YUTLAND

Hungary – Corporate and Individual tax guide 2020

HUNGARY

Hungary, a landlocked country in Central Europe, is bordered by Slovakia to the north, Ukraine and Romania to the east, Serbia and Croatia to the south, Slovenia to the southwest, and Austria to the west. It has been a parliamentary republic since 1989 and is split into 19 counties, with Budapest as its capital. The official language of Hungary is Hungarian, and the currency is the Hungarian forint (HUF).

Hungary has made the transition from a centrally planned economy to a market economy, with a *per capita*income nearly two-thirds that of the European Union (EU) average. The private sector accounts for more than 80% of gross domestic product (GDP). Foreign ownership of and investment in Hungarian firms is widespread, with foreign direct investment inflow totalling approximately 262,272,000 United States dollars (USD) in 2015.

Significant developments

As of 1 January 2019, the following significant changes were introduced to the Hungarian tax system. The changes are mainly related to corporate income tax (CIT), personal income taxes (PITs) and related contributions, and indirect taxes.

Corporate income tax (CIT)

Group taxation regime for CIT purposes
As of 1 January 2019, taxpayers are able to opt for a group taxation regime for CIT purposes. By opting for group taxation, group members will be able to offset their operating losses and tax incentives against the positive tax base under certain conditions.
Eligible group companies had a particularly short time period to decide whether they want to opt for group taxation as of 2019; the respective declaration had to be submitted to the Tax Authority by 15 January 2019. The application deadline for 2020 for taxpayers whose tax year is equal to the calendar year is between 1 November 2019 and 20 November 2019.

Restrictions in interest limitation rules
In order to be compliant with the corresponding European Union (EU) Directive, interest deductibility rules for tax purposes (thin capitalisation rules) were amended effective as of 1 January 2019. Instead of testing the taxpayer's debt-to-equity ratio (previously 3:1) to determine the amount of deductible interest expenses, the law amendment essentially links the interest deductibility to the profit before tax modified with certain items (i.e. an earnings before interest, tax, depreciation, and amortisation [EBITDA] based approach shall be applied). Safe harbour rules were implemented as well, up to the amount of the net borrowing costs of 939,810,000 Hungarian forint (HUF) per year. Grandfathering provisions for certain older liabilities may apply.

Changes in controlled foreign company (CFC) rules
According to the recent changes, effective from 1 January 2019, an entity will no longer be automatically exempt from being deemed as a CFC solely on the basis that one of its related parties is listed on a recognised stock exchange. Accordingly, in order to avoid the qualification as CFC, the taxpayer must essentially prove that the legal transactions of the foreign company under its control are genuine transactions (i.e. their primary aim is not obtaining a tax advantage). The burden of proof lies with the taxpayer in this respect. Grandfathering provisions may apply for 2019 and further.

Further benefits on research and development (R&D) activities
The latest changes in the legislation provide for additional tax benefits related to R&D activities. Pursuant to the latest changes in the legislation, 100% of direct R&D costs applied as a CIT base decreasing item, and resulting in a negative tax base, can be carried forward as tax loss, even if the taxpayer applies R&D benefit from the social tax in the tax year in question.

Tax incentive for supporting performing arts organisations to be terminated
As of 1 January 2019, the possibility to support performing arts organisations has been terminated, both in the way of direct support and tax allocation. For supports given in 2018, the possibility remains in effect, but starting from 1 January 2019, no further support can be provided.

Local business tax (LBT)

Investment tax allowance
From 1 January 2019, local governments have the possibility to introduce a tax allowance or tax exemption aimed at encouraging investment projects carried out within the territory of the municipality.

Job creation tax base allowance no longer available
From 1 January 2019, the LBT base allowance aimed at increasing employment will no longer be available.

Value-added tax (VAT)

Extending the scope of the reduced VAT rate
The scope of goods subject to the reduced VAT rate has been recently extended. From 1 January 2019, a reduced VAT rate of 5% is applicable on ESL and UHT milk.

New rules regarding the supply of vouchers
As of 1 January 2019, in line with Council Directive (EU) 2016/1065, a difference must be distinguished between single and multi-purpose vouchers from a VAT point of view, which affects their VAT treatment. The aim of the new regulation is, if possible, to consider the vouchers' date of issuance (supply) as the taxable event from a VAT perspective.
Accordingly, the taxable event of single-purpose vouchers is the date of issuance (supply), whereas the tax point of the multi-purpose vouchers is the date of redemption.

New rules regarding e-commerce
In line with Council Directive (EU) 2017/2455, additional simplification has been introduced regarding the VAT rules on electronically supplied telecommunication and broadcasting services ('distance services') for non-taxable private individuals. If certain conditions are fulfilled, the service provider taxpayer is allowed to determine its VAT liabilities according to the regulation of the member state where it is established instead of the member state of the service recipient, up to a threshold of 10,000 euros (EUR). As a result of this simplification, the service provider taxpayer will be able to avoid VAT registration in each of the affected member states of the service recipients.
However, the new regulation sets out that the service provider taxpayers still have the right to decide to determine their VAT liabilities according to the rules of the member state of their service recipients instead of applying the new simplification rules. In this case, taxpayers will remain bound to their decision until the end of the second calendar year subsequent to the calendar year of their decision.
The new rules apply to supplies performed after 31 December 2018.

Application of the reverse-charge mechanism extended
The application of the reverse-charge mechanism in relation to certain cereal or steel products is extended to 30 June 2022. Furthermore, as of 1 January 2021, the reverse-charge mechanism will only apply to worker leasing, temporary assignment, or supply of staff services in relation to certain construction and other similar works. In any other cases, VAT should be charged as per the general rules.

VAT refund reciprocity with Serbia and Turkey
From 1 January 2019, taxpayers established in Serbia are able to reclaim the VAT passed on to them in Hungary. For Turkey, the new rules will enter into force with the decree issued by the minister in charge of tax policy after Turkey grants the same rights in line with the principle of reciprocity.

Repeal of reduced VAT rate on the supply of new residential property
Regarding the repeal of the reduced VAT rate on the supply of new residential property, the reduced 5% VAT rate will remain applicable for the supply of certain newly built real estates until 31 December 2023,

given that the Building and Construction Authority issued the related final construction permit until 1 November 2018, or in case a construction permit is not required by law, the simplified registration procedure of the construction was initiated until 1 November 2018, at the latest. If the aforementioned criteria are not met, the standard VAT rate will be applicable for the supply of newly built real estates from 1 January 2020.

Online data supply
As of 1 July 2018, taxpayers are required to report to the Hungarian tax authority certain data regarding business-to-business (B2B) invoices that are issued by invoicing software and have a VAT content of at least HUF 100,000. Such reports have to be made electronically, through an online connection, using a specific XML format.

Individual VAT exemption
From 1 January 2019, the threshold of opting for individual VAT-exempt status became higher, it has been raised from HUF 8 million to HUF 12 million.

VAT deduction regarding passenger car rental services
From 1 January 2019, 50% of the input VAT charged on the incoming car rental invoices automatically becomes deductible, without tracking the ratio of the private and business use of the rented passenger car in road records (given that all other requirements of VAT deduction are met). However, it remains possible to reclaim the VAT based on road records; consequently, it is important for the companies concerned to assess which option is more beneficial for them, taking the administrative burden into account.

Customs duties
As of 1 January 2019, the Hungarian customs legislation introduced new provisions in connection with customs representation and the rules of data exchange with the customs authority.
Provisions concerning the customs representation provide for an opportunity to the customs representative to involve a subcontractor or agent in case the agreement on customs representation stipulates this way. The subcontractor or agent is not entitled to delegate the authorisation to a third party and does not qualify as a customs representative.
The long-standing issue concerning the release by the customs authorities of comprehensive security provided in the form of an undertaking has been resolved. The customs authority retains the funds provided for such security for a period of one year, compared to the former three years.

Excise duties
As of 1 July 2019, the tax rates applicable on certain tobacco products increased to the following levels:
Cigarettes: HUF 19,200 per thousand cigarettes plus 23.5% of the retail sale price, but a minimum of HUF 32,200 per thousand cigarettes.
Fine-cut and other tobacco: HUF 19,160 per kilogramme.

Public health product tax
The duty rates from 1 January 2019 increased and are as follows:
Beverages (depending on sugar content and tariff number): HUF 15 per litre (HUF 240 per litre for syrups and concentrates).
Energy drink (depending on tariff number, methyl-xanthine, and taurine content): HUF 50 or HUF 300 per litre.
Cocoa powder with added sugar (depending on tariff number, sugar, and cocoa content): HUF 85 per kilogramme.
Other pre-packed product with added sugar (depending on tariff number, sugar, honey, and cocoa content): HUF 160 per kilogramme.
Salty snacks (depending on tariff number and salt content): HUF 300 per kilogramme.
Seasonings (depending on tariff number and salt content): HUF 300 per kilogramme.
Flavoured beer and alcoholic beverages (depending on tariff number and sugar or sweetener content): HUF 25 per litre.

Fruit jam (depending on tariff number and sugar content): HUF 600 per kilogramme.
Alcoholic drinks (depending on tariff number and herb content): HUF 25 to HUF 1,100 per litre.
Taxpayers are allowed to deduct up to 10% of their tax liability to finance 'health promotion programs'. As of 1 January 2019, 'health promotion programs' only mean the activity, promotional campaign, program of the government body in charge of the healthcare system. Programs organised by a taxpayer cannot be a basis for deduction anymore.

Special tax of financial institutions
Decreasing tax rates in connection with the special tax of financial institutions and financial institutions' profit before taxation are no longer subject to 30% special tax.

