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International Tax
Hungary Highlights 2021

Updated January 2021

Recent developments

For the latest tax developments relating to Hungary, see Deloitte tax@hand.

Investment basics

Currency: Hungarian Forint (HUF)

Foreign exchange control: There are no foreign exchange controls.

Accounting principles/financial statements: Hungarian GAAP, although subject to some exceptions. Companies may opt to apply IFRS. Companies whose shares are traded on a stock exchange within the European Economic Area (EEA) and financial institutions must use IFRS. Financial statements must be filed annually. Financial statements may be prepared in HUF, Euro (EUR), US dollar (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

Rates	
Corporate income tax rate	9%
Branch tax rate	9%
Capital gains tax rate	9%

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

Basis: Residents are taxed on worldwide income; nonresidents are taxed only on Hungarian-source income. Branches are taxed in the same way as subsidiaries, but if the head office is in a non-treaty country, certain additional adjustments may apply.

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.

Rate: The corporate income tax rate is 9%.

Surtax: Various surtaxes are levied at a range of rates on financial institutions and financial transactions; telecommunication services; and insurance, retail, and energy companies. Some of these surtaxes are based on income; others are based on revenue or total assets.

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

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

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 nonresident shareholder from the sale of its shares in a Hungarian company generally are not taxable, but Hungarian taxation may apply where shares are held in a Hungarian real estate company by a shareholder resident either in a non-treaty country, or a tax treaty country where the relevant treaty so provides. In that case, gains are taxable at a 9% rate.

Losses: Tax losses may offset up to 50% of the profit before tax of the relevant financial year. Tax losses generated before 2015 may be carried forward until 2030, but tax losses incurred in 2015 and subsequent years may be carried forward for only five years. Losses must 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.

Foreign tax relief: Hungary's tax treaties usually provide 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 if its acquisition was reported to the Hungarian tax authorities within 75 days, but the taxpayer must hold the shares in the subsidiary (which cannot be a CFC) for at least one year. Similar exemption rules apply to capital gains derived from the sale of qualifying intellectual property (except that the reporting of the acquisition is due within 60 days).

Holding company regime: See "Participation exemption," above.

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 Hungary. In addition, a tax-deductible "development reserve" set aside for material investments may apply. As from 2021, the maximum deduction is extended to the amount of the profit before tax. Prior to 2021, the maximum was EUR 30 million (equivalent to HUF 10 billion). R&D tax incentives allow for a double deduction of qualifying R&D costs. R&D tax incentives may be shared with associated enterprises that are Hungarian corporate taxpayers where certain conditions are fulfilled. A special deduction from taxable income is available for investments in start-up companies subject to a maximum of EUR 60,000 per company (equivalent to HUF 20 million). Tax credits may be available for sponsoring certain sports or film 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.

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: Each company files a separate tax return. However, companies may form a tax group for corporate tax purposes (subject to conditions). Members of a tax group may offset losses against the profits of other group members and enjoy simplified transfer pricing rules.

Filing and payment: 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 the base rate of the national bank of Hungary increased by 5%. There also are default penalties.

Rulings: A taxpayer may request an advance ruling on the tax consequences of a proposed transaction. Advance pricing agreements (APAs) are available.

Individual taxation

Rates	
Individual income tax rate	15%
Capital gains tax rate	15%

Residence: An individual is resident in Hungary in the following cases: (1) they are a Hungarian citizen; (2) they have a permanent home exclusively in Hungary; (3) the center of their 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. An EEA citizen will be regarded as a Hungarian tax resident if they are present in Hungary for a total of at least 183 days during a calendar year.

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

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

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

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.

Foreign tax relief: Hungary's tax treaties usually provide 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.

Compliance for individuals

Tax year: The tax year is the calendar year.

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

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 where certain requirements are met.

Penalties: A 50% penalty (200% in certain cases) is imposed for underpayment of tax; late payment interest at the base rate of the national bank of Hungary increased by 5% also is levied, as is a default penalty.

Rulings: A taxpayer may request an advance ruling on the tax consequences of a proposed transaction.

Withholding tax

Rates

Type of payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
Dividends	0%	15%	0%	15%
Interest	0%	15%	0%	15%
Royalties	0%	15%	0%	15%
Fees for technical services	0%	15%	0%	15%

Dividends: No withholding tax is levied on dividends paid to a 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.

Fees for technical services: There is no withholding tax on fees for technical services paid to a legal entity. Fees for technical services paid to an individual are subject to personal income tax at a rate of 15%. For nonresident individuals, tax only applies if the services are provided through a fixed base maintained in Hungary.

Branch remittance tax: There is no branch remittance tax.

Anti-avoidance rules

Transfer pricing: Where the consideration applied in related party transactions is not at arm's length, the transfer pricing rules require an adjustment to the tax base. 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 APAs are available. Hungary has adopted country-by-country reporting requirements.

Interest deduction limitations: “Exceeding borrowing costs” are deductible up to the greater of 30% of the taxpayer’s EBITDA (earnings before interest, tax, depreciation, and amortization) or EUR 3 million (equivalent to HUF 939 million calculated at the HUF/EUR exchange rate applicable on 12 July 2016). For companies in a corporate tax group, exceeding borrowing costs and EBITDA figures are calculated on a consolidated basis. Exemptions for standalone entities and members of a consolidated group for financial accounting purposes apply. Exceeding borrowing costs may be carried forward indefinitely, and unused interest capacity may be carried forward for five years. Loans concluded before 17 June 2016 (and not modified thereafter) are subject to the previous thin capitalization rules that apply a 3:1 debt-to-equity ratio (bank loans excluded), although a taxpayer may opt to apply the current rules instead.

