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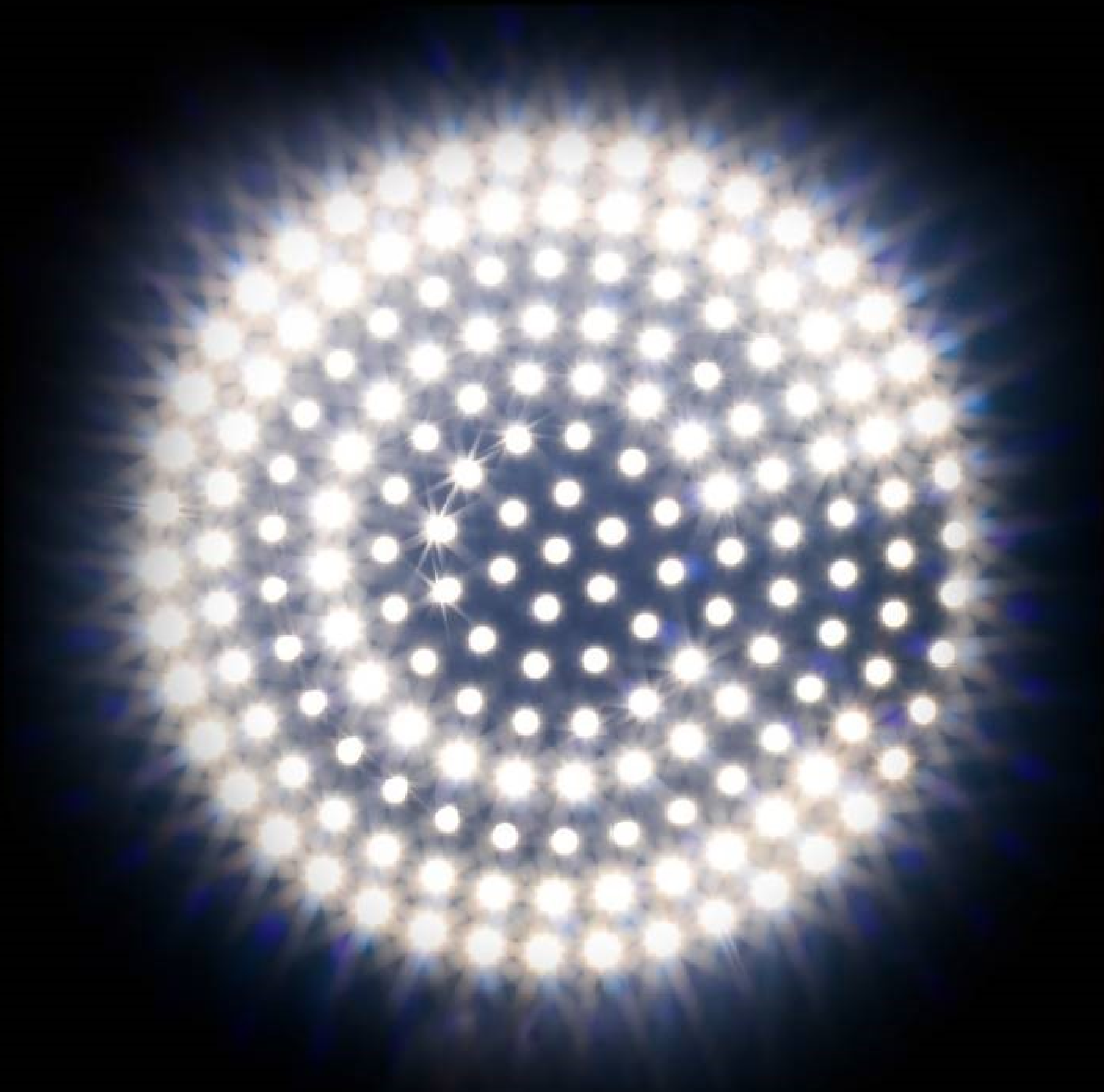

Taxation and Investment in Hungary 2017

Contents

1.0 Investment climate

1.1 Business environment

Hungary is a parliamentary democracy with a unicameral parliament called the National Assembly. The country's legal system is based on the 2012 constitution, which replaced the constitution of 1949.

The National Assembly, the highest organ of state authority, initiates and approves legislation supported by the prime minister. A constitutional court has the authority to rule on whether legislation is in accordance with the constitution.

The president of Hungary, elected by the assembly for a five-year term, has a largely ceremonial role, but his/her powers include appointing the prime minister and choosing the dates of the parliamentary elections. The prime minister selects cabinet members and has the exclusive right to dismiss them. Each cabinet nominee appears before one or more parliamentary committees in consultative open hearings, and must be formally approved by the president.

Hungary joined the EU in 2004. As an EU member state, it is required to comply with all EU directives and regulations, and it follows EU conventions on trade treaties, import regulations, customs duties, agricultural agreements, import quotas, rules of origin and other trade regulations. The EU has a single external tariff and a single market within its external borders. Restrictions on imports and exports apply in areas such as dual-use technology, protected species and some sensitive products from emerging economies.

EU member states

Austria	Estonia	Italy	Portugal
Belgium	Finland	Latvia	Romania
Bulgaria	France	Lithuania	Slovakia
Croatia	Germany	Luxembourg	Slovenia
Cyprus	Greece	Malta	Spain
Czech Republic	Hungary	Netherlands	Sweden
Denmark	Ireland	Poland	United Kingdom*

EU candidate countries

Albania	Montenegro	Serbia	Turkey
Macedonia			

European Economic Area (EEA) member states

EU member states	Iceland	Liechtenstein	Norway

*In a referendum on 23 June 2016, the UK electorate voted for the country to leave the EU, but the country will remain an EU member state until a secession agreement is concluded with the EU. The formal process to begin negotiations to exit the EU was started on 29 March 2017 when article 50 of the Treaty of Lisbon was formally triggered by the UK.

Trade also is governed by the rules of the World Trade Organization (WTO). Hungary is a member of the WTO, and a signatory to the WTO Agreement on Financial Services.

Hungary also is a member of the Organization for Economic Cooperation and Development (OECD). It participates in the Pan-European Cumulation, comprising the EU, the European Free Trade Association (EFTA), the Central European Free Trade Agreement (CEFTA) countries and Turkey.

OECD member countries

Australia	France	Korea (ROK)	Slovakia
Austria	Germany	Latvia	Slovenia
Belgium	Greece	Luxembourg	Spain
Canada	Hungary	Mexico	Sweden
Chile	Iceland	Netherlands	Switzerland
Czech Republic	Ireland	New Zealand	Turkey
Denmark	Israel	Norway	United Kingdom
Estonia	Italy	Poland	United States
Finland	Japan	Portugal	

Enhanced engagement countries

Brazil	India	Indonesia	South Africa
China			

OECD accession candidate countries

Colombia	Costa Rica	Lithuania

Despite a challenging business environment, Hungary remains an attractive investment venue for foreign businesses (especially with respect to the automotive industry), as a result of the country's proximity to the EU market.

Price controls

Price controls are provided by the Act on the Determination of Prices.

Although the prices of most products and services provided by private entities are set by the market, the Act on the Determination of Prices provides for regulated prices and fees for various services, such as postal services, retail price margins on subsidized pharmaceuticals, certain electronic services, etc. The prices of some services provided or controlled by municipalities are regulated by separate laws (e.g. public transport and taxi services, public water and wastewater utilities and district heating). The government and municipalities are authorized to determine prices for these products and services to protect the interests of consumers and, if necessary, suppliers. Prices generally are set as an upper limit.

Intellectual property

Patents, trademarks, industrial designs and models and copyrights are legally recognized in Hungary. Legislation on intellectual property (IP) rights is comparable to that in other European countries, and Hungary has adopted the EU rules on the protection of IP.

Patents are secured under the Patent Act, which fully integrated the Hungarian patent system into the European Patent Convention. Inventors can apply for European patents at the Hungarian Intellectual Property Office (HIPO), in one of the official languages of the convention.

Patents are protected for 20 years from the date a patent application is filed, and an annual fee is required to maintain the patent. The Act on the Protection of Inventions by Patents conforms to EU legislation, and includes provisions for the compulsory licensing of patents. A patent holder may be required to license a patent for use if:

- The patent holder does not introduce the patented item for availability on the Hungarian market within four years from the date the registration application is filed, or within three years following the date a patent is granted; or
- The item is required for the business activities of a user that is entitled to use other patented items that cannot be used without the item in question. The patent holder may then attach conditions to the use of the patent, restricting it to the purpose for which the license is granted.

A patent holder or licensor suspecting patent infringement may file a lawsuit at the Budapest Metropolitan Court to request an injunction to halt the alleged abuse, compensation and damages relating to the infringement and/or confiscation of the goods produced under the infringing activity.

Trademark protection is granted for 10 years and may be extended for additional 10-year periods. Industrial designs are protected for five years from the date of the application, and may be extended up to a maximum of 25 years.

All literary, academic, scientific and artistic works are protected by copyright. The person who creates a work (i.e. the author) generally is entitled to the full copyright (inherent and economic rights) from the time a work is created. Inherent rights include the author's right to decide on publication of the work, to be designated as the author on the work and to have the unity of the work protected. Economic rights include the author's exclusive right to utilize his/her work (financially or nonfinancially) and to authorize all uses of the work. A copyright is protected during the author's lifetime and for 70 years after his/her death.

