Doing Business in Hungary

PKF

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Foreword

The ‘Doing Business in Hungary’ guide offers a comprehensive overview of the key aspects of conducting business in Hungary, highlighting the most significant Hungarian tax, accounting and legal regulations. It serves as a general guide to understanding business processes but is not an exhaustive overview of all the information a business or entity may need. It should not be relied upon as the sole basis for making decisions in matters of Hungarian law. As Hungarian laws are subject to continuous changes, readers are advised to seek tailored professional advice from PKF Hungary before undertaking any activities related to investing in Hungary.

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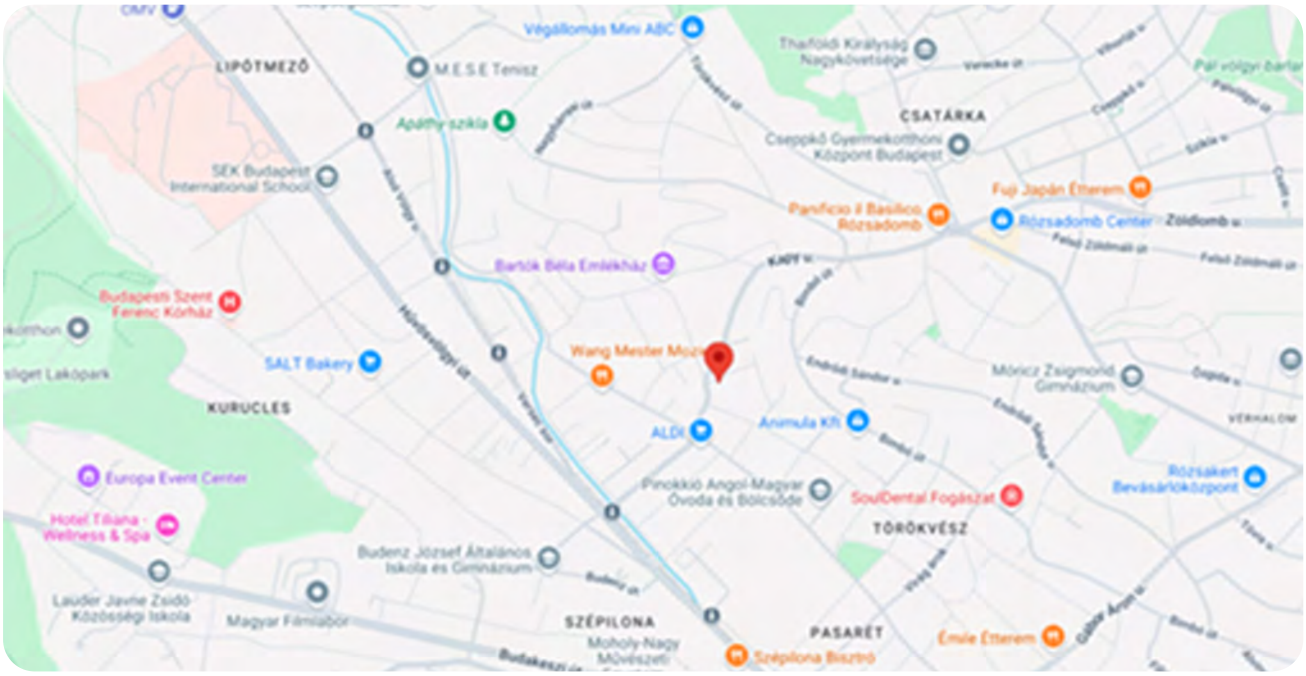

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Our Services

We offer global expertise with local knowledge. We provide you with peace of mind by ensuring our services are of the highest quality and performed to the highest possible standards.

We guide our clients through complex processes in a straightforward way which is compliant and uncomplicated, allowing you more time to focus on what's really important – running your business.

We are at the forefront of compliance regulations and specialise in providing high quality audit, accounting, tax and business advisory solutions to both national and international organisations.

Overview

Geographic Location

Hungary is centrally located in Europe, serving as a vital transit country within the continent. This central position makes Hungary a key crossroads for trade and travel between Western and Eastern Europe. The Danube River, one of Europe's major waterways, runs through the country from north to south, enhancing its strategic importance for transportation and commerce. Budapest, the capital city, is a significant cultural and economic hub, further cementing Hungary's role as a pivotal point in the region.

Climate

Hungary has a temperate continental climate, characterised by hot summers, cold winters and moderate rainfall. Summers are generally warm, with average temperatures ranging from 25°C to 30°C. Winters can be quite cold, with temperatures often dropping below freezing, averaging between -2°C to -5°C. The country experiences four distinct seasons, with spring and autumn offering mild and pleasant weather. Rainfall is fairly evenly distributed throughout the year, though May and June tend to be the wettest months. Hungary also experiences occasional droughts and heatwaves during the summer, as well as snowfalls in the winter, particularly in the mountainous regions. The diverse climate supports a variety of agricultural activities, making Hungary a notable producer of crops like wheat, corn and sunflowers.

Time Zone

Hungary operates on Central European Time (CET), which is one hour ahead of Greenwich Mean Time (GMT). The country observes daylight saving time, setting clocks forward by one hour from the last weekend in March until the last weekend in October.

Political and Legal System

Since 1989 Hungary has been a parliamentary republic.

Hungary's legal system is grounded in the Fundamental Law of 2012, establishing a democratic, parliamentary republic with a separation of powers. The Parliament holds legislative authority, while the government, led by the prime minister, is the primary executive body. The judicial system operates on four levels, with independent judges.

Hungary's Civil Code emphasises freedom of contract, allowing parties to determine their contractual terms. Contracts can be made orally, in writing or by implication, with legal requirements in specific cases. Obligations include cooperation and information sharing, and contracts may be invalidated for legal violations or exploitation. Breaches, such as non-performance or defaults, are subject to remedies like damage claims or contract termination. Modifications require mutual consent or court intervention, and termination can be unilateral or mutual, with courts enforcing justifiable decisions.

Economy

The service sector, including trade, tourism, finance and other economic services, accounts for nearly two-thirds of the GDP, with economic services being a significant part of exports. The country's strategic location supports a strong transportation sector, with both public and private companies.