Social tax
The social tax remains at 19.5% in 2019; consequently, the employer social charge rate has not changed as well. A new law on social tax has been adopted from 2019, under which healthcare tax was replaced by social tax, meaning that, from 1 January 2019, income that was subject to healthcare tax (e.g. dividend income, certain fringe benefits, corporate events) in 2018 is subject to social tax in 2019. This change results in a slight increase in the tax burden on income from investments mentioned above.

Advertisement tax
On 12 July 2019, the Hungarian National Assembly approved the amendment of the Act on Advertisement Tax (please note that the amendment has not been published yet in the Hungarian Official Journal). According to the amendment, the advertisement tax is suspended in the period of 1 July 2019 through 31 December 2022; consequently, the tax rate is 0% in this period. The previous tax rates are applicable in the period prior to 1 July 2019.

Taxes on corporate income

Resident taxpayers are subject to all-inclusive or unlimited CIT liability. Non-residents are subject to CIT on their income from their Hungarian branch's business activities.
The CIT rate is a flat 9% of a positive CIT base.

Minimum tax base
If a company's CIT base or the pre-tax profit, whichever is higher, is less than 2% of its total revenues reduced by the income of its foreign permanent establishments (PEs) (i.e. the 'minimum tax base'), the company can choose to file a declaration and pay CIT according to the general provisions or to pay CIT on its minimum tax base.

Real estate holding companies
The owner of a real estate holding company is subject to Hungarian CIT in the case of alienation or withdrawal of its shares in the real estate holding company.

The tax base of the owner of a real estate holding company in cases of share transfers and share capital decreases is the positive amount of the consideration minus the acquisition price of the shares less the costs of acquisition and of administration. The tax rate is 9%.

A company and its related parties are defined as real estate holding companies if at least 75% of the book value of their assets is domestic real estate and if they have a foreign shareholder that is not resident in a country that has a double tax treaty (DTT) with Hungary or the treaty allows such capital gains (from land/real property-rich shares) to be taxed in Hungary.

Please note that the definition of the real estate holding company for CIT purposes is different from the definition used for real estate transfer tax purposes.

Energy suppliers' income tax
Mines, energy producers, and energy distribution system operators are subject to energy suppliers' income tax. The scope of the definition of 'energy suppliers' also includes universal suppliers and authorised

distributors of electricity and natural gas.
The base of energy suppliers' income tax is similar to the CIT base, however, with less adjustments applicable to the accounting profits. The tax rate is 31%.

If the energy supplier entity possesses a development tax incentive or a tax incentive in relation to investments aimed at increasing energy efficiency or renewal projects, then it is possible to claim this tax incentive for up to 50% of energy suppliers' income tax liability as well. Additionally, the settled amount of mining royalty can be claimed for up to HUF 1.5 billion from energy suppliers' income tax liability.

In the case of CIT group taxation, further deduction opportunities may be available.
As of 30 June 2017, an extra deduction is available in connection with the instalment and maintenance of electric vehicle charging stations, unless the taxpayer has already opted for a CIT base deduction with respect to the investment.

From an accounting point of view, energy suppliers' income tax falls under the same treatment as CIT (thus it is a non-deductible item for CIT purposes). DTTs also covers this type of tax.

Advertisement tax
Advertisement tax applies to certain advertising services, including advertising services made available over the Internet. The tax applies in respect of advertisements that are published in Hungarian, or where the advertisement is not published in Hungarian but is available on a website/webpage that is mainly in Hungarian.

In the case of primary taxpayers (*see below*), the tax base is based on total trading revenue. Till an amending act in June 2017, the advertising tax rate was 0% of the tax base up to HUF 100 million, and 5.3% above HUF 100 million. The amending act set a unified tax rate of 0% in the period from 1 January 2017 to 30 June 2017; however, from 1 July 2017, it is increased to 7.5%, while the tax base up to HUF 100 million, under certain conditions, is tax free. Furthermore, the amending act stipulates that taxes declared and paid by the taxpayers for tax years ended before 30 June 2017 are considered overpayments defined by the Act on the Rules of Taxation; consequently, the taxpayers can request a claim on refund, also defined in the Act on the Rules of Taxation, from 1 July 2017.

According to the amendment in 2019 of the Act on Advertisement Tax (on 12 July 2019, the Hungarian National Assembly approved the amendment but is has not been published yet in the Hungarian Official Journal), the advertisement tax rate is 0% in the period of 1 July 2019 through 31 December 2022, both for primary and secondary taxpayers. The previous tax rates (7.5% for primary and 5% for secondary taxpayers) are applicable in the period prior to 1 July 2019.

The amending act discontinues the tax liability on self-promotion as well; consequently, advertisement tax liability arises only for publishing as business activity.

Primary and secondary taxpayers
The company providing the advertising service is the primary taxpayer, and the rate above applies to the company's sales that are within the scope of the tax. The tax is not a withholding tax (WHT), and the customer is not obligated to withhold tax on payments made to the advertising service provider.
The person/company that orders and pays for the advertisement is considered to be the secondary taxpayer. Secondary tax obligation does not arise if:

- the secondary taxpayers are in possession of a declaration from the primary taxpayers stating that they are the primary taxpayers and that they will fulfil their obligations under the regulation
- the primary taxpayers apply for a registration to the database of the Hungarian tax authority, stating that they are primary taxpayers and that they fulfil their obligations on time or they do not have advertisement tax payment obligation in the tax year because they will not exceed the HUF 100 million threshold, or
- the secondary taxpayers notify the tax authority with the name of the primary taxpayer and the value of the services and they are able to prove that they requested the declaration but have not received it.

Otherwise, the secondary taxpayer is subject to a tax equivalent to 5% of the value of the advertising fee (provided that the secondary taxpayer spends at least HUF 2.5 million in a month for advertisement services). In addition, such advertisement expense would not be a CIT-deductible expense for the secondary taxpayer when filing its CIT return (upon the annual expense for advertisement service exceeding HUF 30 million).

The amended legislation clarifies that for online advertisements, the person or organisation that has the right of disposal over the advertising space qualifies as the publisher of the advertisement (i.e. subject of the advertising tax). In addition, the obligation to determine the advertising tax base from the consolidated data of related companies no longer applies.

Furthermore, if a publisher of advertisements fails to comply with its obligation to make a declaration to the advertiser in relation to advertising tax, the publisher is required, upon request, to fulfil such obligation to the national tax authority. Failure to comply with such request attracts default penalty of HUF 500,000. Repeated failure to comply with the obligation in respect of the same advertiser is subject to further default penalty of HUF 10 million, and any further instance of non-compliance is subject to a penalty equal to triple the amount of the previous penalty. The total amount of default penalty assessed by the tax authority for such reason cannot exceed HUF 1 billion altogether. Further, in the case of failure to file a return on advertisement tax, the tax authority levies a deemed tax liability of HUF 3 billion, which may be challenged by the taxpayer by submitting contrary evidence within a statutory deadline of 30 days.

Local business tax (LBT)

All municipalities are entitled to levy LBT. LBT is deductible for Hungarian CIT purposes and is not treated as ‘income tax’ in the application of the tax treaties.

The LBT base is the total trading revenue reduced by the cost of goods sold, subcontractors’ work, the costs of materials, mediated services, and R&D costs. These items are deductible under a decreasing scale at taxpayers with larger turnover (with the effect that lower margin businesses may have higher effective LBT rates). In order to prevent tax avoidance, the tax base is calculated on a consolidated basis for affiliated entities that have a gross margin at less than 50% in Hungary in case the related-party relationship was formed as a result of a demerger carried out after 1 October 2016.

As LBT is payable in each municipality where the taxpayer is active, there are detailed rules to allocate the taxable base among these locations and a separate PE definition is applicable for LBT purposes. The allocation is based on a formula based on tangible asset and payroll cost figures.

As of 1 January 2018, PE for LBT purposes shall also include solar power plants, in accordance with the rules set out by the municipality on which the solar power plant is located.

General service fees, depreciation, and labour costs are typically not deductible for LBT purposes. Interest income, dividend income, and the LBT base of a foreign PE of a Hungarian company are exempt from LBT. Royalty exemptions, on the other hand, have been significantly narrowed down in line with the Organisation for Economic Co-operation and Development (OECD) nexus approach (from mid-2016, with an applicable grandfathering period).

The LBT rate may differ from municipality to municipality but is capped at 2% by law.
As of 1 January 2018, sport organisations (as per the definition laid down in Act I of 2004 on Sport) are not liable to pay LBT after their total trading revenue deriving from the sale of admission tickets or season passes, display of advertisements, permanent transfer or temporary lease of player contracts, providing services to sponsors, income from media rights, and other utilisation of their sports venues in accordance with the Act on Sport.

Furthermore, as of 20 June 2017, if the tax rate determined by the local government was set at a specific tax rate (for a minimum of two years), it cannot be increased to the detriment of the taxpayer during the first two calendar years of said period.

From 1 January 2019, local governments have the possibility to introduce tax allowance or tax exemption aimed at encouraging investment projects carried out within the territory of the municipality. Tax advantage may be provided from the LBT payable by the taxpayer for its taxable activities performed within the territorial jurisdiction of the municipality in the year in which the investment project is carried out or, depending on the local government's decision, also in subsequent years. According to the new rules, once a local government introduces a regulation on investment related tax allowance, such regulation cannot be repealed at least for three years nor be amended it any way that would be detrimental to taxpayers.