1.2 Currency

The currency of Hungary is the forint (HUF). There is no target date for adopting the euro.

1.3 Banking and financing

The banking sector in Hungary is concentrated, with a few banks dominating deposit-taking and lending. The nonbank financial sector (including insurance companies, asset management companies and venture capital and private equity firms) plays a less significant role. Most of these firms are owned by commercial banks.

With increasing demand from foreign and domestic corporate clients for simple and responsive services, more financial institutions are providing universal banking, which ranges from straightforward lending to investment banking and securities trading. Most foreign firms access Hungary's domestic credit and capital markets through home-country financial institutions that have opened branches in Hungary.

Budapest, the capital, is Hungary's financial center.

1.4 Foreign investment

Hungary generally welcomes foreign direct investment, and the country provides a stable and secure legal framework for conducting business. Foreign participation often is recognized by local businesses as an opportunity to access more advanced technology, export markets and critical working capital.

Foreign investors may establish wholly foreign-owned companies and joint ventures in various legal forms. New companies must register with the court of registration. The Civil Code (as well as the Act on Public Company Information, Registration of Companies and Company Dissolution) provides for relatively simple company registration procedures, but there are strict corporate responsibility requirements.

Foreign investors may carry out "greenfield" investments or acquire all or part of state-owned enterprises being privatized, although private ownership (foreign or domestic) is restricted or prohibited in certain state-owned enterprises.

The EU restricted available government subsidies in 2004; however, Hungary provides a variety of incentives to investors, and subsidy schemes to small and medium-sized enterprises (SMEs).

1.5 Tax incentives

Investors are eligible for EU subsidies, which primarily are distributed through government schemes. In addition to EU funding schemes, the Hungarian government maintains several national incentive programs financed from the central budget. Approval for foreign investment is required in a few industries and circumstances, such as investments involving financial institutions, telecommunications networks, activities with a major environmental effect and firms building a new shop or other business installation.

Development tax allowance

A development tax allowance is available in the form of a reduced tax liability, depending on the scope of the investment, its location and its job creation potential. Significant changes were made to the development tax allowance in 2014 in line with the adoption of Commission Regulation (EU) No 651/2014. The allowance may be granted for the following investments:

- Investments valued at HUF 3 billion or more in eligible expenditure;
- Investments in promoted areas valued at HUF 1 billion or more;
- Investments aimed at the creation of jobs;
- Investments valued at HUF 100 million or more in eligible expenditure that promote environmental protection or film and video-making projects, as well as basic research, applied research and experimental development;
- Investments by SMEs that exceed HUF 500 million, if the enterprise increases the number of employees by five (for small enterprises) or 10 (for medium-sized enterprises) within the following four years, or increases its wage costs by at least 10 times (for small enterprises) or 25 times (for medium-sized enterprises) the annual minimum wage;
- Investments promoting the process and distribution of agricultural products; and
- Investments of at least HUF 100 million in eligible expenditure in a free enterprise zone.

Additional requirements must be met for investments relating to the first two bullets above—for a five-year period following the first incentive year, the company must increase the number of employees by at least 50 (or 25 in underdeveloped regions), or increase the wage costs by at least 300 times (or 150 times in underdeveloped regions) the annual minimum wage.

A development tax allowance for investments exceeding EUR 100 million in eligible expenditure (which is in accordance with EU regulations on government subsidies) is available on a case-by-case basis, through a permit issued by the Ministry for National Economy.

Under the development tax allowance, 80% of corporate income tax payable may be deducted for up to 10 years within the 12-year period beginning from the filing of the relevant notification with the Ministry for National Economy. (This period increases to 16 years for investments started after 31 December 2016.).

Intellectual property/IP box regime

Hungary operates an IP regime that provides special tax and legal benefits for IP-related activities, to attract high value-added businesses.

Under the IP box regime, 50% of profit from royalties may be taken (by election) as a special deduction in calculating the corporate income tax base. The adjustment, however, is capped (with no carryforward) at 50% of the total accounting profit before tax. In effect, the 50% deduction rule could result in as low as a 4.5% tax rate on the profits of licensing activities. The definition of royalties and other rules related to the IP box were amended in 2016 to bring the rules in line with the BEPS action 5 recommendations. Grandfathering rules also have been introduced, which allow taxpayers to use the old regime with respect to the fiscal year ending before 30 June 2021 under certain conditions.

Gain on the sale or contribution of IP meeting certain reporting requirements may be tax exempt if it is used to acquire royalty-generating IP during the following five years. To qualify for the exemption, the acquisition/capitalization of the IP must be reported to the Hungarian tax authorities within 60 days.

Deduction of R&D costs

The IP box regime also provides for a “super deduction” from the corporate income tax base for certain R&D costs, resulting in a double deduction of such costs. R&D costs eligible for the 200% super deduction must qualify as direct costs of fundamental research, applied research or experimental development. These direct costs generally include the costs of activities carried out by the company with its “own” employees and equipment, although costs of outsourced R&D activities performed under a cost-sharing agreement also may qualify.

It is not necessary to obtain approval from the Hungarian tax authorities to apply the R&D tax benefit, although the HIPO is responsible for determining whether projects qualify as R&D, the proportions of various R&D activities (experimental development, industrial research and fundamental research) and/or whether the activities qualify as "own R&D activity" (i.e. R&D carried out as part of a company's operations) within the meaning of the corporate income tax act. The HIPO’s decision is binding upon any authority (including the tax authorities).

Other tax incentives

Other available tax incentives include:

- Tax credits for sponsoring certain sports, films or performing arts organizations, which may not exceed 70% of the tax reduced by the development tax incentive, and may be applied for up to eight fiscal years following the year of the sponsorship; and
- Tax credits for certain investments made for energy efficiency purposes, which may be applied in the year the investment is capitalized or within the following five years. The credit is equal to the lesser of 30% of the investment's net present value or the HUF equivalent of EUR 15 million.

1.6 Exchange controls

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

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

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

Under the anti-money laundering law, customer due diligence measures must be undertaken and information on beneficial owners must be obtained when entering into a business transaction exceeding HUF 3.6 million in value. Cash payments reaching HUF 3.6 million can be accepted only by enterprises engaged in trading in goods registered at the Hungarian Trade Licensing Office, the authority of trade and commerce. The customer due diligence identification requirement also applies to transactions that exceed HUF 500,000 at currency exchange offices. The execution of suspicious transactions can be suspended for 24 hours. The import and export of cash or cash equivalents (e.g. travelers' checks or transferable securities) exceeding EUR 10,000 in value must be declared to the customs authorities.

2.0 Setting up a business

2.1 Principal forms of business entity

Under the Act on the Investments of Foreigners in Hungary, foreigners generally are entitled to carry out business activity in Hungary if they register a branch or establish a Hungarian company.

Under the Civil Code, a company may be established in Hungary under a variety of legal forms. The most common company forms in Hungary (including for foreign investors) are the company limited by shares (Rt) and the limited liability company (Kft). An Rt may be established only in privately traded form (Zrt). After the Zrt has commenced operations, its shares may be listed on a stock exchange, and then the company may be registered as a publicly traded Rt (Nyrt). Due to less stringent registration and operating procedures, and to lower minimum capital requirements, most new private-sector firms incorporating in Hungary choose the Kft form of company.

There are two additional common legal forms: the limited partnership (Bt) and the general partnership (Kkt). These latter forms of organization require unlimited legal liability of the members. All members of a Kkt are jointly and severally liable; at least one member of a Bt must have unlimited liability.

Formalities for setting up a company

In general, the shareholders of a company may deviate from the relevant provisions of the Civil Code in formulating the articles of association of the company, unless the derogation (i) is prohibited by law; or (ii) violates the interests of the company's creditors, employees or minority members, or is likely to prevent the exercise of effective governmental supervision over the company.

The supreme body of the Kft is the members' meeting; it is the shareholders' general meeting for an Rt. If a Kft or Zrt has only one member/shareholder, the competence of the supreme body is exercised by that person.

For all company forms, a supervisory board of at least three members must be established if the annual average number of employees exceeds 200; otherwise, a supervisory board generally is optional. If a supervisory board is required due to the number of employees, one-third of the members of the supervisory board must be elected by the employees.

In the case of a Zrt, the management of the company is conducted by a board of directors or by a sole chief director; in the case of a Kft, the Hungarian legislation does not recognize the concept of a board of directors, and the management is conducted by one or more managing directors. Moreover, in the case on an Nyrt, where the articles of association so provides, both the management and the supervisory powers and duties can be exercised by the board of directors instead of the management board and the supervisory board. The management-among others–is responsible for representing the company and preparing financial statements for the company. A company's supreme body may confer the right of general representation upon an employee appointed as a company secretary.

The registration of companies is under the competence of the court of registration of the relevant county, and it is necessary to be represented in the procedure by an attorney-at-law. The registration procedure takes approximately two to three weeks after the filing of all necessary corporate documents. The judge is entitled to require additional information or documents, which may extend the procedure. There is a registration fee of HUF 100,000 for a Zrt. The fee for registering an Nyrt from a Zrt is HUF 500,000. The registration of a Kft is free of charge due to a recent amendment of the law.