Agriculture contributes around 4% to GDP, while industry makes up about a quarter. Export-oriented sectors such as automotive, telecommunications and IT have grown, while the food and light industries have declined. The construction industry is also struggling due to recent economic crises. Real estate and information and communication services have driven recent economic growth, while the industrial sector, a key economic component, has struggled.

Currency and Interest Rate

The official currency in Hungary is the forint (Ft, HUF).

The EUR-HUF exchange rate fluctuated significantly, influenced by high inflation and global uncertainties. In early 2024, the exchange rate stabilised around HUF 370 but later fluctuated between HUF 380 and 395 due to global market pressures.

Similarly, the USD-HUF exchange rate saw volatility. In early 2024, the rate settled around HUF 360 but weakened again to HUF 370-380 by spring, fluctuating between HUF 350 and 360 by August 2024.

Over the past year, Hungary's central bank ('MNB') base rate has seen major changes due to high inflation and economic challenges. By mid-2024, the base rate had dropped to 6.75%. The MNB continues to monitor inflation and economic conditions to adjust its monetary policy as needed.

There is no exchange control in Hungary.

Stock Market

The Budapest Stock Exchange is divided into four trading sections: equities, securities, derivatives and commodities. Its main index is known as BUX. Investors have the opportunity to trade shares of publicly listed Hungarian companies, securities issued by businesses, as well as Hungarian government and other securities.

Establishing a Legal Entity

Establishing a legal entity in Hungary involves forming business associations such as unlimited partnerships (Kkt.), limited partnerships (Bt.), limited liability companies (Kft.) or companies limited by shares (Rt.), each with unique legal structures. Members contribute financially and share both profits and liabilities, with liability varying by company form. Legal entities in Hungary must adhere to regulations, particularly for specific activities like insurance or financial services, which require additional authorisation.

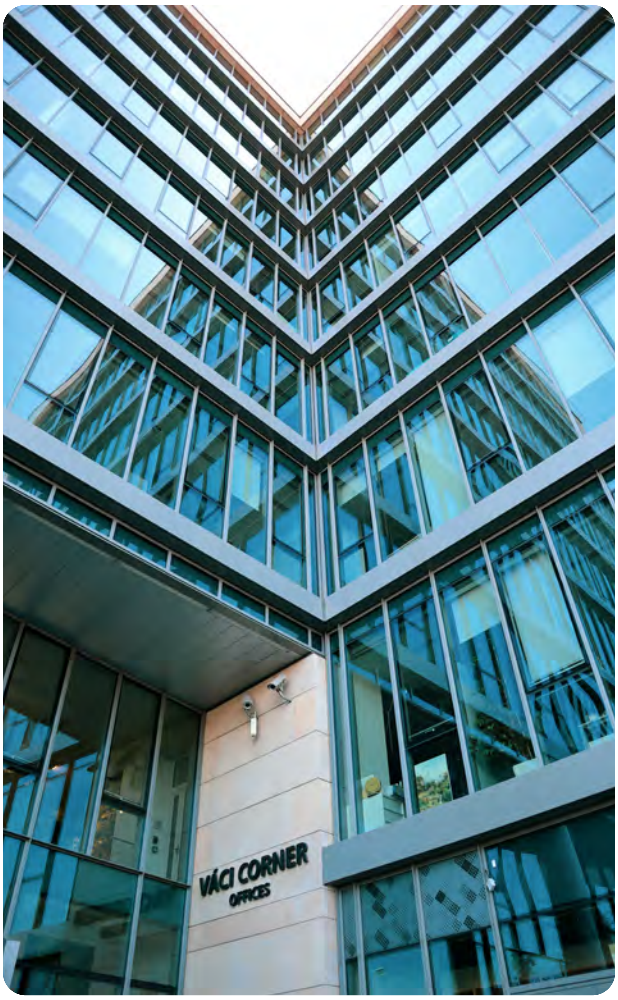
Business associations are governed by common rules and categorised into four company forms:

- unlimited partnerships (Kkt.), where members have joint and several liability for company debts;
- limited partnerships (Bt.), where at least one member assumes unlimited liability, while others have limited liability;
- limited liability companies (Kft.), where liability is tied to members' capital contributions; and
- companies limited by shares (Rt.), in which shareholders are only liable up to their shares' value.

Foreign entrepreneurs may establish branch offices or representative offices in Hungary. Branch offices act as extensions of foreign entities with no separate legal personality but have full legal capacity. Representative offices, on the other hand, cannot engage in direct business activities but may mediate and prepare contracts on behalf of the parent company.

The process for setting up a business begins with the preparation of the articles of association or other constitutional documents, which must be notarised or countersigned by an attorney or legal counsel. Companies must then be registered with the competent court within 30 days of completing the constitutional documents. Specific permits are required for certain businesses, and simplified registration processes exist for certain forms like general partnerships (Kkt.), limited partnerships (Bt.) and limited liability companies (Kft.).

Registration fees vary depending on the business structure. For instance, no fees apply to general or limited partnerships, but private limited companies (Zrt.) may incur a fee of HUF 50,000. Company formation requires detailed information in the articles of association, including company name, form, registered office, business activities and executive officers. Capital contributions, which can be monetary or in kind, are also regulated, with liability imposed on members who provide or accept overvalued contributions. For limited liability companies (Kft.), which represent the most common business structure in Hungary, the minimum required subscribed capital is HUF 3 million.