Innovation contribution
Companies defined as such in the Accounting Act, except for small and medium-sized enterprises (SMEs) and branches of foreign entities, are subject to innovation contribution. As of 1 January 2019, the SME thresholds should be calculated on a group level basis, which may significantly widen the number of taxpayers. The tax base of the innovation contribution is, in general, the same as their LBT base. The tax rate is 0.3%.

Corporate residence

Corporations are residents for CIT purposes if they are incorporated in Hungary, although foreign corporations may also be deemed to be Hungarian residents for CIT purposes if their place of effective management is in Hungary. Tax residents also include the Hungarian trust asset.

Foreign entities may carry out business through resident corporations or through branch offices (PEs for tax purposes). Commercial representative offices may be settled for auxiliary activities that do not create a taxable presence.

Permanent establishment (PE)
Hungary treats PEs as 'distinct and separate enterprises', and profit is attributed to a PE based on the principles set out in the OECD guidelines.

In the CIT Act, a PE is defined as fixed business premises (machinery or equipment) through which the entrepreneurial activity of an enterprise is partly or wholly carried on, regardless of the title of the taxpayer to those premises. A PE may consist of any of the following: a place of management; offices, including representative offices registered in Hungary; factories and workshops; and mines, crude oil or natural gas wells, quarries, or other places from which natural resources are extracted.

Construction sites (including assembly) and related supervisory activities constitute a PE if they last, in the aggregate, for at least three months in a calendar year. All activities carried out at the same construction site qualify together as a single PE, regardless of whether they are based on separate contracts or were ordered by different persons. Construction sites are defined as sites that represent a unit for economic, business, and geographical purposes.

PEs are also created by the direct utilisation of natural resources by a foreign person. A foreign person (except from real estate funds established in a European Economic Area [EEA] member state and not being subject to any tax that may be substituted for CIT, or being subject to such CIT but no CIT liability arises) is deemed to have a PE in Hungary if it utilises natural resources or immovable property for consideration, including the alienation or capital contribution of any rights related to the immovable property or natural resources.

A non-resident enterprise is considered to have a PE with respect to activities undertaken on its behalf by another person if its agent is authorised to conclude contracts in Hungary on behalf of the non-resident entity and the agent regularly exercises this right or maintains a stock of goods and products from which it regularly makes deliveries in the name of the non-resident entity.

The insurance of risks occurring in Hungary and insured on behalf of the non-resident person by another person constitutes a PE of the foreign insurer, except for reinsurance activities.

Furthermore, as mentioned above, a foreign taxpayer must also be treated as having a PE if it has a Hungarian branch.

The definition of a PE does not include the following:
- Establishments used solely for the purpose of storing and presenting the goods or products of a non-resident person.
- The stockpiling of goods and products of a non-resident person solely for the purpose of storing, presenting, or processing by another person.
- Establishments used for collecting information, or purchasing goods and products, exclusively for the non-resident person.
- Establishments used for other activities of a preparatory or auxiliary nature.

Activities of independent agents, provided they are acting in their ordinary course of business.
Note that a different definition of a PE is applicable for LBTs, and no definition is available for special taxes.

Other taxes

Value-added tax (VAT)
VAT is payable on sales of goods and the supply of services. VAT is also payable on the importation of goods, on the intra-Community acquisitions of goods, and on the purchase of certain services provided to Hungarian taxable persons by foreign taxable persons.

VAT rates
The general VAT rate is 27%.
A reduced VAT rate of 18% is applicable for some products (e.g. certain milk, certain dairy products, products made from cereals, flour, and starch). The 18% VAT rate is also applicable to commercial accommodation services and to services that grant admission to musical and dancing events.

A reduced VAT rate of 5% is available for new residential property, certain pharmaceutical products, audio books, printed books, newspapers, district heating services, certain live performance activities, certain products of the animal sector (e.g. live and processed large animals, such as pig, sheep, goats, cattle, poultry, eggs), fresh milk, internet access services, local dining services (i.e. meals and non-alcoholic beverages prepared locally in bars and restaurants), fish for consumption purposes, and the edible by-products and meat offal of domestic swine.

Exempted, out of scope transactions
Certain services are exempt from VAT, including, but not limited to, medical, cultural, sporting, and educational services provided as public services. VAT exemption is also available for financial and insurance services. The intra-Community supplies of goods, services, and exports are also treated as exempt transactions.

Generally, the supply of a building or parts of a building, the land on which it stands, and the rental of real estate are VAT exempted. An option is available to apply VAT on the supply or rental of this real estate. VAT exemption cannot be applied to the supply of building plots.

There are some special transactions that may be out of scope of the Hungarian VAT, provided that special conditions are met. These include the acquisition of any contributions in kind, the acquisition of any assets by way of succession, and the transfer of business as a going concern.

Reverse-charge mechanism
A domestic reverse charge applies between Hungarian taxable persons for the following activities:
- Services related to immovable property (e.g. construction, maintenance).
- Sales of certain steel products.
- Sales of waste materials.
- Sales of carbon quotas.
- Sales of real estate and land if the application of VAT was chosen.

- Sales of certain agricultural products (e.g. maize, wheat, barley, rye).
- Leasing staff or making available personnel and the use of student-work placement offices.

VAT recovery

VAT deduction is available only for the business-related element of purchases that were made partially for non-business purposes.

If a taxpayer has a negative VAT balance in a VAT period, the amount can be recovered, provided that the VAT balance reaches or exceeds an absolute value of HUF 1 million for monthly filers, HUF 250,000 for quarterly filers, or HUF 50,000 for annual filers.

As a general rule, the deadline for remitting VAT reclaims is 75 days, irrespective of the amount concerned. However, if all incoming invoices, regarding which the VAT was deducted in the VAT return, are settled (paid fully to the suppliers) until the due date of the related VAT return, a 45-day deadline can be applied. The preferential deadline is applicable for taxpayers qualified as a 'reliable taxpayer' by the Hungarian tax authority.

Directive for refunds of foreign taxable persons

Taxable persons with their establishment in an EU country, other than Hungary, or in Switzerland, Lichtenstein, Norway, or Serbia can recover local VAT. The refund applications have to be submitted electronically. Reclaim requests should be submitted to the tax authority of the country where the EU-registered taxable person is established.

Reporting obligations

All types of intra-Community transactions have to be reported in the periodic Intra-Community List in Hungary.

Taxpayers registered in Hungary have to submit domestic recapitulative statements regarding incoming B2B invoices that have a VAT content of at least HUF 100,000. Taxpayers liable to file the statement may opt to report their transactions even below this threshold to the tax authority. If a domestic recapitulative statement has to be prepared (i.e. there are transactions with a VAT amount higher than the referred threshold), the VAT return can only be submitted in electronic form.

As of 1 July 2018, taxpayers are required to report to the Hungarian tax authority certain data regarding B2B invoices that are issued by invoicing software and have a VAT content of at least HUF 100,000. Such reports have to be made electronically, through an online connection, using a specific XML file format.
An Electronic Road Freight Control System (EKAER) number needs to be requested from the tax authority for specific road shipments. The taxpayers who do not fulfil this reporting obligation can face serious consequences (e.g. the tax authority is entitled to levy a default penalty of up to 40% of the value of goods transported, and also to seize the goods).

Group taxation for VAT

The VAT Act allows all companies that have established business presences in Hungary and qualify as related enterprises to form a VAT group. The essence of a VAT group is that its members act under a single VAT number in their transactions (i.e. they issue invoices under a shared VAT number and submit a single, joint tax return) and the supplies of products and services between the members do not qualify as business transactions from a VAT perspective.

Customs duties

Hungarian customs legislation and policies have been fully harmonised with EU legislation.
As of 1 January 2018, the EU customs legislation comprises the following main regulations:

- Regulation (EU) No 952/2013 of the European Parliament and of the Council laying down the Union Customs Code.
- Commission Delegated Regulation (EU) 2015/2446 supplementing Regulation (EU) No 952/2013 of the European Parliament and of the Council as regards detailed rules concerning certain provisions of the Union Customs Code.

- Commission Implementing Regulation (EU) 2015/2447 laying down detailed rules for implementing certain provisions of Regulation (EU) No 952/2013 of the European Parliament and of the Council laying down the Union Customs Code.
- Commission Delegated Regulation (EU) 2016/341 supplementing Regulation (EU) No 952/2013 of the European Parliament and of the Council as regards transitional rules for certain provisions of the Union Customs Code where the relevant electronic systems are not yet operational and amending Delegated Regulation (EU) 2015/2446.
- Council Regulation 1186/2009/EEC setting up a Community system of reliefs from customs duty.
- Council Regulation 2658/87/EEC on the tariff and statistical nomenclature and on the Common Customs Tariff.

New national customs regulation entered into force as of 1 January 2018 (Act CLII 2017 on Implementing the Union Customs Law). Some of the main changes compared to the previous legislation are as follows:
- Procedural regulation became an integral part of the national customs law.
- The procedure of customs audit (e.g. right to comment on the customs authority's assessment) changed.
- By the main rule, information (such as declarations, applications, or decisions) will be provided and exchanged electronically between the customs authority and economic operators.

As of 9 August 2018, Act CLII 2017 on Implementing the Union Customs Law introduced some new provisions, for example:
- Customs penalty has become applicable on certain cases of procedural non-compliance instead of the procedural fine. Consequently, the procedural fine has been removed from the legislation (customs penalty has been applicable for all kinds of non-compliance).

As a general rule, non-compliance resulting in a customs shortfall attracts a customs penalty of 50% of the customs duty deficit.

