Global reach
Local knowledge

Doing business in Hungary

Contents

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Country summary

Hungary is an attractive business destination with strength in areas such as manufacturing and services. The country is recovering on the investment stage after several complex post-crisis years. GDP growth is expected to be 2.5% in 2016.

Hungary's corporate income tax regime remains one of the most attractive in the EU, with a 10% rate on the first Ft500m (US$1.9m) of profit and 19% beyond that. This is coupled with tax credits for companies carrying out investments of at least Ft3bn (or as low as Ft100m in areas such as research and development, environmental investments or film production), provided they meet job creation targets.

Hungary (formerly known as the Republic of Hungary) is a landlocked country in Central Europe. It is situated in the Carpathian Basin and is bordered by Slovakia to the north, Romania to the east, Serbia to the south, Croatia to the southwest, Slovenia to the west, Austria to the northwest, and Ukraine to the northeast. The country's capital and largest city is Budapest. Hungary is a member of the European Union, NATO, the OECD, the Visegrád Group and the Schengen Area. The official language is Hungarian, which is the most widely spoken non-Indo-European language in Europe.

Legal Structures:

- Limited liability companies and companies limited by shares, as well as branches and representative offices are the common forms of business representations used by foreign investors

Incorporation Procedures:

- Every incorporated company in Hungary obtains a registration certification from the Court of Registration. The certification also includes the tax, social security and statistical registration numbers of the new company.
- Separate registration is required with the local government for local business tax, with the Hungarian Chamber of Commerce and Industry (BKIK), the Central Statistical Office (KSH) and with the internet site of the tax authorities (Client Gate)

On-going Obligations:

- Financial statements are filed within five months of the end of the financial year

Tax Implications*:

- VAT (general tax payers): 27.0%
- Corporate Income Tax: 10.0% & 19%

**Refers to general tax rates. Actual rates may vary*

Labour Environment:

A new Labour Code, which was introduced in July 2012, protects the rights and interests of the workers, prevents trade disputes and maintains labour relations.

Country, Capital:	Hungary, Budapest
Population:	9.840 million (World Bank, 2015)
Language:	Hungarian
Currency:	Hungarian Forint (Sign: Ft ; Code: HUF)
GDP	US$ 120.7 billion (World Bank, Nominal, 2015)
GNI Per Capita:	US$ 13,000 (World Bank, Nominal, 2015)

Legal structures - company formation

The types of business entities operating in Hungary include:

- **General Partnership (Közkereseti társaság or Kkt.):** This type of company is set up by at-least two partners, all of whom are jointly and severally liable for the obligations of the firm.
- **Limited Partnership (Betéti társaság or Bt.):** This type of entity is formed with at-least two partners, of which, at-least one partner has unlimited liability (general partner) and one partner has limited liability up to the extent of his/her capital contribution (limited partner).
- **Limited Liability Company (Korlátolt felelősségű társaság or Kft.):** It is a legal entity established with a minimum capital of HUF 3,000,000. It can have only one or more founding members. All members have limited liability up to the extent of his/her capital contribution.
- **Company Limited by Shares (Részvénytársaság or Rt.):** In this type of business entity, capital is divided into shares of a pre-determined number and face value. Such a company is of two types:
  - **Private Company limited by shares (Zártkörűen működő részvénytársaság or Zrt.):** It is set up by at-least one member. Minimum capital required is HUF 5 million. Shares cannot be subscribed to the public.
  - **Public company limited by shares (Nyilvánosan működő részvénytársaság or Nyrt.):** It is required to be set up as a private company limited by shares and following incorporation, initial public offering may take place. The minimum share capital is HUF 20 million.
- In addition to the above, foreign entities can also establish a presence in Hungary through the following forms:
  - **Representative Office**: Performs liaison functions on behalf of its parent company, such as contract negotiation, marketing and advertising. However, it is not allowed to conclude trade contract and/or conduct core business operations either.
  - **Branch Office**: A business unit of a foreign company that is established to carry out normal business activities in Hungary.
- Following Hungary's entry into the EU, foreign companies can also set up the following forms of businesses:
  - **European Economic Interest Groupings (Európai Gazdasági Egyesülés or EGE):** a company that is set up in any EU member state and conducts business in different EU states.
  - **European public limited liability company (Európai Részvénytársaság):** has a minimum capital requirement of EUR 120,000, which is divided into shares.