Accounting

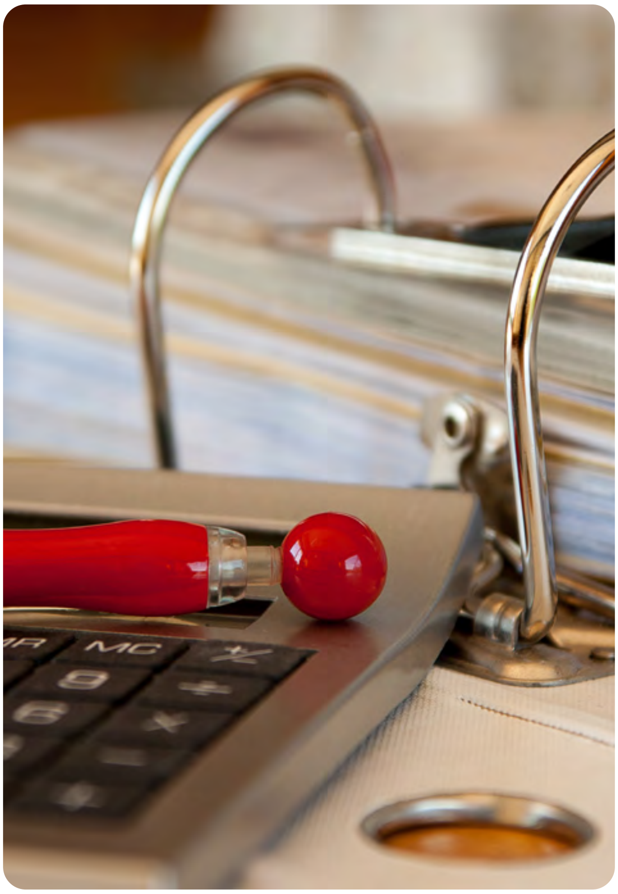
Accounting and reporting requirements for companies in Hungary are governed by Act C of 2000 on Accounting ('the Act') and related statutes from the Ministry of Finance. The Act also sets out the rules for independent auditing. While the Act is aligned with EU directives on financial statements, consolidated accounts and audit qualifications, specific sectors like banking and insurance follow additional EU-based regulations. Companies can prepare financial statements under International Financial Reporting Standards (IFRS) if certain criteria are met.

Accounting Principles

The Act's accounting principles largely mirror those of the International Accounting Standards Board, though differences may exist in financial statements prepared under the Act compared to IFRS. Differences stem from varying recognition, measurement and presentation requirements. The Act adheres to principles such as going concern, completeness and prudence. The Act requires detailed rules for reporting income, expenditure, assets and liabilities, including presenting transactions and balances gross rather than net. Prior year corrections must be shown separately.

Bookkeeping

The Act governs both daily bookkeeping and the preparation of annual business reports. Key requirements include:



- Language and principles: All accounting records and financial statements must be prepared in Hungarian and follow the Act's principles.
- Bookkeeping method: Companies must use double-entry bookkeeping, with single-entry bookkeeping allowed only for a limited number of non-profit organisations.
- Fiscal year: Typically, accounting records close on 31 December each year, though entities, excluding banks and financial institutions, can opt for a non-calendar financial year if justified by their business nature.
- Accounting systems: Foreign-developed systems are permissible as long as they comply with the Act and provide records for Hungarian Tax A uthority audits.
- Currency: Financial statements are generally in Hungarian forints. Companies using IFRS must follow its functional currency rules, while others may choose euros or US dollars if specific conditions are met.

- Chart of accounts: The Act outlines account classes: 1-4 for balance sheet accounts, 5 and 8-9 for profit and loss data, with optional use of classes 6 and 7 for costs. Detailed accounting policies and the chart of accounts must be documented.
- IFRS qualification: Those preparing financial statements under IFRS must have specific IFRS qualifications.

Main Accounting Rules

The Act stipulates that transactions are generally recorded at historical cost, and general revaluation of assets is permitted only in specific cases, such as corporate transformations.

Foreign currency transactions are recorded using the exchange rate applicable on the transaction date, with differences between the transaction value and cash settlement recognised as financial expense or income. Year-end revaluation of monetary assets and liabilities in foreign currency results in net foreign exchange gains or losses.

Tangible and intangible assets can be recorded at cost, less depreciation or impairment, or at a revalued amount. Revaluation, if conducted, does not need to apply to all assets in the same class. Revaluation gains are credited to equity as a revaluation reserve, while revaluation losses are charged to the income statement. Assets under construction, goodwill and certain non-current financial assets cannot be revalued upward. Depreciation is applied over the expected useful life of assets, while impairments must be recognised if market value falls below carrying amount.

Development and foundation or restructuring costs can be capitalised and written off over a period of up to five years, with criteria for capitalisation less restrictive than IFRS.

Inventory is valued at the lower of cost or net realisable value, with cost calculated using either first in, first out (FIFO) or average cost methods. Inventories must be written down when value is lost, and write-downs must be reversed if net realisable value increases.

Provisions are required for obligations from past events, such as guarantees, severance payments and environmental obligations.

Revenue is generally recognised for goods and services sold, with trade discounts and VAT excluded. Timing of revenue recognition may differ from IFRS 15 due to different principles.

Significant prior year errors are corrected by adjusting retained earnings and presented separately in the financial statements.

Financial Reporting

Entities must prepare financial statements at the end of each business year in the functional currency stated in their deed of foundation. Financial statements should reflect a true and fair view of the business and include:

- Annual financial statements: Include a balance sheet, income statement and supplementary notes. A business report is also required but not published with the financial statements.
- Simplified annual financial statements: Available to companies meeting certain criteria related to assets, sales and employees, excluding public companies and certain other entities. These statements include a simplified balance sheet and income statement, with fewer notes.

- Consolidated annual financial statements: Required for parent companies or those controlling subsidiaries unless certain size thresholds are met. Exemptions exist for banks, financial enterprises and companies with publicly traded securities. Consolidated statements eliminate intra-group transactions and include a balance sheet, income statement and supplementary notes. Parent companies not preparing their own consolidated statements must publish their parent's consolidated statements in Hungarian.

Financial Reporting under IFRS

- Requirements: Entities whose securities are traded in the European Economic Area or those subject to specific regulations must prepare annual financial statements under IFRS. This includes certain entities like insurance companies and banks.
- Preparation and notification: Entities intending to apply IFRS must obtain an auditor's report and notify the Hungarian Tax Authority and, if applicable, the Hungarian National Bank before transitioning.
- Transition disclosures: First-time adopters of IFRS must disclose the impact of the transition.

Entities preparing consolidated financial statements must also adhere to additional disclosure requirements beyond those of IFRS.

Registered businesses in Hungary must file and publish their annual financial statements and auditor's report by the end of the fifth month after the balance sheet date via the Ministry of Justice's online system. Consolidated statements are due by the end of the sixth month . Listed companies on the Budapest Stock Exchange must release audited financials within four months. Public interest entities must also publish their reports online. Branches of foreign companies from the EU or equivalent jurisdictions are exempt from filing statements in Hungary but must submit a Hungarian translation of the foreign entity's financial statements within 60 days.

Audit Requirement

Companies keeping double-entry books, including foreign branches, generally require independent auditors, appointed during company formation or at the general meeting. Exemptions apply to small companies if they meet both of the following criteria:

- average annual net sales do not exceed HUF 300 million; and
- average number of employees over the past two years does not exceed 50.

