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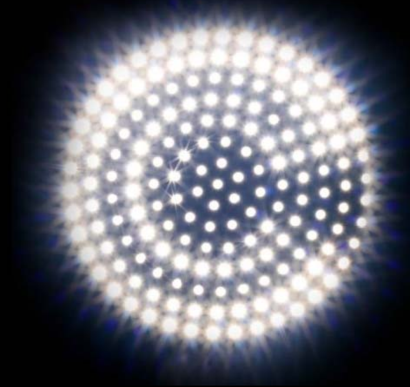
International Tax
Hungary Highlights 2018



Investment basics:

Currency – Hungarian Forint (HUF)

Foreign exchange control – No

Accounting principles/financial statements – Hungarian GAAP, but certain companies may transition to IFRS as of 2016. Companies whose shares are traded on a stock exchange within the European Economic Area and financial institutions must use IFRS. Financial statements must be filed annually. Financial statements may be prepared in HUF, euros (EUR), US dollars (USD) or other currencies if certain conditions are fulfilled.

Principal business entities – These are the limited liability company (Kft), public company limited by shares (nyRt), private company limited by shares (zRt) and branch of a foreign company.

Corporate taxation:

Residence – A corporation is resident in Hungary if it is incorporated in Hungary or, if incorporated abroad, its place of management is in Hungary.

Basis – Residents are taxed on worldwide income; nonresidents are taxed only on Hungarian-source income. Branches generally are taxed in the same way as subsidiaries.

Taxable income – Corporation tax is imposed on a company's accounting profits, adjusted by certain items. Normal business expenses generally are deductible in computing taxable income.

Taxation of dividends – Dividends received by a Hungarian company are exempt from corporation tax, except for dividends distributed by a controlled foreign corporation.

Capital gains – Capital gains are taxed as part of the accounting profit, at a rate of 9%. However, no tax is due if the participation exemption applies. Capital gains realized by a shareholder resident in a nontreaty country on the sale of its shares generally are not taxable, but Hungarian taxation may apply if the shares are held in a Hungarian real estate company (and possibly to capital gains realized by shareholder resident in a tax treaty country, if the relevant treaty so provides). In this case, gains are taxable at a 9% rate.

Losses – Tax losses may be offset against up to 50% of the profit before tax of the relevant financial year. Tax losses generated before 2015 may be carried forward until 2025, but tax losses incurred in 2015 and subsequent years may be carried forward for only five years. Losses should be used on a FIFO (first in, first out) basis. The carryback of losses is not permitted. Special carryforward limitations apply to mergers and acquisitions.

Rate – The corporate income tax rate is 9%.

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

Alternative minimum tax – An alternative minimum tax may apply in certain circumstances.

Foreign tax credit – Hungary's tax treaties usually provide for an exemption for active income and a credit for passive income. In the absence of a tax treaty, domestic law provides a credit for foreign taxes paid.

Participation exemption – A participation exemption applies to dividends received, without any holding requirements. A participation exemption also applies to capital gains derived from the sale of an investment, but the taxpayer must hold the subsidiary (which cannot be a controlled foreign corporation) for at least one year and the acquisition must be reported to the Hungarian tax authorities within 75 days from the acquisition of the investment. Similar exemption rules apply to capital gains derived from the sale of qualifying intellectual property (except that the reporting is due within 60 days of the acquisition).

Holding company regime – See under “Participation exemption.”

Incentives – Development tax incentives apply in the form of tax credits for certain investments, depending on the amount of the investment, the industry and the region within the country. In addition, a maximum EUR 1.6 million (equivalent to HUF 500 million) tax-deductible "development reserve" set aside for material investments may apply. R&D tax incentives allow for a double deduction of qualifying R&D costs. Expenses arising from the R&D activities of associated entities may be deductible from the corporate income tax base if certain conditions are satisfied. Tax credits may be available for sponsoring certain sports, film or performing arts organizations. A tax credit also is available for investments made for energy efficiency purposes. A 50% deduction from taxable income is available for profits on royalties.

Withholding tax:

Dividends – No withholding tax is levied on dividends paid to a nonresident legal entity. Dividends paid to an individual may be subject to personal income tax at a rate of 15%, unless the rate is reduced under a tax treaty.

Interest – There is no withholding tax on interest paid to a legal entity. Interest paid to an individual is subject to personal income tax at a rate of 15%, unless the rate is reduced under a tax treaty.

Royalties – There is no withholding tax on royalties paid to a legal entity. Royalties paid to an individual are subject to personal income tax at a rate of 15%, unless the rate is reduced under a tax treaty.

Technical service fees – No

Branch remittance tax – No

Other taxes on corporations:

Capital duty – No

Payroll tax – No

Real property tax – Building tax/plot tax are imposed at the discretion of the municipalities.

Social security – Employers must pay social tax at a rate of 19.5% on an employee's gross wages. A vocational training contribution of 1.5% also is payable by the employer.

Stamp duty – Various stamp duties apply in administrative and court procedures.

Transfer tax – The transfer of real estate or of shares in companies holding Hungarian real estate is subject to transfer tax payable by the purchaser at a rate of 4% of the value of the property up to HUF 1 billion, and 2% on the portion of the value exceeding HUF 1 billion, with the total tax liability capped at HUF 200 million per property.