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 on the same revenue and the tax actually paid.

A foreign entity (or PE) does not constitute a CFC where it realizes income only from genuine arrangements. Arrangements are not genuine if they are carried out primarily to gain a tax benefit and the significant people functions in terms of the assets owned and risks borne by the foreign entity are performed by a Hungarian parent company.

The proportionate part of the undistributed income from non-genuine arrangements of a CFC is taxable in Hungary as part of the taxpayer's tax base. Exemptions relating to the amount of pretax profit, profit from nontrading activity, and ratio of operating costs and pretax profit may apply, unless the CFC is in a country that is included in the EU list of noncooperative states. PEs in third countries (i.e., outside of the EU or the EEA) may obtain an exemption from CFC status if the country of the PE has concluded a tax treaty with Hungary that does not contain a "savings clause."

Hybrids: Where a Hungarian taxpayer enters into an arrangement with related parties or is a party to a structured arrangement that results in a hybrid mismatch, costs are not deductible. No exemption is available for income realized by a Hungarian taxpayer where a payment is made under a financial instrument or by a hybrid entity and a hybrid mismatch arises, nor is an exemption available if the income arises from a payment made to a disregarded PE unless it is situated in a non-EU country with which Hungary has concluded a tax treaty and the treaty provides for an exemption.

Economic substance requirements: A deduction from tax or taxable income, or any other tax benefit is only available if the underlying arrangement has valid business reasons and is in line with the purpose and intent of the relevant tax rules. The economic substance should be properly documented.

Disclosure requirements: Hungary has implemented its mandatory disclosure rules based on the EU mandatory disclosure directive (DAC 6). The Hungarian reporting deadlines are consistent with those in DAC 6 and are postponed until 2021.

Exit tax: In line with the EU anti-tax avoidance directive (ATAD), as from 2020, unrealized capital gains are subject to corporate income tax when a taxpayer transfers its tax residence to another country (within or outside the EU). Exit tax does not apply to assets that remain in Hungary. However, the tax does apply where assets are transferred from a Hungarian PE to the foreign head office or other foreign PEs, or where the activities of a Hungarian PE are transferred abroad and the transferred assets/activities are no longer within the scope of the Hungarian corporate income tax rules. As from 2021, exit tax may be paid in five installments where the taxpayer moves its tax residence, assets, or activities to another EU or EEA country. Prior to 2021, the installment option was available only where the taxpayer moved its tax residence to another EU or EEA country.

General anti-avoidance rule: Hungary has implemented fully the general anti-abuse rule as required by the EU ATAD rules.

Value added tax

Rates	
Standard rate	27%
Reduced rate	5%/18%

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 on a self-assessment basis, depending on the amount of the VAT liability. In general, VAT compliance is being transitioned to electronic platforms (e.g., data reporting obligation in the case of invoices). As from 1 July 2021, based on the data received, the tax authorities will prepare draft VAT returns monthly, quarterly, or annually for the approval of the taxpayer.

Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the national level.

Social security contributions: Employers must pay social tax at a rate of 15.5% on an employee's gross wages. A vocational training contribution of 1.5% also is payable by the employer.

Employees are required to make social security contributions of 18.5%, which are withheld from gross salary by the employer. Social security contributions generally may apply on certain income types (such as dividends, subject to a cap).

Payroll tax: There is no payroll tax.

Capital duty: There is no capital duty.

Real property tax: Building tax/plot tax is imposed at the discretion of the municipalities.

Transfer tax: The transfer of real estate or 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. The total tax liability is capped at HUF 200 million per property. Various exemptions may apply, e.g., for transfers made in preferential mergers or demergers of companies.

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

Net wealth/worth tax: There is no net wealth tax or net worth tax.

Inheritance/estate tax: The general rate of inheritance duty is 18%, and a reduced 9% rate applies to residential buildings. The inheritance is fully exempt in the case of direct descendants and the surviving spouse.

Other: Transfer tax is levied on the acquisition of motor vehicles.

Other taxes include gift tax up to 18% with a reduced rate of 9% on residential buildings and full exemption in the case of direct descendants and a spouse.

Local business tax must be paid based on the business activity carried out in a municipality. The tax is imposed on the total revenue realized from the sale of goods and provision of services (except for royalty revenue) reduced by the cost of goods sold, cost of raw materials, cost of services on-sold, fees paid to subcontractors, and R&D expenses. The tax rate is at the discretion of the municipality but cannot exceed 2%. Local business tax must be declared annually on a self-assessment basis. As from 2021, taxpayers only have to submit their local business tax returns to the state tax authority instead of local municipalities.

Tax treaties: Hungary signed the OECD multilateral instrument (MLI) on 7 June 2017 but has not yet ratified the MLI. Hungary has 80 tax treaties in effect. For information on Hungary’s tax treaty network, visit Deloitte International Tax Source.

Tax authorities: National Tax and Customs Office

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