



Doing business in Hungary

2016



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OVERVIEW

European Union: full member

Capital: Budapest

Population: 10,006,835 (July 2005 est.)

Languages: Hungarian 93.6%, other or unspecified 6.4% (2001 census)

Religions: Roman Catholic 51.9%, Calvinist 15.9%, Lutheran 3%, Greek Catholic 2.6%, other Christian 1%, other or unspecified 11.1%, unaffiliated 14.5% (2001 census)

Currency: forint (HUF)

Timezone: GMT+1

Emergency: 112 (police, ambulance, fire)

Hungary became a Christian kingdom in A.D. 1000 and for many centuries served as a bulwark against Ottoman Turkish expansion in Europe. The kingdom eventually became part of the polyglot Austro-Hungarian Empire, which collapsed during World War I. The country fell under communist rule following World War II. In 1956, a revolt and an announced withdrawal from the Warsaw Pact were met with a massive military intervention by Moscow. Under the leadership of Janos KADAR in 1968, Hungary began liberalizing its economy, introducing so-called "Goulash Communism." Hungary held its first multiparty elections in 1990 and initiated a free market economy. It joined NATO in 1999 and the EU in 2004.

Hungary is situated in central Europe. It is a landlocked country and has borders with Austria, Slovakia, Ukraine, Romania, Serbia & Montenegro, Croatia and Slovenia. Previously a communist state, it now has a vibrant market economy, with high levels of foreign ownership and investment and strong economic growth rates. Hungary acceded to the EU in May 2004.

Geographically, much of the country is low-lying, with the 'Great Plain' to the east of the country, and the 'Little Plain' in the northwest. There is a wild, mountainous region in the northeast, and the hilly Transdanubia region in the west and south-west. The Danube and Tisza rivers divide the country into thirds. Hungary has over 1000 lakes, including Europe's biggest freshwater lake, Balaton, which has many thermal springs.

Hungary has a rich historical past, having been part of the Ottoman, the Hapsburg and the Austro-Hungarian Empires. It has a rich cultural heritage, being particularly renewed for its classical and folk music. It is also known

famed for its healing thermal springs, and there are many resort spas throughout the country.

Tourism is slowly developing in Hungary, but much of the countryside is still very rustic and traditional. In contrast, the sophisticated capital of Budapest is a popular tourist centre with a lively arts, cultural and social scene. Budapest, which really consists of the separate cities of Buda and Pest on opposite sides of the Danube, boasts many grand historical buildings, along with the modern parts of the city which were rebuilt after the city was bombed heavily during WW2.

More than a quarter of the population of Hungary live in Budapest and the surrounding region. Most of the Hungary's expatriate community also live in Budapest, and are employed mainly by the foreign diplomatic missions and the overseas companies which operate there.

On the whole, Hungary seems to be a popular expatriate destination, with a relatively high standard of living available at relatively low cost of living. There is a lower risk to personal security than in some other ex-Communist countries. Although pick-pocketing, petty crime and various scams are quite common in Hungary, violent crime is rare.

Climate and weather

Hungary's climate is temperate and continental, with four distinct seasons. Summers are usually hot and winters very cold. There are regional variations within the country, with the south experiencing more of a Mediterranean climate and the west an Atlantic climate. The hottest months are July and August, when average temperatures in Budapest are usually around 28-30 degrees C, while December and January are the coldest, with temperatures frequently around -2 degrees C and sometimes as low as -15 degrees C. There is lots of sunshine, around ten hours per day from April to September, and lots of sunny, cold days in winter. Spring and autumn are often mild and pleasant.

Getting there

Hungary has four international airports, with the largest, Liszt Ferenc International Airport, being located around ten miles south-east of Budapest.

The national carrier 'Malev Hungarian Airlines' had closed down in 2012. A large number of other national airlines and budget airlines serve Budapest, including Air France, British Airways, EasyJet, KLM, Lufthansa and Aeroflot.

Approximate flight times are around two hours from London, eight hours from New York and one hour from Frankfurt.

There are good road and rail links between Hungary and its seven European neighbouring countries, and through these onto other parts of Europe and Scandinavia.

Visas, Residency & Immigration

Short visits

EU nationals can enter and stay in Hungary visa free for as long as they wish. Nationals of the USA, Canada, New Zealand, Australia and some Asian countries do not require a visa to enter and stay in Hungary for up to 90 days, as long as they do not undertake paid employment while there. Details of visa requirements for other nationals are available on the Ministry of Foreign Affairs website. A passport with validity of at least 6 months from the date of return from Hungary is required for non-EU nationals, while most EU nationals can enter the country using their ID cards only.

Residence Notification

Any foreigner who stays in Hungary for more than 30 days, and does not lodge in a public lodging facility such as a hotel, is required to provide notification of their place of residence to the local government office or the regional alien policing authority. Those with residence permits are required to notify the authorities of their place of residence within three days of moving in, and to keep them informed of any subsequent change in residence.

Work Permits and Employment Visas

Now that Hungary is a member of the EU, citizens of other EU countries are allowed to work in the country without a permit. All other nationals must obtain an employment visa from the Hungarian Embassy or consulate in their home country in order to enter Hungary.