Incorporation procedures

Incorporation procedure for establishing a Kft. (korlátolt felelősségű társaság)

S. No	Procedure	Time to Complete	Associated Costs
1	Hiring an attorney at law to represent the company, creating a company deed and preparing other legal documents	min. 1 day	HUF 100,000 - 950,000
2	Paying the amounts stated in the deed of foundation and certifying such either with a bank statement or with the managing director's declaration (to be countersigned by the lawyer preparing the foundation documents), in which case the company's bank account might be opened later, but no later than 8 days from the registration of the company with the court of registry.	1 day	No charge
3	Applying for registration at the Court of Registration	2 days	HUF 50,000 for registration (in case of using a sample contract, otherwise HUF 100,000) and HUF 5,000 for publication
4	Registration at other authorities (local government, the Hungarian Chamber of Commerce and Industry, the Central Statistical Office, the internet site of the tax authorities (Client Gate)	min. 1 day	No charge
5	Opening of a local bank account	min. 1 day	No charge

Personnel

- Limited Liability Companies (Kft.) require at-least one managing director, who is elected at the shareholders' meeting (or appointed by the sole shareholder). For companies with more than 200 employees, a supervisory board with at-least three members is also mandatory. Members of the supervisory board are elected by the members / sole shareholder of the company.

On-going obligations

Frequency of Board/Shareholder Meetings

- Limited liability companies are required to convene an annual general meeting (AGM) of shareholders at-least once every year (except for companies having one member, where the sole member resolves in writing). The AGM is normally convened by the board of directors with presenting the agenda and must be attended by shareholders representing at-least half of the voting rights. Key issues discussed in the AGM include approval of the annual financial statements; decisions on the repayment of capital, dividend payments, division and repurchase of shares, increasing or decreasing registered capital; and amending the articles of association.
- Extraordinary meetings may be held at any time as required to discuss any issues that are not covered under the AGM.

Audit and Accounting Requirements

- Companies in Hungary are required to appoint an auditor, who must be a certified accountant and registered with the Hungarian Chamber of Auditors, provided that:
- Companies with a turnover above HUF 300 million or average employees above 50 for the preceding two years are obliged to appoint an auditor.
- The auditor is elected in a company's AGM for a fixed-term of not more than five years.
- Accounting records must be prepared in Hungarian language and currency (HUF). Also, since January 2010, companies are allowed to prepare financial statements in Euros and US Dollars, provided that the company has specified the respective currency as its functional currency in its deed of foundation and in its detailed accounting policy rules, before the beginning of the relevant financial year.
- Listed companies are required to prepare consolidated financial statements based on the International Financial Reporting Standards as adopted by the EU (EU IFRS). Non-listed may choose to prepare consolidated financial statements in accordance with the EU IFRS.
- As of the 2016 business year, companies (based on parent company decision) have the option to adopt IFRS rules and prepare the stand-alone financial statement based on these.
- From 2017, banks and other financial institutions will be required to adopt IFRS rules and prepare their financial statements based on these.
- All other companies are required to prepare financial statements in accordance with the Hungarian Accounting Act.