Excise duties
The following goods are subject to excise duty:
- Mineral oils.
- Alcohol and alcoholic beverages. Any product with an alcohol content of 1.2% or more by volume qualifies as an alcohol product.
- Beers.
- Still and sparkling wines.
- Other still and sparkling fermented beverages.
- Intermediate alcoholic products.
- Tobacco products.
- Energy products (electricity, natural gas, and coal).

On 1 July 2019, the excise duty rates are as follows:
- Mineral oils: HUF 110,350 to HUF 129,200 per thousand litres or HUF 4,655 to HUF 116,000 per thousand kilograms, depending on the world market price of crude oil and on the type of mineral oil.
- Electricity: HUF 310.5 Ft/MWh.
- Coal: HUF 2,516/1,000 per kilogram.
- Natural gas: HUF 0.3038/kWh or HUF 28/nm3 depending on usage.
- Alcohol products: HUF 333,385 per hectolitre of pure alcohol. Special rules are applicable to spirits manufactured in private distilleries and contract distillation.
- Beer: HUF 1,620 per alcohol degree and per hectolitre, HUF 810 per alcohol degree and per hectolitre for beer produced in a micro-brewery.
- Still wines: HUF 0 per hectolitre.
- Sparkling wines: HUF 16,460 per hectolitre.
- Other still fermented beverages: HUF 9,870 per hectolitre for other fermented beverages, HUF 0 per hectolitre for still wine of an actual alcoholic strength by volume not exceeding 8.5% volume mixed with carbonated water without added flavouring, where the ratio of still wine exceeds 50%.
- Other sparkling fermented beverages: HUF 16,460 per hectolitre.
- Intermediate alcoholic products: HUF 25,520 per hectolitre.

- Cigarettes: HUF 19,200 per thousand cigarettes plus 23.5% of the retail sale price, but a minimum of HUF 32,200 per thousand cigarettes. The tax base per cigarette also depends on the length of the cigarette (without filter). It is double if the length of the cigarette is 8 cm to 11 cm, triple if the length is 11 cm to 14 cm, and so on.
- Cigars and cigarillos: 14% of the retail price, but a minimum of HUF 4,180 per thousand cigars or cigarillos.
- Fine-cut and other tobacco: HUF 19,160 per kilogram.
- Refill liquid: HUF 55 per millilitre.
- Other consumables that contain tobacco or are consumed with tobacco: HUF 10 per each tobacco containing product or products consumed along with tobacco products for single use, HUF 70 for liquid per millilitre.

The Customs Body of the National Tax and Customs Administration is responsible for excise duty (and municipal tax authorities for the excise duty of private distillers). The European Union's excise duty and energy tax rules apply in Hungary.

Property and land taxes
Hungarian municipalities have the right to levy property tax and land tax at their own discretion up to the below caps.

Property tax
The owner of a building is subject to property tax liability annually on the first day of the calendar year. As of 1 January 2018, advertising media deployed on any real estate property located in the area of jurisdiction of any municipal government shall also be subject to property tax.
The local government can determine the tax base in either of the following ways:

- The net floor space of the building expressed in square metres, with a maximum tax rate of HUF 1,100 per square metre, subject to valorisation with the accumulated official inflation rates.
- The adjusted market value of the building, with a maximum tax rate of 3.6% of the adjusted market value.
- In case of advertising media placements (*see above*), the tax base shall be calculated based on their net surface area, with an annual maximum tax rate of HUF 12,000 per square metre.

Land tax
The owner of land is subject to land tax liability annually on the first day of the calendar year. Undeveloped plots of land situated within the area of jurisdiction of a local government, including peripheries, are subject to this tax. The local government can determine the tax base in either of the following ways:

- The actual area of the plot expressed in square metres, with a maximum tax rate of HUF 200 per square metre, subject to valorisation with the accumulated official inflation rates.
- The adjusted market value of the plot, with a maximum tax rate of 3% of the adjusted market value.

Stamp duties
The most common types of stamp duties are gift duty and duty on transfers of property for consideration. Stamp duty is levied on movable and immovable property and property rights if they were acquired in Hungary, unless an international agreement rules otherwise.

Gift duty
In general, gift duty arises on the date when a contract concerning a gift is concluded.

Transfers of movable property, immovable property, and property rights without consideration are subject to gift duty. In these cases, however, in general, gift duty is only incurred if the transaction was formally documented; except for movable property and property rights with a market value of more than HUF 150,000, where gift duty must be paid in any event.

The base of gift duty is the net value of the gift, which is the market value minus any liabilities related to the gift. The general duty rates vary, depending on the type of property: 9% on residential property and 18% on other assets (except vehicles, where special rules apply). In general, the transaction shall be reported to the national tax authority within 30 days.

Transfer of movable assets without consideration and acquisition of claims without consideration, including waiver of claims and assumption of debts, are exempt from gift duty, provided that the recipient is a company. However, this exemption only applies if in the country where the non-resident beneficiary is based, both the rate of the tax corresponding to the corporate tax and the rate of the tax on the sale of the shareholding are no less than 9%.

Duty on transfer of property for consideration
The obligation to pay duty on the transfer of certain defined movable and immovable property for consideration arises on the date when the contract on the transaction is concluded.

The acquisition of real estate, property rights, and the acquisition of existing direct or indirect shareholdings in companies that own domestic real estate are subject to transfer tax. In this latter case, transfer tax only applies for acquisitions of existing direct or indirect shareholdings of at least 75% in a company that owns domestic real estate. For transfer tax purposes, a company that owns domestic real estate is a company (i) in which the book value of the domestic real estate represents more than 75% of the modified total assets or (ii) that holds at least 75% of the shares of another company in which the book value of the domestic real estate represents more than 75% of the modified total assets. Note that for classification purposes, cash, receivables, accruals, and loans have to be disregarded when determining the 75% ratio. The transfer tax for the transfer of real estate and the direct or indirect transfer of shareholdings in real estate holding companies is 4% of the fair market value of the real estate up to HUF 1 billion and 2% of the amount exceeding HUF 1 billion, up to a maximum of HUF 200 million per real estate (i.e. per plot number).

Reduced rates of 2%/3% apply if the company acquiring the property qualifies as a real estate trading company, or it deals with financial leasing, and the property is sold/leased out within two years. REIFs and REITs may also benefit from a reduced transfer tax rate of 2%. Note that in the case of REIFs and REITs the above HUF 200 million cap per plot number cannot be applied.

Stamp duties are also levied on certain court procedures (e.g. Court of Registration) and on submissions to certain authorities (e.g. appeals to the tax authority). Stamp duty is, for instance, levied in an amount of:
- HUF 100,000 on the registration of a private stock company
- Free of charge on the registration of a limited liability company
- HUF 600,000 on the registration of a European company
- HUF 100,000 on the registration of any other entity with legal personality (except from European companies)
- HUF 50,000 on the registration of a branch office, and
- HUF 50,000 on the registration of a representative office.

Registration tax
Registration tax is charged on passenger cars, motor homes, and motorcycles before they can be registered and put into service in Hungary. The registration tax is also payable by fleet operators. The duty is payable with the first domestic registration, import, intra-Community purchase, or in the case of a conversion.

The registration tax rate is applied as follows:
- Passenger cars: HUF 45,000 to HUF 4.8 million, depending on the technical features of vehicles (cc, engine type) and environmental classification.
- Hybrid cars: HUF 76,000.
- Purely electrical vehicles, plug-in hybrid electrical vehicles, increased range plug-in hybrid electrical vehicles, and zero-emission vehicles: HUF 0.
- Motorcycles: HUF 15,000 to HUF 230,000, depending on technical features of the motorcycles (cc).
- Electric and hybrid motorcycles: HUF 0.

The registration tax is levied by the Customs Body of the National Tax and Customs Administration.

Employment-related tax and social security contributions (social tax) payable by employers
The social tax base is the gross income paid to the employee. The tax rate is 19.5%.

The rate of training fund contribution on employment income is 1.5%. The tax base is the gross income paid to the employee.

Mining royalty
Mineral resources and geothermal energy, at the places where they are found in nature, are state property and subject to concession.

The mining company must pay a mining royalty, based on the quantity of the mineral resources extracted under authority permit.

Public health product tax
The first domestic distributor of certain products, as well as the acquirer of goods that are brought from abroad and used for the domestic manufacture of own products that will be sold in Hungary, are liable to pay a product tax.

The duty rates from 1 January 2019 are as follows:
- Beverages (depending on sugar content and tariff number): HUF 15 per litre (HUF 240 per litre for syrups and concentrates).
- Energy drink (depending on tariff number, methyl-xanthine, and taurine content): HUF 50 or HUF 300 per litre.
- Cocoa powder with added sugar (depending on tariff number, sugar, and cocoa content): HUF 85 per kilogram.
- Other pre-packed product with added sugar (depending on tariff number, sugar, honey, and cocoa content): HUF 160 per kilogram.
- Salty snacks (depending on tariff number and salt content): HUF 300 per kilogram.
- Seasonings (depending on tariff number and salt content): HUF 300 per kilogram.
- Flavoured beer and alcoholic beverages (depending on tariff number and sugar or sweetener content): HUF 25 per litre.
- Fruit jam (depending on tariff number and sugar content): HUF 600 per kilogram.
- Alcoholic drinks (depending on tariff number and herb content): HUF 25 to HUF 1,100 per litre.

Taxpayers are allowed to deduct up to 10% of their tax liability to finance 'health promotion programs'. As of 1 January 2019, 'health promotion programs' only mean activity, promotional campaign, and program of the government body in charge of the healthcare system. Programs organised by a taxpayer cannot be a basis for deduction anymore.