In order for this visa to be issued, the employer offering the person a job must obtain a work permit for them from the Employment Agency in the area of Hungary where the job is located. Before issuing a permit the Employment Office will advertise the position to check whether it can be filled by a Hungarian national. The permit is sent by the employer to the applicant, who must submit it to the Hungarian Embassy along with any other documents they require, which are likely to include a passport photo; proof of travel documents and accommodation in Hungary; bank statement, and confirmation of the job offer, as well as relevant fees.

Applicants for employment visas are also required to submit an official medical certificate issued within the last three months, confirming that they are in good health and do not suffer from any infectious diseases. This health certificate can be issued by a physician in their home country or the competent county (or Budapest) institute of the State Public Health and Medical Administration in Hungary.

Citizenship

Foreigners can apply to the Ministry for Internal Affairs for Hungarian citizenship if they have spent at least eight years living and working in the country, have a clean criminal record and can provide evidence of an assured income in Hungary.

Currency

The Hungarian unit of currency is the Forint (HUF or Ft). Coins come in denominations of 5, 10, 20, 50, 100, 200 Ft and banknotes in denominations of 500, 1,000, 2,000, 5,000, 10,000, and 20,000 Ft. The Euro is not legal currency, but widely accepted.

Cost of living

The cost of living in Hungary is relatively low, with groceries costing about the same or less than in other parts of Europe if bought in supermarkets, and cheaper products available at local markets and some small shops. Many expatriates working for foreign companies or diplomatic missions live very comfortably in Hungary as their salaries are usually higher than those of local workers.

Menu in a self-service restaurant:	900 – 1,300 Ft
Meal in a high-end restaurant:	7,000 - 15,000 Ft
Pizza 32 cm:	1,200 - 1,500 Ft
Gyros:	700 - 1,000 Ft
Loaf of bread (half kg):	200 - 600 Ft
Tomato (1 kg):	400 - 500 Ft
Apple (1 kg):	300 - 350 Ft
Chicken breast (1 kg):	1,300 - 1,700 Ft
1 litre milk:	220 - 350 Ft
Bottle of beer:	180 - 400 Ft
Espresso:	200 - 500 Ft
One-way ticket (public transport):	350 Ft
1 litre gasoline (petrol):	410 - 430 Ft
Apartment 1 bedroom per month:	50,000 - 80,000 Ft

In Hungary every motorway is a toll road, administered by the National Highway Authority (Á.A.K. Zrt.). The roads M0 (that forms a half ring around the city of Budapest), M2 and M15 although are divided multilane roads, they are not considered as motorways, and can be used free of charge.

Tipping: 10% is usual at restaurants, hairdresser and taxi fares, but check the bill as it often already contains tips.

Banking

The National Bank of Hungary (NBH; Magyar Nemzeti Bank) is Hungary's central bank. The major objective of the NBH is to achieve and maintain price stability, and at the same time to support the economic policy of the Government through monetary control.

Several commercial banks are available for individuals and companies. The largest locally owned bank is OTP, and many foreign banks also operate in Hungary, such as Citibank, Unicredit, Cib, Erste, Sberbank, and others.

Foreigners can open a forint-based account or a currency account, and it is likely that a minimum deposit will be required. Companies are freely allowed to open forint or currency accounts. International bank transfers are not

limited. Forint can be freely exchanged into any other currencies.

Hungary is neither member of the Euro-zone, nor the SEPA zone, and so international transfers are quite expensive, like around EUR 30 per transfer.

Banks in Hungary are usually open on Mondays to Friday from 9 a.m. until 16 or 17 p.m., and are closed on weekends.

Major credit and debit cards are Visa, MasterCard, American Express, and are widely accepted. Cash machines are densely available throughout the country. Small shops may only accept cash.

Business culture

Hungarian business culture is quite formal. Business relationships are built on trust and familiarity, and often involve socialising outside the workplace. It is essential to make appointments for meetings in advance, and possibly confirm them in writing.

Normal business attire consists of formal business suits with ties for men and suits or conservative dresses for women. A handshake is the normal business greeting, and business cards are exchanged on meeting.

Presentations should be thorough and accurate. Hungarians have an analytical approach to business and like lots of background information and hard facts.

Hungarian communication styles can be indirect as they prefer to use tact rather than give an outright refusal or disagreement with something. On the other hand, they will criticize or argue a point if necessary.

It is not normal practice to exchange gifts in Hungarian business culture. If you are invited to a Hungarian home you should bring a small gift such as chocolates, wine or flowers, but avoid roses and chrysanthemums, which are associated with romance.

Normal business hours are between 9 a.m. and 5 p.m. from Mondays to Friday.

Healthcare

Universal healthcare is provided for the Hungarian population, funded by the national social insurance and income tax systems. Expatriates employed by Hungarian companies are entitled to free healthcare in the same way as Hungarian nationals, while those employed by foreign companies or joint ventures in Hungary will need to find out whether they are eligible.

Patients are required to pay prescription charges. Dental care is not covered in the universal healthcare, patients have to pay for this.

When seeking healthcare, you are encouraged to first visit a GP, and ask for referral. In hospitals doctors and nurses heavily rely on gratuities, smaller amounts are usual for nurses and some 10,000 Ft is "normal" for doctors.

Medical facilities are adequate, and doctors are well-trained, however hospitals are below expectation, and less-well equipped. Pharmaceuticals are widely available through pharmacies. Some light pharmaceuticals like pain-killers are available over the counter in drogeries or at petrol stations.

Hungary has a mandatory social security system which funds a wide range of benefits including maternity, unemployment and disability benefits, as well as sick pay and pensions.

