

Essentials of **Doing Business in Hungary**



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1. General Information

Hungary is situated in the Carpathian Basin – in the heart of Central Europe – and is completely landlocked. It is bordered by 7 countries, namely: the Slovak Republic and Ukraine to the north, Romania to the east, Serbia, Croatia and Slovenia to the south, and Austria to the west. The majority of the landscape consists of plains and low mountains.

Hungary occupies an area of 93.000 sq. km (35.900 sq. miles), and consists of six distinct geographic regions: the Great plains (east), the Small plains (west), western Hungary (the lower Alps), the Transdanubian hills, the Transdanubian mountain range, and the northern mountain range.

The Capital is Budapest, located in the centre of the country. The city itself is split into Buda and Pest by the flow of the Danube River.

The climate is mild continental, with the average temperature of +8°C to +12°C. The warmest month is June with temperatures of 25°C to 32°C, and the coldest month is January with temperatures of -4°C to -10°C.

During the past 20 years, Hungary has witnessed a dramatic transformation from a centrally-planned economy to a well-functioning market economy. The successful economic reforms and favourable political and legislative environment have resulted in a stable macro-economic environment demonstrating strong economic growth.

Hungary joined the European Union on 1 May 2004, which has led to an adoption of EU laws and harmonization of Hungarian and EU standards. In December 2007, Hungary entered the Schengen Area, resulting in the removal of many business barriers.

Hungary's currency is the Hungarian Forint (HUF) or Magyar Forint, exists since 1946.

The official language is Hungarian. The sectoral structure of the country is similar to the other countries at the same level of development. The two-thirds of GDP comes from the service sectors, a quarter comes from industry sectors, remaining part belongs to the agricultural sector.

However Hungary has an especially favourable climate conditions for the agriculture, there are centuries-old traditions for the culture of wheat growing and vinification, too.

Within the service sector private services are highly developed. Significant part of the employees speak English, while in the Western part of Hungary many people speak German, as well. Especially economic services (trade, tourism, finance and accounting services) performing well worldwide, Budapest is has a globally reputable economic climate for the shared service and business service centers.

2. Establishing a Hungarian Company

2.1. Types of Business Associations - Laws and regulations quick facts

From 15 March 2014 the new Civil Code (Act V of 2013, furthermore: Civil Code) includes the entire general system of rules of common law relationships in an integrated form, where the detailed rules of business associations are also handled. The new Civil Code involved the former Act on Business Associations (Act IV of 2006) into the chapters of Book III.

The legal forms of the companies and the associated regulations consist in Hungary are similar to those used in the current European Union member states.

The following possible legal forms of business associations exist:

- General partnership (Kkt.)
- Limited partnership (Bt.)
- Limited liability company (Kft.)
- Company limited by shares (Rt.)

In case of all business associations governing the common rules must be applied, and for the associations also in the appropriate way.

First of all a general term for the shareholders is that one natural person is allowed to have unlimited liability in only one business association, furthermore neither a general partnership (Kkt.) nor a limited partnership (Bt.) are allowed to be a member possessing unlimited liability.

A company limited by shares may be either a private limited company (Zrt.) or a public limited company (Nyrt.). Private limited form exists when its shares are not listed on any stock exchange. Otherwise the company's legal form have to be public limited company.

In practice, most foreign investors are likely to take their financial interest in either a **limited liability company (Kft.)** or a **private limited company (Zrt.)**. These legal entity forms correspond to the company forms most commonly used in the European Union.

	Limited Liability Company (Kft.)	Private Limited Company (Zrt.)
Number of shareholders / founders	Kft. may be established by both one single or by more, foreign or domestic, natural person(s), legal per-son(s), or business association(s) with-out legal personality. The number of owners are not limited.	Zrt. may be established by both one single or by more, foreign or domestic, natural person(s), legal person(s), or business association(s) without legal personality. There is no general definition on the maximum number of members in this company type.
Minimum capital	HUF 3,000,000 (or approximately EUR 9,290).	HUF 5,000,000 (or approximately EUR 15,480)
Minimum value per share	The minimum contribution per member should be HUF 100,000 (or appr. EUR 310)	There is no limitation on the nominal value per share

<p>Contributions</p>	<p>In cash or in kind. <u>Before</u> application for <u>registration</u> the capital contributions should be made available</p>	<p>In cash or in kind. <u>Before</u> application for <u>registration</u> the capital contributions should be made available as follows:</p> <ul style="list-style-type: none"> ▪ <u>Contributions in-cash</u>: min. 25% of each contribution in-cash; ▪ <u>Contributions in-kind</u>: total contribution should be available, except for the benefit in-kind doesn't exceed 25% of the share capital
<p>Valuation procedure of in-kind contributions</p>	<p>In contrast with the former method the new Civil Code includes no instruction for the valuation of the contribution in-kind.</p>	<p>All of contribution in-kind has to be valued by an independent auditor. The audited value should be written down in the Deed of Association either at a lower or at an equal level, but not exceeding the audited amount. If the assets are valued and included in a financial statement not earlier than three months or assets of in-kind are traded on stock exchange, there is no need for separate valuation.</p>
<p>Supervision</p>	<p>Common regulation for the business associations in the Civil Code determines that Supervisory Board built-up is obliged when the average number of full-time employees is higher than 200 person and the Works Committee do not discard the employee participation in the Supervisory Board. The board has at least 3 members.</p>	<p>Establishment of a supervisory board shall be obligatory, if more than 5% of votes of members require it.</p>
<p>Responsibility</p>	<p>The members' obligations to the company extend only to the provision of their capital contributions and to other possible contributions as set forth in the Deed of Association.</p>	<p>The members' obligations to the company limited by shares extend to the provision of the face value or issue value of shares</p>

2.2. Steps to register a limited liability company

Limited liability companies are regulated in Chapter XIII, Book 3. of the Civil Code. These legal forms are similar to a Belgian BVBA or a German GmbH.

2.2.1. Deed of Association/Founding Deed

A limited liability company is formed by means of founding documents - a deed of association signed by all partners; or a founding deed in the event of a company set up by a single partner. The founding documents have to be countersigned by lawyer.

The founding documents must include at least:

- the corporate name and registered seat of the business association;
- members of the business association, indicating their name (corporate name) and address (registered seat), for legal persons and business associations lacking the legal status of a legal person their (company) registration number;
- the business association's activities which the company intends to indicate in the register of companies;
- the subscribed capital of the business association, the financial contribution of each member as well as how and when the subscribed capital is made available;
- the mode of representation and the method of signing for the company; specimen of signatures
- the name and address (registered seat) of the first executive officers appointed by the members (shareholders), and of the first appointed supervisory board members and auditor where applicable, and for legal persons and business associations lacking the legal status of a legal person their (company) registration number;
- the duration of the business association, if established for a limited period of time;
- the amount of capital contribution of each member
- the extent of voting rights.

2.2.2. Entry into the Company Register

The company is established by the act of the court of registration. All companies and sole trader businesses must register at the competent court of registration for the company's registered office. Applications for registering or amending details must be submitted electronically via a legal representative. The court of registration electronically records documents relating to the company and provides an electronic certificate of registration as well as confirmation of any changes made.

The "one-stop shop" during company registration means that the Court of Registration obtains the company's tax number and statistical code using the electronic system created for this purpose.

There is no registration fee for the foundation of a private limited liability company.

Documents to be submitted with the application:

- a deed of association/founding deed
- foundation permit, where foundation of the company is rendered subject to prior official authorization by law;
- if the company requested to have its name reserved, a copy of the ruling for the reservation of the corporate name;
- declarations of acceptance of executive officers, supervisory board members (if required), the independent auditor, and the officers of cooperatives, and document indicating the duration for which the officers were elected;
- electronic signature registration certificate, where electronic signature is used;
- power of attorney for the legal representative, or verification of his right of representation;
- other documents if required.