Environmental protection product fee
The following products are subject to the environmental protection product fee: other crude oil products, tyres, packaging materials, batteries, commercial printing paper, other plastic products, other chemical products (soaps, detergents, cosmetics), printing or copy paper for office use, and electrical and electronic products (based on customs tariff numbers applicable on 1 January 2019).

The following entities are liable to pay the product fee:
- The first domestic distributor or user for own purposes.
- In the case of domestically manufactured other crude oil products, the first buyer from the first domestic distributor or user for own purposes.
- In the case of toll manufacturing, the party that orders the toll manufacturing.

Product fee rates from 1 January 2019 are as follows:
- Tyres: HUF 57 per kilogram.
- Packaging materials: HUF 19 to HUF 1,900 per kilogram.
- Other crude oil products: HUF 114 per kilogram.
- Batteries: HUF 57 per kilogram.
- Paper-based advertisement materials: HUF 85 per kilogram.
- Electrical and electronic products: HUF 57 per kilogram.
- Printing or copy paper for office use: HUF 19 per kilogram.
- Other plastic products: HUF 1,900 per kilogram.
- Other chemical products: HUF 11 to HUF 57 per kilogram.

The Tax Body of the National Tax and Customs Administration controls the payment and reporting of the product fee and carries out product fee inspections. The product fee is self-assessed. The product fee returns must be submitted quarterly to the tax authority via its electronic system. An advancement payment is payable for the fourth quarter.

The product fee penalty is generally 100% of the product fee shortfall in cases of non-payment or underpayment.

Environmental load charges

Environmental pollution charges were introduced to protect the natural environment, to reduce its impairment, to encourage the users of the environment to engage in activities aimed at the preservation of the natural environment, and to provide funding from the central budget for environmental protection and nature preservation.

Emitting entities liable to pay charges include those who operate point-source emitters subject to registration, pursue activities subject to a water right permit, or who do not use available public drainage systems and dispose of their sewage under a water right permit or a permit from the local water management authorities.

Qualifying materials include sulphur dioxide, nitrogen oxides, mercury, phosphorous, cyanides, and others. The load charge is calculated on the basis of the quantity of emitted materials multiplied by the fee rate (and, in certain cases, by vulnerability and sludge disposal factors, taking into account average concentration). Basically, the amount of the fee payable depends on the hazard level of the emitted material (e.g. HUF 50 per kilogram for sulphur-dioxide).

Food chain supervision fee

The purpose of the food chain supervision fee is to raise revenue for the operation of a regulatory body tasked with the official supervision of the food chain.

The supervision fee is payable by the following natural persons, legal persons, or unincorporated organisations:

- Persons who place animals on the market that are kept for food production, breeding, or experimental purposes.
- Persons who place food or fodder crops, seeds, plant products, and planting material on the market.
- Registered or authorised food businesses.
- Registered or authorised feed businesses.
- Persons who manufacture or place on the market veterinary medicines or veterinary medicinal products.
- Persons who manufacture or place on the market 'EEC fertiliser' or other products subject to authorisation.
- Persons involved in the handling, use, further processing, and transport of animal by-products or placing derived products on the market.
- Businesses engaged in the transport of live animals.
- Persons operating facilities for the cleaning and disinfection of vehicles used for transport of live animals, isolation facilities for receiving animals from different stocks, livestock loading ramps, assembly centres, trading sites, feeding and watering stations, rest stations, and livestock fairs.
- Persons manufacturing and storing plant propagation material.
- Persons operating a registered or authorised laboratory.
- Persons placing devices on the market that are used for marking animals.

As of 16 June 2017, any person who is not established in Hungary, but nevertheless engaged in the pursuit of the activities defined by the Food Chain Act, has a FELIR identifier, and is registered by the state tax authority as a taxpayer liable for payment of VAT, is liable to declare and pay the supervision fee.

As the main rule, the annual supervision fee is 0.1% of the total trading revenue (excluding excise duty and public health product tax) derived in the preceding year from these activities.

The taxpayers concerned have to comply with their reporting obligation by 31 May. The annual supervision fee is payable in two equal instalments: the first instalment by 31 July, and the second by 31 January.

Telecommunication tax
The telecommunication tax applies to telecommunications service providers. The telecommunication tax rate is HUF 2 per minute for calls made and HUF 2 per message sent for private individuals, and HUF 3 per minute for calls made and HUF 3 per message sent for parties other than private individuals. The monthly ceiling is HUF 700 per number for private individuals and HUF 5,000 per number for entities other than private individuals.

Tax on financial transactions
The scope of the tax on financial transactions includes payment service providers with a registered address or branch office in Hungary, credit institutions entitled to provide foreign currency services, special services intermediaries entitled to provide intermediated foreign currency services, and financial institutions that engage in the granting and negotiation of credit and cash loans but to not qualify as payment service providers.

The financial transaction tax applies to the following payment services:
- Bank transfers.
- Direct debits.
- Postal cash payments.
- Cash payments from payment accounts (including cash withdrawals using a credit card).
- Cash transfers.
- Bank card payments.
- Letters of credit.
- Cashing cheques.
- Foreign currency exchanges.
- Debt repayments.
- Commissions and banking fees.

Other transactions in which the amount of the transaction is deducted from the payment account credit balance.

If certain conditions are fulfilled, no tax will be payable for transactions such as:
- Technical transfers between accounts held at the same bank.
- For investment services, transfers between the payment account and the client account if the investment service provider is a related party of the financial service provider.
- Payments from limited purpose accounts.
- Cash pool related payment transactions within the same financial service provider.
- Transactions between financial service providers (including, among others, financial institutions, investment companies, etc.).
- Payment transactions from social security and family allowance administrative accounts.
- Unapproved (or approved but incorrectly made) payment transactions and their corrections.

In general, the tax base is the amount of the transaction (debit amount, amount paid, amount of currency sold, etc.). In the case of private individuals, the tax base is the amount of the transaction exceeding HUF 20,000. In most cases, the tax rate is 0.3% of the transaction but the amount payable may not be more than HUF 6,000 per transaction. This cap is not applicable to transactions in which the duty is payable by the State Treasury or Magyar Posta Zrt, or in case of cash withdrawal. In the case of (card) payment transactions initiated by the payer through the payee, a flat-rate tax of HUF 800 per year is payable. Also, if such payment includes transactions executed with the use of a contactless payment feature, the duty payable is reduced to HUF 500 per year.

Special tax of financial institutions
In Hungary, there is a special tax levied of financial institutions. The tax base of financial institutions is the amended balance sheet total figure calculated from the financial statements of the second tax year preceding the current tax year. From 2019, the tax rate is decreased from 0.21% to 0.2% of the tax base exceeding HUF 50 billion. Below HUF 50 billion, the tax rate is 0.15%.

Insurance premium tax
Insurance premium tax is applicable on (i) voluntary vehicle liability insurance policies (CASCO), (ii) property and casualty insurance policies, and (iii) the mandatory vehicle liability insurance (former accident tax) in Hungary.

The insurance tax should be paid by the insurance companies after the gross insurance premium received on insurance policies insuring risks located in Hungary. Insurance companies subject to the tax include:

- insurance companies headquartered in Hungary
- foreign insurance companies' Hungarian branches, or
- insurance companies providing cross-border insurance services if these entities, which are headquartered abroad, render taxable insurance services in Hungary.

The above-mentioned entities should apply three different tax rates. For voluntary vehicle liability insurance policies, the rate of the tax is 15%; for property and casualty insurance, the rate is 10%; and for the mandatory vehicle liability insurance, the rate is 23% (capped at HUF 83/day/vehicle).

In the case of the tax base deriving from insurances mentioned in points (i) and (ii), lower tax brackets may apply if the taxpayer's tax base is less than HUF 8 billion.
We note that this tax should not be paid after life and health insurance.

Branch income

Foreign companies may establish branch offices in Hungary. A branch office is an organisational unit of a foreign company without legal personality, vested with financial autonomy, and registered in the Hungarian companies register as a branch office of the foreign company. The provisions of the Hungarian Accounting Act apply to branch offices, which must prepare reports using double-entry bookkeeping. Statutory audits are obligatory, except for the branches of corporations whose registered office address is in the European Union.

A branch office is regarded as established when it has been entered into the companies register. A branch office may start operating once the application for registering the branch office has been submitted to the Court of Registration, provided that it indicates 'under registration' on its corporate correspondence. Until a branch has been registered, it cannot carry out any activities that are subject to official permission. A branch office is considered dissolved upon its removal from the companies register.

Branch offices are treated as PEs for taxation purposes. They have to determine their tax base according to the general rules applicable to Hungarian companies. The profit for the year (calculated on the basis of the Hungarian accounting system and adjusted by specific provisions of the Corporate Tax and Dividend Tax Act or CDTA) is subject to CIT of 9%. The definition of PE is similar to that in the tax treaties but somewhat broader. For treaty countries, the respective treaty definition applies.

A foreign company's CIT base is determined for all its domestic PEs (except for branches) collectively and for its branches separately. A branch should account for costs and revenues as if it were independent from its foreign parent company.

For a Hungarian PE, earnings before taxes are reduced by cumulated administrative costs incurred proportionately at the headquarters and any of its PEs, with the maximum proportion defined as the revenues of the PE compared to all revenues of the foreign company.

However, if there is a treaty between Hungary and the other country, the provisions of the treaty have priority over domestic law. Consequently, the provisions of the treaty have to be followed in the first instance, and all costs related to the activity of the branch have to be allocated to the branch, without the above restrictions in domestic law, and all profit realised with respect to the branch must also be allocated to the branch. The allocation method must be consistent from year to year, unless there is a good reason for changing it.