Renting properties

It is possible to rent apartments, townhouses or family homes. Expect a shortage of short-term rental properties.

Rental prices are relatively cheap compared with other European countries, but vary considerably between different parts of the country and also of Budapest.

Property agents are available, who will help you in finding proper accommodation.

Many individuals let their apartments, but be aware that a great number of them does this without a written rental contract and so avoid taxation.

Deposit of 2 - 6 months is considered as normal. Rental fees may or may not include utilities.

Utility shortage is uncommon: electricity, water, sewage, gas, internet supply is reliable.

Telecommunication

Hungary is well-penetrated with landline and mobile telephone, and internet as well. The main landline carrier is Telekom. Major mobile carriers are: Vodafone, T-mobile, and Telenor.

Mobile internet is available, affordable, and their speed is suitable for normal (non-excessive) internet usage.

Mobile services are available in monthly postpaid and prepaid plans, scratchcards of major carriers are easily available.

Major landline internet (and cable TV) providers are UPC, Digi, Initel, Telekom, Drávanet, and many others.

Postal system is adequate, most offices are open from 8 am to 6 pm. Both domestic and international postage is reliable.

Driving

Foreign nationals can drive for up to one year from their date of arrival in Hungary if they hold a valid international licence as well as their own domestic licence. After this time they must apply for a Hungarian licence.

Hungarian police issue fines for traffic offences on the spot, and can revoke licences on the spot for serious offences. Fines are payable by cheque within a specified period of time. There is a zero tolerance policy for drink driving. Seat belts are compulsory for drivers and all passengers.

Maximum speed limits are 130 km/h on motorways, 90 km/h on highways and 50 km/h in built-up areas. Headlights must be used on roads outside towns even in daytime.

The road system is Budapest centred, motorways start from here and follow radial pattern throughout the country. Motorways are in good condition. Highways and urban roads are mostly in good condition, but be prepared for potholes.

Public transport

The public transport comprises Budapest public transport and other public transport in large cities, long distance coaches run by regional operators, and rail system operated by state-owned MÁV.

The Budapest public transport is operated by BKV and BKK, widely spread and well extended. Lines and schedules are well maintained, service frequency is adequate in the city centre, and gets gradually less-frequent in the outer areas. Budapest operates 4 metro lines, several buses, trams and trolley buses. Suburbans are connected by either buses or suburban railways.

Single ticket costs 350 Ft, monthly pass is 9,500 Ft.

The rail system is adequate and safe, intercity services are fast, and has connection to most of the towns. Long distance coach services have extensive connections, and safe.

Safety and security

There is a low threat from terrorism.

Food in general, and tap water is safe to eat and drink, many types of bottled water is available.

In everyday life use common sense.

In case you became a victim of crime, approach the nearest policeman or call 112 emergency line, and report the crime immediately. Police is 'Rendőrség' in Hungarian.

Carry your passport at all times. You must be able to show some form of ID if requested. A photocopy is not acceptable. Never leave your passport as deposit in hotels, car rentals or any other places. Tip: take a picture with your digital camera (or a cell phone) of your passport page, with your photo and number on it and send it to your e-mail address. In this way it will never be lost (of course unless you delete the email) and it will be always available in the event you need to show a copy.

Take sensible precautions against petty crime. Bag snatching and pick-pocketing are common, especially in Budapest. Be particularly careful on busy public transport, in train stations, at markets and at other places frequented by tourists. Theft of and from vehicles is common. Don't carry large amounts of cash.

Certain bars, clubs and restaurants in Budapest, particularly near the large hotels in the business district (V district) of central Pest, may charge exorbitant prices. Common scams include adding a 20,000 HUF (€80) surcharge per drink to the final bill or charging up to

100,000 HUF (€300) for a meal. Individuals who have been unable to settle their bills have frequently been accompanied by the establishment's security guards to a cash machine and made to withdraw funds under threats of violence. Some taxi drivers are accomplices in these frauds. They often receive a commission to recommend certain bars, clubs and restaurants to passengers. Never ask a taxi driver to recommend a bar or club. If a driver offers to take you to one, or you are approached on the street with an invitation to enter a club, treat that advice with extreme caution. As a general rule it is better to phone for a taxi from a reputable local company. Be careful in establishments where menus do not properly display prices.

Don't use street money changers. Take care when receiving bank notes that are no longer valid but which are still in circulation. There have been a small number of reports of taxi drivers deliberately passing these notes to tourists - as well as notes from neighbouring countries that are not valid in Hungary.

When using Budapest transport system follow the passenger information notices, these are usually printed in English. Validate your ticket before starting your journey (before you get to the platform if travelling by Metro; and immediately after boarding buses, trams or trolley buses). Keep your ticket until the end of your journey and show it to inspectors on request. You have to validate another ticket every time you change lines, except for Metro lines, where you may change lines without validating a new ticket.