Time to complete: in the case of companies established using template constituting documents – one working hour from the issue of the company’s tax identification number (simplified registration), otherwise the registration procedure takes 15 working days. It should be noted that the process could be more time-consuming if the procedure is suspended because the tax authority needs more than one day to provide the court with the tax identification number.

2.2.3. Login to the appropriate Chamber

Entities are required to register and to pay registration contribution to the appropriate chamber. The Chamber Act (Act CXXI of 1999) orders for companies to register themselves into an industrial chamber that involves the participants of different sectors (e.g.: Chamber of Agriculture or Hungarian Chamber of Commerce and Industry, etc.).

The deadline of this payment is 31th of March. The annual fee is HUF 5,000 (appr. EUR 16) If the company is established newly, this deadline is within 5 days after registration.

2.2.4. Login to the Hungarian Central Statistical Office

All business associations are obliged to register to the Hungarian Central Statistical Office (furthermore: Statistical Office or HCSO). The Statistical Office provides data for the parliament and public administration, social organizations, the media, etc. as well as for international organizations and users abroad.

All companies are obliged to complete statistical documents regularly (commonly for annual periods), in order to describe their business performance. All documents are sent to companies by the HCSO free of charge or can be downloaded from the website of the office.

2.2.5. Opening a Bank Account

In Hungary, companies and entrepreneurs are not allowed to run without their own bank accounts. In order to open a bank account, a legal person is to submit:

- Certificates about registration of the company: certificate of incorporation, and an extract of the Company Register;
- If the company is *not yet* registered at the Court of Registration: certificate about *application* for registration at the Court of Registration. The bank institute has to be informed about the registration immediately;
- Notarized deed of association/deed of foundation;
- Notarized specimen of signatures;
- Certificate about statistical number issued by the HCSO;
- Tax number issued by the National Tax and Customs Administration (tax authority).

A taxpayer has to file an application for registration with local tax authority within 15 days of obtaining a license for performing business activity. Businesses are obliged to disclose their:

- Name and registered seat;
- Tax number, statistical number and main activity
- Trade licenses/ other licenses;
- Bank accounts;
- Data necessary for identifying local tax office of the taxpayer;
- Statutory body / other persons authorized to act on behalf of the company in tax issues;
- Representation of the company;
- etc.

All taxes must be paid in HUF, except local taxes all kind is paid to the Tax Authority.
Local taxes (including local business tax, building tax and land charge) are paid to the municipalities of the registered seat and sites, in shared manner.

Tax Authority continuously tightens the login process, a quite detailed check is performed on the owners.

3. Employing People in Hungary

3.1. Registration

Before the establishment of an employment relationship, the employer is required to complete a registration obligation toward the Tax Authority.

In relation to the above obligation some personal data of the employee and some information regarding the employment (e.g.: the name of the position, working time per a week, first and last day of the employment relationship, qualification of the employees etc.) prescribed by the relevant regulation should be declared within the following deadlines:

- Relating to the commencement of the employment relationship, on the first day of the insurance relationship before the work being started;
- Within 8 days from the date of termination of the relationship.

3.2. Labour Contract

A labour relation is deemed to be established by a labour contract – entering into this contract occurs only in written form. In the written contract (beside the personal data of the parties) at least the below two conditions should be indicated:

- the name of the position
- the salary of the employee.

Any other employment-related content can be indicated based on the agreement of the parties, if it is in line with the labour rules.

Labour contract should be concluded for definite or indefinite period. Probationary period is applicable in relation to both type of contracts but the period can not exceed 90 days.

Within 15 days from the starting date of the employment relationship, employer is obliged to inform the employee about the facts below:

- the daily working hours;
- the additional elements of the remuneration;
- the way of accounting of the wages, the frequency and the payment date of wages ;
- job description,
- the amount of paid leave, the way of the determining of paid leave and the rules for taking of them,;
- the rules applied for the determining of the amount of notice period
- whether the employee is under the scope of a collective agreement , and
- the person exercising the employer's rights

3.3. Working Term Notes

As a general rule, statutory number of daily working hours is 8 hours, weekly working hours is 40 hours in case of full-time employment. The number of hours worked per day may not exceed 12 hours and per week 48 hours including the overtime work. The maximum hours to be worked per week should be taken into consideration on average if irregular work schedule is applicable. Overtime hours are overall limited to 250 hours per year. As of 2019 in addition to the above 250 hours an additional 150 hours extraordinary overtime hours can be ordered by the employer based on the written agreement of the employee and the employer.

As in most EU member countries, in Hungary legal monthly minimum wages are set regularly. The minimum wage from 1st January 2019 is gross HUF 149,000 (approximately EUR 461) per month for unskilled worker and gross HUF 195,000 (approx. EUR 604) for skilled workers. However, actual salaries are significantly higher. The average gross (monthly) salary amounted to approx. gross HUF 297,000 (EUR 920) in 2017, in the first 9 month of 2018 it amounted to HUF 324,100 (EUR 1,000).

Employees shall be entitled to annual paid holiday comprised of basic and extra holiday.

The amount of basic holiday shall be twenty working days. This basic amount is increased in accordance with the years of age of the employee and reaches up to thirty days for employees over forty-five.

Furthermore extra vacation time is allowed for under several circumstances (e.g. child care, 'hazardous' work health conditions, etc.).

According to the general rule, vacation time should be taken in the respective year. There are only some strict reasons (e.g. illness, maternity leave) based on which paid holidays should be legally taken in the years following the respective year.

Hungary has 13 national holidays. If a national holiday is on Tuesday, the day before, or if it is on Thursday, the day after is also considered as a day off, and instead of these additional day offs, employees - who are working under general working schedule- are prescribed to work on a specified Saturday.

New Year's Day	1 January
1848/49 War of Independence Memorial Day	15 March
Labour Day	1 May
Founding of Hungary – King Stephen's Day	20 August
1956 War of Independence Memorial Day	23 October
All Saint's Day	1 November
Christmas Days	25-26 December
Good Friday, Easter Sunday and Monday	Variable
Whit Sunday and Monday	Variable

3.4. Termination of Employment Contract

A labour relationship shall be terminated by the below ways:

- mutual agreement;
- notice by any of the parties (general notice period is 30 days, however this period is increased based on the years of the related employment relationship and it can be up to 3 months in case of notice by the employer or up to 6 months based on the agreement of the parties);
- notice with immediate effect by any of the parties (without indication the reason of it during the probationary period, but in any other cases only by the indication of the reason).

An employee shall be entitled to severance pay, if his employment relationship is terminated by the employer by notice or by the employee himself by notice with immediate effect.

3.5. Social Security and Health Insurance

An employer is obliged to declare, deduct and pay social security contributions both on behalf of an employer and on behalf of an employee.

The employer has to pay a social contribution tax, which is 19,5 % of the gross salary of the employees. However, social contribution tax allowances can be applied by the employer if the relevant conditions prescribed by the regulations are met (employment relationship with employees entering to the labor market (e.g. after their maternity leave); women raising three or more children, entering the labor market; employment of workers employed in agricultural jobs or in jobs not requiring professional qualifications, employees with reduced ability to work; persons in public employment, employment of research workers or in relation to research and development activity).