However, banks, insurance companies, public interest entities and certain foreign branches must always be audited. Companies with significant unpaid tax debts cannot apply the audit exemption. Auditors must hold proper qualifications and comply with International Standards on Auditing. Auditors for public interest entities face mandatory five-year term limits, followed by a two-year break.

Auditors are responsible for verifying that financial statements comply with legal requirements and present a true and fair view of the company's financial position.

Banks and financial institutions are governed by specific laws, requiring risk reserves for off-balance sheet items and credit risks.

Labour

Labour laws in Hungary are governed by Act I of 2012, the Labour Code, effective from 1 July 2012. Additionally, certain provisions of the Civil Code apply.

Employment Relationship

Employment contracts must be in writing and adhere to Hungarian labour laws, which stipulate the minimum content requirements for employment contracts . Contracts are usually for an indefinite period, with an optional probationary period of up to three months (or six months under collective agreements). Fixed-term contracts can be extended up to five years, but must have valid economic justification, and improper renewal may result in the contract being converted to an indefinite term.

The standard working day is eight hours, Monday to Friday, with legal requirements for breaks, rest periods and compensation for overtime. Overtime is paid with additional wages, and employees may work up to 250 overtime hours annually, plus an additional 150 hours by written agreement. Flexible working arrangements are allowed via work time banking.

Wages must meet minimum wage requirements, including a higher threshold for positions requiring certain qualifications. Employees are entitled to additional pay for overtime and special duties. They are also entitled to at least 20 days of paid annual leave, which increases with age. Maternity leave is 24 weeks, with protections against termination of employment during this period. Childcare benefits are available until the child turns three. Retirement age is 65 for a full pension.

Employees can be held liable for damages caused by gross negligence, but liability is capped at four months' absentee pay. Termination of employment can be mutual or unilateral, with employers required to provide legitimate reasons. Severance pay applies after three years of service.

Part-time work, teleworking, temporary agency work and flexible employment arrangements are also addressed in the Labour Code.

Visas and Work Permits

Hungary's visa regulations follow EU and Schengen rules. Schengen visas and residence permits issued by any Member State are valid in Hungary. Schengen visas allow stays of up to 90 days, while longer stays are subject to national regulations.

Taxes and Duties

In Hungary, both individuals and businesses are subject to various types of taxes, with the most significant and relevant ones detailed below. Hungary has also entered into double tax treaties with several countries to prevent double taxation as well as implemented numerous EU and OECD-driven directives and initiatives.

Value Added Tax

As an EU Member State, Hungary follows EU VAT directives and regulations. However, slight differences may occur, in particular with respect to goods and services not suitable for VAT deduction and the scope of domestic reverse charges. ECJ cases cannot be referred to directly during tax procedures; however, in litigation proceedings, courts are willing to accept them in case of analogy.

Taxpayers

Entities subject to VAT include all legal persons or organisations conducting business activities, regardless of their location, objective or results. Foreign taxpayers performing taxable activities in Hungary must register for a tax number, regardless of the value of transactions. Exceptions to this requirement include situations like selling goods within the EU after importation or acting as an intermediary in triangular transactions.

Hungary offers VAT simplifications for non-domestic suppliers delivering goods from the EU to a local warehouse, allowing the seller to treat this as an intra-Community supply without needing VAT registration ('call-off stock' simplification).

Non-resident taxpayers without a Hungarian establishment can appoint a financial representative to manage their VAT responsibilities, while third-country taxpayers must appoint a financial representative when required to comply with Hungarian VAT regulations.

VAT Group

A VAT group system is also available, where transactions among group members are not liable for VAT. Members of the group are related companies, established in Hungary. A VAT group is created upon request by the taxpayers and approved by the Hungarian Tax Authority ('HTA'). In relation to third parties, a VAT group is treated as a homogenous VAT taxpayer.

VAT Rates

The general VAT rate is 27%. A discount rate of 18% is applicable to dairy products, cereals, flour, starch and certain services provided exclusively for the control of entry into outdoor events. Certain pharmaceuticals and medicinal products, books, sale of specific residential buildings, district heating, internet services, certain types of meat, catering and (as of 1 January 2020) accommodation services are taxed at 5%. Newspapers (being a publication issued at least four times a week) are taxed at 0%. Financial and investment services are tax exempt. 'Quick fixes' (amendments aimed at harmonising the treatment of chain transactions and call-off stock simplification as well as clarifying the conditions of intra-Community deliveries) from 2020 are implemented in compliance with the EU directives.

Invoice Reporting

With effect from 1 July 2018, all taxpayers who issued an invoice with VAT exceeding HUF 100,000 to another domestic taxpayer had a real-time data provision obligation. From 1 July 2020, this threshold was reduced to zero, such that all transactions performed in Hungary between domestic taxable persons had to be reported. From 4 January 2021, the reporting obligation extended to each invoice (except those invoices that are related to the one stop shop or mini one stop shop return .

Where invoices are issued by invoicing software, transmission of data must be provided instantaneously, without any human intervention. When printed invoices are used for invoicing, the last day for submitting data is the fourth calendar day after issuing the invoice, but if the VAT indicated in the invoice exceeds HUF 500,000, the final deadline for reporting is the following day after the issue of the invoice. If the transmission fails due to a breakdown or maintenance issue, the HTA informs taxpayers in a notice. If there is a malfunction or other technical problem on the taxpayer's side, the taxpayer is obliged to transmit the missing data to the HTA within 24 hours after the resolution of technical issues. In case of non-compliance, the default penalty is up to HUF 500,000 per unreported invoice.

Furthermore, cash registers also have an online connection to the HTA.

Tax Return Filing and Payment Obligation

Taxpayers are required to file VAT returns and make payments monthly, quarterly or annually, depending on the size of their tax liability. Recapitulative statements and reports may also be required alongside VAT returns.

Taxpayers can reduce the amount of payable VAT by deducting pre-charged VAT during the tax assessment period. If the result is a positive balance, the taxpayer must pay the difference. A negative balance can be reclaimed under certain conditions, with refund thresholds based on the taxpayer's reporting frequency (monthly, quarterly or annually). Refunds are processed within 30 to 75 days, depending on the refund amount and the taxpayer's classification by the HTA (reliable or risky).