ECONOMY

Hungary has made the transition from a centrally planned to a market economy, with a per capita income nearly two-thirds that of the EU-28 average. In late 2008, Hungary's impending inability to service its short-term debt - brought on by the global financial crisis - led Budapest to obtain an IMF/EU/World Bank-arranged financial assistance package worth over \$25 billion. The global economic downturn, declining exports, and low domestic consumption and fixed asset accumulation, dampened by government austerity measures, resulted in a severe economic contraction in 2009. In 2010 the new government implemented a number of changes including cutting business and personal income taxes, but imposed "crisis taxes" on financial institutions, energy and telecom companies, and retailers. The IMF/EU bail-out program lapsed at the end of the year and was replaced by Post Program Monitoring and Article IV Consultations on overall economic and fiscal processes. At the end of 2011 the government turned to the IMF and the EU to obtain financial backstop to support its efforts to refinance foreign currency debt and bond obligations in 2012 and beyond, but Budapest's rejection of EU and IMF economic policy recommendations led to a breakdown in talks with the lenders in late 2012. Global demand for high yield has since helped Hungary to obtain funds on international markets. Hungary's progress reducing its deficit to under 3% of GDP led the European Commission in 2013 to permit Hungary for the first time since joining the EU in 2004 to exit the Excessive Deficit Procedure.

Hungary has exited from recession in early 2013, but the recovery will be modest. Growth potential is held back by weak investment, low employment among low-skilled workers and shortcomings in labour and product markets, making further structural reforms essential. Meagre growth and its causes harm well-being in ways that go beyond GDP per capita and concern income inequalities and the scope for social mobility. Access to international bond markets has improved significantly, but the still high foreign currency indebtedness remains a key vulnerability. Monetary easing has helped the return to growth. Successive cuts in the policy rate to historical lows have been largely transmitted to rates on new loans. The Funding for Growth Scheme, which is being extended, has provided banks with free refinancing for SME lending. Despite strong take-up, it is still unclear whether the Scheme is creating new lending or displacing other credit. Lending remains hampered by poor bank profitability and high non-performing loans. Foreign-currency mortgage relief schemes have begun to address high foreign-currency indebtedness.

Enhancing competition and the business environment is key to stronger investment and productivity. Despite

recent simplification efforts, as part of an overall strategy to improve the business environment, high administrative burdens persist and regulatory instability has worsened, partly due to poor consultation and weak impact assessment mechanisms. Competition enforcement has been weakened in some respects. Perceptions of institutional quality, including the maintenance of appropriate checks and balances, have deteriorated, which may deter investment. Barriers to entry have limited competition in retail, professional services and telecommunications, hampering productivity both within sectors and in downstream industries. Government interventions in regulated energy prices, with industry cross-subsidising households, have hurt competitiveness and the environment.

The moderate recovery is projected to continue, based on robust export growth and a gradual acceleration of private investment. The latter will nonetheless continue to be hampered by an uncertain business environment related to controversial domestic policies and tight credit conditions, which have been alleviated only partly by the central bank's Funding for Growth Scheme and by its low policy rate. Cyclical slack and wage moderation will keep core inflation broadly in line with the 3% target, with headline inflation temporarily lower. Unemployment should broadly stabilise over the projection horizon, and the current account surplus is set to widen further.

Recent global financial market turbulence has underlined the importance of prudent monetary policy, and the central bank will have to balance the benefits of further cuts in the policy rate against the more acute risk of an abrupt depreciation of the forint. Restoring credit growth on a more permanent basis will require a better operating environment for banks and further cleaning up of their balance sheets. After sizeable fiscal easing planned for 2014, the authorities should return to their medium-run fiscal targets.

STARTING BUSINESS

The most popular forms for foreign investors are the private limited liability company, and the company limited by shares (which may be public or private).

A company that is formed and registered in accordance with Hungarian laws has the right to purchase property and conclude contracts, may file lawsuits, and can have lawsuits filed against it.

For certain operations special permission is required from the authorities.

Rules of companies are regulated in the Civil Code (Act 5 of 2013).

Unlimited partnership (Közkereseti társaság; Kkt)

The liabilities of the members are joint and unlimited. There is no minimum capital set out. At least one member is required to form the company.

Limited partnership (Betéti társaság; Bt)

Minimum two founding members can establish the company, of which at least one has unlimited liability. At least another one partner has liability limited to the extent of his capital contribution.

There is no minimum capital requirement. Stamp duty is HUF 50,000, or HUF 25,000 in a simplified company formation procedure. The simplified procedure is applicable if the company's constitutive document is based on a standard form prescribed by the laws. The use of standard forms provides less flexibility but leads to lower registration fees and quicker registration.

Limited liability company (Korlátolt felelősségű társaság; Kft)

This is a private company limited by equity. Limited liability companies are business associations founded with an initial capital consisting of capital contributions of a pre-determined amount, in the case of which the obligation of members to the company extends only to the provision of their capital contributions, and to other possible contributions as set forth in the articles of association. Members shall not be liable for the obligations of the company.

Membership rights are represented by so-called "business quotas", which is listed solely in members' list of the company.

Voting and dividend rates may differ from shareholding rates of the members.

The private limited liability company is managed by at least one managing director, whose right to represent the company may be individual or joint with other directors or employees.

The minimum capital requirement as from 15 March 2014 is HUF 3,000,000 (cca. EUR 9,600).

Stamp duty is HUF 100,000, or HUF 50,000 in a simplified company formation procedure. The simplified procedure is applicable if the company's constitutive document is based on a standard form prescribed by the laws. The use of standard forms provides less flexibility but leads to lower registration fees and quicker registration.

In-kind contributions are allowed up to the full amount of the share capital.

