

# SETTING UP BUSINESS IN HUNGARY



## General Aspects

Hungary has a strategic position in Central Europe, bordering seven other countries. With about 93,000 square kilometers Hungary is a small but very interesting part of Central Europe. The total population is around 10 million people. The official language is Hungarian, but many people, especially in business life, speak English and German as well. The official currency is Hungarian Forint (HUF). The economy is booming with a GDP growth of currently 4,5%, an unemployment rate of under 4% and an increasing amount of FDI's.

## Legal Forms of Business Entities

Under the Hungarian Civil Code the following business associations can be established:

Legal form	Feature	Remarks
<b>Branch Office</b>	Foreign firms may establish a branch in Hungary. A branch is considered an entity without legal personality, which means the foreign head office bears responsibility for the branch under the Hungarian law. A branch may engage only in activities that comply with the laws of both Hungary and the country of the head office. The procedure for registering a branch office is similar to a Hungarian legal entity, taxed in the same manner, too.	Suitable for foreign companies looking for a presence in Hungary to initiate business or maintain contacts with business partners.
<b>Private Entrepreneur</b>	Citizens of a member state of the European Union or another state that is party to the EEA who are subject to the Act on Entry and Residence of Persons with the Right of Free Movement and Residence are entitled to commence private entrepreneur activities in Hungary. Set up by a single natural person, who is fully liable for the debts contracted by him/her with his/her own present and future wealth. With a registration in the register of the local notary as a registered business person (egyéni vállalkozó) one can be a private entrepreneur with a simple procedure free of charge.	Suitable for small businesses. Special formalities are usually not required (depending on the planned activity). The private entrepreneurship is limited to the notified activities.
<b>Business associations</b>	Business associations are legal persons established for the pursuit of business operations with financial contribution provided by its members, where each member has the right to a share of the profit and in obligation to participate in covering the losses.	A business associations may be established in a form defined by the law, for the pursuit of activities and objection which are not prohibited by the law. The memorandum of association shall also function as its instrument of constitution.
<b>General Partnership - Közkereseti Társaság</b>	For the establishment of a general partnership the members agree to make available to the partnership the capital contribution necessary for its activities and to undertake joint and several liability for the partnership's obligations not covered by the assets of the partnership.	In legal proceedings the judgement may be passed and enforcement may be carried against the members of the partnership based on the joint and several liability they undertook of.

<p><b>Limited Partnership</b> - Betéti Társaság</p>	<p>The members of the partnership agree to make available to the partnership the capital contribution necessary for its activities and at least one of the partners (referred as general partner) undertake joint and several liability for the partnership's obligations not covered by the assets of the partnership while at least one partner (referred as limited partner) is not liable for the obligations of the partnerships unless the Hungarian CC provides otherwise.</p>	<p>Suitable company form for small businesses. The limited partner may not serve as the partnership's executive officer.</p>
<p><b>Limited Liability Company</b> -Korlátolt Felelősségű Társaság</p>	<p>These business associations are founded with an initial capital consisting of capital contributions of a pre determined amount, in the case of which the liability of the members to the company extends only to the provision of their initial contributions and to other contributions set out in the memorandum of association. Unless otherwise set out in the Hungarian CC the members shall not bear liability for the company's obligations.</p>	<p>Suitable for medium-sized companies seeking additional startup capital from persons who prefer a limitation of liability. Contributions can be made of cash or kind. If the amount of in-kind contributions reaches 50% of the initial capital at the time of establishment, all in-kind contributions must be transferred to the company. The minimum capital is 3 million HUF. The most popular legal form for corporations, with high flexibility and relatively few obligations.</p>
<p><b>Company Limited by Shares</b> - Részvénytársaság</p>	<p>This business association is founded with a share capital consisting of shares with a pre-determined number and a nominal value where the obligation of the shareholders extends to the provision of funds covering the nominal value or the accounting par value of shares. May be established only in a closed form (Zrt.) After the Zrt. has commenced operations, its shares may be listed on any stock exchange, and then the company may be registered as an open-form Rt (Nyrt.)</p>	<p>In case of a Zrt. the minimum capital is HUF 5 million (approx. 20.000 USD or 16.000 EUR), in case of Nyrt. HUF 20 million (approx. 80.000 USD or 64.500 EUR) The share capital of the company generally must be secured entirely by subscription. The amount of cash contributions at the time of the foundation may not be less than 30% of share capital. With certain exceptions, the amount of capital contributed in kind must be declared in writing, and must be audited by certified auditors.</p>