Other – Other taxes include gift tax up to 18%, and local business tax on adjusted turnover at a maximum of 2%.

Anti-avoidance rules:

Transfer pricing – If the consideration applied in related-party transactions is not at arm's length, the transfer pricing rules require that the tax base be adjusted accordingly. 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. Documentation requirements apply for related party transactions, and advance pricing agreements (APAs) are available. Hungary has adopted country-by-country reporting requirements.

Thin capitalization – Interest on debt (except bank debt) exceeding three times the taxpayer’s equity is nondeductible for corporate income tax purposes. The amount of the debt 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.

Controlled foreign companies – A CFC is a foreign entity in which a Hungarian company holds a direct or indirect participation exceeding 50%, or a foreign permanent establishment (PE), if the tax paid by the subsidiary/PE is less than the difference between the tax that would have been payable in Hungary for the same revenue and the tax actually paid. A foreign entity (or PE) will not constitute a CFC if at least 50% of its annual revenue is generated from production, agricultural, servicing, investment or trade activities pursued with the entity’s own assets and employees or if it has an owner/shareholder holding at least 25% of the shares on each day of its financial year and this owner/shareholder (or its related party) has been listed on a recognized stock exchange for at least five years on the first day of its financial year. Profits generated from certain activities carried out by the CFC (e.g. interest, royalties, finance leasing, etc.) are taxable in Hungary, while the tax paid on such profits in the CFC’s country of residence will be creditable.

Disclosure requirements – See under "Transfer pricing."

Compliance for corporations:

Tax year – The tax year generally is the calendar year, although a taxpayer may elect a different financial year that also applies for tax purposes. The tax year generally is 12 months, but may be shorter in certain cases.

Consolidated returns – Consolidated returns are not permitted; each company must file its own return.

Filing requirements – A self-assessment regime applies. Corporate tax returns are due by 31 May of the year following the tax year, or within five months of the year end for a non-calendar financial year.

Penalties – A 50% tax penalty (200% in certain cases) is imposed on underpayments of tax; late payment interest applies at twice the base rate of the national bank of Hungary. There also are default penalties.

Rulings – A taxpayer may request an advance ruling on the tax consequences of a proposed transaction. APAs are available.

Personal taxation:

Basis – Hungarian resident individuals pay tax on worldwide income; foreign resident individuals are taxed only on Hungarian-source income.

Residence – An individual is resident in Hungary in the following cases: (1) he/she is a Hungarian citizen; (2) he/she has a permanent home exclusively in Hungary; (3) the center of his/her vital interests is in Hungary; or (4) where residence cannot be determined based on the permanent home or the center of vital interests, the individual's habitual abode is in Hungary. A European Economic Area (EEA) citizen will be regarded as a Hungarian tax resident if he/she is present in Hungary for a total of at least 183 days during a calendar year.

Filing status – A self-assessment regime applies and individuals are required to file their own returns. Husbands and wives are treated as separate taxpayers.

Taxable income – Employment income is taxable, as well as income derived from an individual's trade or profession.

Capital gains – Capital gains generally are taxed at a rate of 15%.

Deductions and allowances – Subject to certain restrictions, deductions are granted for capital gains on the disposal of real estate. A family tax allowance also may apply.

Rates – The general personal income tax rate is 15%. Dividend income and bank interest also are subject to a rate of 15%.

Other taxes on individuals:

Capital duty – No

Stamp duty – Various stamp duties apply in administrative and court procedures.

Capital acquisitions tax – Tax is levied on the acquisition of motor vehicles.

Real property tax – Building tax/plot tax are imposed at the discretion of the municipalities.

Inheritance/estate tax – The general rate of inheritance duty is 18%, but the inheritance is fully exempt in the case of direct descendants and the surviving spouse.

Net wealth/net worth tax – No

Social security – Employees are required to make social security contributions of 18.5%, which is withheld from gross salary by the employer. Certain types of income (e.g. dividends) are not subject to social security, but health tax applies at various rates (e.g. 14% on dividends, subject to a cap).

Compliance for individuals:

Tax year – Calendar year

Filing and payment – Personal income tax and social security generally are paid through withholding. Tax returns and the payment of any tax are due by 20 May following the tax year. An extension to 20 November may be granted if certain requirements are met.

Penalties – A 50% penalty (200% in certain cases) is imposed for tax underpayment; late payment interest of twice the base rate of the national bank of Hungary also is levied, as is a default penalty.

Value added tax:

Taxable transactions – VAT is levied on the domestic supply of goods and services and on imports.

Rates – The standard VAT rate is 27%, with reduced rates of 18% and 5%.

Registration – There is no registration threshold (except in the case of distance selling).

Filing and payment – Monthly, quarterly or annual filing and payment may be required, depending on the amount of the VAT liability.

Source of tax law: Act on Rules of Taxation (2017); Act on Corporate Income Tax and Dividend Tax (1996); Act on Value Added Tax (2007); Act on Personal Income Tax (1995)

Tax treaties: Hungary has 80 tax treaties in effect. Hungary signed the OECD MLI on 7 June 2017.

Tax authorities: National Tax and Customs Office

Contact:

Attila Kövesdy (akovesdy@deloittece.com)