Forms of entity

Requirements of a company limited by shares (Rt)

The minimum capital is HUF 20 million in the case of an Nyrt, and HUF 5 million in the case of a Zrt. The share capital of the company generally must be secured entirely by subscription. The amount of cash contributions at the time of establishment may not be less than 30% of the share capital. With certain exceptions, the amount of capital contributed in kind must be declared in writing, and must be audited by certified auditors.

There are no restrictions on the number of shareholders or founders, or on their nationality or residence.

An Rt may issue ordinary or preference shares. The nominal value of preference shares may not exceed 50% of the total share capital of the company. The transfer of registered shares issued by a Zrt may be limited in the articles of association. A simple majority is enough for most decisions; however, a majority of at least 75% is necessary for major decisions, such as amending the articles of association, deciding on a transformation or terminating the company without a legal successor. Shareholders representing at least 5% of shares with voting rights have certain minority rights, such as requesting the board of directors to add certain items to the agenda of a general meeting, or having the management of the company investigated.

Setting up a supervisory board is mandatory for a Zrt, if required by shareholders representing at least 5% of the votes.

Management is conducted by the board of directors, consisting of at least three members. Directors are elected by the shareholders at the general meeting. There are no restrictions on the nationality or residence of directors.

An Nyrt has extensive publishing and disclosure obligations.

Requirements of a limited liability company (Kft)

A Kft must have minimum capital of at least HUF 3 million. It may be formed by one or more owners, but may not publicly solicit others to become owners. Contributions may be made in cash or in kind. If the amount of in-kind contributions reaches 50% of the initial capital at the time of establishment, the in-kind contributions must be transferred to the company at the time of establishment (before filing the request for registration); otherwise, the in-kind contributions must be provided within three years.

There are no restrictions on the number of members or founders, or on their nationality or residence. A simple majority usually is sufficient for most decisions, although a majority of at least 75% of the quota holders is necessary, for example, to amend the articles of association or to remove a managing director.

Management may be conducted by one or several managing directors elected by the members for a definite or an indefinite term; alternatively, the articles of association may provide that all equity holders are entitled to manage the Kft as managing directors. The representation rights of managing directors may be restricted or distributed among several managing directors in the articles of association. However, such a restriction is ineffective toward third parties, i.e. the acts of the managing director will be binding on the company, even if he/she acted beyond his/her power that is limited internally by the articles of association. The members' meeting may decide to enable the managing director of the company to authorize certain employee(s) to represent the company for particular purposes, if this is prescribed in the company's articles of association.

Branch of a foreign corporation

Foreign firms may establish a branch in Hungary. A branch is considered an entity without legal personality, so the foreign head office bears joint responsibility with the branch under Hungarian law. A branch may engage only in activities that comply with the laws of both Hungary and the country of the head office. The procedure for registering a branch office is similar to that for a legal entity. Branches generally are taxed in the same manner as domestic companies.

2.2 Regulation of business

Mergers and acquisitions

Mergers require permission from the Hungarian Competition Authority (GVH) if, based on the previous year: (1) the merging groups of companies have combined annual revenue exceeding HUF 15 billion; and (2) the net sales revenue of at least two companies within the merging groups of companies exceeds HUF 1 billion. In calculating the HUF 1 billion threshold, the revenue derived from the mergers between the participating companies or groups and that of the firms acquired by the participating companies or groups in the preceding two years must be taken into account, even if these transactions were not required to be reported or are awaiting regulatory approval. In the case of a merger of credit institutions or financial enterprises, the HUF 15 billion threshold is calculated on the basis of revenue from interest, fees and securities transactions instead of net revenues. Additionally, for the merger of financial institutions and when any shareholder increases its stake above 20%, 33% or 50%, National Bank of Hungary approval is required.

The law does not distinguish between horizontal and vertical mergers. The GVH may not reject a merger unless it creates or strengthens a dominant position, hinders competition and results in disadvantages that outweigh any possible advantages arising from the transaction. The GVH also must review international acquisitions for the merger of local subsidiaries if they exceed the prescribed sales revenue thresholds. The GVH may call for the separation or divestiture of merged entities if the parties fail to apply for authorization.

Legally, a merger is regarded as a concentration of undertakings under the Competition Act, which includes standard mergers or acquisitions of ownership shares or assets, as well as the acquisition of control over another undertaking (irrespective of any specific ownership stake) and the establishment of certain joint ventures.

The Capital Market Act regulates the acquisition of public companies, to protect small investors and improve transparency in acquisitions. Once a shareholder accumulates a 33% direct or indirect stake in a company, a public offer must be made on the full share package in the given company. If no single shareholder owns more than 10% of the company, the threshold for mandatory public offers is 25%. Shareholders increasing their ownership to more than 5% in a public firm must report their shareholding to the Financial Supervisory Authority. Company bylaws may impose stricter requirements, such as reporting requirements.

The EU merger control regulation also governs mergers in Hungary. The EU has jurisdiction in two cases:

1) Where the combined aggregate worldwide turnover of all of the undertakings concerned is more than EUR 5 billion and the aggregate EU-wide turnover of each of at least two of the undertakings is more than EUR 250 million, unless each of the undertakings concerned achieves more than two-thirds of its aggregate EU-wide turnover in a single member state.
2) Where the aggregate global turnover of the companies concerned exceeds EUR 2.5 billion for all businesses involved, aggregate global turnover in each of at least three member states is more than EUR 100 million, aggregate turnover in each of these three member states of at least two undertakings is more than EUR 25 million and aggregate EU-wide turnover of each of at least two of the undertakings is more than EUR 100 million, unless each achieves more than two-thirds of its aggregate EU-wide turnover within one and the same state.

If a merger normally would not fall within the European Commission's purview, the affected companies may ask the Commission to review the merger if they otherwise would be obliged to notify three or more member states. The Commission proceeds as a "one-stop shop" only if none of the relevant member states objects within 15 days.

Monopolies and restraint of trade

Monopolies and market dominance are not prohibited *per se;* rather, the Competition Act bans the abuse of a dominant position that restricts competition. A dominant position arises when substitute goods cannot be acquired elsewhere, or can be acquired only under substantially less favorable conditions; when a company's goods cannot be sold to another party, or can be sold to a party only under substantially less favorable conditions; or when a company can pursue its economic activities in a manner substantially independent of other participants in the market, or without having to consider the attitudes of its competitors, suppliers, customers or other business partners.

The Competition Act includes the following, nonexclusive list of agreements or concerned practices that may not be permitted if their object or effect is the prevention, restriction or distortion of economic competition:

- Price fixing or setting other business conditions;
- Restricting or controlling the manufacturing, distribution, technical development or investment in a product or industry;
- Dividing purchasing sources, restricting freedom of choice in purchasing or excluding others from the purchase of goods;
- Dividing a market, excluding others from selling or restricting sales choices;
- Preventing others from entering a market;
- Discriminating against business partners through the sales or purchase price or other conditions; and
- Requiring specified purchases in addition to the original contract item (i.e. "tie-in" contracts).

Agreements between companies to engage in the above practices are not prohibited if the combined market share of the parties does not exceed 10%, or if the companies are part of the same group.

The Trade Act defines the concept of significant market power in the context of wholesale/retail businesses and their suppliers, and prohibits the abuse of such power. A company, or any group of undertakings or purchasing alliance to which a company belongs, which has annual revenue of at least HUF 100 billion, is considered to have significant market power. Such power also exists if a company has a dominant bargaining position under market conditions.

Monopolies and market dominance that may affect the EU internal market also are prohibited by the Treaty on the Functioning of the European Union.

2.3 Accounting, filing and auditing requirements

The appointment of an auditor is mandatory if a company's average annual net sales revenue for two consecutive business years exceeds HUF 300 million, or the average number of employees exceeds 50 in two consecutive business years; otherwise, the appointment of an auditor is optional. The auditor must be registered with the Hungarian Chamber of Auditors.

The Hungarian accounting system is based on the Hungarian Accounting Act, which incorporates Hungarian Accounting Standards. As a member of the EU, Hungary's law is in accordance with European Commission (EC) Regulation No. 1606/2002, which requires the application of IFRS in the preparation of consolidated financial statements of listed companies. Hungarian Accounting Standards are supplemented by government decrees based on special requirements for banks, insurance companies, stockbrokers, investment funds, pension funds and various nonprofit institutions.

Hungarian companies must prepare their non-consolidated financial statements based on Hungarian law. However, from 1 January 2018, all listed companies and financial institutions will be obliged to prepare non-consolidated financial statements according to IFRS. Certain companies also may choose to prepare non-consolidated financial statements according to IFRS. Consolidated financial statements, if necessary, can be prepared based on the Hungarian Accounting Law or IFRS. The annual financial statements must be submitted electronically to the company service, which forwards the statements to the court of registration. It is possible to file directly with the court, but this does not eliminate the requirement to file with the company service. Public companies limited by shares have more extensive publishing and disclosure obligations. Issuers on the Budapest Stock Exchange must compile and publish earning reports on a quarterly or semi-annual basis, depending on the capitalization or the number of shareholders.

Non-consolidated financial statements also must be prepared to provide a basis for the determination of corporate income tax, with certain adjustments.