VAT Refund to Foreigners and Foreign VAT Refund

Foreign entities from EU Member States can reclaim Hungarian VAT by submitting an application to their home country's tax authority. Taxpayers of eligible third countries (Liechtenstein, Norway, Serbia, Switzerland and Turkey) can reclaim Hungarian VAT by submitting an application to the HTA.

Hungarian taxpayers can reclaim foreign VAT through the HTA, which forwards the application to the appropriate foreign body.

Corporate Income Tax

Hungarian resident companies are liable to corporate income tax (CIT) on all sources of income wherever arising and whether or not remitted to Hungary. A company is resident in Hungary if it is incorporated or has its place of management in Hungary. Branch offices are liable to corporate tax based on their local activity. Generally, the fiscal and accounting years are both required to end on 31 December. However, companies are entitled to use a different fiscal year if their course of business makes it reasonable.

Generally, tax is charged on the positive CIT base. If both the profit before taxation and the CIT base are below the minimum tax base (2% of total revenue with certain modifying items), then taxpayers may decide whether to pay tax on the minimum CIT base or to present their cost structure on an additional form attached to their tax returns.

The CIT rate is 9%.

Resident companies are required to make advance payments of corporate tax. The advance payments are based on the preceding year's tax results. Legal entities generally file their tax return and pay the taxes by 31 May, except where the fiscal year differs from the calendar year.

Assets held in trust managed by fiduciaries or foundations have become subject to CIT. As a general rule, yield is taxable as if it were a dividend. However, a tax exemption is available, subject to certain conditions.

Capital Gains

Capital gains of companies are treated as ordinary income and taxed accordingly. A participation exemption scheme exempts the disposal of 'reported participations' from CIT. The reported participation scheme can be applied regardless of the rate of participation in the capital of the relevant company, except for controlled foreign companies. The exemption only applies to participations reported to the HTA within 75 days after the acquisition of shares and held for at least one year.

Where a preferential transformation, transfer of assets or exchange of shares is undertaken, capital gains are not taxable, provided that certain conditions are met.

Branch Profits Tax

Based on the Act of Hungarian Branch Offices and Commercial Representative Offices of Foreign Registered Companies, branch offices are treated in the same way as domestic companies.

Exit Tax

From 2020, the transfer of a business, branches or assets abroad can result in an exit tax liability. The tax base is the difference between the fair market value and the book value of the transferred business, branch or asset. Tax can be paid in instalments over five consecutive years.

Determination of Taxable Income

Profits include all income and capital gains. The taxable basis is the accounting profit adjusted by prescribed items. Generally, expenses incurred wholly and exclusively for business purposes are deductible. The accounting profit is adjusted in accordance with the rules of the CIT legislation, the most important of which are listed below:

i. Depreciation

For tax purposes, the straight-line method is normally adopted.

Asset	Annual rate of depreciation (%)
Industrial structures	2
Agricultural structures	3, 5, 10, 15
Motor vehicles	20
Computer equipment	33, 50

Assets costing less than HUF 200,000 may be fully written off in the year of purchase. In the case of leased assets, the lessor is allowed to claim depreciation at a rate of 5% for buildings and 30% for machinery and equipment. For intellectual property, a depreciation rate between 50% and the rate calculated based on the expected useful life of the asset can be applied.

ii. Dividends

Dividends received from companies that are not controlled foreign companies (CFCs) are not subject to CIT. From 1 January 2021, dividends received from a CFC can be exempt for CIT purposes to the extent they are associated with 'genuine' transactions.

iii. Interest deduction

Following the implementation of the Anti-Tax Avoidance Directive 2016/1164 (ATAD) into domestic legislation, a new interest limitation rule replaced the previous debt-to-equity ratio-based thin capitalisation rule. The new interest limitation rule came into effect in Hungary on 1 January 2019. As a general rule, the net financing cost is tax deductible up to the higher of:

- HUF 939,810,000 (approximately EUR 3 million); or
- 30% of the company's EBITDA for tax purposes.

Taxpayers are allowed to carry forward the non-deductible net financing costs and utilise them (i.e. make them tax deductible), provided that the taxpayer has unutilised interest deduction capacity in a certain tax year.

Former thin capitalisation rules (which stipulated that a debt-to-equity ratio could not exceed 3:1) are applicable for inter-company loans granted before 17 June 2016, unless the term or sum of the loan is extended. The new rules apply to the extension only.

iv. Losses

Losses can be carried forward for five tax years and can only be used up to 50% of the tax base for any particular year. Losses may not be carried back against profits of previous years. No distinction is made between trading and capital losses.

Foreign Source Income

The Hungarian authorities levy taxes on resident companies on all profits arising from foreign sources in the same way as income from Hungarian sources.

Tax Incentives

Tax incentives for innovative investments (developments) are granted by the Hungarian government at the request of the taxpayer. These incentives are granted to companies that meet the requirements set out in law. The value of the incentive is capped at 80% of the CIT due. The minimum value of the investment varies depending on the circumstances:

- HUF 3 billion (general minimum investment value);
- HUF 1 billion for investment in certain regions determined by the government;
- HUF 50 million for investment made by small enterprises;
- HUF 100 million for investment made by medium-sized enterprises;
- HUF 100 million in the case of research and development, environment-protecting investment, zoogenic food production and film and video production;
- HUF 100 million at present value for investment in projects started after issuing quoted shares;
- HUF 100 million for investment in 'free entrepreneurial zones' designated by the government; and
- No minimum value for investments that relate to job creation.

The incentives are available subject to conditions effective in the year when the investment is made and in the subsequent 12 years.

If the value of the investment exceeds the HUF equivalent of EUR 110 million and the amount of central subsidies exceeds the thresholds defined by regions, the development tax incentive may be granted by a government decision after the approval of the European Council.

With effect from 31 December 2023, a new R&D tax incentive is available. With this incentive, the calculated corporate tax can be reduced directly, potentially down to zero, and is considered a refundable tax credit recognised even in the global minimum tax. The new R&D tax incentive can be claimed for basic research, applied (industrial) research and experimental development carried out within its scope of activities and must be accounted for before any other tax incentives.

Tax Incentives for Investors in 'Start-ups'

Pre-tax profit may be decreased by three times the cost of shareholdings acquired in 'start-up' companies up to HUF 20 million per tax year. The tax incentive can be applied in four equal instalments, in the tax year of acquisition of shares and in the subsequent three tax years.