The levels of social security contributions:

	2019	
	Employee	Employer
Pension contribution	10%	-
Health care contribution	7%	-
Labour market contribution	1,5%	-
Social contribution tax	-	19,5%
Educational tax	-	1,5%
Total	18,5%	21%

Employers with more than 25 employees are obliged to pay rehabilitation contribution if the number of workers with some degree of incapacity is below 5% of the total labour force (mandatory employment ratio). The annual amount of rehabilitation contribution shall be calculated by multiplying the number of employees missing from the mandatory employment ratio by the amount of 9 times the minimum wage (9*149,000= HUF 1,341,000).

4. Accounting Practices and Audit Requirements

4.1. Form and Content of Account

The Act on Accounting (Act C of 2000; furthermore: Accounting Act) –came into force on the 1st of January 2001 – contains accounting rules which are harmonized with the relevant directives of the European Communities and with international accounting principles.

Entities under the scope of this Act need to provide reliable information providing a true and fair view, with respect to the income producing capability, the development of the assets, the financial situation and the future plans of such entities.

With respect to reporting, businesses may decide to use the accounting period identical to a calendar year, or to apply their individual financial year (of 12 months). In case of different financial year all companies and business associations are obliged to inform their local tax authorities of their intention to make use of a unique financial year latest 15 days before the intended new year-end.

The functional currency for the general ledger is HUF, but the Accounting Act allows to use EUR or USD initially or from the first day of the next fiscal year (previously the currency change has to be included in the founding documents with a belonging modification).

Different currencies are also allowed under certain conditions defined in the Accounting Act.

All entities registered in the Company Register are required to maintain a double-entry bookkeeping system, broadly consistent with the system used in Western-European countries.

All business associations using double-entry bookkeeping method shall prepare statutory Financial Statements and a Business Report – in Hungarian language – on their operation, as well as on their financial and earnings positions, supported by the quite close process of the general ledger of the financial year.

The financial statements needs to be reported in electronic way within 150 days after balance day (31st May of next year).

Companies are required to keep and preserve their accounting records, financial statements, annual reports and all of documents for an 8-year period. It means that all evidence and documents of the year 2019 have to be available until 2027.

4.2. Valuation of Assets

All intangibles, advances and prepayments on intangibles and value adjustments of intangible assets shall be recognized as intangible assets in the balance sheet. Rights and intellectual products can be modified by value adjustment when the market value is permanently and significantly higher than book value. Conversely extraordinary amortization is allowed to record in these assets.

Under intangible assets can be recognized – if it will profitable in the future - capitalised value of foundation and reorganization and experimental development costs, which are not qualified investments and renovations.

Fixed assets shall be recognized under tangible assets which serve the undertaking's operations, directly or indirectly, on a permanent basis. Furthermore, the advances and prepayments for the acquisition of assets of those in the course of construction, and the value adjustments made on tangible assets are included under tangible assets in the financial statements. Under value adjustments of tangible assets only the difference between the market value – in excess of the book value – and the book value may be shown for the tangible assets. Conversely extraordinary depreciation is allowed to record on these assets.

Fixed assets are those have been bought with the aim of producing profit for the company or reaching an influence through keeping shares. Initial measurement is at cost at acquisition, and depreciated during their useful life. Worthy to bear in mind that useful life may differ the real working term of an asset.

Investments are recorded at cost.

Current assets are inventories, receivables, securities, cash and such kind of assets that do not serve permanently the undertaking's operations.

Inventories may be valued either at average cost or First In First Out (FIFO) method. Last in First Out (LIFO) is not permitted.

Foreign Exchange gains and losses on year end valuation monetary assets and liabilities have to be recognised without considering their amount, contrary to the International Accounting Practice. Losses and gains on monetary assets and liabilities can be recognised and are tax deductible.

From 1st of January 2004, securities are valued on the basis of market value principles.

4.3. Financial Statements

The financial statements include:

- balance sheet;
- profit and loss account;
- notes to the accounts (including cash-flow statement);
- business report.

Revenues and costs, receivables and liabilities are shown in gross way in the financial statements, no netting is allowed by the law. This applies to assets and liabilities as well as entries in the profit and loss account.

4.4. Consolidated Financial Statements in Hungary

Any parent company does not need to prepare the consolidated financial statements as of a financial year when two of the following three indices do not exceed the following limits on the balance sheet date in two consecutive years preceding the financial year:

- the balance sheet total does not exceed HUF 6,000 million (approximately EUR 18,576,000);
- the annual net sales revenues does not exceed HUF 12,000 million (approximately EUR 37,152,000);
- the average number of employees of a year does not exceed 250 persons.

When determining the indices defined in the section above, the consolidated figures of the parent company, its subsidiary companies and jointly controlled entities, prior to consolidation shall be taken into consideration. The figures of jointly controlled entities shall be taken into consideration in the percentage of capital share.

If any of the subsidiary companies or jointly controlled entities of the parent company does not have the information defined in the section above for the financial year preceding the subject year, then the indices defined in the section above shall be established based on average figures estimated for the subject year.

From 2005 companies listed on the Stock Exchanges of the European Union member states are obliged to prepare their consolidated financial statements in accordance with the International Accounting Standards/ International Financial Reporting Standards (IAS/IFRS). Companies not listed on the Stock exchange are not obliged to apply the IAS/IFRS rules with regard to consolidation.

4.5. Audit Requirements

Chapter X. of Accounting Act defines that election of an auditor shall be compulsory for all companies having double-entry bookkeeping. In all cases when an audit is not compulsory on the basis of this Act or another legal regulation, the company' supreme body may decide to assign an auditor to review its general ledger.

The auditing of books shall not be compulsory however for undertakings whose annual net sales does not exceed HUF 300 million (approximately EUR 928,800) and the average number of employees does not exceed 50 people. The above thresholds shall be calculated based on the average of the two financial years preceding the financial year under review.

Notwithstanding from the above, the auditing of books shall be obligatory in the following cases:

- if so prescribed by the Accounting Act or by any other law;
- in case of companies subject to consolidation;
- in case of Hungarian branch office of a foreign company.

4.6. Plans for implementing IAS / IFRS for individuals

The Government of Hungary decided in 2014 to implement the IAS/IFRS standards for statutory financial statements purposes also. It means that from year 2017 there is an option for the most part of the companies to adopt the IFRS for all the accounting and reporting procedures in Hungary. The Government has continuous work on the modification of the Accounting Act and tax laws to be harmonised with IFRS assumptions and expectations.

The following table summarizes the plan for implementing IAS/IFRS standards for the individual financial statements:

Type of companies	FY 2019
Credit institutes, specialized credit institutes and financial enterprises	Required
Insurance companies and other financial service providers	Optional
Listed companies on the Hungarian Stock Exchange or on a regulated market of any Member State of the European Economic Area	Required
Companies involved into any consolidation group where consolidated financial statements are based on IFRS	Optional
Other companies (except financial service institutes) over certain threshold	Optional

5. Corporate Taxation

The Act on Corporate Tax and Dividend Tax (Act LXXXI of 1996, hereinafter: Corporate Income Tax Act) distinguishes between resident taxpayers and non-resident entrepreneurs.

A company shall be regarded as resident if it is incorporated under the Hungarian law or if its place of management is located in Hungary. The tax liability of resident taxpayers shall apply to both their income from Hungary and from abroad (world-wide tax liability).

Non-resident entrepreneurs are entrepreneurs that shall not be deemed as resident based on their place of management. The tax liability of non-resident entrepreneurs extends only to their income from business operations performed through their Hungarian branches or to their income derived from the sale or withdrawal of shares in a company that owns real estate (limited tax liability).

5.1. Corporate Income Tax Base

In Hungary, taxable income (i.e. tax base) is based on the financial statements. The profit before tax based on the financial statement shall be adjusted by tax base decreasing and increasing items determined by the Corporate Income Tax Act, e.g. on the one hand increased by several expenses that are non-deductible for tax purposes and on the other hand decreased by several revenues that are not subject to income tax.