Financial statements may be prepared in HUF, euros (EUR) and US dollars (USD). Financial statements also may be prepared in other currencies if certain conditions are met.

The general deadline for submitting financial statements (other than consolidated financial statements) is the last day of the fifth month following the balance sheet date of the fiscal year, which harmonizes the deadline for submitting the statements with the tax return filing date for calendar-year companies. The document retention period required for accounting source documents, financial statements, general ledgers and other analytical records is eight years.

3.0 Business taxation

3.1 Overview

The main national taxes are the corporate income tax, local business tax, value added tax (VAT), innovation contribution and a special surtax on certain companies (e.g. those in the financial sector). Hungary's corporate tax rate is one of the most competitive in the region, although the low corporate rate is partly balanced by high local business taxes levied by the municipalities. Other taxes include transfer tax and real property tax. A minimum tax can apply in certain circumstances. There is no branch profits tax or capital tax.

No withholding tax is levied on dividends, interest or royalty payments made to corporate entities. The absence of withholding tax, combined with the participation exemption available for capital gains on qualifying shareholdings and the 50% exemption for profit from royalties, makes Hungary an attractive location for holding and licensing companies.

Hungary has fully implemented the EU parent-subsidiary, interest and royalties, merger and savings directives into domestic law.

Tax laws in Hungary are passed by the parliament and apply uniformly throughout the country, although the Local Taxes Act empowers local governments to levy certain taxes within their jurisdictions. The National Tax and Customs Administration (NAV), the tax authority, is responsible for the enforcement and collection of tax.

Various surtaxes are levied at a range of rates on financial institutions and financial transactions, advertising activity, telecommunication services and on energy companies.

Hungary Quick Tax Facts for Companies

Corporate income tax rate	9%
Branch tax rate	9%
Minimum tax	Applied to 2% of adjusted gross profits
Capital gains tax rate	9%
Basis	Worldwide income
Participation exemption	Yes
Loss relief	
• Carryforward	5 years (for losses generated in 2015 and later years), offsetting up to 50% of the tax base; losses generated prior to 2015 may be carried forward until 2025
• Carryback	Generally not available
Double taxation relief	Yes
Tax consolidation	For VAT purposes
Transfer pricing rules	Yes
Thin capitalization rules	Yes (ratio 3:1)
Controlled foreign company rules	Yes
Tax year	Calendar year, but different fiscal year may be elected
Advance payment of tax	Monthly/quarterly
Return due date	Last day of the fifth month following the end of the fiscal year
Withholding tax	
• Dividends	0%

• Interests • Royalties • Branch remittance tax	0% 0% 0%
Social security contributions	22% of gross wages (employer portion), plus 1.5% training fund contribution
Capital tax	No
Building tax/land tax	May apply at municipal level
Real estate transfer tax	4% up to a value of HUF 1 billion and 2% on the excess, capped at HUF 200 million
Local business tax	2%
Innovation contribution	0.3%
Tax on financial institutions	Varies
Financial transaction tax	0.3%/0.6% of transferred amount
VAT	27% (standard rate)

3.2 Residence

A company is resident in Hungary if it is incorporated under Hungarian law or has its place of management in Hungary. A foreign company is deemed to be resident in Hungary if its place of effective management is in Hungary.

3.3 Taxable income and rate

Hungarian resident entities are subject to tax on their worldwide income; nonresident companies are taxed only on Hungarian-source income. The taxable income of both resident and nonresident corporate taxpayers is based on the pretax profits calculated in the profit and loss statement prepared in accordance with the Hungarian accounting rules (or IFRS), with a number of adjustments for the differences in deductible and nondeductible items recognized by accounting and tax law.

Hungarian-registered subsidiaries of foreign companies are taxable under ordinary domestic rules.

Registered branch offices and nonregistered permanent establishments (PEs) are taxed under the same regime applicable to Hungarian-registered firms.

The corporate income tax rate is 9%.

Minimum tax

A minimum taxable income applies for taxpayers that incur losses or earn low profits. The minimum income generally is calculated as 2% of total revenue. A taxpayer whose pretax profits and corporate tax base both are less than 2% of its adjusted gross profits (i.e. minimum income) may opt to pay minimum tax or pay based on a submitted declaration stating that its tax base is legitimately calculated, and support its declaration with certain information. If the taxpayer elects to file a declaration, the tax authorities will process the declaration using a risk analysis program. If the analysis shows that there is a high risk that the reported low profit or loss was generated as a result of unlawful cost accounting or understated revenue, the authorities may initiate an audit.

Taxable income defined

The basis of the computation of taxable income for corporate income tax purposes is the accounting profit or loss, as adjusted in accordance with the provisions of the Corporate Income Tax Act (CITA). Based on an applicable tax treaty, foreign-source income may be exempt or foreign tax paid may be credited. In addition, even in the absence of a treaty, most foreign tax paid may be credited (subject to certain conditions).

In determining the taxable base, allowable deductions from the profit and loss statement include provisions for anticipated liabilities and recaptured costs accounted for as revenue in the tax year; extraordinary depreciation rebooked that increased the corporate tax base in previous tax years; and dividends received that are accounted for as revenue (except dividends from a controlled foreign company (CFC)).

Participation exemption

Hungary has a participation exemption for dividends and capital gains.

Under the exemption, dividends received by a Hungarian company from domestic or foreign sources (except from a CFC) are exempt from corporate income tax and withholding tax, regardless of the extent of the participation. The participation exemption also applies to capital gains derived from the sale or in-kind contribution of a participation, but the taxpayer must hold at least 10% of the subsidiary (which cannot be a CFC) for at least one year and report the acquisition of the participation to the tax authorities within 75 days after the acquisition. Similar exemption rules apply for capital gain derived from the sale of qualifying IP.

Deductions

All expenses incurred in deriving taxable business income generally may be deducted in computing the corporate income tax liability. Allowable deductions include losses carried forward; recognized provisions; foreign currency losses; and depreciation and amortization of assets, as set out in the CITA.

Under the IP box regime, corporate taxpayers may deduct 50% of profit from royalties derived from certain intangible assets (e.g. patents, software copyrights, property rights). However, the deduction may not exceed 50% of the taxpayer's total pretax profits. The tax base also may be reduced by certain R&D costs, which means that these costs are deducted twice (once as an accounting expense, and once as a tax base adjustment (see also under 1.5, "Tax incentives," above)).

The CITA includes the concept of "costs not in the interest of the enterprise," largely to cover items that could be used for tax avoidance purposes. Expenses may not be deducted if they are not incurred for business purposes. Consideration paid for a service is not deductible if the use of the service conflicts with the "reasonable management" principle. Other nondeductible items include expenses due to subsidies, assumed liabilities and assets given free of charge to non-Hungarian companies, receivables waived against related parties and fines.

Depreciation

Accounting depreciation of assets generally is calculated by the straight-line method, under which the same percentage of the original value of the asset is deducted each year. However, the Accounting Act does not provide strict rules with respect to the applicable depreciation method.

Tax depreciation is more stringently regulated, with the law setting the mandatory rates for most asset types. However, taxpayers may apply lower rates, but these cannot be lower than the accounting depreciation.

A three-year tax depreciation period (33% per year) applies to computers, office equipment, advanced industrial equipment and many types of environmental protection, medical and laboratory equipment. Motor vehicles are depreciated over five years (20% per year). Other fixed assets not specifically included in the depreciation table are depreciated at 14.5% per year. Taxpayers may apply 10% tax depreciation on goodwill, under the condition that the taxpayer provides a statement in its tax return declaring that the calculation or derecognition of goodwill took place under the legal principle of due course.

Tax depreciation may be accelerated by applying a 50% rate (instead of a 33% or 14.5% rate) to computers, computer accessories and new tangible assets purchased or produced in 2003 or later. Equipment used for film and video production may be amortized at a 50% rate.

For buildings, tax depreciation is set at 50 years (2% per year) for structures of long duration, 3% for those of medium duration and 6% for those of short duration. Buildings that are leased out are depreciable at 5% per year. An owner of assets (other than real estate) leased to another party may take accelerated depreciation up to 30% of the acquisition cost of the leased assets. Industrial and agricultural structures are depreciable at annual rates of 2% and 3%, respectively. Other structures depreciate at annual rates ranging from 2% to 20%. Nondepreciable assets include registered land (except some land that has been used for waste disposal) and works of art. Write-off periods tend to correspond to international standards.

A "development reserve" may be created to cover future fixed asset purchases. The amount of such reserve (capped at HUF 500 million, not to exceed 50% of the pre-tax profit) decreases the pre-tax profit in the year of creation and must be used to purchase fixed assets during the following 4 years. (Otherwise the tax and connected penalties shall be paid.) No tax depreciation is allowed on assets acquired from the reserve amount.

For intangible assets, accounting depreciation is accepted for tax purposes.

Although the Accounting Act recognizes the “lower of cost or market” principle, the law contains special rules for asset revaluation that may be followed to measure the effects of inflation, among other purposes. Enterprises may revalue certain assets at the balance sheet date. These include rights, IP, tangible assets (except investments) and financial investments (except securities loans).