Tax Incentives for Immovable Properties treated as Cultural Heritage

The maintenance costs related to immovable properties subject to national or local heritage protection are deductible from the tax base at up to 50% of the pre-tax profit.

For renovations, 200% of the incurred costs are deductible from the tax base in addition to the amortisation costs. The tax relief can be split among related companies, but the sum cannot exceed EUR 50 million for maintenance and EUR 100 million for renovation. This tax incentive can be used in the tax year when finishing the investment and in the subsequent five tax years.

Other Tax Incentives

- Micro, small and medium-sized companies may deduct investment expenses incurred in putting business assets into use, up to the amount of pre-tax profits if: (i) the company qualifies as a micro, small or medium-sized company at the end of the tax year; and (ii) the owners of the company are exclusively private persons throughout the whole tax year.
- A development reserve is available up to the pre-tax profit. Amounts classified as development reserve are tax exempt but can only be used for investment purposes in the four tax years following the creation of the reserve.
- Taxpayers may decrease their CIT base where rental homes are built by employers for their employees.
- Small and medium-sized companies may reduce their tax liability by the interest paid on loans granted by financial institutions for purchasing tangible assets.
- Taxpayers may decrease their CIT liability where investments are made related to energy savings.

Tax Credits on Donations

A tax saving is available for companies in respect of donations made to film productions and certain sports clubs and associations (football, handball, basketball, volleyball, hockey and water polo). This can be achieved through a tax credit or a tax base decrease.

Foreign Tax Relief

Domestic law provides unilateral relief in the form of credits for foreign taxes paid. The credit is calculated separately for each item and for each source country. It is limited to 90% of the foreign tax paid and cannot exceed the Hungarian tax on the same income.

In addition, there are international treaties for the avoidance of double taxation.

Corporate Groups

Effective from 1 January 2019, taxpayers may opt for a group taxation regime for corporate income tax purposes. Group taxation is available to affiliated entities (corporate entity, economic interest grouping, European public limited liability company, cooperative, European cooperative society, a foreign entity that has its place of management in Hungary, and a Hungarian branch of a non-resident taxpayer) resident in Hungary for tax purposes where:

- a taxpayer holds at least 75% of the voting rights in another taxpayer; or
- a person (domestic or foreign, legal or natural person) has at least 75% of the voting rights in two taxpayers.

Both direct and indirect voting rights are taken into consideration, subject to the condition that the person has at least a 75% direct interest in the intermediary person. Foreign subsidiaries of Hungarian companies cannot participate in a group. Foreign permanent establishments do not participate in their own right, but as part of a Hungarian legal person.

By opting for group taxation, group members are able to offset their operating losses and tax incentives against the income of, or tax payable by, another group member, subject to conditions. In addition to the above, group taxation also substantially eases the transfer pricing obligations (e.g. preparing transfer pricing documentation and adjusting the tax bases) as the group members do not need to fulfil these obligations in respect of transactions performed between them.

The taxpayer may opt in to the group taxation regime by submitting a declaration to the tax authorities between the first and 20th day of the month before the last month of the tax year. Newly established corporates, satisfying the conditions, may join the group if they submit a request within 30 days of registration with the tax authorities.

Related Party Transactions

Transfer pricing rules allow the tax authorities to adjust taxable profits where transactions between related parties are not at arm's length. Transfer pricing documentation must be prepared if there are controlled transactions with related parties.

From 1 January 2023, the information related to these transactions must be included in a company's CIT return. Taxpayers must include the following information in their CIT return:

- designation of the related transaction by selecting the activities specified in the law;
- most typical industry classification of the transaction;
- name of the affiliated company, its tax number (or other identification data), as well as the country of residence of the foreign related party;
- net transaction value per related party;
- rate of tax base correction per related party;
- applied transfer pricing method;
- transaction-related indicators;
- type of reporting used by the related party (Hungarian, IFRS, US GAAP, other);
- market price or market price range; and
- applied price in the examined transaction (if an adjustment was made, then the final price).

If the price applied to the transaction is outside the market price range, the profit before tax must be adjusted to the middle value (median) of the market price range. An exception to this is the case where the taxpayer proves that a value different from the median within the market price range best corresponds to the transaction in question.

In line with the amended 2013/34/EU Directive, certain multinational enterprises or stand-alone enterprises with revenues exceeding HUF 275 billion will be required to disclose corporate tax information in a separate report. The report must first be prepared for the financial year starting on or after 22 June 2024.

Withholding Tax

There is no withholding tax on dividends, royalties or interest paid to non-resident companies.

Global Minimum Tax

Hungary introduced the global minimum tax (or global anti-base erosion (GloBE) rules) on 1 January 2024, aligning with the EU Council Directive and OECD rules. The income inclusion rule and the qualified domestic minimum top-up tax are now in effect, while the undertaxed profits rule will take effect on 1 January 2025. Hungary bases its top-up tax calculations on local GAAP used for statutory reporting. Hungarian subsidiaries can calculate and pay the global minimum tax locally, exempting the ultimate parent entity from doing so. Covered taxes, such as corporate income tax, local business tax, innovation contributions and energy supplier taxes, are included when determining the effective tax rate.

The GloBE applies to multinational and domestic enterprise groups if the ultimate parent's annual revenue reaches or exceeds EUR 750 million, based on consolidated financial statements. If this threshold is met for at least two of the last four years, the group becomes subject to GloBE. Certain entities, like non-profits, public interest companies, governmental institutions, pension funds and investment funds, are excluded from GloBE.

For reporting, the top-up tax is accounted for similarly to corporate tax. Entities subject to the tax must inform the HTA and file tax returns. The deadline for filing and payment is generally 15 months after the tax year ends, with an extended deadline of 18 months for the 2024 transitional year, meaning the first payments are due by June 2026.

Personal Income Tax

Resident individuals are taxed on their worldwide income, although special rules apply to foreign nationals residing in Hungary only for employment purposes. Non-residents are taxed only on their income from Hungarian sources or income taxable in Hungary on the basis of an international convention or reciprocity agreement.

An individual is considered a Hungarian tax resident if they meet one of the following criteria:

- Hungarian citizen;
- citizen of any Member State of the European Economic Area (EEA) and their stay in Hungary exceeds 183 days in the tax year (which corresponds with the calendar year in Hungary); or
- third-country citizen who has permanent residence status or is a stateless person in Hungary.