## Organizational Questions

Topic	Feature	Remarks
<b>Court of Registry</b>	Business associations of all legal forms must be registered at the competent Court of Registry. The registration procedure is completely electronic but legal representation is a must during the whole procedure.	To start a business in Hungary takes approximately two or three weeks after filing of all necessary documents. In simplified proceedings the Court of Registry can decide on the registration of the company within one business day after the issuance of the tax number, but in normal proceedings it should take 15 business days.
<b>Bank Account</b>	To open a bank account business associations need an excerpt from the Company Register not issued later than 30 days before opening the bank account and a specimen of signature of the executive representative of the business association. In case the documents are issued abroad apostille and official translation also needed.	Most financial institutions are providing universal banking, which ranges from straightforward lending to investment banking and securities trading. Most foreign firms access Hungary's domestic credit and capital markets through home-country financial institutions that have opened Hungarian branches.
<b>Transfer of Goods and Machinery</b>	Within the EU goods and machinery can circulate freely. Imports from non-EU states to Hungary are a subject to customs and VAT.	Please the special regulations of EKAER.
<b>Land registry Office</b>	Foreign individuals and legal entities may acquire Hungarian real estate provided they obtain a permit granted by the local director of the regional Governmental Office.	Certain exemptions apply for EU nationals. No permit is needed if the acquisition occurs through succession.
<b>Visa and Residence permit</b>	Every person entering Hungary shall be provided with a passport for citizens of the Schengen area countries, or, for others (where applicable), a Schengen visa and a passport valid for at least three months after the date of entry.	The Schengen visa can be delivered by any country of the Schengen area.

## Employment

Topic	Feature	Remarks
<b>Work permit</b>	<p>All non-EU citizens require a work visa and permit to be able to enter and work legally in Hungary. Normally, most of the necessary bureaucracy is handled by the employer (who is required to provide various documents to the immigration authorities, such as proof of qualifications and health certification).</p> <p>To obtain a working visa a foreigner needs a valid work permit, labour agreement and proof of accommodation.</p>	EU citizens and spouses of a Hungarian citizen do not need visa or work permit.

<b>Labour law</b>	<p>In Hungary there are detailed employment regulations compiled in the Labour Act. A minimum of 20 days of paid holiday is guaranteed. This amount is based on the yearly working period of the employee.</p> <p>Normal working hours 8 hours per day. Statutory limits on working time are part of extensive health and safety regulations. The notice period for termination of employment depends on seniority of the employee. The employment contracts must be in written form including the scope of the work and the agreed wage of the employee. Labour disputes are handled by the Court of Administration and Labor.</p>	
<b>Social system</b>	<p>The social contribution to be paid is currently 19,5% of the gross salary paid by employer.</p> <p>The health care contribution is currently 7%, the pension contribution is 10% which are deducted from the gross salary of the employee.</p> <p>There is minimum wage that must be paid to an employee which has increased to HUF 138.000,-/month (approx. 550 USD or 445 EUR) from 1 January 2018. There is also a guaranteed minimal wage payable to employees with at least upper secondary level qualifications which is HUF 180.500,-/month (approx. 720 USD or 580 EUR) currently.</p>	<p>Those who are not employed or not part of the social security system in any other way, to receive the health care services of the Hungarian health care system the health contribution is 7320 HUF/month (approx. 30 USD or 23 EUR) in 2018.</p>

## Taxation

<b>Tax</b>	<b>Feature</b>	<b>Remarks</b>
<b>Corporate Income Tax</b>	<p>The corporate income tax rate is a uniform flat rate of 9% of the tax base. The tax base is all of the taxable earnings of the company, normal business expenses generally are deductible in computing taxable income. Once profits are distributed the shareholders must pay 15% personal income tax and 14% health care contribution on the dividends. The maximum annual amount of the mandatory 14 % health care contribution is 450.000 HUF (approx. 1.800 USD or 1.450 EUR). Corporate income tax is assessed on an annual basis. Self assessment system applies.</p>	<p>A corporation is resident in Hungary if it is incorporated in Hungary or, if incorporated abroad, its place of management is in Hungary. A foreign company is deemed to be resident in Hungary if its effective place of management is in Hungary.</p> <p>Residents are taxed on worldwide income, non-residents are taxed on Hungarian-source income. Hungarian-registered subsidiaries of foreign companies are taxable under ordinary domestic rules. Registered branch offices and non-registered permanent establishments are taxed under the same regime applicable to Hungarian registered firms.</p> <p>Tax year generally is a calendar year, although the taxpayer may elect a different financial year that also applies for tax purposes. Tax year generally is 12 months, but may be shorter in certain cases.</p> <p>Please see small enterprise tax (KIVA) as possibility for certain enterprises.</p>



### **KIVA (Small Enterprise Tax)**

Single member companies, economic associations operating in any other form than open form Limited by shares (Nyrt.) , foreign entrepreneurs, and foreign persons having a place of business management in Hungary can choose the possibility of KIVA. This tax type replaces the corporate income tax, social contribution and vocational contribution.