In revaluing assets, where the market value is less than book value, the difference is considered to be significant (as defined in the accounting policy of the company) and lasts or is expected to last for more than 12 months, the revaluation must be accounted for as an extraordinary depreciation expense. Where the market value is greater than book value, the difference can be accounted for in a valuation reserve under the equity account and as a valuation adjustment under the relevant asset account. Generally, the revaluation increases the valuation reserve if the adjustment value for the current year exceeds that of the previous year (up to the value of the reserve adjustment); it decreases the valuation reserve if the adjustment value for the current year is less than that of the previous year. The value adjustment must be performed separately for all assets, and revaluations are not included as income in the taxable base.

Losses

Tax losses generated up to the last day of the tax year that begain in 2014 may be utilized by no later than in the tax year including 31 December 2025, while tax losses generated in and after 2015 may be carried forward for five years. Tax losses generally may not be carried back. The use of loss carryforwards is limited to 50% of the current year’s tax base (excluding the losses to be utilized); thus, at least 50% of taxable income will remain taxable even where losses are utilized. Losses must be used on a FIFO (first in, first out) basis. Further restrictions apply to the carryforward of losses in the course of transformations (i.e. mergers, demergers) or changes in the direct or indirect control of the taxpayer under the Civil Code.

The carry forward of losses where majority control in the taxpayer has been acquired by another corporate taxpayer (except for a transformation) is permitted only if: (i) the majority shareholder (or its legal predecessor) and the taxpayer were related parties during the past two tax years on a continuous basis; (ii) shares of the taxpayer or the majority shareholder are at least partially listed on the stock exchange; or (iii) the taxpayer continues at least one of its activities, which are not significantly different in nature from the activities carried out before majority control was acquired, for the next two years and generates income from such activities in both years.

In a legal transformation, the legal successor will be able to utilize losses only if (i) the direct/indirect majority shareholder for purposes of the Civil Code (or its related party) remains the majority shareholder of the legal successor; and (ii) in the two tax years following the transformation, the taxpayer generates income from at least one of the activities carried out by the legal predecessor (except for a holding activity).

With respect to losses generated as from 2015, additional rules were introduced for loss carryforwards in relation to a change in majority control or a legal transformation. These amendments limit the utilization of loss carryforwards accumulated before the change in ownership or by the legal predecessor based on the post-change income generated in continuance of the pre-change business activities.

3.4 Capital gains taxation

Gains derived from the sale of assets are treated as ordinary business income. Thus, capital gains are included in the corporate tax base and taxed at the 9% rate, unless the participation exemption applies.

As noted above, under the participation exemption, capital gains realized on the sale or in-kind contribution of (Hungarian and foreign) participations are exempt from corporate income tax if the following requirements are met:

- The participation represents at least 10% of the subsidiary;
- The taxpayer held the participation for at least one year; and
- The taxpayer reported the acquisition of the participation to the Hungarian tax authorities within 75 days of the acquisition.

Any loss (including a capital loss, foreign exchange loss or loss in value) relating to such a participation is nondeductible.

A capital gains tax exemption also applies to qualifying IP. It operates in a manner similar to the regime for capital gains on shares—gains on the sale or contribution in kind of qualifying IP are exempt from tax, provided the taxpayer reported the acquisition or production (registration in the books) of the IP to the Hungarian tax authorities within 60 days, and held the property for at least one year. Even if a sale of IP does not qualify for the participation exemption, gains realized will be exempt if the taxable amount is used to purchase qualifying IP within three years of the sale.

The taxation of capital gains may be deferred if the transaction qualifies as a "preferential transaction" in accordance with the EU merger directive, and certain requirements are met. Capital gains resulting from the following transactions may benefit from the favorable treatment: (i) a revaluation of assets in a merger or demerger; (ii) a transfer of certain assets and liabilities forming a business unit; or (iii) an exchange of shares.

Nonresident capital gains tax may apply if a nonresident entity directly disposes (sells, contributes in kind, etc.) a participation in a Hungarian entity that qualifies as a real estate holding company, as defined in the CITA. In this case, the gain may be subject to Hungarian corporate income tax at a rate of 9%, unless otherwise provided under an applicable tax treaty. Depending on the provisions of the specific treaty, taxation may apply to a resident of a treaty country as well.

3.5 Double taxation relief

Unilateral relief

Foreign-source income is taxable in Hungary, with a credit granted under domestic law for foreign tax paid, even if there is no tax treaty with the source country.

Tax treaties

Hungary has a broad tax treaty network that generally follows the OECD model treaty. Treaties generally provide for relief from double taxation on all types of income, limit the taxation by one country of companies resident in the other, and protect companies resident in one country from discriminatory taxation in the other. Hungary's treaties generally contain OECD compliant exchange of information provisions.

No special procedural requirements apply to obtain benefits under Hungary's tax treaties (but Hungary does not levy withholding tax on dividends, interest or royalties under its domestic law except if they are paid to individuals).

Hungary was one of the 68 countries that signed the OECD multilateral instrument on 7 June 2017.

Hungary Tax Treaty Network

Albania	France	Macedonia	Singapore
Armenia	Georgia	Malaysia	Slovakia
Australia	Germany	Malta	Slovenia
Austria	Greece	Luxembourg	Saudi Arabia
Azerbaijan	Hong Kong	Mexico	Serbia
Bahrain	Iceland	Moldova	South Africa
Belarus	India	Mongolia	Spain
Belgium	Indonesia	Montenegro	Sweden
Bosnia-Herzegovina	Iran	Morocco	Switzerland
Brazil	Ireland	Netherlands	Taiwan
Bulgaria	Israel	Norway	Thailand
Canada	Italy	Oman	Tunisia
China	Japan	Pakistan	Turkey
Croatia	Kazakhstan	Philippines	Ukraine

Cyprus	Korea (ROK)	Poland	United Arab Emirates
Czech Republic	Kosovo	Portugal	United Kingdom
Denmark	Kuwait	Qatar	United States
Egypt	Latvia	Romania	Uruguay
Estonia	Liechtenstein	Russia	Uzbekistan
Finland	Lithuania	San Marino	Vietnam

3.6 Anti-avoidance provisions

Transfer pricing

Hungary's transfer pricing rules, which generally are based on the OECD guidelines, specify that transactions between related entities should be considered for taxation purposes as occurring at the same price as equivalent transactions between unrelated parties. If an individual or an organization holds, directly or indirectly, more than 50% of the ownership or voting rights in another entity, or direct or indirect management control of another entity, the entities are considered related parties. For private individuals, the law includes their family members.

The following transfer pricing methods may be used: comparable uncontrolled price method, resale minus method, cost-plus method, transactional net margin method and profit split method. If none of these methods leads to a proper result, the taxpayer may apply any other defensible method. If the price applied between related enterprises differs from the market price, the taxpayer or the tax authorities may adjust the tax base to reflect the market price. Application of the self-initiated downward transfer pricing adjustment is possible in certain cases. If the tax authorities make an adjustment, however, they may impose a fine of up to 50% of the additional tax liability and the taxpayer may have to pay late payment interest.

Branch offices are subject to the same arm's length pricing requirements as other enterprises in Hungary, even for transactions between the branch and its head office.

Related parties must prepare documentation justifying their transfer prices, although an exemption from the obligation to prepare a transfer pricing report applies to small-value transactions (i.e. less than an aggregate value of HUF 50 million per year) or where an advance pricing agreement (APA) is obtained with respect to the arm's length price of the transaction.

Separate transfer pricing reports must be prepared for each related party agreement, although combined documentation can be prepared to cover multiple agreements if their content is similar or identical.

Simplified reporting is allowed for certain low value-added intragroup services (e.g. specific information technology services, legal services, etc.) if certain requirements are met—for instance, the relevant transaction cannot be related to the core activity of any of the parties and its value may not exceed a ceiling set by law. An exemption may be available for low value-added intragroup services if the margin applied is between 3% and 10%.

Country-by-country reporting

The Hungarian parliament passed country-by-country (CbC) reporting legislation on 15 May 2017, which implements the EU directive on the automatic exchange of information on CbC reporting, and requires CbC reports and notifications to be submitted for fiscal years beginning on or after 1 January 2016.

Thin capitalization

Under Hungary's thin capitalization rules, interest paid by a taxpayer on a loan or other interest-bearing obligation is nondeductible to the extent the taxpayer's total debt exceeds three times the taxpayer's equity (i.e., a 3:1 debt-to-equity ratio). For purposes of the rule, any liabilities in connection with which interest is paid (with the exception of bank loans) generally should be taken into account; however, the amount of the liabilities may be decreased by the amount of cash receivables accounted for as long-term financial asset receivables or securities in the company's balance sheet. Interest-free loans and loans with nonmarket interest rates also should be considered if a transfer pricing adjustment has been made. The thin capitalization rules apply regardless of whether the relevant transaction is between related or unrelated parties, and the excess interest is non-deductible.

Controlled foreign companies

Hungary amended its CFC provisions with effect of 1 January 2017 to comply with the provisions of action 3 of the OECD BEPS project.