Even if the above-mentioned criteria are not met , other criteria in the Hungarian legislation have to be reviewed as well. However, the provisions of double tax treaties override domestic tax legislation.

A flat rate of 15% applies to all income of private individuals, including both the consolidated tax base and separately taxed income (i.e. interest, dividends, etc.). Fringe benefits are treated as taxable income.

- Benefits specified in the Act include vouchers for hospitality only, and are subject to 15% personal income tax on fringe benefits (13% social contribution is payable as well).

- Other fringe benefits need to be multiplied by 1.18, with the resulting amount taxed at a personal income tax rate of 15%. A 13% social contribution is also levied. These fringe benefits include only gift coupons distributed under limited circumstances and allocations into voluntary mutual insurance funds determined by law.

The annual personal income tax return must be filed by 20 May of the year following the relevant tax year. Employers must report withheld tax advances monthly, issue annual certificates to employees and disclose data to the HTA electronically. Individuals not paid by an employer must pay tax advances quarterly. Employees on foreign assignments in Hungary must also pay quarterly tax advances.

Tax Allowances

Several incentives are available supporting families or newly married couples. Depending on the number of dependants, a family allowance scheme can be put in place: HUF 66,670 per child is deductible from the monthly consolidated tax base if the employee has one child, HUF 133,330 per child if the employee has two children and HUF 220,000 per child is deductible if the employee has at least three children, subject to certain conditions. The unused family personal income tax allowance can be deducted from the social security contribution liability and can be distributed among parents as well. Furthermore, mothers of four or more children are exempt from personal income tax on certain types of income, and individuals under the age of 25 and mothers under the age of 30 are entitled to wage income tax exemption up to the domestic average salary. Couples can reduce their tax base by HUF 33,335 monthly for up to 24 months if it is the first marriage for at least one partner. For couples where both parties are under 25, the benefit lasts for only one month. Severely disabled individuals receive a tax base allowance equal to one-third of the minimum wage per month.

Social Security-related Payables

Generally, employees are insured in the country where they work. In Hungary, if foreign employees are assigned for work, their labour relationships are governed by Hungarian law for social security purposes. However, short-term assignments allow employees to remain insured in their home country for up to two (or, in certain cases, five) years. Employees working in Hungary for unregistered foreign employers and who are citizens of third countries are not covered if their work duration is under two years. Hungary has social security treaties with countries such as Russia, Canada, Japan and Australia to prevent double contributions. Social security treaties also apply to the social contribution tax that replaced previous employer-paid contributions.

Social Security Contribution and Social Contribution Tax

Social security contributions are paid by the insured individuals (e.g. employees, enterprise owners) at a rate of 18.5%. Those eligible for family tax allowances can deduct unused family allowance amounts from this contribution. Employers pay 13% social contribution tax on the gross income of their employees. A social security contribution exemption is available for secondments not exceeding two years. The tax liability is capped at 24 times the minimum wage (HUF 6,403,200 in 2024) for certain types of income.

As a general rule, the tax base is the amount considered for the assessment of the personal income tax advance. Tax returns and payments are due by the 12th of each month, alongside personal income tax advance payments.

Rehabilitation Contribution

Employers with over 25 employees must pay a rehabilitation contribution if disadvantaged workers make up less than 5% of the total workforce. In 2024, this contribution is HUF 2,401,200 per person, calculated based on the shortfall from the 5% threshold. Employers must maintain records for incapacitated workers, including personal data, details of their disability and proof of disability.

Simplified Taxation Forms

Small Enterprise Tax ('KIVA')

KIVA offers a favourable alternative for small businesses, replacing corporate income tax and social contributions. Eligible businesses include small enterprises with fewer than 50 employees and annual revenue below HUF 3 billion. The tax base includes approved dividends, capital gains and personnel payments, with a minimum threshold based on personnel expenses. The tax rate is 10%, and businesses must submit annual tax returns by 31 May, with quarterly tax advance payments due by the 20th of the following month.

Small Taxpayers' Itemised Lump Sum Tax ('KATA')

A simplified tax regime for certain small businesses and sole proprietors, offering predictable tax obligations with minimal administration. By paying the lump sum tax, taxpayers are exempt from corporate income tax, personal income tax and various social security contributions. A flat tax of HUF 50,000 is payable per full-time taxpayer, or HUF 25,000 for part-time taxpayers. An additional 40% tax is applied in specific cases.

Simplified Contribution to Public Revenues ('EKHO')

EKHO is designed to simplify tax liabilities for individuals in certain media, art and sport professions. The scheme can be used by individuals with annual incomes below HUF 60 million (or higher for some sport professions). The applicable tax rate is 15%, although this is reduced to 9.5% for pensioners.

Excise Duty

Hungary's excise duty regulations align with EU directives, ensuring full compatibility. Excise tax applies to products like natural gas, electricity, fuels, alcoholic beverages and various tobacco products, including new nicotine-containing items. Excise goods must be distributed, imported or exported under an excise licence above certain quantities. Dealers without a licence can only purchase excise goods from tax warehouses or licensed dealers. Excise tax liability arises when these goods are manufactured or imported from non-EU countries, but payment is only required when the goods are released for consumption.

The excise tax rate is based on the product's composition and quantity.

Customs Duties

As an EU member, Hungary is part of the EU Customs Union, which means customs duties are only payable on goods imported from outside the EU. Goods in free circulation within the EU can move across borders without customs duties. The EU import duty system aims to generate revenue and support foreign trade policies.

All imported goods must be declared to the HTA, with the duty amount based on the value, classification, origin and purpose of the goods. Customs value, crucial for determining customs duty and import VAT, is determined at the EU border and primarily assessed through the transaction value method, based on the invoice amount plus transport and insurance costs.

The customs debtor, responsible for paying the duty, can be the declarant or, in the case of indirect representation, the client or representative.

Customs duties are calculated using the Community's Combined Nomenclature, which classifies products into tariff headings. Preferential duty rates may apply depending on the country of origin. Customs duty exemptions may be available for specific scenarios, such as temporary imports or certain non-dutiable purposes, etc.

Municipal Taxes

Local authorities are permitted to levy the following taxes on individuals and businesses in accordance with a framework law (only foundations with public benefit goals can be ab ovo tax-exempt organisations).