The foreign parent must continuously provide the assets and funds required for the operation of the branch office and the settlement of its liabilities. The employees of a branch office are in a legal relationship with the foreign company, and the foreign parent exercises employer's rights. A branch is considered to be related to its parent company/headquarters. Consequently, the prices used in inter-company transactions have to be at arm's length, and the transfer pricing documentation requirements have to be taken into consideration.

Income determination

The CIT base should be calculated by modifying the accounting pre-tax profit by adjustments and deductions as provided by the CDTA. *See Minimum tax base in the Taxes on corporate income section*.

Inventory valuation
Inventories are generally valued at their historical cost unless their fair market value is significantly lower than their book value, in which case the fair market value should be recorded. In most cases, the cost is determined on the basis of first in first out (FIFO) or average cost.

Capital gains
Capital gains (losses) are treated as ordinary income (losses) for tax purposes. The gain on the sale of assets equals the sales revenue reduced by the tax value of the asset for CIT purposes.

If a participation is registered within 75 days, or an intangible asset is registered within 60 days, of acquisition and held continuously for at least one year, capital gains from the sale or contribution in kind of the participation, or the intangible asset, are exempt from CIT in general. Prior to an amendment as of 1 January 2018, there used to be an additional requirement concerning the minimum share of the given capital (at least 10% or above).

Stock transactions
Shareholders of a real estate holding company are also subject to CIT on their income from the alienation of the shares in the real estate holding company. Transfers of direct or indirect participations in companies that own real estate may be subject to CIT in certain cases where the shareholder is a foreign resident.

Dividend income
Except in the case of controlled foreign companies (CFCs) (*see the Group taxation section*), dividends received and accounted for as income in the given tax year are tax-free.

Interest income
No specific provision exists in Hungary for interest income; consequently, interest income is taxable for CIT purposes.

Intellectual property (IP) related income
The IP regime has changed in Hungary. In the transition period, both the old and new regime may be applicable, as follows:

- The old regime is applicable to IP acquired or produced till 1 January 2016.
- The new regime is applicable to IP acquired or produced after 30 June 2016.
- In the case of IP acquired or produced between 1 January 2016 and 30 June 2016, special rules apply.

The old IP regime cannot be used after 30 June 2021.

Under the old IP regime, royalty includes gross income derived from (i) the licensing of the use or exploitation of patents, industrial design, and know-how; (ii) the right of use of trademarks, trade names, and business secrets; (iii) permission to use copyrights and similar rights attached to protected work; and (iv) transfers of the property described above (except for trademarks, trade names, and business secrets). Under the new IP regime, royalty includes the profit (net income) gained through (i) the licensing of the use or exploitation of patents, utility models, plant variety rights, supplementary protection certificates, patented topography of micro-electronic semiconductors or a copyrighted software, or from registration asan orphan medicinal product (together referred to as 'exclusive rights'); (ii) the sale of exclusive rights, or from their de-recognition as non-monetary, in-kind contribution; and (iii) the supply of goods and services connected to the value of exclusive rights.

Royalty income
50% of the profit (gross income in case of the old regime) arising from royalty is exempt from tax, but up to 50% of the profit before tax. Based on the new regime, further limitations apply (Nexus approach) to the IP asset related tax incentives if the IP asset is acquired from a related party or R&D services to produce the IP asset are rendered by a related party.

IP reserves
Gain on sale of a non-reported IP asset that is transferred to tied-up reserves and used within five years (three years in the case of the old regime) for the acquisition of another IP asset generating royalty income is exempt from tax.

Reported IP
Gain on sale of a reported IP asset is exempt from tax. *The details of the exemption are described under Capital gains above*.

Development reserve
50% of pre-tax profit may be assigned as development reserve. The maximum value of the reserve is HUF 10 billion. In general, the period within which the development tax reserve can be released, consistently with the cost of investment, is four years. This amount is basically available as a lump-sum tax depreciation for the relevant asset prior to the asset being acquired.

Unrealised exchange gains/losses
Hungarian taxpayers are able to use foreign currency for bookkeeping purposes. In case gains or losses are hitting the P/L though, those are tax effective. Note that there is a tax deferral available for unrealised exchange gains/losses.

Foreign income
Taxpayers resident in Hungary and foreign entrepreneurs (i.e. PEs) must calculate their CIT base exclusive of any income that is subject to taxation abroad if so prescribed by an international treaty. In any other case, a foreign tax credit is available for income taxes paid abroad (*see Foreign tax credit in the Tax credits and incentives section for more information*).

In Hungary, there are no provisions under which income earned abroad may be tax deferred.

Deductions

In general, costs and expenses incurred in relation to the taxpayer's income-generating business activity are deductible for CIT purposes.

Accrued expenses are recognised for taxation purposes in the tax year they affect.

Depreciation and amortisation
Accounting depreciation that is accounted as expenditure, and thus included in the accounting profit, should be added to the CIT base. Tax depreciation calculated according to the CDTA reduces the tax base, even if the tax depreciation is higher than the accounting depreciation. The tax depreciation of tangible assets should be calculated using the straight-line method on the basis of the historical value from the time when the asset was first used for business purposes.

Examples of tax depreciation rates include the following:

Assets	Depreciation rate (%)
Computers and other high-tech machinery	33 or 50
Vehicles	20
Other tangible assets	14.5
Buildings (long-life structure)	2
Rented buildings	5

Assets newly acquired since 2003 can be depreciated at 50% annually; these instruments include, among other items, certain machinery and certain IP.
Generally, there is no prescribed amortisation rate for intangibles; the historical value, the residual value, and the useful life should be considered. However, goodwill can be amortised at an annual rate of 10%, provided that the business of the taxable person is in line with its intended purpose and that amortisation of goodwill can also be recognised for accounting purposes. Additionally, extraordinary amortisation might also be recognised for CIT purposes.

In the case of transformations, specific amortisation rules apply.

Organisational and start-up expenses
Companies are not obligated to capitalise the costs of formation/reorganisation. The capitalisation of these costs is at the company's discretion, but the company should comply with its accounting policy. Furthermore, only the direct costs of formation/reorganisation that are not classified as investments or renovations and are likely to be recovered ultimately can be capitalised.

Interest expenses
Interest expenses are generally deductible if the following conditions are met:
- Interest incurs in relation to the company's profit generating activity.
- Thin capitalisation / interest limitation rules are fulfilled (*see This capitalisation / interest limitation rule in the Group taxation section*).
- Interest is not paid to a CFC.
- Interest is in line with the transfer pricing principles (in a related-party setting).

Bad debt
Under the Act on CIT, bad debts are only deductible for CIT purposes if they are supported by legally valid third-party documents stating that the receivable cannot be collected. Expenses claimed that cannot be enforced in court and expired claims are not deductible for CIT purposes.

In addition to the above, 20% of eligible bad debts are deductible from the CIT base if the debt was not settled within 365 days from the due date.

Charitable contributions
Grants made or assets that are transferred without consideration, as well as liabilities assumed or services provided free of charge, will qualify as business expenses if the taxpayer has a declaration from the recipient stating that the recipient's profit will not be negative without the income received.

Grants will always qualify as non-business expenses if they are provided to a foreign person or foreign resident company.

In the case of film and sports (football, basketball, handball, ice hockey, water polo, and volleyball) sponsorship grants, the amount of support is deductible both from the CIT base (as an expense) and from the CIT amount, provided that an official sponsorship certificate is available.

Tax base allowance regarding R&D
A tax base allowance is only applicable for R&D activities if the taxpayer carries out basic research, applied research, or experimental research activities within its own scope of activities.

'R&D activities carried out within the taxpayer's operations' shall mean R&D activities carried out:
- using the taxpayer's own assets and employees, at the taxpayer's risk and benefit

R&D activities carried out by the taxpayer's employees using the taxpayer's own assets on behalf of others, or
- (joint) R&D activities carried out under an R&D agreement (e.g. cost sharing agreement).

The direct cost of the R&D activity or the amount of depreciation on the research activity (if the cost of R&D activity is capitalised) is deductible when calculating the pre-tax profit. Additionally, an extra deduction is granted from the tax bases in the form of a downward tax base adjustment.

300% of the direct costs of research activity (up to a maximum of HUF 50 million) are deductible from the tax base if the research activity is carried out jointly with a higher education institution, the Hungarian Academy of Sciences, or a research institute established by them.

The same deductibility rule is applicable if a cooperation agreement is concluded with a research institution operating either as a central budgetary organ or as a majority state-owned business organisation.

Taxpayers may also deduct from their CIT base the direct costs of R&D activity carried out with own assets and employees of their related parties if, based on the choice and the declaration of the related party, the deduction was not utilised by the related parties and the R&D also serves the business of the taxpayer who utilises the deduction.

As of June 2016, entities with a negative tax base may claim 4.5% of tax base deductions applied on account of R&D activities as a social tax allowance, subject to meeting the following criteria: deriving at least 40% of total revenues from R&D activities, maintaining at least one (five for large enterprises) trainee position, and having no decrease exceeding 10% in the average statistical headcount of R&D personnel in the tax year.

Employee benefit expenses
Employee benefits and the fringe benefit tax payable on them are tax-deductible.

From 2017, the CIT base may be reduced, up to the amount of the pre-tax profit ('super deduction'), by the acquisition cost, additional acquisition cost, and by the renovation cost of accommodation facilities for workers, as defined by the Act on Personal Income Tax. The CIT base may also be reduced in a given tax year by the rental fee of property rented for the purpose of providing accommodation facilities for workers and by the operational costs of such facilities.

