



Hungary

FDI in Hungary – current situation

Amount of FDI (period 1990-2016): EUR 80 billion

Investors (countries):

- Germany 24%
- Netherlands 17%
- Austria 13%
- Luxembourg 8%
- USA 3%
- Other countries 35%

Investments by sector:

- Industrial products 21%
- Other business activity 19%
- Financial and insurance 14%
- Wholesale trade 12%
- IT and telecommunications 7%

HUNGARY

GENERAL INFORMATION

| | |
|---------------------------------|------------------------|
| Territory: | 93,030 km ² |
| Population: | 9.8 million |
| Currency: | Forint (HUF) |
| GDP 2016: | EUR 110 bn |
| GDP per capita: | EUR 11,200 |
| Growth rate: | 2.0% |
| Average monthly gross earnings: | EUR 840 |
| Export: | EUR 93,274 million |
| Import: | EUR 83,295 million |

FDI in Hungary – current situation



HUNGARY

BUSINESS SECTORS TO INVEST:

INDUSTRY:

- Automotive
- Pharmaceutical industry
- R&D
- High added-value services
- ICT
- Electrical industry
- Chemical, plastic and rubber industry
- Food processing industry

...and many more.

FDI in Hungary – current situation

Why to invest in Hungary?

- The Government is continuously showing its commitment to support foreign direct investments in Hungary by
 - introducing a new **incentive scheme** supporting **technology intensive investments**;
 - **taking on the regional competition** for significant investments (for ex. recently opened new battery factory of Samsung in God, with CAPEX of more than EUR 320 million, creating 600 new jobs, where Hungary undertook significant regional infrastructural investments and God also undertook to contribute to the charges of the company);
 - further improvement of the **dual education system to correspond the business needs**;
 - signing more than **70 strategic partnership agreements** allowing facilitating communication with the Government and authorities, among others
 - creating **a competitive tax system**.
- Following decrease in availability of EU funded cash incentives around Budapest, the Government together with local authorities makes bigger emphasis on promoting and developing smaller towns to attract foreign greenfield investments.
- Hungary had historically been strong in re-investment. This is true for 2016, as well, since from the 71 investment projects successfully closed last year 55 aimed at capacity increase, re-investment made by companies already present in Hungary. This shows the **trust** of the investors in the Hungarian economy.

Taxation implication

Tax implications on foreign investors and investment climate

| | | | |
|---------------------------------------|--|-----------------------------------|---|
| Corporate Income Tax | 9% (The lowest CIT in Europe currently.) Dividend income is exempt. | Innovation contribution | Collected to generate R&D funds. Rate: 0.3% of the local business tax base. |
| VAT | 27% | Financial transaction tax | 0.6% transaction tax for cash withdrawals, annual 3 EUR for payments made with credit/debit cards, 2 EUR for PayPass payments and 0.3% of transferred amount in all cases capped at 20 EUR. |
| VAT-exempt services, lower VAT | Lower VAT applies to e.g. basic food products, internet and restaurant services, pharmaceuticals and certain medical equipments. VAT exemption applies for example to financial services, and the sale or lease of certain immovable property. | Capital gains tax | 15% personal income tax |
| Local business tax | Varying by location, maximum 2%. | Double taxation agreements | Concluded with 80 countries |

TAXES IN HUNGARY

STATE TAXES:

- CIT (9%)
- VAT (27%, 18%, 5%, 0%)
- Personal income tax (15%)
- Innovation contribution (0.3% on the tax base for local business tax)
- Excise duties and special taxes
- Inheritance and gifts taxes
- Real estate transfer tax (4%, 2%)

CITY OF MUNICIPAL TAXES:

- Local business tax (max. 2% of the adjusted net sales revenue)
- Tax on road motor vehicles

No withholding tax levied on royalties, dividends, interests or branch remittance taxes paid to a foreign company.