Local Business Tax

Economic activity carried out on the territory of a municipality may be taxed at up to 2% of net sales revenue less the cost of goods sold, the cost of mediated services, subcontractors' expenses, material costs and the cost of R&D, subject to the completion of certain administrative requirements. Companies may deduct 7.5% of toll costs. Depending on the municipality's decision, a maximum of 10% of direct research and development costs may be deducted from the tax base. If the taxpayer runs a business related to different local governments, the tax liability has to be split among the municipalities involved according to total assets and labour costs of the business. Businesses must pay advances twice a year, and the final tax return is due by the last day of the fifth month following the tax year.

The local business tax exemption and tax credit apply to specific entities such as regulated real estate investment companies, their pre-companies (public limited companies subject to various conditions prescribed by specific act) and purchasing and sales cooperatives. Additionally, municipalities can grant exemptions or credits to entities with a tax base not exceeding HUF 2.5 million or based on the value of investments made during the tax year.

Building Tax and Land Tax

The owner of a building may be taxed at up to HUF 2,510 per m² of the surface area or 3.6% of the market value.

The owner of land not built upon may be taxed at up to HUF 456 per m² or 3% of the market value of the land.

The annual building and land taxes are payable in two instalments.

Tourist Tax

The tourist tax is charged to tourists staying overnight in a municipality, with exemptions for those under 18. The tax is either a maximum of HUF 300 per night or 4% of the accommodation fee. Accommodation providers collect and remit the tax, with payment due by the 15th of the following month.

Communal Tax of Private Individuals

The owner of a building or land, as well as the owner of a rental right on a flat not owned by a private person, may be subject to this tax. The upper annual limit of the tax is HUF 17,000 per real estate property or rental right.

Innovation Contribution

The innovation contribution applies to businesses, with exemptions for micro and small enterprises and new businesses in their first year. It is based on the local business tax base, at a rate of 0.3%. Advances are due quarterly by the 20th day of the following month. The yearly tax return is due by the last day of the fifth month following the tax year.

Taxes related to Vehicles

Registration Tax

Payable on the initial registration of cars, caravans and motorcycles in Hungary, or when a passenger car is let out by a fleet operator to a resident. The amount depends on the vehicle's age, emission class and technical properties. Eco-friendly vehicles are exempt from this tax, along with other specified exemptions.

Vehicle Tax

Taxpayers are the operators or owners of vehicles registered in Hungary. The rate varies by vehicle type and age. Exemptions apply for eco-friendly motor vehicles and those owned by certain organisations (including the church) or individuals with severe disabilities. The annual tax must be paid by 15 April, with options for partial payment.

Company Car Tax

This tax applies to passenger cars owned by non-private entities or those used under financial leases. Tax is owed by the vehicle owner or lessee and ranges from HUF 14,000 to 81,000 per month based on power and environmental class. If both company car tax and vehicle tax are paid, the latter can be deducted from the former. Exemptions include vehicles used by the church for religious activities or those acquired for resale. Taxes must be filed and paid quarterly by the 20th of the month following the relevant quarter.

Retail Tax

Retail tax applies to individuals or entities engaged in taxable retail activities in Hungary. The tax base is the net sales revenue with certain adjustment items.

The retail tax rates are progressive:

- 0% for revenue up to HUF 500 million;
- 0.15% for revenue between HUF 500 million and HUF 30 billion;
- 1% for revenue between HUF 30 billion and HUF 100 billion; and
- 4.5% for revenue exceeding HUF 100 billion.

Tax must be assessed, declared and paid by the last day of the fifth month after the tax year ends, with advances due in two instalments annually.

Sector Specific Taxes

In addition to the taxes above, specific sector-related taxes apply to businesses in Hungary. Some important sector specific taxes are noted below:

- income tax of energy suppliers (Robin Hood tax)
- tax on pharmaceutical manufacturers
- tax on financial transactions
- extra profit tax for crude oil producers
- insurance tax
- telecommunication tax
- public health product fee
- tourism development contribution
- special tax of financial organisations
- contribution of commercial airlines .

Duties

In Hungary, several duties and taxes apply to property acquisition, including inheritance, gifts and transactions involving property transfers.

Exemptions apply to certain types of organisation (e.g. associations, foundations, public interest entities) and transactions (e.g. certain preferential asset transfers, certain related party transactions, etc.).

Property Transfer Tax

This tax is levied on acquiring real estate, valuable rights or certain tangible assets.

Generally, the tax base is the market value of the acquired property. The standard rate is 4% of the market value. For values over HUF 1 billion, the rate is 2% on the excess, with a maximum tax of HUF 200 million per property in the case of transfers of real estate or companies that own domestic real estate.

Inheritance and Gift Duties

Inheritance and gift duties are levied on assets obtained through death or as a gift. The standard rate is 18% of the asset's 'clean' value (value without encumbrances). A reduced rate of 9% applies to residential property.

Procedural Duty

A procedural duty is payable for administrative and court procedures. The amount depends on the value involved or a specified fee. The initiating party is responsible for this duty, which is required for each petition.

Useful Links and References

National Tax and Customs Administration	https://nav.gov.hu/en
National Directorate-General for Aliens Policing	http://bmbah.hu/
National Bank of Hungary	https://www.mnb.hu/web/en/
Hungarian Central Statistical Office	https://www.ksh.hu/?lang=en
National Food Chain Safety Office	https://www.nebih.gov.hu/web/guest
National Health Insurance Fund of Hungary	https://www.neak.gov.hu/oldalak/nyelvi-oldalak/english
Electronic Public Road Trade Control System	https://ekaer.nav.gov.hu/
Public Administration Customer Service	https://magyarorszag.hu/
European Commission Representation in Hungary	https://hungary.representation.ec.europa.eu/index_hu
OECD	https://www.oecd.org/
Hungarian National Assembly	https://www.parlament.hu/en/web/house-of-the-national-assembly
Government of Hungary	https://kormany.hu/
Ministry of Interior	https://kormany.hu/belugyminiszterium
Ministry of Finance	https://kormany.hu/penzugyminiszterium
Ministry of National Economy	https://kormany.hu/nemzetgazdasagi-miniszterium
Hungarian Investment Promotion Agency	https://hipa.hu/
National Legislation Database (in English)	https://njt.hu/translations

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