Bribes, 'kickbacks', other illegal payments
Bribes, 'kickbacks', and illegal payments are not recognised as business costs for CIT purposes and are non-deductible from the tax base.

Fines and penalties
Fines and penalties are not deductible for CIT purposes.

Taxes
Taxes are usually deductible for CIT purposes, except for CIT, recoverable VAT, and the income tax of energy suppliers and public utility service providers.

Net operating losses
Losses can be carried forward according to the following:

Year the tax loss was generated	Period of utilisation
Prior to the tax year starting in 2015	Until the tax year including 31 December 2025
During the tax years starting after 2015	During the following five tax years

In the case of acquisition or legal transformation, the company's tax losses carried forward cannot be utilised if:

- the majority of the company's shares are directly/indirectly acquired by an independent entity (an entity who was not one of the company's owners in the preceding two financial years)
- the activity of the company changes significantly in the two years following the transformation, or
- the successor company does not generate any revenue from at least one activity of the predecessor.

Losses carried forward may only be used to offset up to 50% of the tax base calculated without losses carried forward. However, losses carried forward and acquired by the successor company in the course of corporate transformation may be written off in a tax year only in proportion to the ratio of the sales or other revenues gained in the tax year in respect of the continued business activity and the average sales or other revenues gained by the predecessor company in the last three tax years preceding the transformation.

Note that earlier tax losses must be used first (FIFO principle), and the losses of predecessors are also deductible from the successor company’s CIT base if the aforementioned conditions are met.

Losses cannot be carried back (except for agricultural companies, who may account for deferred losses by self-revision or by correcting the amount of tax paid in the previous two tax years).

Due to the recent introduction of the group taxation regime for CIT purposes in Hungary, certain special rules apply to tax loss utilisation by the tax group and by the group members themselves (e.g. losses generated before the establishment of the tax group cannot be utilised by the tax group; they could only be utilised by the individual tax group members).

See Tax base allowance regarding R&D above for a new rule in relation to entities with a negative tax base effective as of June 2016.

Payments to foreign affiliates
There is no general restriction on the deductibility of a consideration due to a foreign entity, provided the payment is a justifiable business cost. General anti-avoidance provisions (abuse of law, substance-over-form) may also result in non-deductibility. If the parties are considered to be related parties under the definition of the CDTA, the Hungarian tax office is entitled to adjust the Hungarian party’s tax base to reflect the market price (arm's-length price) if the parties did not make the adjustment themselves.

Considerations due for services are only deductible if the actual performance of the services is supported and the Hungarian taxpayer can prove that it benefits from the service.

The consideration paid to a CFC is not deductible for CIT purposes unless the taxpayer is able to prove and keeps documentation that it serves the purposes of business operations. *For further details on the CFC rules, see the Group taxation section*.

Group taxation

As of 1 January 2019, taxpayers are able to opt for a group taxation regime for CIT purposes. Group taxation is available to affiliated companies resident in Hungary for tax purposes, provided that such affiliated companies have at least 75% direct or indirect control over each other, have the same year-end, have the same functional currency, and prepare their financial statements on the same way (as per Hungary GAAP or IFRS).

By opting for group taxation, group members are able to offset their operating losses and tax incentives (becoming available following the date when the group taxation was entered into by the members) against the positive tax base, or tax payable of another group members if certain conditions are met; as well as simpler transfer pricing rules that apply to the intra-group transactions.

Eligible group companies had a particularly short time period to decide whether they wanted to opt for group taxation as of 2019; the respective declaration had to be submitted to the tax authority by 15 January 2019. In respect of subsequent tax years, the respective declaration should be submitted between the first and 20th day of the month before the last month of the tax year. The procedural rules regarding group taxation regime is included in the Act on Rules of Taxation.

Transfer pricing

If parties qualify as related parties (as defined in the Hungarian CDTA) and the price applied differs from the arm's-length price, the CIT base must/may be modified by a transfer pricing adjustment. In addition, the foreign PEs of a Hungarian company and the Hungarian head office also qualify as related entities and are subject to transfer pricing regulations.

Taxpayers are obligated to prepare transfer pricing documentation for every transaction between related parties (including in-kind contributions), subject to certain exemptions.

Transfer pricing documentation is not required to be prepared:

- For transactions between a resident taxpayer's PE and a related company if the resident taxpayer under the provisions of an international treaty adjusts the corporate tax base ensuring that it does not include the foreign taxable income.
- For transactions covered by an advanced pricing agreement (APA) issued by the state tax authority.
- If the consideration due for goods or services supplied by a third party is recharged in full to a related party.
- In the case of cash transferred without consideration.
- If the value of the transaction does not exceed HUF 50 million during the tax year.
- In the case of individuals, small or micro enterprises, transactions conducted on the stock exchange, or at an officially set price.

Taxpayers are allowed to prepare consolidated transfer pricing documentation if the consolidation does not jeopardise comparability, and the contracts:

- have the same subject matter and all their terms and conditions are identical and laid down in advance

closely relate to each other, or

- in the case of consolidation, taxpayers are obligated to include arguments for the consolidation (i.e. why the taxpayer believes that criteria of consolidation are met).

When determining transfer prices applied between related companies, taxpayers are allowed to apply traditional transaction methods or transactional profit methods. If the above methods are not applicable, companies may use any other method.

The formal and content requirements as included in Base Erosion and Profit Shifting (BEPS) Action 13 were implemented in Hungary in Decree No. 32/2017 of the Ministry for National Economy, which has replaced, as of 1 January 2018, the Decree No. 22/2009 of the Ministry of Finance, the former decree governing the details of the transfer pricing documentation requirements.

According to Decree No. 32/2017 of the Ministry for National Economy, taxpayers have to prepare a Master File and a Local File as transfer pricing documentation. The new rules have to be applied in the documentation to be prepared for financial year (FY) 2018 first.

According to Decree No. 32/2017 of the Ministry for National Economy, the Local File must include, but is not limited to, the following:

- Functional and risk analysis.
- Industry and company analysis.

- Economic analysis (including financial analysis, benchmarking analysis, and the process of selecting the most appropriate transfer pricing method).
- Copies of APAs and advance tax rulings issued by foreign tax authorities that concern the local company's documented transactions.

According to Decree No. 32/2017 of the Ministry for National Economy, the Master File must include the following:
- The organisational structure and the presentation of the group (including the supply chain, inter-company agreements, functional and risk analysis, and business reorganisation, if any).
- Information about the intangible assets, the financial transactions, the financial performance, and the taxation of the group.
- A list of APAs and advance tax rulings issued by tax authorities.

In addition to the above, taxpayers are allowed to prepare a so-called simplified documentation for certain low-value adding services if criteria set in the Hungarian legislation are met. Decree No. 32/2017 of the Ministry for National Economy allows the preparation of the simplified documentation.

As per the CDTA, taxpayers are required to apply the interquartile range when determining and presenting the arm's-length nature of the transfer prices of their inter-company transactions if they meet all the specified conditions, as defined in Decree No. 32/2017 of the Ministry for National Economy.

According to Decree No. 32/2017 of the Ministry for National Economy, the conditions are the following:
- the arm's-length price or range is determined based on information from databases that are publicly accessible or verifiable by the tax authority, and
- the comparability analysis covers the data of at least ten comparable companies for at least three financial years or at least 30 observations are taken into account or the sample range exceeds 15%.

The transfer pricing documentation does not have to be submitted to the tax authority, but has to be available no later than the filing date of the CIT return in any given year; otherwise, a default penalty may be assessed in an amount up to HUF 2 million for missing or incomplete documentation for each year. In the case of a repeat offence, it is up to HUF 4 million for each missing or incomplete documentation. For the repeated offence of the same documentation, the penalty may go up to four times of the penalty levied for the first time.

Country-by-country (CbC) reporting
In addition to the above, Hungary has implemented CbC reporting legislation. The new statutory obligation pertains to Hungarian resident companies that were, in the fiscal year preceding the reporting fiscal year, members of a multinational company group with a total annual consolidated group revenue exceeding EUR 750 million (or an amount in HUF approximately equivalent to the same, calculated according to the monthly average Hungarian Central Bank exchange rate for January 2015).

Under the general rule, a Hungarian resident ultimate parent entity must file a CbC report with the Hungarian tax authority within 12 months of the last day of its reporting fiscal year. The ultimate parent entity must also notify the tax authority about the last day of the fiscal year and that it is a reporting entity (i.e. an entity required to file a CbC report).

Hungarian resident entities that do not qualify as reporting entities are obligated to notify the tax authority about the name and tax residence of the reporting entity.

As a general rule, however, notifications must be made no later than the last day of the reporting fiscal year. Any change in the information reported must be reported within 30 days of such change occurring. The CbC reports and notifications must be submitted electronically.

Failing to submit reports or notifications, late submission, or providing incorrect, false, or incomplete information may be subject to a default fine of up to HUF 20 million.

Thin capitalisation / interest limitation rule
As per the prior years, interest related to liabilities exceeding three times the equity (3:1 debt-to-equity ratio) is non-deductible for CIT purposes. When calculating the ratio, debts from financial institutions shall be disregarded and the amount of liabilities could be decreased by the amount of cash receivables (to exempt back-to-back financing from this rule). On the basis of the prior rules, the non-deductible amount of interest qualifies as a permanent tax base modifying item.

According to the new legislation, which is implemented on the basis of the EU's Anti-Tax Avoidance Directive (ATAD) and entered into force in 1 January 2019, the non-deductible interest should be calculated using the EBITDA, instead of the debt-to-equity ratio. Based on the general rule, the net borrowing costs are deductible up to the higher of 30% of the EBITDA or HUF 939,810,000. A major point of the amended law is that any interest paid to financial institutions will also be subject to the thin capitalisation rules.