A CFC is a foreign entity in which a Hungarian taxpayer holds a greater than 50% direct or indirect participation, or a foreign permanent establishment, if the tax paid by the subsidiary/PE is less than the difference between the tax it actually paid and the tax that would have been payable on the same income in Hungary. The foreign entity or PE will not be treated as a CFC if it is clearly demonstrated that it possesses sufficient assets, equipment, premises and employees with which it pursues substantial business activity. This condition is deemed to be fulfilled where the income from certain specified activities pursued with the entity's/PE's own assets and employees amount to at least 50% of its total income. In determining this proportion, the data of all related party entities located in the country of residence of the foreign entity/PE should be considered.

If a foreign entity or PE is treated as a CFC, the following corporate income tax restrictions apply:

- The participation exemption rules do not apply in relation to the CFC.
- Passive or related-party income of the CFC (as defined in an exhaustive definition, calculated according to the relevant Hungarian rules) becomes taxable at the level of the domestic parent under certain conditions. In this case, the new rules allow a credit for the tax paid by the CFC.
- Impairment of the CFC and losses recognized on the disposal of CFC shares (in excess of the amount previously treated as taxable CFC income) are not deductible for tax purposes.
- Deemed transfer pricing deductions are not allowed on transactions in relation to CFCs.

General anti-avoidance rule

Hungary has a general anti-avoidance rule (GAAR), under which the tax authorities may disregard the legal form of an arrangement and look at the actual substance of a transaction or contract. If the GAAR is applied, a deduction for relevant expenses/costs will be disallowed.

Effective 1 January 2015, the "abuse of law" doctrine was extended to cross-border tax situations in which different legal characterizations by different countries result in no taxation (e.g. in the case of hybrid instruments).

BEPS

The Hungarian government has not made an official statement in relation to BEPS. Communication from the tax authorities, however, indicates that the government welcomes the BEPS initiative.

On 19 July 2016, Council Directive (EU) 2016/1164 (Anti-Tax Avoidance Directive) was published which prescribes minimum standards, amongst others, for an interest limitation rule (BEPS action 4), a controlled foreign company rule (BEPS action 3) and a hybrid mismatch rule (BEPS action 2). All member states are required to adapt their national law to the rules by 31 December 2018.

The following table summarizes the steps Hungary has taken to date to implement the BEPS recommendations:

Action	Implementation
VAT on business to customers digital services (Action 1)	The EU VAT directive applies and already has been implemented into domestic law.
Hybrids (Action 2)	Existing tax legislation already contains some anti-hybrid provisions. As from 2018, the legislation addressing (downward) transfer pricing adjustments will be amended with a linking rule. It is not yet known whether further amendments will be proposed.
CFCs (Action 3)	Hungary amended its CFC provisions with effect from 1 January 2017 to comply with the provisions of action 3.

Interest deductions (Action 4)	Not yet known.
Harmful tax practices (Action 5)	Changes to Hungary's IP regime became effective on 16 July 2016 to adopt the nexus approach recommended by the OECD.
Prevent treaty abuse (Action 6)	Hungary already has anti-hybrid rules and a general anti-avoidance rule. It is not yet known whether additional measures will be introduced.
Permanent establishment status (Action 7)	Not yet known.
Transfer pricing (Actions 8-10)	The standards are expected to be implemented in Hungary.
Disclosure of aggressive tax planning (Action 12)	Not yet known.
Transfer pricing documentation and CbC reporting (Action 13)	Amendments implementing CbC reporting were passed on 15 May 2017, with initial reports to be filed for the first fiscal year beginning on or after 1 January 2016.
Dispute resolution (Action 14)	Not yet known. However, the minimum standard already is available in most tax treaties concluded by Hungary.
Multilateral instrucment (Action 15)	Hungary was one of the 68 countries that signed the OECD multilateral instrument on 7 June 2017.

3.7 Administration

Tax year

The tax year generally is the calendar year, although taxpayers may elect a different financial year that also applies for tax purposes. All businesses other than financial enterprises, credit institutions and insurance companies are allowed to adopt a financial year different from the calendar year, subject to certain criteria (e.g. being able to justify the use of the different tax year).

The tax year generally is 12 months, but may be shorter in certain cases. If a different tax year is chosen, the tax authorities must be informed of the change.

Filing and payment

Corporate income tax is assessed on an annual basis. A self-assessment system applies, under which the taxpayer establishes the amount of the corporate tax payable.

Advance tax payments are due monthly for companies whose tax liability exceeded HUF 5 million in the preceding year; the payments are due by the 20th day of each month. All other companies must make quarterly advance payments. Companies whose net sales revenue exceeds HUF 100 million must pay the difference between their expected annual corporate income tax liability and the advance payments made during the year ("top-up obligation") by the 20th day of the last month in the tax year.

The final payment of tax is made at the time the annual tax return is filed. Most returns are due by 31 May following the income year. If the fiscal year is different from the calendar year, the annual return is due by the last day of the fifth month following the end of the fiscal year.

Most companies in Hungary must file tax returns electronically. Electronic filing requires registration for a distinct code, which can be obtained through local government offices.Tax returns need to be filled in the Hungarian language and in HUF.

Consolidated returns

Hungarian law does not provide for group taxation for income tax purposes, so it is not possible to file a consolidated tax return.

Statute of limitations

The general statute of limitations is five years from the end of the year in which the tax return is due, and the period for the enforcement and collection of tax is five years from the end of the year in which the tax payment is due.

Tax authorities

The tax authorities in Hungary comprise the state tax authority and the customs authority (the NAV) and the notaries of the municipal governments (local tax authority). The tax authorities' responsibilities include maintaining taxpayer records, assessing taxes, collecting and enforcing taxes and other public dues enforced as taxes, controlling and supervising compliance with tax obligations, disbursing central subsidies and effecting payment of tax refunds.

Rulings

Binding tax rulings are available in Hungary, upon the submission of a request to the Ministry for National Economy. The application is subject to a flat fee of HUF 5 million. The ministry has 90 days to decide on the ruling after the submission of the request (which may be extended by 60 days). A taxpayer also may request an accelerated procedure, where the fee is HUF 8 million and the deadline for a decision is 60 days (which may be extended by 30 days). If the tax treatment cannot be assessed by the ministry, the taxpayer is entitled to a refund equal to 85% of the statutory fee.

Rulings are binding only on the entity that files the request. Rulings may be requested for future or past transactions, but rulings for past transactions can cover only certain annual income tax types. These ruling requests must be made by the filing day (or due date) of the relevant tax returns.

A special binding ruling is available for large taxpayers (i.e. those employing more than 200 persons or having a balance sheet total exceeding HUF 1 billion) for corporate income tax purposes. This ruling is binding for three years, irrespective of corporate tax law changes. The fee is HUF 8 million, and HUF 11 million if an accelerated procedure is requested.

A tax ruling cannot be applied to determine the arm's length price in related party transactions, but an APA may be requested from the tax authorities regarding the determination of the applicable transfer pricing method and the arm's length price or price range.

APA requests may be submitted to the tax authorities. The application is subject to a statutory fee of HUF 500,000 to HUF 10 million. If the precise fair market value can be determined, the statutory fee is equal to 1% of the fair market value. An APA is valid for at least three years and a maximum of five years (with the possibility of a one-time extension for an additional three years). Bilateral and multilateral APAs also are available. After submission of the request, the tax authorities have 120 days to decide on the APA, which can be extended twice by an additional 60 days. If the application is rejected, the taxpayer is entitled to a refund of 75% of the statutory fee.

3.8 Other taxes on business

Local business tax

Local business tax (LBT) is imposed by the local municipality where the company has its registered seat or PE for LBT purposes. The base of the LBT is the net sales revenue (excluding royalty income) less the cost of goods sold, the value of intermediated services, subcontractors' fees, costs of materials and the direct cost of R&D activity. Depending on the revenue volume (above net sales revenue of HUF 500 million), the deduction of cost of goods sold and the cost of intermediated services are subject to limitations.

The maximum rate of LBT is 2%, depending on the decision of the local municipality. Certain municipalities do not levy LBT. The annual LBT return is due on the last day of the fifth month following the relevant year. Advance payments are due twice a year (in the third and ninth months of the tax year) and a top-up obligation (similar to the corporate income tax top-up obligation) also applies at year end.

Innovation contribution

An innovation contribution is collected by the government to generate more funds for corporate R&D. The base of the innovation contribution is identical to the LBT base, and the rate is 0.3%. Newly registered companies in the year of registration, businesses qualifying as micro or small-size enterprises and Hungarian branches of foreign entities are exempt from the innovation contribution.

Special tax on financial institutions

Credit institutions, investment companies, stock exchanges, commodity traders, venture capital fund management companies and investment fund management companies are subject to a special tax on financial institutions. The base and rate of the tax is determined separately for each type of financial enterprise.

Financial transaction tax

Financial transaction tax applies to payment service providers, credit institutions authorized to pursue currency exchange activities and intermediaries of currency exchange services resident in Hungary. The items subject to the financial transaction tax—among others—include transfers of funds, direct debits, cash withdrawals from a payment account, loan repayments and commissions and fees, as charged. The payable financial transaction tax is 0.6% of the transferred amount for cash withdrawals (with certain exemptions), and 0.3% of the transferred amount in all other cases (capped at HUF 6,000).

Energy suppliers' income tax

A special income tax applies to energy suppliers. The tax base is the accounting pre-tax profit adjusted by certain items as defined by the law. The tax rate is 31%. The tax may be reduced by the development tax incentive and energy efficiency tax incentive not used for corporate tax purposes (up to 50% of the tax). The tax also may be reduced by the mining fee, up to 100% of the energy suppliers' income tax, capped at HUF 1.5 billion.