Filing Requirements

- All companies registered in Hungary are required to prepare and maintain financial statements consisting of a balance sheet, income statement, cash flow statement, notes to financial statements and a business report.
- Certain companies can prepare simplified annual financial statements, comprising a less detailed balance sheet, income statement and notes to financial statements, provided they meet at-least two of the below-mentioned criteria for two consecutive years (limits are applicable to non-consolidated accounts):
  - Total assets below HUF 1.200 million,
  - Annual sales below HUF 2.400 million,
  - Average number of employees below 50.
- Private companies limited by shares, consolidated companies and branches of foreign companies may prepare simplified accounts even if they meet the above mentioned criteria.
- All legal entities that are registered with the Trade Register must file and publish their annual report and related auditor's report, electronically, with the Company Information Office, within five months of their financial year end. Consolidated annual reports must be filed with the Company Information Office, within six months from the financial year end.
- Public companies are also required to publish their annual report, consolidated annual report and business report on their website
- Branch offices of foreign companies are not required to publish annual reports, if their parent company is incorporated in the EU. However, the annual report of the foreign parent company must be filed and published in the Hungarian language within 60 days of authorisation of reports.
- Companies listed on the Budapest Stock Exchange are required to publish earnings reports on a quarterly or semi-annual basis, in addition to annual reporting.

Tax implications

VAT and Sales Tax

- A standard VAT rate of 27% is applicable on the sale of products and services in Hungary.
- A reduced rate of 18% rate is levied on basic food products such as milk, dairy products and bread, and on the provision of accommodation services.
- A 5% VAT rate is applicable on pharmaceuticals, certain medical equipment, aids for the blind, books, newspapers, on certain kind of meat of pigs, cattle, goats and sheep and on district heating facilities.
- Transactions that are exempt from VAT include sale of buildings with an occupancy permit (except for the first sale of the building), rental of buildings, postal and financial services, education, health and public television services, and sports and lottery services. Exempt products include basic medical materials and handicrafts. There is a possibility to change the VAT exempt status in case of the sale and rental of buildings and opt for VAT payment instead.
- Non-resident companies (within the EU) can reclaim VAT paid in Hungary provided they are registered for VAT in their home country. Companies registered outside the EU can reclaim VAT only through bilateral agreements in place with the home country.
- Transactions between a branch of a foreign company and its parent company are outside the scope of VAT.
- The Hungarian tax office (NAV) started using the Electronic Road Transportation Control System (EKÁER) on January 1, 2015 in tracking products transported through the road grid of Hungary (domestic transport, imports and exports). The purpose of this control is to ensure that goods put in circulation in Hungary were previously reported to NAV and thus prevent black market transactions and VAT fraud.

Withholding Tax

- **Dividends:** No withholding tax is imposed on dividends paid.
- **Interest:** Unless it is stated otherwise in the Double Taxation Treaty between the countries, Hungary does not levy withholding tax on interest.
- **Royalties:** There is no withholding tax on royalties in Hungary.
- **Branch remittance tax:** Hungary does not levy a branch remittance tax.
- **Wage tax/social security contributions:** The employer is responsible for withholding a share of employee's personal income tax and social security from monthly wages.

Corporate Income Tax

- The corporate income tax rate is 10% on taxable income up to HUF 500 million and 19% on income above HUF 500 million.
- Dividends received by a Hungarian company and 50% of the royalties received (or 50% of result before taxation, whichever is lower) are exempt from corporate income tax.

Other taxes

- Advertising tax: charged at a fixed rate of 5.3% on tax bases over HUF 100 million (tax base: revenue from advertising services provided to Hungarian Clients and/or using the Hungarian language)
- Other sectoral taxes: in addition to the advertising tax, there special taxes on financial institutions, energy service providers, and telecommunications and retail companies.

List of countries with Free Trade Agreements

- Hungary has in place a number of Free Trade Agreements (FTAs) through its membership in the European Union (EU, previously European Community - EC).

FTAs	Entered into Effect
EC Treaty FTA	January 1958
EU – Overseas Countries and Territories (OCT)	January 1971
EU – Norway FTA	July 1973
EU - Switzerland – Liechtenstein FTA	January 1973
EU – Iceland FTA	April 1973
EU – Syria FTA	July 1977