To choose KIVA the following requirements need to be met:

- Average statistical number of employees not exceeding 25 persons,
- Turnover not exceeding HUF 500 million (approx: 2 million USD or 1.6 million EUR)
- Balance sheet total not exceeding HUF 500 million (approx. 2 million USD or 1,6 million EUR)
- Financial statements compiled in HUF,
- Business year may not differ from the calendar year

The tax base: is the approved dividend and the profit on capital transactions and the balance of certain modifying items, plus payments to personnel, but not less than the amount of payments to personnel.

The tax rate: 13%

### **Value Added Tax (VAT)**

The rate of value added tax (VAT) is 27% generally. In addition to the general tax rate two lower tax rates also apply (of 5% and 18%).

Lower rate of VAT applies for some of the goods and services.

- 18% VAT applies among others for goods produced out of corn, flour, starch or milk, and dairy products (other than mother's milk and milk subject to the 5% tax rate) and for providing hotel and similar commercial accommodation services and services providing access to occasional open air events.
- 5% VAT applies among others for medicines, medical appliances, books, pork, fish , beef, chicken meat, milk (other than mother's milk, milk treated at ultra high temperature and ESL milk), district heating services, providing internet services, and the instrumental live music services of performing artists at private functions.



<b>VAT refund for foreign entities</b>	<p>From 1st of January 2010 taxable entities seated in another EU member state are entitled to reclaim the Hungarian VAT. These entities can apply electronically to the tax authority at the country where seated. From Lichtenstein and Switzerland taxpayers can submit their reclaim directly to the Hungarian tax authority electronically or in paper form.</p> <p>Taxpayers with registered office or permanent site in Hungary may apply to the Hungarian Tax Authority for the reclaim of the VAT paid in another member state of the European Community (foreign VAT). The Hungarian Tax Authority is required to forward the applications to the foreign authorities, the deadline for receiving applications is 30 September of the year following the relevant year.</p>	
<b>Personal Income Tax</b>	<p>Resident tax payers shall be subject to tax liability in respect of all their income. In 2018 the personal income tax rate is a flat rate of 15%, applicable to income in the consolidated tax base and, separately, taxable income (for instance, interest income and income from the transfer of property, exchange rate gains, dividends).</p> <p>Subject to certain limitations, taxes paid abroad are generally deductible in the scarcity of a tax treaty.</p>	<p>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.</p> <p>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% of his/her total income is taxable in Hungary.</p>
<b>Excise Tax</b>	<p>Taxable excise goods according to the Hungarian regulations: energy products (such as coal, electricity, natural gas, mineral oils, lubricating oils, heating oil, gas oil, mineral oil products used as fuel) beer, wine (still and sparkling) other fermented beverages (still and sparkling) intermediate alcohol products and manufactured tobacco (which includes cigarettes, cigars, cigarillos, fine cut smoking tobacco, other smoking tobacco, the new tobacco product categories, electronic cigarettes and lighter fluids).</p>	<p>The goods listed as subject to Excise tax may only be distributed free with possession of an excise license specified in the excise tax and subject to the conditions described in the Act of Excise Tax. Tax liability occurs in case the excise goods are manufactured or when excise goods are imported from third countries or introduced to the territory of Hungary from EU.</p> <p>A distributor without and excise license may only purchase excise goods from a tax warehouse or a dealer with an excise license an importer or a holder of a use permit.</p> <p>Important that this excise tax is national tax type, thus imports from the EU are also subjects to tax liability</p>
<b>Withholding Tax</b>		<p>Hungary levies no withholding tax on dividends, interest or royalties if payment is made to a company.</p>