Appointment of an auditor is mandatory if (i) the company's yearly revenues exceed HUF 300 million or; (ii) the company employs more than 50 employees;

Private company limited by shares (Zártkörűen működő részvénytársaság; Zrt)

The minimum registered capital is HUF 5 Million (cca. EUR 16,000), both cash and in-kind contribution are allowed. There is no restriction on the nominal value of the shares. The rights of the members are represented by the shares, which exist in physical printed or dematerialised (electronic) form. If not provided otherwise in the deed of foundation, the extent of voting right, dividend right and other shareholder's right is linked to the nominal value of the share.

Appointment of an auditor is mandatory if (i) the company's yearly revenues exceed HUF 300 million or; (ii) the company employs more than 50 employees;

The procedure of forming

Legal representation is a must in company formations and modifications. Founders of the company must sign the company's constitutive document, which, together with some other documents must be countersigned by a Hungarian attorney. Attorney fees range widely.

All the required information of the company shall be given to the attorney, who will prepare the articles of association and filing documents. The founding members and managing directors shall visit the attorney in person, and sign the articles and the appointment of the directors. If the documents are signed outside Hungary, then those must be notarised or apostilled.

A company is considered as formed, if it is admitted to the register of companies. The date of incorporation of the company is considered to be the date when the registration takes place. The company may start its operations as a "pre-company" on the date of signing the constitutive document and may only engage in business operations after having received its VAT registration number.

The Court shall register the company within 1 business day of the receipt of its VAT number in case of a simplified procedure. Normal procedure may take up to 15 days.

The registration process is fully electronic with electronic signatures either from the side of the attorney or the court of registration.

Bank account shall be opened upon registration of the company, the electronically signed registration documents will be required by the banks.

Initial share capital transfers shall be made with a reference „Share capital payment“.

ACCOUNTING AND AUDITING

Hungarian accounting principles are regulated by the Act on Accounting, which took effect on January 1, 2001. The Hungarian accounting standards are close to International Financial Reporting Standards (IFRS) and to EU practices (major differences are: no deferred tax accounting, difference in lease accounting, impairment considerations, provisions and contingent liabilities, etc). The Act applies to all entities (with the exception of sole traders, civil law associations, building co-operatives and the Hungarian commercial-representation offices of foreign-registered companies).

IFRS is applicable only by companies listed on the stock exchange.

For annual or simplified annual reports, the last day of the fifth month after the accounting day of the given financial year. For consolidated reports, the last day of the sixth month after the accounting day of the given financial year.

Accounting and bookkeeping services may only be provided by a person entitled to perform accounting and bookkeeping services and who is listed in the register held by the Ministry for National Economy.

Companies must support their reports with double-entry accounting records. In a small number of cases (e.g. foundations, associations, sole traders, etc.), single-entry – turnover approach – accounting records may also be kept. Sole traders may apply the rules for single-entry accounting records. The scope of the records they must keep is governed by Annex V to the Personal Income Act.

Companies are obliged to keep the report for the fiscal year, as well as the supporting inventory, assessment, ledger extract, journal ledger or other records in legible form for at least 8 years.

The statement of accounts that supports the accounts directly and indirectly must be kept for at least 8 years in legible form and in such a manner that it can be retrieved using the accounting record's reference. Accounting records must be stored securely at the company's headquarters/premises, or at another place reported to the tax authority.

Documents not originally prepared in electronic format may also be stored in electronic format, while documents originally prepared in electronic format must be stored in electronic format.

Reporting

The Hungarian Accounting Act distinguishes four types of reports regarding the company:

- Annual report
- A simplified annual report, which the company may prepare using double-entry accounting records if, in two consecutive fiscal years, any two of the following three volume indicators do not exceed the minimum values on the balance sheet day:
 - the grand total of the balance sheet is 500 million Forints;
 - annual net sales revenue is 1000 million forints;
 - the average number of employees over the fiscal year was 50 people.
- Consolidated annual report
- Simplified report

All companies keeping double-entry accounting records must publish their annual reports. The published annual report must present a reliable and true picture of the company's financial and income position as well as any changes thereto. Figures given in the reports are public, and available online from the the website of Company Information Service of the Ministry of Public Administration and Justice.

Companies may only fulfil their filing and publishing obligations electronically. In order to do this, it is necessary for the person submitting the report to register for the Client Gateway.

For annual or simplified annual reports, the last day of the fifth month after the accounting day of the given financial year. For consolidated reports, the last day of the sixth month after the accounting day of the given financial year.

TAXATION

The Hungarian tax system is based on self-assessment. Taxpayers must register with the tax authorities, determine their payable tax, make advance payments, and file tax returns, and shall keep record of their tax liabilities.

Taxpayers with Hungarian residence have tax-paying obligations for their income originating both from Hungary and from abroad. Non-resident businesses are only taxable on activities conducted at their Hungarian branches (foreign entrepreneur), and proceeds from the sale or withdrawal of their shares in a company that owns real estate.

Foreign individuals are subject to taxation in Hungary if they make any income from the sale or withdrawal of their shares in a business association that owns real estate. A business association qualifies as a company that owns real estate if the value of the real estate located in Hungary represents more than 75 percent of the market value as of the balance sheet date of the assets recognized in the financial statements of either the taxpayer independently, or together with its affiliates resident in Hungary or affiliates qualifying as foreign entrepreneurs.