EU – Andorra FTA	July 1991
European Economic Area (EEA) FTA	January 1994
EU – Turkey FTA	January 1996
EU - Palestinian Authority	July 1997
EU - Faroe Islands FTA	January 1997
EU – Tunisia FTA	March 1998
EU – Israel FTA	June 2000
EU - South Africa FTA	January 2000
EU – Morocco FTA	March 2000
EU – Mexico FTA	October 2000
EU - Former Yugoslav Republic of Macedonia FTA	June 2001
EU - San Marino FTA	April 2002
EU – Jordan FTA	May 2002
EU – Croatia FTA	March 2002
EU – Lebanon FTA	March 2003
EU – Chile FTA	February 2003
EU – Egypt FTA	June 2004
EC (25) Enlargement FTA	May 2004
EU – Algeria FTA	September 2005
EC (27) Enlargement FTA	January 2007
EU – Montenegro FTA	January 2008
EU - CARIFORUM States EPA FTA	November 2008
EU - Bosnia and Herzegovina FTA	July 2008
EU – Cameroon FTA	October 2009
EU - Côte d'Ivoire FTA	January 2009
EU – Albania FTA	April 2009
EU - Papua New Guinea/Fiji FTA	December 2009
EU – Serbia FTA	February 2010
EU - Republic of Korea FTA	July 2011
EU - Central America FTA	June 2012* (Signing Date)
EU - Eastern and Southern Africa States Interim EPA FTA	May 2012
EU - Colombia and Peru FTA	March 2013

Customs policy

- Hungary is a member of the EU and the goods traded with EU member states are not subject to customs duty.
- Goods traded with non-EU member states are subject to customs duty and import VAT. The customs duty is charged on the value of goods imported or exported. All goods imported or exported must be declared to the customs authority at the border customs office, covering the good’s value, classification and origin. Fewer details on goods are required when declaring them for exports.
- Additionally, excise duty is levied on a variety of goods such as alcohol, tobacco products, motor vehicles hydrocarbon oils, fuel and their derivatives, and goods containing any of these products. Excise duty is usually charged on the weight or quantity of goods, rather than on the value.
  Anti-dumping duties are also levied on specific goods imported from a particular country or company. This type of duty is levied to protect EU industries from foreign competition.

Import Restrictions

- Goods which can be imported subject to certain restrictions in Hungary include pets, fish, currency, coats, fur and leather shoes made of protected animals.
- Products that are prohibited from being imported into Hungary by tourists include meat and milk items, ivory, tortoise shell, coral, reptile skin and wood from Amazonian forests. However, meat and milk products in limited amounts (not more than 10 kilograms) from Andorra, Croatia, the Faeroe Islands, Greenland and Iceland can be imported.

Customs Incentives

- Hungary has implemented a number of customs relief programmes for imported goods. The most common relief programmes include:
  - **Inward Processing Relief (IPR):** Goods imported from outside the EU that are processed in the country and re-exported are eligible for import duty exemption or duty refund at the point of export.
  - **Outward Processing Relief (OPR):** Goods that are temporarily exported outside the EU for the purpose of processing can get full or partial relief from duty payment at the time of re-import.
  - **Temporary Importation:** Duty relief is provided on goods imported for a limited time period and then re-exported outside the EU in the same condition.
  - **Customs Warehousing:** Products stored in designated customs warehouses are exempt from import duty during the time of storage.

Labour environment

Personal Income Tax

- The flat rate of personal income tax is 15% in Hungary.

Other Payroll Taxes

- 1.5% vocational training contribution on gross salary is mandatory in the case of / for Hungarian employees and foreign employees employed by Hungarian company, payable by employer.

Social Security System

- The Social Security System consists of the following taxes and contributions which are paid on the gross salary of the employee:

Type of contribution	Paid by employee (% of salary)	Paid by employer (% of salary)
Social Contribution Tax	-	27%
Vocational training contribution	-	1.5%
Pension contribution	10%	-
Health contribution in kind	4%	-
Health contribution for pecuniary services (in cash)	3%	-
Employment contribution	1.5%	
Total	18.5%	28.5%

- Additionally, employees can make voluntary contributions to private pension funds.