<b>Domestic (intra Hungary) reverse VAT</b>	Applicable in certain transaction types with certain conditions. Meaning that the person producing the product using the service from among domestic taxpayers will become the person liable to taxation. For example sale of turn key property by the contractor, sale of real estate, which is tax free (according to the general rule) but the vendor chose taxable status, sale of grains, iron and steel industry product...
<b>Electronic Trade and Transport Control (EKAER) system</b>	<p>This system was introduced against tax fraud. This system is to track the routes of the goods to ensure the public revenues generated during the purchase and sale of goods. Failure to register and report may lead to the seizure of the goods, and may result in a fine up to the 40% of the value of the goods.</p> <p>The taxpayers that are transporting goods with vehicles that are required to pay road toll (currently 3,5 t vehicles and above) are required to register and report under EKAER system as follows:</p> <ul style="list-style-type: none"> <li>• Who purchase or import goods from EU to Hungary by a vehicle that is subject to road toll,</li> <li>• Who sell or export goods from Hungary to EU by a vehicle that is subject to road toll,</li> <li>• Who is engaged in the first taxable sale of goods to an entity other than the consumer by means of vehicle that is subject to road toll.</li> </ul>
<b>Local Taxes</b>	<p>Municipalities may levy municipal and local taxes in their area of jurisdiction. These taxes are: Local business tax, building tax, land tax, communal tax for individuals., tourist tax.</p> <p>In some cases, such as in the case of the local business tax, the rate of the tax actually levied is also decided by the local municipality. The maximum rate of tax is set by legislation in effect throughout Hungary.</p> <p>Local business tax: The tax base is the net sales revenue on products sold or services provided, the tax rate is up to the maximum of 2%</p> <p>Communal tax: maximum HUF 17,000 (approx. 70 USD or 55 EUR)/employee/year.</p> <p>Land tax: The land tax is payable by the registered owner of the lot as of 1 January. The maximum rate of the tax is HUF 301/sq m, or 3% of the adjusted market value. The annual land tax is due in two instalments: by 15 March and 15 September.</p> <p>Building tax: to be paid based on the floor space of buildings. Maximum HUF 1658/m<sup>2</sup>/year or a maximum of 3,6% of the adjusted market value of the building (as determined by the local government).</p> <p>Local business tax: business activity of a permanent or temporary nature performed in the area of jurisdiction of the local government is subject to taxation. The subject of the tax is the entrepreneur. The maximum amount of the local business tax for temporary business activities is HUF 5,000 (approx. 20 USD or 16 EUR) per day.</p> <p>Tourist tax: Any private individual who spends at least one tourist night within the jurisdiction of the municipality and is not a permanent resident is subject to the tourist tax. The maximum amount of the tax is HUF 505 (approx. 2 USD or 1,6 EUR) per person per tourist night. The tourist tax is to be collected by the host. The deadline for payment of the tourist tax is the 15th day of the month following the month of collection.</p>



**Other information on taxations**

Taxable income defined: The basis of computation of taxable income for corporate income tax purposes is the accounting profit or loss as adjusted in accordance with the provisions of the Corporate Income Tax Act. Foreign source income may be except or foreign tax paid may be credited in certain conditions. Allowable deductions from the profit or loss statement include provisions for anticipated liabilities and recaptured costs accounted for as revenue in the tax year, extraordinary depreciation rebooked that increased the corporate tax base in the previous tax years and dividends received that are accounted for as revenue (except dividends from a CFC – controlled foreign company)

Tax laws are passed by the parliament and apply uniformly, although local taxes may apply differently under the Local Taxes Act.

National Taxes and Customs Administration (NAV) is the tax authority, and is responsible for the enforcement and collection of tax.

Advance tax payments are due monthly for companies whose tax liability exceeds HUF 5 million (approx. 20.000 USD or 16.000 EUR) in the preceding year. Payments due by the 20th day of each month. All other companies must make quarterly advance payments.

The final payment of tax is made at the time the annual tax return is filed. Most returns are due by 31 May following the income year.

Most companies in Hungary must file tax returns electronically. Electronic filing requires registration for a distinct code, which can be obtained through local government offices.

Consolidated returns: Hungarian law does not provide for group taxation for income tax purposes, so it is not possible to file a consolidated tax return.

Statute of limitations: The general statute of limitations is five years from the end of the year the tax return is due, and the period for enforcement and collection of tax is five years starting from the end of the year in which the tax is due.

Tax treaties: Hungary has a broad tax treaty network that generally follows the OECD model treaty. Treaties generally provide for relief from double taxation on all types of income. No special procedural requirements apply to obtain benefits under Hungary tax treaties (but Hungary does not levy withholding tax on dividends, interest or royalties under its domestic law).



*This guide has been prepared by  
BWSP GOBERT & PARTNERS, an  
independent member of Antea*

**BWSP GOBERT & PARTNERS**

Kossuth Lajos utca 14-16., 1st floor/2,  
H-1053 Budapest, HUNGARY  
Tel.: +36 1 270 9900  
office@gfplegal.com  
www.gobertpartners.com



Alliance of  
independent firms

Mallorca, 260 àtic  
08008 – Barcelona  
Tel.: + 34 93 215 59 89  
Fax: + 34 93 487 28 76  
Email: info@antea-int.com  
www.antea-int.com

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