Overview of the tax system

The Hungarian tax system comprises of the following taxes and contributions:

- Corporate tax
- Personal income tax
- Local taxes
- Value added tax
- Other taxes and contributions
- Social security contribution
- Healthcare contribution and employment contribution
- Vocational contribution
- Company car tax
- Car tax
- Registration tax
- Accident tax
- Innovation contribution
- Environmental product fee
- Simplified entrepreneurial tax
- Simplified contribution to public revenues
- Robin Hood tax
- Special tax of certain industries
- Bank tax
- Energy tax
- Excise tax
- Duties
- Public health product fee

The Hungarian tax office is called National Tax and Customs Authority (Nemzeti Adó- és Vámhivatal; NAV).

NAV's website is available at: nav.gov.hu

Taxation is mostly administered electronically, meaning that taxpayers has to file their tax returns via the government operated gateway. Individuals may opt for paper based tax returns, but they are also encouraged to use the electronic administration. The gateway is available at: www.magyarorszag.hu

Corporate tax

Companies shall pay corporate tax (“társasági adó” or “TA” or “TAO”) on their taxable profit.

The tax rate is 10% of the positive tax base up to HUF 500 million, and 19% of the remaining portion of the tax base.

Domestic and foreign businesses alike assess their corporate tax base as the earnings before taxation modified by the items set out in the Corporate Tax Act, such as:

- Loss carried forward
- Provisions
- Depreciation and amortisation
- Declared share
- Declared intangible goods and chattels
- Dividends
- Royalties received
- Research and development
- Costs and expenses not incurred in the interest of business operations
- Penalty
- Thin capitalisation
- Controlled foreign company (CFC)

R&D deduction

Pre-tax profit may be reduced by the direct costs of research and development performed in relation to the taxpayer’s business activity. R&D activity carried out by related parties may be deducted from tax base if the related party hasn’t used such a relief. The R&D activity shall relate to the income generating activity of the tax payer and its related party.

Royalty deduction

Hungary provides a deduction for 50 percent of all royalty income when calculating the corporate income tax base. This deductible amount, however, cannot exceed 50 percent of the pre-tax profits. The Act on Corporate Income Tax defines royalty income very broadly. Royalty income includes any consideration received for the exploitation or sale of the following self-developed or purchased intellectual property: patents, industrial design, other protected intellectual works, know-how exploitation rights, trademarks, trade names, trade secrets and authentic works protected by copyright.

Expected minimum tax base

Companies, whose corporate income tax base does not reach the expected minimum tax base are expected to pay corporate tax based on the expected tax base.

The expected minimum tax base is 2% of the total revenues reduced by certain items such as cost of goods sold.

Those companies, whose corporate tax base doesn’t reach the minimum tax base may opt to not to pay tax by the expected minimum tax base but the actual tax base. In this case a detailed declaration shall be filed regarding the incomes and expenses recognized during the tax year.

Tax losses

Tax losses may be carried forward for an unlimited period of time to offset future tax profits. In a tax year the tax payer may utilize of its tax losses brought forward not more than 50% of the tax base excluding the tax losses.

Thin capitalization

According to thin capitalization rules if a Hungarian company borrows a loan that exceeds its equity more than three times, the interest charged in excess of the mentioned ratio is non-deductible in taxation. The thin capitalization rules apply on all loans except for loans from financial institutions.

Transfer pricing

Transfer pricing documentation shall be prepared for each contract between related parties to justify that the price applied is in line with the market price. The documentation may be prepared in English, German or French too.

Three traditional methods are accepted in transfer pricing:

- resale price and cost plus method;
- transactional net margin method;
- profit split method.

Other methods can also be used, but only subsequent to the rejection of the five major methods.

Tax return and advance payment

Companies shall assess their corporate tax once a year, and file the corporate income tax return by 31 May of the year following the tax year, or by the 150th day following the year-end if it differs from the calendar year.

Corporate tax advance is payable in the next 12 months period based on the tax year’s actual corporate tax liability. Advance is payable quarterly if the tax doesn’t exceed HUF 5 million, and monthly if it exceeds the mentioned threshold.

Value added tax

Value added tax is the general sales tax in Hungary, called “Általános forgalmi adó” or “ÁFA”.

Act 127 of 2007 on value added tax (VAT Act) is in line with the VAT directive of the EU.

Organisations engaging in business activity shall register with the tax authority for a VAT ID regardless of the value of their sales. Taxpayers with no residence in Hungary but liable to pay taxes in Hungary have to register under the VAT taxation scheme. In case of intra-community transactions taxpayers must register for EU VAT number also.

The scope of the VAT Act covers the following: the sale of products, providing services, procuring products within the European Community and importing products.

The place of performance for the selling of products and providing services determines whether or not the Hungarian VAT applies to the transaction:

- the place of performance is the location where the product can be found at the time of performing the sale unless the product is sent by post or delivered. If the product is posted or delivered, the place of performance is where delivery begins.
- in the event of services provided for the taxpayer, the place of performance is the location where the entity utilising the service has established residence for economic purposes.
- in the event of services provided not for taxpayers, the place of performance is the location where the entity providing the service has established residence for economic purposes.

The general VAT rate is 27%, with two lower rates at 5 (medicine, healthcare equipment, books, e-books, periodicals and district heating) and 18 percent (milk and dairy products and products made using corn, flour and milk, as well as commercial accommodation services).

Under the general rules the sale and lease of property is exempt from VAT, however by filing declaration with the tax office taxpayers may opt to pay tax.

Small-sized taxpayers meeting certain criteria may opt for cash accounting by registering for this method. The VAT charged in an invoice stating the expression “cash accounting” may only be deducted by the recipient, when the invoice is paid

All retailers (with some exceptions) are obliged to install licensed online cash registers that continuously provides sales data to the tax authority.