Hiring/Retrenchment Issues

- In Hungary, an employment relationship can only be established through a written employment contract, which must specify the employee's base salary, position, specific place of employment as well as rights and obligations.
- Employment may be terminated by mutual agreement or by ordinary or extraordinary termination.
- Employees cannot be dismissed by the employer without sufficient justification for the termination, except during the probationary period.
- The option of extraordinary termination may be exercised if the other party violates an employment obligation substantially wilfully or by gross negligence, or acts in a way that renders the continuation of the employment impossible.
- In the case of ordinary termination of employment, the notice period varies with the work experience of the employee and ranges from a minimum period of 30 days to a maximum period of 90 days.
- Employees, who have worked for an employer for at-least three years, are entitled to a severance pay. Depending on the employee's tenure of service, the amount of the severance payment can range between one to six months' salary.
- Special rules apply to layoffs in which multiple employees are dismissed at the same time. Furthermore, employers cannot terminate employment in specific situations such as sick leave or maternity leave, in these cases the termination period is postponed.

Foreign Personnel

- Foreigners are allowed to work in Hungary if they hold a valid work permit or residence permit. Employees, who are citizens of the European Economic Area, do not require a work or residence permit to work in Hungary. However, an EEA national staying in Hungary for longer than 90 days needs to obtain a Registration Card and an Address Card from the Immigration Office.
- For employment of non-EEA citizens, companies in Hungary are required to show that they tried to fill the position initially with a Hungarian citizen through an employment centre. This is followed by an application to the Immigration Office for the work permit by submitting certified copies of documents that verify the personal data and qualifications of the foreign employee.
- Work permits are usually valid for a maximum of 2 years with the option of extension for another 2 years.
- Managing directors of branch offices or representative offices of foreign companies can be employed from non-EEA countries only by making a formal announcement, without the need for a work permit.

Work Permits

- Non-EEA citizens applying for a work permit in Hungary are required to first obtain a Schengen visa to enter Hungary. The employee also has to submit his/her work permit application form in the Hungarian embassy in his/her home country.
- After entering Hungary, the individual needs to go to the Immigration Office to obtain a residence permit and register his/her Hungarian address.

Public Holidays

- There are 9 national holidays in a calendar year in Hungary.
- Additionally, employees are entitled to 20 days of paid leave in a year, which increases up to a maximum of 30 days, depending on the age of the employee.
- Extra days are provided to workers below 18 years of age and parents with children.
- A paid maternity leave of up to 24 weeks is also provided.

Local Office Working Hours and Time Zone

- Standard Working Hours: The maximum number of working hours allowed in Hungary is eight hours per day and 40 hours per week, for a five-days working week.
- Normal working hours are from 9 a.m. to 5 p.m. from Monday to Friday.
- Extraordinary working hours or overtime cannot exceed more than 250 hours in a year; however, a maximum of 300 hours per year can be set in collective contracts.
- Standard Time Zone: UTC/GMT +1 hour

Payroll Cycles

- As of 2016, the minimum wage in Hungary is HUF 111,000 per month, while the guaranteed wage minimum for skilled labour is HUF 129,000 per month. The amount is subject to reconsideration on a yearly basis.
- Employees working overtime, night shifts (from 10pm to 6am) and on Sundays as well as public holidays, are entitled to extra pay.
- Work on a public holiday falls under strict control. Working time may be scheduled for public holidays only in special circumstances: continuous shifts, in connection with the provision of basic public services, where work is performed abroad or in the interest of preventing or mitigating any imminent danger of accident, natural disaster etc.
- Employees are generally paid a 30% premium for night work, 50% premium for overtime work during the week, 100% premium for work on a day of rest or public holiday.

HR Legislation

- With effect from 1 July 2012, Hungary introduced a new Labour Code, which aims to align the regulations of collective rights with that of the contractual individual law mentioned in the country's Civil Code.
- The Labour Code allows collective agreements, agreements with works councils in companies where there are no unions, and individual labour contracts to regulate the content of work differently from that stipulated by law.
- The Labour Code has greatly decreased the power of labour unions and reduced their rights as well as privileges and has benefitted the work councils, who will now be looking at the benefit of the employees.
- The Labour Code also states employee rights related to employment contracts including working hours, leaves, wages, work safety and health, protection for female staff and juvenile workers, training, social insurance, labour disputes, industrial relations and conflict resolution, termination of employment and employment of foreign workers.

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