The direct costs of the R&D activity may be decreased from the CIT base. The direct R&D costs eligible for the 200% deduction must qualify as direct costs of fundamental research, applied research or experimental development

Taxation implication

Tax implications on foreign investors and investment climate

| | Minimum wage | | Average wage | |
|----------------------------------|--------------|--------------|--------------|--------------|
| | EUR | % | EUR | % |
| Total wage cost | 506 | 123,5 | 1037 | 123,5 |
| Vocational training contribution | 6 | 1,5 | 13 | 1,5 |
| Social contribution tax | 90 | 22 | 185 | 22 |
| Gross salary | 410 | 100 | 840 | 100 |
| Personal Income Tax | 62 | 15 | 126 | 15 |
| Employee's contributions | 76 | 18,5 | 155 | 18,5 |
| Net salary | 273 | 66,5 | 559 | 66,5 |

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Taxation implication

Tax advantages for investors

| Investment (EUR, NPV) | Reduced CIT (%) | Category | Number of newly created jobs |
|--|--|---------------------------------|---|
| 1,600,000 < | 80% reduction from CIT for a period of 12 years from completion of the investment, maximum 16 years from application | SME | Small: 5 Medium: 10 |
| Investment aiming job creation | 80% reduction from CIT for a period of 12 years from completion of the investment, maximum 16 years from application | SME and large | No minimum number of newly created jobs defined |
| 330,000 < Investment aiming environmental protection, R&D, film production, investment in free entrepreneurial zone | 80% reduction from CIT for a period of 12 years from completion of the investment, maximum 16 years from application | SME and large | 5 |
| 3,300,000 < | 80% reduction from CIT for a period of 12 years from completion of the investment, maximum 16 years from application | SME and large, preferred region | 25 |
| 9,700,000 < | 80% reduction from CIT for a period of 12 years from completion of the investment, maximum 16 years from application | SME and large | 50 |

Stimulating investment measures

| Type of subsidy | Area | Investment volume | Newly created jobs | Eligible costs |
|---|--|-------------------|--------------------|---|
| Cash grant based on Individual Government Decision ("VIP" subsidy) * | Most preferred counties | EUR 5 million | 50 | Purchase of the plot, construction costs or building rental fee, infrastructural costs, purchase of new equipment and machines, intangible assets, etc. |
| | Preferred counties | EUR 10 million | 50 | |
| | Developed counties | EUR 20 million | 100 | |
| Subsidies based on job creation (Creation or expansion of Regional SSC) | Less developed regions | EUR 10 million | 50 | 24 months of salary and contributions towards the newly hired within a three-year period. |
| | Developed counties (Fejer, Komarom-Esztergom, Gyor-Moson-Sopron) | EUR 10 million | 100 | |

*The conditions of the "VIP" subsidy are determined in a negotiation procedure between the investor and the Hungarian authorities.

| Type of subsidy | Area | Investment volume | Newly created jobs | Aid |
|--------------------|-------------|------------------------------|--------------------|-----------------|
| Training subsidies | All regions | No prescribed minimum amount | 50-200 | EUR 0.5 million |
| | | | 201-500 | EUR 1 million |
| | | | 501-750 | EUR 1.5 million |
| | | | 751 < | EUR 2 million |

Legal implication

- Establishment of a business association is a very simple and quick process – May be completed within 7-15 days.
- Use of an attorney is mandatory in the corporate legal proceedings.



Rt

An Rt may be established only in a closed form (Zrt). After the Zrt has started its operations, its shares may be listed on any stock exchange and then the company shall be registered as an opened form Rt (Nyrt). Minimum capital: HUF 5 million (~ EUR 16,700) for Zrt and HUF 20 million (~ EUR 66,700) for Nyrt. At the time of foundation contribution may not be less than 30% of the share capital



Kft

The initial capital contribution shall not be less than HUF 3 million (~ EUR 9,700). A Kft may be formed by one or more owners. It is not permitted to solicit others publicly to become owners. Contributions can be made in cash or in kind. The liability of the members to the company extends only to the provision of their initial contributions, and to other contributions set out in the articles of association. It is the most common legal entity chosen by companies.



Branch

A branch office in Hungary qualifies as an entity without legal personality; therefore, the foreign firm bears responsibility under Hungarian law. A branch may engage only in activities that comply with the laws of Hungary and the country of residence of the head office.

Privatization and private investments

- Strong privatization started after 1990 and this had actually lasted until 2010 with further privatization plans. Wide range of privatization techniques were applied – Raising capital, tendering, negotiations, etc.
- Since 2010 the Government placed focus on strategic industries (such as energy, banking, security, transportation, etc.) and stopped the privatization of state owned companies while deprivatized some companies in order to (according to Government communication:
 - ✓ to decrease vulnerability in certain sectors (for ex. energy, banking)
 - ✓ keep well performing state owned companies (for ex. gambling)
 - ✓ save certain traditional Hungarian companies (for ex. Rába)
- Deprivatization was performed under market conditions
- The party responsible for the national wealth is Hungarian National Asset Management Company operating under the supervision of the Ministry of National Development
- Currently no special privatization plans are declared by the Government

Thank you for your attention!





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