As a general rule, taxpayers are required to file tax returns quarterly, except for the following:

- the tax return is to be filed monthly if the annual consolidated sum of the difference between the total tax payable in the second year preceding the relevant year and the tax deductible during the same year is positive and at least HUF 1 million;
- the tax return is to be filed annually if the aforementioned difference was less than HUF 250,000 (either positive or negative) and the taxpayer has no community tax number.

Personal income tax

Personal income tax (“személyi jövedelemadó” or “SZJA”) is based on self-assessment. Private individuals not engaged in entrepreneurial activities may, if they qualify under the applicable statutory provisions, request the assistance of the Tax Authority with the completion of tax returns.

Resident tax payers shall pay tax in respect of their worldwide income (all-inclusive tax liability). The tax liability of non-resident private individuals shall apply to income that originates in Hungary, or income taxable in Hungary on the basis of an international convention or mutuality.

With a few exceptions, all incomes of resident private individuals are taxable. Incomes may be classified in two main categories.

- The consolidated tax base consists of income from self-employment activities, income from activities other than self-employment and other types of income. Based on the decision of the taxpayer, the income from self-employment activities may be calculated in one of two ways: itemised expense accounting or application of a 10% expense ratio
- Income taxed separately this includes income from the sale of real estate, from interest, dividends and long-term investments etc.

The tax rate is 15% on both consolidated tax base and the separately taxed income.

As from 2011 family tax credit is also available. For one child HUF 66,670, for two children HUF 83,330 is available per child per month, for three or more children HUF 220,000 per child is available as tax credit deductible from the tax base.

A foreign resident individual may only apply family tax credit if he or she is not entitled to the same or similar tax credit elsewhere for the same period and at least 75 percent of his or her total income is taxable in Hungary.

Private entrepreneurs are required to pay personal income tax and dividend tax. The tax base is the difference between the entrepreneur's total revenues and costs corrected with specific modifying items. The entrepreneur's personal income tax is 10 percent of the positive tax base up to HUF 500 million, and 19 percent of the remaining portion of the tax base.

The entrepreneur is also liable to pay a dividend tax of 16 percent. If certain conditions are met, entrepreneurs may opt for a flat-rate income tax or the simplified entrepreneurial tax (EVA by the Hungarian abbreviation).

Employers and payers are obliged to deduct taxes and/or tax advances from wages and other payments. Private individuals are obliged to pay income tax and/or income tax advances themselves if their income is from sources other than payers or employers.

The exclusion of double taxation is based on the provisions of double taxation treaties or, in the absence of such, the Hungarian law.

If there is a double taxation treaty in force, the provisions of the relevant treaty must be applied to income earned abroad.

Taxable income of private individuals who are not residents in Hungary become taxable as per the rules on taxable income in Hungary applicable to Hungarian residents under the convention to avoid double taxation. Income of private individuals who are residents in Hungary that are liable to tax outside of Hungary based on the convention (typically except for dividends) is exempt from taxes in Hungary.

Unless otherwise provided by an international agreement or the principle of reciprocity, calculated tax is reduced by 90% of the tax paid on the income abroad or maximally by the tax calculated by applying the tax rate to the tax base of this income.

Hungary has entered into double taxation treaties with several countries:

- | | |
|----------------------------|----------------------|
| • Albania | • Armenia |
| • Austria | • Austria |
| • Azerbaijan | • Belgium |
| • Belorussia | • Bosnia Hercegovina |
| • Brazil | • Bulgaria |
| • Canada | • China |
| • Croatia | • Cyprus |
| • Czech Republic | • Denmark |
| • Egypt | • Estonia |
| • Finland | • France |
| • Georgia | • Germany |
| • Greece | • Hong Kong |
| • Iceland | • India |
| • Indonesia | • Ireland |
| • Israel | • Italy |
| • Japan | • Kazakhstan |
| • Kosovo | • Kuwait |
| • Latvia | • Lithuania |
| • Luxemburg | • Mexico |
| • Macedonia | • Malaysia |
| • Malta | • Moldova |
| • Mongolia | • Montenegro |
| • Morocco | • Hollandia |
| • Norway | • Pakistan |
| • Philippines | • Poland |
| • Portugal | • Qatar |
| • Republic of South Africa | • Romania |
| • Russian Federation | • San Marino |
| • Serbia | • Singapore |
| • Slovakia | • Slovenia |
| • South Korea | • Spain |
| • Sweden | • Switzerland |
| • Taipei | • Thailand |
| • Tunisia | • Turkey |
| • Ukraine | • United Kingdom |
| • United States of America | • Uruguay |
| • Uzbekistan | • Vietnam |

Private individuals must file their annual tax returns by the 20 May of the year following the given tax year, private individuals required to pay VAT and individual entrepreneurs must file by the 25 February of the following year. Outstanding taxes are to be paid by these dates, taking the already withheld tax and paid tax advance into consideration.

The obligation to file a tax return must be performed on the 1553 form for year 2015, and 1653 form for the year 2016

Small business tax (KIVA)

The companies (with the exception of private entrepreneurs and public limited companies) meeting the following statutory requirements may choose to apply for small business tax (“kisvállalati adó” or “Kiva”):

- average statistical headcount not exceeding 25 persons,
- turnover not exceeding HUF 500 million,
- balance sheet total not exceeding HUF 500 million,
- tax number was not cancelled or suspended in the two years preceding the tax year,
- balance sheet date of 31 December,
- financial statements compiled in HUF,
- business year may not differ from the calendar year.