Under certain conditions the calculated tax can be decreased by tax allowances regulated by the Act.

5.2. Tax Calculation

The tax liability of a company is calculated as follows:

Profit before tax
- Tax Base Deductions
+ Tax Base Increasing Items
= Calculated Tax Base
% Tax (9%) ¹
- Tax Allowances
= Final tax liability

¹: see Paragraph 5.12.

5.3. Minimum tax

The minimum income shall be calculated as 2 % of the total revenue adjusted by certain increasing and decreasing items. If the profit before tax or the corporate income tax base of the company fails to reach the minimum income, the company might opt to pay the corporate income tax based on the minimum income or to make a statement in its corporate income tax return presenting its cost structure. By making

the above statement there is a risk that the tax authority selects the company based on its risk analysis program for a tax investigation.

5.4. Tax adjusting items

Please find below a non-exhaustive list of the corporate income tax base adjusting items:

Tax base increasing items	Tax base decreasing items
+ Depreciation and amortization of assets accounted for according to the Act on Accounting ¹	- Depreciation and amortization of assets according to the Corporate Income Tax Act ¹
+ Costs and expenses not incurred in the interest of business operations ²	- Losses carried forward from previous tax years
+ Expenses accounted for concerning provisions for expected liabilities and future costs	- Revenues accounted for concerning the release of provisions for expected liabilities and estimated expenses
+ Impairment of receivables	- Reversal of impairment losses
+ Rules on interest deduction limitation (replacing the thin capitalisation rules as of 1 January 2019) ³	- Dividend received (see under 5.8.)
+ Certain types of income of the controlled foreign company calculated based on the CIT Act as if the CFC would be a resident	- 50 % of the profits of royalties (see under 5.9.)
+ Receivables waived against related parties	- Development reserve for future capital investments
+ Transfer pricing adjustments (see under 5.5.)	- Transfer pricing adjustments (see under 5.5.)

¹ A distinction needs to be made between depreciation for tax and for accounting purposes. At initial measurement all assets have a depreciation / amortization key that reflect their useful lives. This key is determined by the Company. Depreciation for tax purposes is more strictly regulated, the depreciation keys applicable are determined by the Corporate Income Tax Act. The general depreciation key applicable for tangible assets is 14.5 %. Higher keys apply to computers, IT equipment and certain industrial equipment (33 %) and to vehicles (20%). For buildings the maximum rates set out by the CIT Act are 2 %, 3 % and 6 % depending on the type and duration of the structures. Land, works of art and assets (including intangibles, too) with undefined useful life are not allowed to be depreciated.

² In general, expenses made for non-business purposes are not recognised as an expense for tax purposes. The tax legislation provides a list of various costs and expenditures that are not seen as incurred in the interest of the business, and hence, as non-deductible items. Examples include certain entertainment expenses, final money transfer, book value of missing assets, consideration paid to a controlled foreign company, etc..

³ In order to comply with Council Directive (EU) 2016/1164 laying down rules against tax avoidance practices that directly affect the functioning of the internal market, the thin capitalisation rules are replaced by the rules on interest deduction limitation as of 1 January 2019. Based on the rules of legal harmonisation, when determining the corporate tax base, from the net financing cost, a maximum of 30% of the EBITDA

(earnings before interest, taxes, depreciation and amortization) or HUF 939,810,000 (whichever is higher) may be enforced as recognized cost. From the net financing cost, the part the higher of the above thresholds increases the profit before tax.

According to the former thin capitalisation rules applicable in relation to contracts concluded before June 17, 2016, the tax base is required to be increased with the proportionate interest amount related to any loan liability (except debts and loans from credit institutions or financial companies and liabilities to suppliers deriving from supply of goods or provision of services) which is higher than 3 times the shareholders' equity.

5.5. Transfer pricing documentation

The Hungarian transfer pricing regulation contain more stringent requirements than the majority of the countries belonging to the European Union or OECD member countries. Pursuant to the Hungarian transfer pricing decree, the type of related party transactions are fairly extensive which need to be documented. Based on a general rule contained in the decree, the transactions between affiliated companies need to be documented, if the value (net of value added tax) of the transaction on consolidated basis in the tax year exceeds HUF 50 million (approx. EUR 155,000).

The Hungarian transfer pricing regulation have endorsed the Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations published by the Organization for Economic Cooperation and Development ("OECD Guidelines"). The OECD Guidelines provide a framework for analysing the transfer prices for intra-group transactions, which state that the prices set for intercompany transactions should be based on the "arm's length principle". The transfer pricing documentation needs to be prepared in accordance with the usage of methods contained in the OECD Guidelines.

The Hungarian transfer pricing regulation follows the OECD regulation, Hungary has introduced the CbC regulation and the master file-local file transfer pricing documentation rule.

Under the general rule, the ultimate parent entity must file the CbC report to its local tax authority, if (1) the group is labelled as multinational group that means group members (companies, subsidiaries, permanent establishments) operate under two or more countries' jurisdictions, moreover (2) the consolidated group revenue exceeds 750 million EUR in the fiscal year preceding the reporting fiscal year. If the Hungarian company is only a subsidiary, it is probably not permitted to submit CbC report, only reporting the identification data of the effected entity (mostly the ultimate parent company), which submits the CbC report. The maximum default penalty can be 20 million HUF if there is missing, delayed, erroneous, incorrect or incomplete fulfilment connecting to the obligation of CBC reporting. The taxpayer is exempted from the default penalty connected to omission, delay, erroneous, incorrect or incomplete fulfilment, change submissions, delivery of data, or failure to provide the data, if the taxpayer has explanation as it behaved as usual in the given situation.

The expected content of the master file and local file is almost the same as the OECD declared in the OECD Guidelines. The Hungarian regulation is OECD compatible, only some extra information is necessary (e.g. date of preparation) in the transfer pricing documentation.

The master file, based on the Hungarian Transfer Pricing Decree, shall contain:

- information about the group's organizational structure;
- a general introduction on the group;
- a depiction of the value chain of the group's most significant products and an outline of its main geographic markets;
- a list of important service agreements concluded between related parties;
- a functional analysis showing the contribution of each member entity towards value creation;
- information regarding the group's intangible goods;
- information regarding the group's research and development activity

- presentation of the group's inter-company financial activity (including significant financing agreements concluded with unrelated parties);
- the group's financial and tax position;
- a list and brief presentation of the group's effective unilateral advance pricing agreements and other tax-related agreements on the distribution of income between countries;
- date of preparation, modification.

The local file presents the local taxpayer and the agreements between the taxpayer and its related parties. The new regulation slightly stricter than the former Decree. The local file, based on the Transfer Pricing Decree, shall contain:

- the organizational structure of the local entity;
- a description of the entity's activity and its business strategy;
- presentation of main competitors;
- information on controlled transactions;
- a copy of effective advance pricing agreements and other tax rulings to which the local tax jurisdiction is not a party and which are related to controlled transactions;
- a functional analysis showing the contribution of each member entity towards value creation;
- describe the regular transfer pricing methods;
- determining the arm's length price range;
- the connection between the arm's length price and the price that the company used;
- if there is any litigation, jurisdictional issue connected to transfer prices;
- date of preparation, modification.

The local transfer pricing documentation has to be prepared by the date of actual submission of the corporate income tax return. The deadline of the preparation of the master file shall be the deadline applicable for the ultimate parent company but not later than 12 months after the last day of the Hungarian taxpayer's fiscal year.

In the recent years, the transfer pricing documentation constitute a high-priority scope of tax audits in Hungary. Based on our current tax audit experience the Hungarian Tax Authority frequently challenges the transfer prices applied between affiliated companies. The transfer pricing documentation needs to be drafted carefully in compliance with the regulation, taking into account the risk factors of a tax audit.