4.0 Withholding taxes

4.1 Dividends

Hungary does not levy withholding tax on dividends paid to foreign companies. Dividends paid to a nonresident individual may be subject to personal income tax at 15%, unless the rate is reduced under an applicable tax treaty.

4.2 Interest

Hungary does not levy withholding tax on interest paid to foreign companies. Interest paid to an individual is subject to personal income tax at 15%, unless the rate is reduced under an applicable tax treaty.

4.3 Royalties

Hungary does not levy withholding tax on royalties paid to foreign companies. Royalties paid to an individual are subject to personal income tax at 15%, unless the rate is reduced under an applicable tax treaty.

4.4 Branch remittance tax

Hungary does not levy a branch profits tax.

4.5 Wage tax/social security contributions

The employer generally is responsible for assessing and withholding the amount of the employee's personal income tax and social security liability from the employee's monthly wages.

Corporate taxpayers are subject to a variety of social security taxes. Firms are required to pay a social tax of 22% of gross wages, and 1.5% of gross wages as a training fund contribution.

4.6 Other

Hungary does not levy withholding tax on technical service fees.

5.0 Indirect taxes

5.1 Value added tax

VAT is levied on the supply of goods or the provision of services in Hungary, as well as on intra-community acquisitions and imports that are made by a taxable person in the course or furtherance of a business.

The standard VAT rate is 27%. An 18% rate is applicable to certain basic food products, the provision of accommodation, restaurant services meeting certain conditions, internet access services and services granting entry to outdoor events. A 5% rate applies to pharmaceuticals and certain medical equipment, aids for the blind, books and newspapers, certain food products (e.g. eggs, milk, pork, beef, poultry), new residential buildings meeting certain conditions and district heating services. Transactions that are exempt from VAT include the sale of buildings with an occupancy permit issued more than two years ago or the rental of buildings (with an option for taxable treatment), postal and financial services, education, certain health and public television services and sport and lottery services. The few exempt products include basic medical materials and folk art products. Rights and intangibles also are subject to VAT.

Following the elimination of trade barriers with the EU, sales transactions between Hungary and other EU member states are considered intra-community acquisitions or supplies. In intra-community supplies, the seller may issue an invoice to its EU-based purchaser without charging VAT if it has proof that the goods left Hungary; the buyer then settles the VAT payment. EU-based taxpayers supplying goods in Hungary may request VAT registration, but non-EU taxpayers supplying products in Hungary must use a fiscal representative for Hungarian VAT transactions.

Nonresident companies may reclaim Hungarian VAT if they are registered for VAT purposes in their home country. For firms registered outside the EU, Hungarian VAT may be reclaimed based on bilateral agreements (such agreements exist with Liechtenstein, Switzerland and Norway).

Branch offices of foreign companies in Hungary are subject to VAT. Each branch of a foreign company in Hungary is treated as a separate entity and must file a separate VAT return. The supply of services between a branch and its head office falls outside the scope of VAT unless the branch is member of a Hungarian VAT group.

All related firms and their branches with a business establishment in Hungary are eligible for group taxation, and are collectively regarded as a single taxpayer for VAT purposes. Services and products provided within the VAT group are not subject to VAT.

5.2 Capital tax

Hungary does not levy capital tax.

5.3 Real estate tax

Building tax

Building tax, which may be levied by the municipalities, is paid by the owner of a building. The tax can be based on the net floor space of the building expressed in square meters or on the adjusted market value of the building. The tax liability may be up to HUF 1,100 per square meter (which may be adjusted annually by the municipalities based on the consumer price index, as published by the Hungarian Central Statistical Office), or 3.6% of the adjusted market value.

Land tax

Land tax, which also is levied by the municipalities, is paid by the owner of land. The tax can be based on the area of the land in square meters or on the adjusted market value of the land. The tax rate is set by the local government, but it should not exceed HUF 200 per square meter (which may be adjusted annually by the municipalities based on the consumer price index, as published by the Hungarian Central Statistical Office), or 3% of the adjusted market value.

Real estate transfer tax

See under 5.4, "Transfer tax."

5.4 Transfer tax

The sale or transfer of real property or a participation in a Hungarian real estate holding company is subject to transfer tax. The tax, payable by the purchaser, is levied on the fair market value of the property. The transfer tax rate is 4% up to a fair market value of HUF 1 billion and 2% on the excess, capped at HUF 200 million per property. For transfer tax purposes, a real estate holding company is an entity with Hungarian real estate with a book value exceeding 75% of the total asset value less cash assets and cash receivables, or a company holding a 75% participation in a company with such a real estate value percentage.

The transfer of motor vehicles also is subject to a transfer tax, with the amount depending on the year of manufacture and the engine power.

5.5 Stamp duty

Administrative and court procedures are subject to procedural fees. In general, no stamp duty is levied on the conclusion of loan or other agreements.

5.6 Customs and excise duties

As a member of the EU, no customs duties are imposed on goods from other member states; rates determined by the Community Customs Code apply in respect of goods imported from outside the EU.

Excise tax is levied on items such as alcoholic beverages, petrol and tobacco products.

5.7 Environmental taxes

The main types of environmental taxes include product charges, charges on emissions and energy tax. Product charges are levied on domestically produced, imported or distributed products that endanger the environment, e.g. fuel and mineral oils, tires, cooling devices, packaging material, promotional paper and electronic devices. Charges on the emissions of environmental polluting substances are levied in proportion to the amount of the substance emitted into the air, soil or water. Energy tax is assessed on electricity, natural gas and coal. The release of certain packaging materials to commercial trade is subject to tax.

6.0 Taxes on individuals

Individuals in Hungary are subject to a variety of taxes, including the personal income tax, social security contributions, real estate tax and inheritance and gift tax. Entrepreneurs may be entitled to opt to be subject to the simplified enterprise tax (EVA) or to be taxed under the fixed rate tax for small taxpayers (KATA). There is no special regime for expatriates.

Hungary Quick Tax Facts for Individuals	
Income tax rate	15%
Capital gains tax rate	15%
Basis	Worldwide
Double taxation relief	Yes
Tax year	Calendar year
Return due date	20 May following the tax year
Withholding tax	
• Dividends • Interest • Royalties	15% 15% 15%
Health tax	14% or 22%
Net wealth tax	No
Social security	18.5% (employee), 22% (employer)
Inheritance and gift tax	9% or 18%
Real estate tax	May apply at municipal level
VAT	27% (standard rate)

6.1 Residence

Individuals with Hungarian citizenship (excluding dual citizens with no permanent residence in Hungary) and foreigners with a Hungarian settlement permit are considered tax residents. An EEA national will be deemed a tax resident if his/her stay in Hungary exceeds 183 days in the calendar year. A foreigner is considered a tax resident if he/she has a permanent home exclusively in Hungary. If the individual also has a permanent home in another country, or has no permanent home at all, the individual is regarded as a Hungarian tax resident if his/her center of vital interests is in Hungary. If the individual's center of vital interests cannot be determined, the individual is regarded as a Hungarian tax resident if he/she has a habitual abode in Hungary (e.g. he/she stays in the country for more than 183 days in a calendar year). Residence status may be affected by a tax treaty.

6.2 Taxable income and rates

Hungarian resident individuals are subject to tax on their worldwide income (i.e. income from any source, such as income from employment, the carrying on of a business, capital gains, investments, etc.). For nonresidents, only Hungarian-source income is taxable (including income from employment, business activities or real property transactions in Hungary). Hungarian-source income is defined as income received domestically or offshore for activities performed in Hungary, or income earned from Hungarian assets.

Gross income is considered the taxable base. Most income is aggregated, although certain income, such as dividends and capital gains, is taxed separately.

Housing provided by a Hungarian firm is taxable as part of employment income if evidenced by an employment contract. For foreign employees seconded to Hungary without an employment contract with a Hungarian firm, housing may be considered a nontaxable benefit.

Certain categories of income are exempt, including benefits paid under the state social welfare provisions or from social insurance, allocations for childcare and state pension income, scholarships for full-time study and tax refunds.

Deductions and reliefs

Professional training, business travel and accommodation expenses qualify as business expenses if properly supported by invoices.

A family tax allowance is available. Families with one child are entitled to a tax base decrease of HUF 66,670 per month; families with two children to HUF 100,000 per child per month; and HUF 220,000 per child per month for families with three or more children. The allowance is deducted from the tax base. If the family does not have enough income to use the entire amount of the family tax allowance, the family is able to claim the outstanding amount from their social security contributions in the form of a family contribution credit.

Newlyweds are entitled to a tax base decrease of HUF 33,335 per month per couple for two years following the date upon which they were married if certain conditions are fulfilled. The newlyweds are required to jointly verify the validation of the allowance.

Rates

The personal income tax is a flat rate of 15%. Passive income, such as dividends, interest and rental income also is subject to a 15% tax.

A 14% health tax is imposed on certain passive income, e.g. dividend income, capital gains and income exceeding HUF 1 million from the rental of real property. A 22% health tax may apply on certain other income.