For the purposes of headcount and turnover calculation, the figures of related parties have to be considered aggregately.

The tax base is the difference of current year and prior year amount of liquid assets recognized in the financial statements increased by payments to personnel considered in the contribution base and adjusted for the adjustment items prescribed by the act. The tax base may not be lower than the amount of payments to personnel considered as the contribution base, i.e. tax is payable on at least the amount of payments to personnel.

The tax rate is 16%. If the legal entity chooses to apply this tax type, this replaces corporate tax, social contribution tax and vocational contribution payment obligations.

Small taxpayers' itemized lump sum tax (KATA)

Only private entrepreneurs, single-member companies and general partnerships (Kkt.) and limited partnerships (Bt.) with private person owners can choose to apply the small taxpayers' itemized lump sum tax (“Kisadózó vállalkozások tételes adója” or “Kata”). The small taxpayer will be the private person concerned in respect of whom the enterprise may opt for small taxpayer status.

However, this option is not available from the persons listed above to those who perform activities classified under the categories of insurance agents, brokers, insurance, pension fund and other supplementary letting and operation of own or leased real estate.

The small taxpayer enterprise shall pay a lump sum tax of HUF 50,000 monthly for each full-time employee registered as a small taxpayer. Lump sum tax of HUF

25,000 is payable by the small taxpayer enterprise for each registered small taxpayer not qualifying as a full-time employee (employed in 36 hours or more weekly). The itemized lump sum tax is payable for each person registered as a small taxpayer separately.

Tax payment obligation may only be fulfilled by the payment of the itemized lump sum tax of HUF 50,000 or HUF 25,000 up to an amount of HUF 6 million. Tax is payable at a rate of 40 percent on the part of the revenue exceeding HUF 6 million.

By the payment of the itemized lump sum tax, the taxpayer is released from the obligation of paying corporate tax, personal income tax, social contribution tax, healthcare contribution, pension contribution, employment contribution, healthcare contribution and vocational contribution.

Employment taxation

Besides personal income tax gross wages are taxed with social security contributions and taxes.

Participation in the social security system is mandatory for all Hungarian citizens and for those foreigners who work for Hungarian companies. The social security system consists of the healthcare and pension systems.

Employers pay 27% social contribution tax (“szociális hozzájárulási adó” or “Szocho”) on the gross salary. Employees are subject to 10% pension contribution and 8.5% health care contribution which is deducted from their gross wages.

Further 1.5% is payable as vocational training contribution (“szakképzési hozzájárulás”)

Local business tax

Companies may be subject of local business tax (“helyi iparüzési adó”, “HIPA” or “IPA”) within the territory of the municipality they have registered seat or permanent establishment. Municipalities may impose a maximum tax rate of 2% on the tax base that is:

net sales revenue as in line with the Accounting act decreased by cost of materials, cost of goods sold, cost of intermediated services, and direct costs of research and development.

Deductibles are allowed with the following limitations:

- If sales doesn't exceed HUF 500 million, the total amount of a decreasing items may be deducted;

- for sales revenue range above HUF 500 million, but below HUF 20 billion the deductibles are capped at 85% of the sales revenue falling in this range;
 - for sales revenue ranging between HUF 20 and HUF 80 billion the deductibles are capped at 75 % of the net sales revenue falling in this range;
 - for sales ranging above HUF 80 billion the deductibles are capped at 70 % of the net sales revenue falling in this range.
- late payment penalty in the amount of the double of the interest rate of the National Bank of Hungary
 - self-revision penalty up to 50 percent of the late interest penalty (that is the interest rate of the National Bank of Hungary).

Tax obligation shall be self-assessed, tax return shall be filed by 31 May after the tax year together with paying outstanding tax liability.

If taxpayers don't meet the transfer pricing documentation obligation or meet with delay or if the prepared transfer pricing documentation doesn't comply with the requirements, the tax authority may impose a penalty of up to HUF 2 million. In the event of repeated infringement the penalty is up to HUF 4 million. The penalties are to be meant for each missing or improper transfer pricing documentation. In the event of repeated failure to meet documentation obligation affecting the same documentation, the penalty imposed may be four times higher than the penalty imposed in the first case.

Innovation contribution

Mid-size companies and large corporations are required to pay an innovation contribution in Hungary. The tax base for the innovation contribution is the same as that of the local business tax. The rate of the innovation contribution is 0.3%.

Company car tax

Company car tax is payable on the following passenger cars:

- passenger cars whose owners are not private individuals, regardless of whether or not the car is used for private purposes;
- passenger cars on which the private individual accounted revenues above a certain limit.

Depending on the power and emission class of the passenger car, the monthly amount of the tax is between HUF 7,700 and HUF 44,000.

Withholding tax

Hungary levies no withholding tax on dividends, interest or royalties. No tax should be withheld from dividends paid to foreign organisations.

Tax penalties

There are four basic penalty types in effect:

- default penalty for mistakes in the reporting or invoicing up to HUF 500,000 (approximately EUR 1,600)
- tax penalty for tax shortage up to 50 percent of the tax shortage (in certain cases up to 20 percent or 200 percent, please see below)

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in hard times

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diffucult questions too.