In the case of a tax audit, the Hungarian Tax Authority may levy default penalty up to HUF 2 million (approximately EUR 6,200) per documentation per tax year for failure to prepare the documentation or for late preparation. In case of repeated violation of the Hungarian transfer pricing rules, the Tax Authority may levy a penalty up to HUF 4 million (approximately EUR 12,380) per documentation per tax year. In the case of repeated absence of the same transfer pricing documentation, the maximum penalty may be levied amounting to 4 times the general default penalty (i.e. up to HUF 8 million; approximately EUR 24,770) per documentation. Furthermore, if the transfer prices applied in the controlled transaction are not at arm's length, tax penalty up to 50% of the tax shortage and late payment interest (as of 1 January 2019 amounting the prime rate increased by 5 percentage points calculated based on the calendar days for the period of underpayment but for a maximum of 3 years) might be levied by the Hungarian Tax Authority.

5.6. Tax allowances

The corporate income tax payment liability can be decreased by tax allowances granted by the law. Below we listed the main categories:

- development allowance available for companies implementing investment projects;
- tax allowance concerning funding of filmmaking;
- tax allowance concerning sponsorship of spectator team sports;

- tax allowance for small and medium-sized entrepreneurs;
- tax allowance for energy efficiency improvement projects;
- tax allowance for live music services

Furthermore, there is a possibility to support filmmaking organisations or spectator team sports through allocation of tax which entitles taxpayers to receive a tax credit.

5.7. Withholding tax

According to the national legislation Hungary does not impose withholding tax on dividends, interests or royalties paid to legal entities. Such payments made to a controlled foreign company are not recognised as an expense for tax purposes.

5.8. Participation Exemptions

Dividends

Dividends received are exempt from corporate income tax without any holding requirement with the exception of dividends received from a Controlled Foreign Company (CFC). The exemption is granted with the condition that the dividend is not accounted for by the company paying the dividend as an expenditure from its pre-tax profit.

Capital gains

Capital gains are in general included in the profit of ordinary activity of the company, thus taxed at the general corporate income tax rates unless the participation exemption applies. Participation exemption applies for any participations (without minimum proportion requirements) declared to the Hungarian tax Office within 75 days after acquisition of the participation. The participation declared shall be held by the taxpayer under its assets for at least 1 year prior to the sale or retiring from the records as non-monetary, in-kind contribution. The above preferential tax treatment is not applicable for capital gains derived from participation in a controlled foreign company.

5.9. Preferential IP box regime

IP box regime was introduced in Hungary in 2003. As of July 2016 the scope of the IP box regime has been significantly narrowed in order to be in compliance with the OECD's Modified Nexus Approach under BEPS Action 5. Accordingly, limitations apply to tax base allowances concerning the purchased registered intangible assets or intangible assets embodying rights to royalties, furthermore in connection with research and development services received from related parties for the production of such intangible assets.

The above limitations apply in relation to the tax base deductions on the following titles (detailed below) on the basis of the above intangible assets: royalties received, capital gains realised on the disposal of registered intangible assets or intangible assets embodying right to royalties or on the removal of such assets as non-monetary contribution from the books.

- *Royalties received:* According to the IP box regime *50 % of the profits of royalties received might be deducted from the corporate income tax base.* The deductible amount shall not exceed 50 % of the pre-tax profit. The definition of royalty has changed as of July 2016 to include only profits from certain exclusive rights (patents, protection, software usage or application licences or from qualified drugs for rare diseases) or from the sale or the removal of such rights as non-monetary contribution, including the percentage of the profit from the sale of goods or services directly attributable to such exclusive rights.

- *Disposal of registered IP:* Capital gain exemption applies for the *sale of registered IP* (including the elimination from the books as non-monetary, in kind contribution) with the condition that the IP was registered at the Tax Authority within 60 days from its acquisition or production.
- *Disposal of IP embodying right to royalties:* Capital gain exemption is applicable for *the sale of non-registered IP embodying rights to royalties* (including the including the elimination from the books as non-monetary, in kind contribution up to the amount transferred from the profit reserve to the tied-up reserve during the tax year. The above amount may only be released for the purchase of intangible assets embodying rights to royalties during the 5 years period subsequent to the tax year in which it was tied up.

R&D expenses are acknowledged expenditures for corporate income tax purposes. In addition, the CIT Act allows a further deduction of the direct cost of basic research, applied research and experimental development carried out within the taxpayer's own scope of activities, as a result of the above, double deduction might be applied in relation to the above R&D costs. The above deduction can be settled in the tax year where the costs are incurred or if the costs are capitalized, where the depreciation is claimed.

In connection with basic research, applied research and experimental development performed jointly by a taxpayer and an institution of higher education, the Hungarian Academy of Sciences, a research institution operated as a central budgetary agency or a research institution (research facility) established by either of them or jointly, as well as any research institution operating in a form of a business association under majority state ownership directly or indirectly, the taxpayer may claim three times the amount of the direct R&D costs.

The repatriation of Hungarian earnings is tax free, since there is no withholding tax on distribution of dividends under the Hungarian domestic law (see under 5.7.).

5.10. Loss Carry-Forward / Deferral of Losses

Taxpayers may apply the losses carried forward from previous periods, as a tax base decreasing item, up to 50% of the calculated tax base without carry forward loss.

Taxpayers are able to use annual losses generated in 2015 and thereafter the latest in the fifth tax year following the year when the loss was generated. As a temporary rule, losses generated in 2014 or before can be carried forward until 2025 at the latest.

5.11. Corporate Group Taxation

Corporate group taxation is introduced from 1 January 2019. Corporate group taxation may be selected by domestic related enterprises whose accounting system, balance sheet date and bookkeeping currency are the same, if there is at least 75% majority influence between them. The establishment of corporate group taxation is dependent on the approval of the tax authority. Establishment can be requested for the first time between 1 January and 15 January 2019 limitation period with the effect from 1 January 2019. The group's tax liability is fulfilled by a designated group member as group representative.

As an advantage of corporate group taxation, the tax base of group members shall be calculated together, which means that the tax base of loss-making group members with a negative tax base can be deducted from the tax base of profit-making group members with a positive tax base, however this deduction might not exceed 50 % of the calculated positive tax base of the profit-making group members. Regarding the transaction between group members, as a rule, transfer pricing rules on tax base amendment shall not be applied, and the transactions are not subject to transfer pricing documentation requirement either.

As another advantage of corporate group taxation, under certain conditions, group members can use tax benefits due to certain group members together. The entitlement for the tax benefit, obtained prior to the group taxation status, remains after the establishment of the group taxation status if the group member continues to meet the conditions. Obtaining a new tax benefit is also possible if compliance with the tax benefit conditions is undertaken and actually met by a group member.

5.12. Corporate Income Tax Rate

From 2017 the tax rate is 9 % generally for the positive (calculated) tax base or based on the minimum income (see under 5.2.).

5.13. Tax Returns and Tax Payments

As a general rule the tax year corresponds to the calendar year unless the taxpayer has opted for a business year different from the calendar year.

Tax returns must be filed by the 31st of May of the year following the relevant year. In case of taxpayers having a business year different from the calendar year the corporate income tax return shall be submitted by the last day of the fifth month following the last day of the relevant business year.

Companies have to pay tax advances during their financial year. The taxpayer has to complete the tax advances up to the amount of the expected tax of the year by the 20th of December if the total revenue of the company exceeds 100 million HUF. The difference of the tax advances and the final tax liability has to be settled by the deadline of the submission of the corporate income tax return to the tax authority at the latest.