6.3 Inheritance and gift tax

Inheritance duty of 18% is levied on assets, and a 9% inheritance duty is levied on property. Special rates are applicable to motor vehicles. A full exemption applies to inheritances received by direct descendants (including the spouse of the deceased). An exemption up to HUF 20 million applies to assets inherited by stepchildren and foster children.

Gift tax is due on gifts of real estate or movable property; the granting of a right, the surrender of a right or the exercise thereof without consideration; and the waiver of a right without consideration. A full exemption applies to individuals who receive gifts from direct relatives or a spouse. The gift tax rate is 18% on assets, and 9% on real property. An exemption applies where the value of the asset or property is less than HUF 150,000.

6.4 Net wealth tax

Hungary does not levy a net wealth tax.

6.5 Real property tax

A local tax may apply to dwellings and land; municipalities have the right to impose such taxes and determine the rates, up to specified limits.

6.6 Social security contributions

Employees are required to make social security contributions of 18.5% from their gross salary, withheld by the employer. Employers are required to make social security contributions of 22% on the gross salary of the individual, and a 1.5% training fund contribution.

Hungary has limited social security exemptions for third-country national expatriates (non-EEA citizens) assigned to Hungary and their foreign employers. If a Hungarian company employs a foreign individual, social security charges on both the employee and the employer are due in Hungary. Any exemptions from Hungarian social charges are based on the conditions of the assignment structure, EU social regulations or an applicable bilateral social security agreement.

6.7 Other taxes

The municipalities levy a tax on motor vehicles.

6.8 Compliance

The taxable period for individuals is the calendar year.

Husbands and wives are treated as separate taxpayers. An individual must file his/her annual tax return by 20 May of the year following the relevant taxable period. An extension to 20 November is possible if certain requirements are met.

Hungary operates a self-assessment regime, however, as from 2017 (with regard to tax year 2016) the Hungarian tax authorities prepare draft tax returns in certain cases that need to be reviewed, modified if necessary and approved by the taxpayer. The filing of an individual tax return remains available even if a draft tax return is prepared by the authorities, and is mandatory in the absence of a draft return.

The employer is required to deduct tax (or tax advances) from salary, wages and other payments.

7.0 Labor environment

7.1 Employee rights and remuneration

The Labor Code contains minimum provisions for employment contracts, job descriptions, place of work, hiring out labor and rules for the termination of employment. The Code defines the sections that are binding, while other sections allow derogation to some extent.

Employees are entitled to organize trade unions. Trade unions may inform their members of their rights and obligations concerning financial, social, cultural and living and working conditions. They also may represent their members *vis-à-vis* the employer and before government agencies in matters concerning labor relations and employment.

Employees, as a group, are entitled to participate in company matters; these rights are exercised by the works council or the employees' trustee elected by the employees. Employers must inform the works councils or trade unions (if any) before decisions are made regarding a mass redundancy.

Discrimination against employees based on nationality, language, ethnicity, sex or sexual orientation is prohibited, as is discrimination with regard to establishing or terminating employment, application procedures, training and the determination of working conditions.

Working hours

The work day generally is eight hours, but may go up to 12 hours, including overtime and it depends on the working-time schedule. Employees are entitled to two nonworking days per week. Sunday workers, i.e. if Sunday work is performed during their regular working hours, must receive 150% of their regular daily salary and be provided with another day off. Exemptions to this rule may apply to special work schedules, but employers must provide adequate rest time for employees. Employees must be paid minimum premiums of 15% for night work and 50% for overtime work. The maximum overtime is 250 hours annually, and 300 hours if so provided by a collective agreement.

Each employee is entitled to a regular vacation of at least 20 days each calendar year. However, there are additional vacation days, depending on the age of the employee, e.g. when the employee is 45, there are 30 days of regular vacation. Supplementary vacation days are given if the employee has children, among other reasons.

7.2 Wages and benefits

The Labor Code sets a basic minimum salary in hourly and monthly terms for all types of work and the monthly minimum salary requirement must be adhered to. The Labor Code allows a range of specific minimum salary levels and guidelines for certain types of work (e.g. by skill level, degree of responsibility and industry).

Salary levels vary widely. Wages in the state sector or at wholly Hungarian-owned enterprises generally are lower than at multinational companies. Skilled white-collar labor commands a premium, particularly for qualified information-technology specialists. There also are disparities among different regions of the country: salary levels in Budapest and the western counties are higher than in certain eastern regions.

The Labor Code adopts the principle of equal wage for equal work, meant to address discrepancies between wages for male and female employees. Hungary is a signatory to, and adheres to, International Labour Organization conventions protecting employee rights.

Pensions

Hungary has a two-pillar pension system:

1) Mandatory State Social Security Pension (funded by the employer and employee contributions); and

2) Voluntary Mutual Pension Fund (funded by voluntary employer and employee contributions into a self-administered tax-sheltered fund).

Social insurance

The social tax payable by the employer and the employee generally covers pension and healthcare insurance. Based on the gross wages of an employee, the employer pays a 22% social tax. Companies also must pay 1.5% to the vocational training fund. The employee contributes 10% for pension insurance (uncapped), 7% for healthcare (also uncapped) and 1.5% of gross wages to the unemployment fund. Employee contributions are assessed and withheld by the employer.

Other benefits

The general rate of sick pay is 60% if the employment period has been longer than two years, and 50% if the employment period has been less than two years; the maximum amount of sick pay cannot exceed two times the minimum wage. The employer must pay 70% of wages for a maximum of 15 work days per year in case of illness.

In addition to the regular annual holiday leave of 20 days and additional days depending on the age of the employee, extra days may be awarded to employees younger than 18 (five days) and parents with children (up to seven days, depending on the number of children). Maternity leave is provided up to 24 weeks.

Fringe benefits can be provided to employees in the form of food vouchers, meals at workplace canteens, a “Szechenyi” holiday card (used for accommodation, food and beverages and recreation), schooling assistance, travel passes, etc. The tax rate for fringe benefits is 15%, but there is a tax base adjustment of 18%, resulting in an effective tax rate of 17.7%. There also is a health tax payment obligation for fringe benefits, which is 14% with a tax base adjustment of 18%, resulting in an effective health tax rate of 16.52%.

Benefits in kind may be provided to employees, provided they are available for all employees or a specifically defined group. The tax rate for benefits in kind is 15%, but there is a tax base adjustment of 18%, resulting in an effective tax rate of 17.7%. A 22% health tax obligation applies to benefits in kind, with a tax base adjustment of 18%, resulting in an effective health tax rate of 25.96%.

7.3 Termination of employment

An employer must give a specific reason for dismissing an employee. Employees have the right to sue for damages for unfair dismissal if the reason for dismissal is untrue or unclear. The rights of an employee remain in effect after a sale of the employer company. The minimum notice period for dismissal (between 30 and 90 days) increases with the length of employment of the employee.

7.4 Labor-management relations

There is a prescribed seven-day conciliation period before a strike may be carried out. It is customary, but not required, for notice of a strike to be given one to two days before the strike. A national mediation and arbitration service exists to help settle labor disputes, but its services are not obligatory.

Works councils are mandatory in all workplaces employing 50 or more persons. (For companies employing more than 15 but fewer than 50 persons, appointment of an employee delegate for the workplace is mandatory.) The councils are forums for employee representation; the company’s employees elect the members, who then can negotiate employment terms on behalf of the staff. Members of works councils often are union representatives as well.

Individual labor contracts are standard practice among companies in Hungary, and the Labor Code requires them for employment relationships. Collective bargaining agreements for employees are negotiated at the enterprise level and are rare, although trade unions have been working to establish such contracts in several industries. Works councils may negotiate collective agreements in enterprises where there are no trade unions.

7.5 Employment of foreigners

Different rules apply depending on whether an employee is an EEA national or a national of a third country (i.e. a non-EEA country). EEA citizens and their family members do not need a work permit in Hungary. The employer must notify the competent labor center of the employment that is not subject to a work permit. The commencement of the employment must be reported no later than the start date of the employment; the termination of the employment must be reported on the day following the termination.

A third-country national generally may be engaged in employment (with very few exceptions) only if he/she has a valid combined work and residence permit. The combined work and residence permit is issued by the Office of Immigration and Nationality. The following documents are necessary for the application: pre-agreement on employment, a document certifying accommodation in Hungary, evidence of having the necessary qualifications for filling the position, certificate of expected annual income and health insurance. The labor center should grant their approval for Hungarian employment as part of the application process, the final employment contract may be concluded only after the combined work permit and residence permit is issued and may only last for the period set by the permit.

The above rules also apply to EEA or third-country nationals that are to be employed by a foreign company and transferred to Hungary on a secondment.

8.0 Deloitte International Tax Source

The Deloitte International Tax Source (DITS) is a free online database that places up-to-date worldwide tax rates and other crucial tax information within easy reach. DITS is accessible through mobile devices (phones and tablets), as well as through a computer.

Connect to the source and discover:

A database that allows users to view and compare tax information for different jurisdictions that includes:

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- Historical corporate rates;
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Guides and Highlights: Deloitte's Taxation and Investment Guides analyze the investment climate, operating conditions and tax systems of most major trading jurisdictions, while the companion Highlights series concisely summarizes the tax regimes of over 100 jurisdictions.

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