do business.

Main advantages of shelf company (ready-made company):

- Provider has been the only sole founder/shareholder
- Established, registered in the Commercial Register and Tax Authorities, registered capital paid, bank accounts and accounting reports maintained
- No previous activities, assets, employees or obligations
- All legal requirements fulfilled
- Contract guarantees by a provider

ACCOUNTING

Accounting rules

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 the 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 requirement shall prepare statutory Financial Statements and a Business Report in the Hungarian language based on the data of the accounting closing of the financial year.

Filling 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 of the documents for an 8-year period. Any documents related to employment must be retained for 50 years.

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 grossly 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.

ACCOUNTING

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** (ca EUR 16,800);
- the annual net sales revenues does not exceed **HUF 12,000 million** (ca EUR 33,600);
- the average number of employees of a year does not exceed **250 persons**.

When determining the above thresholds, the total figures of the parent company, its subsidiary companies and jointly controlled entities prior to consolidation shall be taken into consideration. The figures 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.

TAXES

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 residence 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 entrepreneur), 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% 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.

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 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

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

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 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.

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

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 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 HUF 7,700 to HUF 44,000. The amount of tax on cars payable to the local municipalities is deductible from the amount of this tax.

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

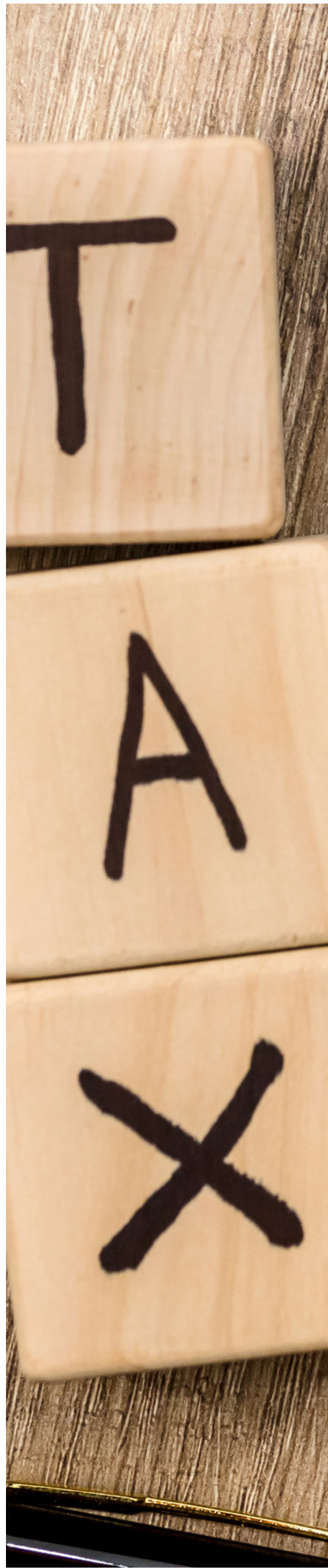
The tax base is the gross salary and other income (combined total income). The family allowance is deductible from the personal income tax base. If the tax allowance is not fully utilised against personal income tax, the unutilised amount may be deducted from health insurance contribution and pension 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 certain limits-is deductible from personal income tax liability. The amount of tax reduction is added to the relevant savings.

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 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 in excess of this threshold will not give rise to a social contributions tax liability. Profit made on the transfer of capital assets is subject to 15% personal income tax and 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 based on proper documentation (invoices, contracts etc).



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, the 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 to the NAV online tax portal.

The Electronic System to Control the Transportation of Goods on Road (EKÁER) is applicable for goods transported on 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 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 the second message, the time of the actual start and arrival should be reported.

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IF YOU REQUIRE ANY FURTHER INFORMATION,
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