5.14. Double taxation relief

In case of foreign source income derived from a non-treaty country tax credit is granted by the Hungarian legislation amounting up to 90 % of the tax paid abroad or the tax calculated based on the average domestic tax rate.

Hungary has concluded treaties with more than 80 countries for the avoidance of double taxation with regard to income. Under the double tax treaties Hungary generally provides for an exemption of the foreign source income in order to avoid double taxation.

6. Personal Income Taxation

Hungarian tax liability is determined by a person's residency.

6.1. Tax Residency

Hungarian tax residents are taxed on their world-wide income, regardless of where they earn it. Non-residents are taxed on their Hungarian source income only. Taxpayers should check whether the taxation of their income taxation is regulated by a double tax treaty.

In order to determine the tax residency of a private individual several factors should be taken into consideration, for example:

- permanent residence,
- usual place of residence,
- centre of vital interest,
- nationality.

If a private individual is considered as tax resident in more than one country, the double tax treaty concluded between the two countries should be examined for the determination of the tax residency.

After the determination of the tax residency, the regulation of the double tax treaty should be applied at the identification of in which country the income concerned to be taxed.

In order to avoid the double taxation, tax treaties include different types of double taxation avoidance techniques, for example applying income exemption in the resident country, if the income is taxable only in the source country, or using tax credits in the resident country if a treaty allows the taxation of the income concerned in both of the countries.

In the absence of a double tax treaty between the relevant two countries, the domestic regulations should be applied in case of determining the tax residency as well as the taxation of the specified income. However, Hungarian domestic regulations are included tax avoidance measures as well in order to reduce tax burdens resulting from double taxation of incomes or gains.

In Hungary, private individuals are allowed to apply some allowances as tax base reductions or payable tax reductions, if all the specified conditions are met.

The individuals who are not considered as Hungarian tax resident based on the below facts, are deemed as Hungarian non-residents and are liable to pay Hungarian income tax only on their Hungarian source income.

In line with most of our double tax treaties, withholding tax can be applied on some type of incomes (for example on interest and dividend), if the incomes are considered as Hungarian source incomes. The deductible withholding tax usually has an upper limit (in most treaties max. 15%), which is applicable in Hungary (as a source-country) in lieu of the domestic tax rate only if the non-Hungarian resident private individual certifies its residency.

The income can be considered as a Hungarian source income, if it is derived e.g. from one of the following activities:

- employment with a domestic employer;
- a legal relationship where the party that orders the work is resident in Hungary;
- activities exercised in Hungary;
- assets (any property value) located in Hungary.

6.2. Tax Base

The income of individuals in Hungary is split-up into two main parts with their own subdivisions. These two main parts are:

- Consolidated tax base income (income derived from employment relationship or free-lance contract);
- Incomes that are taxed separately (interest, dividend, capital gain).

There are different rules for the determination of the tax base of the incomes including each of the above parts. For example in case of some incomes the tax base are calculated by deduction of the itemised costs or a flat rate cost from the income, but in other cases cost deductions can not be applied.

6.3. Capital Incomes

Income from capital investments can be split-up as follows:

- Interest income
- Income from securities lending
- Profit realized on swaps
- Dividend income
- Profit on exchange rates
- Income from stock exchange transactions
- Income from permanent investments
- Income withdrawn from enterprises.

6.4. Tax allowances

Tax-base allowances

The regulation provides a possibility for taxpayers to reduce the tax of the consolidated tax base or the payable tax

Family tax allowance

Private individuals can claim family tax allowance that means if they meet the conditions they can deduct the amount of family tax allowance from their consolidated tax base.

The family tax allowance is available to private individuals who are eligible for family allowance in respect of a child or children according to the Family Assistance Act

The amount of family tax base allowance - depending on the number of dependants (in fact, school-age children raised in own household) shall be:

- HUF 66,670 (EUR 206) in case of only one dependant (equivalent to HUF 10,000 reduction of tax);
- HUF 133,330 (EUR 387) if the number of dependants is two (equivalent to HUF 20,000 reduction of tax);
- HUF 220,000 (EUR 681) if the number of dependants is three or more (equivalent to HUF 33,000 reduction of tax);

for each beneficiary dependant per each month of eligibility.

First marriage tax allowance

A new tax allowance deductible from one's personal income tax base, has been made available to first weds, i.e. the first marriage for at least one party to the couple. The amount of the tax base allowance which can be claimed by the married couple, is HUF 33.335 on a monthly basis for two years' period from the date of the wedding. It is practically equivalent to a HUF 5.000 reduction in personal income tax liability. First marriage tax allowance can be provided together with the family tax allowance if the requirements are met.

Health care tax allowance

There is tax allowance in connection with the payable personal income tax in case of special health problems or medical disabilities. If the employee are suffering from one of the health problems listed in the relevant regulation, having the entitlement to a monthly flat rate reduction (5% of the minimum wage: HUF 7,450) from the payable personal income tax on a monthly basis.

6.5. Tax Rates

The personal income tax rate of all income is 15 %.

6.6. Tax Returns

All individuals, both Hungarian tax residents and non-residents having any Hungarian taxable income are required to file a tax return applying for a form which can be found on the website of the Tax Authority.

Tax returns must be filed by 20 May of the following year. The aforementioned date is also the due date of the tax payments.

6.7. Tax Payments

The employer as a payer shall be required to pay the tax advance assessed by the 12th day of the month following the month when the income was paid and declare it in accordance with the relevant provisions of the Act on the Rules of Taxation.

Beyond personal income tax obligation other social security contributions calculated in the percentage of the tax base, should also be paid, deducted and declared.

The amounts of taxes and contributions (in the percentage of the tax base) paid after the income deriving from an employment relationship are:

- 15% personal income tax,
- 10% pension contribution,
- 7% health care contribution,
- 1,5% labour market contribution,
- 19,5 % social contribution tax.
- 1,5 % educational tax.

If the income of a private individual is not derived from a payer, tax-advance should be paid by the individual himself on a quarterly basis by the 12th of the month following the relevant quarter.

6.8. Social-security related self-employment schemes in Hungary

Foreign employers, who are not required to be registered under the Hungarian law (hereinafter referred to as „foreign company”) also required to pay social security contributions on incomes (subject to social security) paid for private individuals employed in Hungary.

Foreign companies should perform report- and tax return related obligations in relation to their employees, whose legal relationship are covered by the Hungarian social security system. Such kind of obligations can be performed in the below ways ((a), (b), (c)):

- a) by the representative of the foreign company specified in the Act on the Rules of Taxation (actually it is a Hungarian branch office or a financial representative) or
- b) in the absence of any specified representative - directly by itself.

In order to comply with these obligations by itself, foreign company has to meet a registration liability at Hungarian National Tax Authority as an employer.

If the foreign company - employing a person who is covered under the Hungarian social security system - doesn't have a representative in Hungary (a) or fails to do the registration obligation (b), the related obligations arisen in connection with the employment.

- c) should be performed by the employee bearing the consequences of failing to meet these obligations (excluding default penalty and tax penalty). In this case the employee is considered both as an employer and an employee at the same time. That's why this kind of employment is called as 'self-employment' in Hungary.

In Hungary, it is far the most common way that the employees perform the related obligations regarding the 'self employment' scheme in lieu of the foreign company, but under their own name.

These 'self-employers' (who are actually the insured private individuals, who are employed by a foreign company) should perform all the obligations arising in relation to their insurance relationship (contribution payment, registration, tax returns obligation):

Since the income of the employee is received from a foreign company, which does not qualify as a payer in Hungary, it is the employee, who has the obligation to pay personal income tax-advance (15% of the income) on his income on a quarterly basis by the 12th of the month following the relevant quarter. Personal income tax return shall be submitted annually by 20 May following the relevant year.

7. Value-Added Tax (VAT)

The Hungarian VAT legislation is harmonized with the Community VAT legislation.

7.1. Taxable persons, obligation for registration for VAT purposes

A taxable person is a person who performs business activity, regardless its place, aim or result.

Taxable persons shall register in Hungary when performing taxable supplies of goods or services, intra-Community acquisitions or importation of goods with Hungarian place of supply or exceeding the threshold for distance sales in Hungary (with the exemption of transactions subject to the reverse-charge procedure).

7.2. Registration for VAT without having establishment in Hungary

The taxpayer must fulfil its registration obligation prior to the commencement of its business activity on the territory of Hungary.

In order to be able to file for registration with the tax authority, foreign companies without a branch office in the territory of Hungary, i.e. with no independently operating business entity registered as a branch office in the Hungarian company register, must meet special conditions.

A foreign company is not required to establish a branch if

- it pursues for-profit economic activities in Hungary without establishing a branch office,
- pursues any one of the following for-profit economic activities through a branch office:
- teaching and educational activities provided at education institutions or at higher education institutions,
- performing arts-related activities,
- professional sports activity,
- an activity limited to the supply of domestic goods purchased by the company or the supply of services if such occurs without personal presence and through the use of a commercial card issued by it abroad,
- utilisation of real property and natural resources for a consideration, the transfer, sale or in-kind capital contribution of a right of property value related to real property and natural resources.

Registration (application for a tax number, community tax number) is performed by the submission of the following documents:

- form 'T201', which must be submitted in a paper-based format in 2 copies to the Tax Authority of first instance with territorial jurisdiction, or electronically via the Client Gate in one copy,
- the certified Hungarian translation of the certificate of incorporation (not older than 30 days)
- specimen signature,
- certificate from the competent tax authority with jurisdiction over the seat of business to the effect that the company has domestic tax residence in the given country, and
- if, in violation of the law, the registration obligation is fulfilled only after the commencement of the business activity, the starting date of the activity must also be provided.

The documents verifying the data provided by the taxpayer can be attached to the form in the form of photocopies.

7.3. VAT rates

There are three tax rates under the VAT regime:

- a standard rate of 27 %, applicable to most goods and certain services (general);
- a rate of 18% is to be applied for dairy products, bakery products, hotel services,
- a reduced rate of 5 %, applicable to essential goods and services (pharmaceutical products, district heating services, books and newspapers), basic food products (swine, sheep, bovine, goat, poultry meat, eggs and milk), restaurant/dining services and internet access services.

7.4. Reporting obligations

VAT returns are due monthly, quarterly or yearly depending on the amount of the cumulated net VAT balance. The VAT returns and payment are due by the 20th day of the month following the respective tax reporting period.

According to the Hungarian VAT Act, Recapitulative Statement (reporting the intra-Community supplies and acquisitions of goods and services) must be filed monthly or quarterly. The Recapitulative Statement must be filed by electronic means by the 20th day of month following the respective reporting period.

As part of the regular VAT return a detailed domestic VAT summary report shall be submitted on transactions conducted with Hungarian taxpayer business partners according to the general rules, i.e. on the invoices issued with Hungarian VAT provided that the amount of VAT charged on the invoice equals or exceeds the amount of HUF 100,000).

In case of incoming invoices declaration a domestic summary report shall be submitted concerning the invoices where the VAT charged on the invoice equals or exceeds HUF 100,000 or should the taxable person exercises the right of deduction concerning invoices where the total amount of the VAT charged on the invoices equals or exceeds HUF 100,000, the taxpayer is obliged to declare the above transactions.

Besides the above, as part of the regular VAT return a special detailed reporting obligation applies for certain supply of goods subject to the domestic reverse charge procedure (e.g. cereal and grain products and for iron and steel products).

Economic operators are obliged to submit Intrastat reports if their arrivals from other EU Member States exceeds the threshold of HUF 170 million (EUR 526,300) or their dispatches to other EU Member States exceed the threshold of HUF 100 million (EUR 309,600) in the last 12 months. Intrastat declarations are due by the 15th day of the month following the month of the arrival or dispatch.

7.5. Invoicing

Invoices can be issued by using pre-printed invoice blocks or by invoicing software. Electronic invoices might also be applied if the relevant legal requirements are met.

Invoices issued under the Hungarian VAT ID are required to be in strict sequential order, the sequential number is generated by the invoicing program or indicated on pre-printed invoice blocks.

In case of invoices issued by invoicing software the data of the invoicing software used shall be reported to the Hungarian Tax Authority, furthermore, the user documentation of the invoicing software containing all functions of the invoicing software used shall be retained within the statute of limitation. Should the functionalities of the application change (e.g. a new version of the software is released), the documentation must also be updated or an amendment or addition shall be added containing the change in functionalities.

As of 1 January 2016 invoicing programs have to contain a data export function (namely "information for tax audit" function) which means that the details of invoices issued with the program can be exported based on a range of invoice dates or invoice numbers.

Online invoicing

As of 1 July 2018, the issuer of the invoice has no obligation to report in the tax return its invoices where the VAT charged on the invoice equals or exceeds HUF 100,000 but should report these invoices online. According to the above, a module shall be installed in the invoicing programs (or link to it as a separate software, so that it becomes an integral part of the program), providing the function that the data of the invoice containing at least HUF 100 000 VAT shall immediately be forwarded to the designated server of the tax authority. It is important that data supply is completed automatically without manual help. An XML specification that is applicable to real-time data transmission has already been published on the NAV's website, whereby obligors can start developing the invoicing program. The above-mentioned obligation is limited to transactions between domestic taxpayers, including taxpayers registered in the country but having a foreign domicile or site. The data supply does not apply for tax-exempt transactions, reverse

charge, intra-Community and third country-related transactions and invoices issued to a non-taxpayer private individuals.

Data supply requirement for invoices issued using pre-printed invoice blocks

If billing is not completed by an invoicing program but using pre-printed invoice blocks then data is required to be made through the website of the Tax Authority within 5 calendar days for invoices where the VAT content charged does not reach HUF 500,000. Should the VAT content of the invoices reach or exceed the above threshold, the data shall be provided to the Tax Authority within 1 calendar day.

7.6. Right to deduct VAT

According to the general rules the input VAT charged concerning acquisition of goods or receipt of services is deductible in so far as the goods and services are used for the taxable activity of the taxable person.

VAT concerning the acquisition of the following goods or receipt of the following services is generally non-deductible:

- motor fuels and other fuels used for the operation of passenger cars;
- yachts, vessels suitable for sports and entertainment purposes;
- passenger cars, motorcycles above 125 cm³ capacity;
- residential properties and related purchase of goods or receipt of services, e.g. services ancillary to the construction or remodelling of residential properties (except if the taxpayer opted for taxation concerning the supply or rental of the properties);
- food and beverages;
- restaurant or catering services,
- taxi services;
- parking services;
- road tolls;
- 30 % of input VAT charged concerning telephone and mobile telephone services and internet protocol based voice transmission services;
- 50 % of the input VAT related to services used for the operation and maintenance of passenger cars.

As a general rule the VAT deduction right can be exercised within the statute of limitation (5 years from the last day of the calendar year in which the tax liability or the right arose).

If input tax (VAT deductible) exceeds output tax for a certain period, the difference is refunded or reclaimed by the taxpayer or can be carried forward for the next VAT period. As of 2016 a two-year time frame has been introduced for exercising the right to deduct in the next tax assessment period. Accordingly, the right of deduction can be exercised in the tax assessment period when the deduction right arose or in the ensuing tax assessment periods during the course of the next calendar year's VAT reporting periods.

7.7. VAT reclaim

Foreign taxable persons established in another EU Member State can reclaim Hungarian VAT under the 2008/9/EC Directive procedure. The refund application shall be submitted to the Member State of establishment at the latest on 30 September of the calendar year following the refund period (in electronic format).

The minimum reclaimable input VAT amount for a period of less than a calendar year but not less than 3 months may not be less than EUR 400, or for a period or a calendar year or the remainder of a calendar year it shall reach EUR 50.

Foreign taxable persons not established in an EU Member State are entitled to a 13th Directive claim if they are established in a recognized third country with reciprocity agreement. Currently, Hungary has reciprocity agreement with Switzerland, Liechtenstein and Norway. As of 1 January 2019 reciprocity agreements concluded with Serbia and with Turkey entry into force. In this latter case the entry into force is subject to ratification and the scope of mutual VAT refunds will be limited to the VAT on fuel for goods and passenger transport, road tolls, good and services related to vehicle maintenance, and on good and services purchased in respect to presence at trade fairs. Taxable persons established in recognized third countries shall submit the reclaim application directly to the Hungarian Tax Authority.

7.8. Special schemes

There are special schemes for groups of taxable persons established in Hungary (VAT Grouping), exemption for small enterprises (as of 1 January 2019 up to HUF 12 million, approx. EUR 37,150), travel agents, margin scheme for second-hand goods, work of art and collectors items and antiques, farmers, transactions with investment gold and one stop shop for telecommunication, broadcasting and electronic services.

7.9. Domestic reverse charge procedure

Domestic reverse charge procedure has been introduced for between Hungarian registered taxable persons in line with Article 199 of the VAT Directive for the following transactions:

- handing over of constructed real estate which shall be registered in the real estate register;
- provision of construction or other similar works, which are treated as services supplied for the purpose of building, expansion, remodelling and any other form of alteration of a property, provided that the construction is subject to authorization by the competent building authority or to the building authorities acknowledgement;
- hiring out of employees and supply of staff;
- supply of certain waste materials;
- supply of real estate property that would be in general exempt from VAT, provided that the seller opted for taxation (with exception of supply of building plots, buildings before first occupation or buildings with an operating permit not older than two years);
- supply of collateral between a debtor and creditor if the pledged property is used for the enforcement of the receivable.
- supply of tangible assets or supplies of goods or services where the net amount exceeds HUF 100,000 (EUR 310) performed by taxpayers under liquidation.
- transfer of allowances to emit greenhouse gases;
- supply of certain grains and cereal products;
- supply of certain iron or steel products.

8. Other Taxes

8.1. EKAER – Electronic Public Road Trade System

Since 1st of January 2015 a reporting obligation called the Electronic Public Road Trade Control System (Hungarian acronym is EKAER) has been introduced concerning road transportation. By using EKAER the actual route of the goods can be tracked because transport related data have to be registered in a central electronic system before starting the transport.

The obligation for registration in the EKAER-system shall be performed by taxpayers carrying out transactions where the goods are transported by road and the vehicle is subject to road toll or its gross weight exceeds 3.5 tons.

The following transportations are subject to the EKAER obligation:

- acquisition or transaction for other purposes resulting in the transportation of goods from an EU Member State to Hungary;
- supply of goods or a transaction for other purposes resulting in the transportation of the goods from Hungary to an EU Member State;
- first domestic supply of goods in Hungary to a non-end customer.

Transportation of non-risky goods with a vehicle subject to the obligation tons are exempt from the data submission obligation if the net value of the goods do not exceed HUF 5 million and their weight do not exceed 2,500 kg. For risky products lower limitations apply (500 kg and net 1 million HUF).

Each transported units are obliged to be registered with an EKAER-number. Tax Authorities are allowed to verify the appropriateness of EKAER-number anywhere in the territory of the country.

When a failure to perform the reporting obligation appears, all shipped goods can be qualified as products with uncertified origin and the Tax Authority may impose default penalty amounting up to 40% of the value of each cargo. The tax authority may apply an official seal (a package seal or a cargo bay seal) on the vehicle for the purpose of ensuring the intactness of the product – except for livestock and highly perishable goods.

8.2. Customs Duties

With Hungary's accession to the European Union, the country's customs authorities started to perform only limited routine customs checks of goods transferred across the EU internal borders.

Any trade within EU Member States is considered intra-Community trade and is not subject to routine customs checks or duties or other fees collected in relation to the import or export of goods. Customs procedures apply to goods moved from/to non-EU countries.

8.3. Excise Duties

Excise duties are due on import or production of excise goods, such as mineral oils, energy products and electricity, alcohol and alcoholic beverages, beers, wines, sparkling wines, intermediate alcoholic products and tobacco products.

Excise duties can be levied either as a fixed amount per unit of measurement of a product or as a percentage of the retail price, depending on the product under consideration.

Excise duties are single phase and are levied on the manufacturer, importer or wholesaler.

8.4. Local Business Tax

Business activities pursued on the effective territory of the local government either on a permanent or on a temporary basis are subject to local business tax.

The activity performed by an entrepreneur through a business establishment or permanent establishment shall be considered as permanent business activity.

In case of construction activity the law specifically defines the period which results in temporary or permanent business activity resulting in local business tax payment obligation from a local business tax perspective.

Duration of activity	Type of establishment
30 – 180 days	Temporary business activity
> 180 days	Permanent business activity

Furthermore, temporary business activity arises if the entrepreneur carries out any business activity (with the exception of construction) from which it directly derives revenue if the entrepreneur does not have business establishment or permanent establishment in the territory of any Hungarian local government.

The tax liability commences at the same time that the business commences and all enterprises that are subject to local business tax are required to register with the local government authority within 15 days from the commencement of their activities.

The local business tax base shall be calculated based on the accounted net sales revenues (excluding the royalty revenues) reduced by the purchase value of goods sold, mediated services, subcontractor services, material expenses and direct costs of basic research and applied research and development. The sum of cost of goods sold and mediated services deductible from the tax base is limited to a percentage of the net sales revenue if the net sales revenue exceeds HUF 500 million, i.e. the decreasing item cannot exceed the following percentages of the net sales revenue within the following net sales revenue ranges:

- up to HUF 500 million net sales revenue: 100 %,
- between HUF 500 million and 20 billion: 85 %,
- between HUF 20 billion and 80 billion: 75 %,
- above HUF 80 billion: 70%

Related parties are obliged to calculate their local business tax liability based on a consolidated tax base if the aggregated amount of costs of goods sold plus mediated services exceeds 50 percent of their net sales revenue. As of 2017 the above consolidation of the tax base is only applicable for companies qualifying as related parties as a result of demerger following 1 October 2016.

The maximum rate of tax is 2,0 % (determined by each local government individually).

In case of temporary business activity, the amount of tax per day can not be higher than HUF 5,000 (EUR 15.5).

8.5. Innovation contribution

Companies falling under the Hungarian accounting rules shall be subject to innovation contribution based on the tax base of the local business tax. The rate of innovation contribution amounts to 0.3 %. Small and medium sized entrepreneurs are exempt from the innovation contribution payment.

8.6. Transfer tax

The acquisition of property in form of inheritance, gift or purchase might be subject to transfer tax. The general rate of the inheritance and gift transfer tax is 18 %, in case of inheritance or free of charge acquisition of residential property 9 %.

The acquisition of real estate property or movable property or rights specified in the law is subject to transfer tax. The general rate is 4 % of the market value of the property acquired for consideration. The acquisition of a real estate or holdings in a company with holdings in real estate properties located in Hungary might be subject to transfer tax even if the supply takes place between foreign resident persons.

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