For this purpose, EBITDA means an adjusted corporate tax base, i.e. the current year's tax base modified with the net borrowing costs, tax depreciation, and utilisation of carried forward unused interest capacities/exceeding borrowing costs (if any).

On the basis of EU's ATAD, Hungary implemented certain derogation rules that could result in a higher interest deduction (i) if the taxpayer's group's equity/asset ratio or (ii) the net interest expense/tax EBITDA ratio is higher than the taxpayer's standalone respective ratio.

We note that a grandfathering rule is also introduced, which states that in the case of loan agreements concluded prior to 17 June 2016 the old rules (i.e. thin capitalisation debt-to-equity approach) could be applied until there is no increase in the amount of debt or the maturity date is not prolonged.

Controlled foreign companies (CFCs)
Under the new CFC rules, effective from 1 January 2019, a Hungarian taxpayer shall treat a foreign entity as a CFC where the following conditions are met:
- A Hungarian taxpayer entity alone or together with its related parties (throughout most of the Hungarian entity's financial year) holds a direct or indirect interest therein, which entitles for:
    - more than 50% of the voting rights
    - more than 50% of the registered capital, or
    - more than 50% of the after tax profits.
- In the foreign entity's given financial year, the actual CIT paid by the foreign entity is less than 50% of the CIT that would have been charged on the entity under the applicable CIT rules in Hungary (i.e. less than 50% of the Hungarian CIT rate of 9% that is 4.5%, unless the foreign entity earns income that would not be subject to tax in Hungary either, e.g. dividend, capital gain).

According to the recent changes, an entity will no longer be automatically exempt from being deemed as a CFC solely on the basis that one of its related parties is listed on a recognised stock exchange.

In order to avoid the qualification as a CFC, the foreign entity must meet the following conditions:
- its income arises purely from genuine arrangements or series of such arrangements, which the Hungarian taxpayer will need to evidence, or
- its accounting profit does not exceed HUF 243,952,500 and its non-trading income does not exceed HUF 23,495,250; or its accounting profits amount to no more than 10% of its operating costs for the tax period.

An arrangement or a series thereof shall be regarded as non-genuine to the extent that its primary purpose is to obtain tax benefit and the foreign entity would not own the assets or would not have undertaken the risks which generate all, or part of, its income if it were not controlled by a Hungarian tax resident company where the significant people functions, which are relevant to those assets and risks, are carried out and are instrumental in generating the controlled company's income.

Tax credits and incentives

Foreign tax credit
Unilateral foreign tax credit is available for income taxes paid abroad, up to the Hungarian tax payable on the creditable income (at a maximum of 90% of income tax paid abroad).

The foreign income has to be classified by country of origin and revenue type. The deducted tax may not exceed the lesser of either the applicable foreign tax or the applicable tax based on the taxation treaty between Hungary and the given country.

If there is no taxation treaty, 90% of the tax payable abroad is credited against the tax liability, up to a hypothetical tax liability calculated by using the average Hungarian tax rate. Ordinary tax credit is applicable if so described by a tax treaty. The average tax rate is the CIT rate, reduced by the applicable tax allowances, divided by the tax base. Indirect costs should be allocated in proportion to the revenue of the branch office to the total revenue of the whole company.

Special rules apply to the Hungarian CIT group.

Development tax incentive
Each development tax incentive may be claimed for a 13-year period (beginning on the completion of the development) on the CIT returns over a maximum period of 16 years from the following year of the original application for the incentive. For development incentives that have been submitted to the Ministry of Finance prior to 1 January 2017, the utilisation period is 10 years from the completion of the investment and 14 years from the application. In any given tax year, the tax incentive is available for up to 80% of the tax payable but is limited, in total, to the state aid intensity ceiling.

Claiming the tax relief is subject to a government decree, based on authorisation by the European Commission, if the total amount of state aid required for the investment project exceeds the amount that can be provided at the same county for an investment project with eligible expenses exceeding EUR 100 million. If the investment is below this threshold, taxpayers only need to notify the Ministry of Finance before starting the investment.

Tax incentives are available for investments if:
- the net present value of the investment is at least HUF 3 billion
- the net present value of the investment is at least HUF 1 billion in certain designated areas, or
- the net present value of the investment is at least HUF 1 billion in certain designated areas and provided that in the four years following the year in which the tax incentive is first used against the tax base:
    - the annual average number of employees has increased by at least 50 compared with either the year before the investment was made or the average number of employees for the three years preceding the investment (by 25 in certain designated areas), or
    - the annual wage costs have increased by 300 times the minimum wage effective on the first day of the tax year (by a multiple of 150 in certain designated areas) compared with either the annual wage costs of the year before the investment was commenced or the average annual wage cost for the three years preceding the investment.

Further incentives may be granted, provided that certain criteria are met, to companies that invest:
- at least HUF 100 million in equipment for zoogenic food production
- at least HUF 100 million in environmental protection projects
- at least HUF 100 million in the production of films and videos
- at least HUF 100 million in basic research, applied research, and experimental development projects
- in a project aiming at job creation
- at least HUF 100 million in projects financed by an issue of stock market quoted shares
- at least HUF 500 million in projects initiated by SMEs, or
- at least HUF 100 million in projects implemented and operated in a free entrepreneurship zone.

As of 24 November 2017, development tax incentives may be also applicable to investments in Central Hungary of:

- at least HUF 6 billion at net present value
- at least HUF 3 billion at net present value aimed at creating new employment opportunities, or
- if the investment project qualifies as starting investment (i) for product diversification or (ii) for new process innovation purposes.

As mentioned above, tax incentives may also be granted for projects aiming at job creation. In this regard, there is no minimum investment value and there is no additional headcount requirement, although the conditions prescribed in the relevant government decree still must be met.

In addition, the law stipulates that a taxpayer will be required to submit the details of the investment in their tax returns submitted for the tax year in which the investment is put into operation, including, in particular, the date of completion and the eligible expenses actually incurred at present value.

Regional aid map of Hungary

Large enterprises based in Budapest are not eligible for tax incentives, while those in Pest County are only able to claim tax incentives for projects qualifying as (i) starting investments aimed at starting a new economic activity, (ii) starting investment for product diversification, or (iii) for new process innovation purposes in certain assisted areas (available tax incentive is 20% or 35%).

Aid intensity is 25% in the Western Transdanubia region and 35% in the Central Transdanubia region. In the Northern Hungary, Northern Great Plain, Southern Great Plain, and Southern Transdanubia regions, the maximum aid intensity is 50%.

Free entrepreneurship zone

The free entrepreneurship zone contains over 1,200 settlements in the unprivileged areas of Hungary designated by the government and coordinated by the regional business development agency that is comprised of individual regions, separated by public administration, borders, and topographical lot numbers, that are treated jointly for regional development purposes.

In accordance with the latest amendment to the Government Decree on the establishment of free entrepreneurship zones, the list of eligible areas has been broadened to include over 1,200 settlements. The amendment sets out an extended period of applicability until 31 December 2020.

Tax Credit for Growth (TCG)

The rules of the TCG entitle the taxpayer to pay the tax on that part of pre-tax profit that exceeds the quintuple of the pre-tax profit of the preceding year (tax falling on the credit for growth) in the following two fiscal years instead of paying it in the current year.

As a consequence, the TCG is, in practice, a deferral of the tax payment liability. The applicant is eligible for payment of the tax according to the TCG rules if:

- (i) it became subject to CIT at least in the year three years before the current year;
- (ii) during this period it did not participate in any transformation, merger, or demerger; and
- (iii) it reports this choice to the tax authority by the deadline of the CIT top-up. Companies that choose to take advantage of the TCG are already entitled to waive payment of the tax falling on the credit for growth at the CIT top-up of the current year.

A preferential rule is attached to the TCG: the amount of the tax falling on the credit for growth not yet due can be reduced if the taxpayer engages in fixed asset investment or increases its employee headcount in the two fiscal years following the choice.

As of 19 July 2017, taxpayers utilising the TCG shall pay interest starting from the day that follows the due date determined based on the standard payment deadline for the TCG. The interest shall be calculated at a rate of 1/365 of the Central Bank base rate in effect on the given day for each calendar day, determined in accordance with the rules applicable to self-audit surcharges.

Special rules apply to CIT groups (e.g. CIT groups cannot apply for TCG).

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- (ii) during this period it did not participate in any transformation, merger, or demerger; and
- (iii) it reports this choice to the tax authority by the deadline of the CIT top-up. Companies that choose to take advantage of the TCG are already entitled to waive payment of the tax falling on the credit for growth at the CIT top-up of the current year.

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Special rules apply to CIT groups (e.g. CIT groups cannot apply for TCG).

Tax credits on investments and reconstructions to comply with energy efficiency targets
A CIT incentive on investment projects aimed at increasing energy efficiency was introduced in January 2017.

As a particular feature, the tax incentive does not have a territorial restriction, and investment projects carried out even in the capital may be eligible, given all other conditions are fulfilled. The tax incentive may be applied to up to 70% of the calculated CIT liability.

Projects become eligible for the incentive given their initial energy-efficiency goals are met according to a certificate issued by energy auditors or auditing organisations listed by the Hungarian Energy and Public Utility Authority subsequent to the installation of the investment. Moreover, prior to commencing the project, a preliminary audit has to be carried out (also by an organisation described above) reflecting the rate of possible energy savings on the planned investment or reconstruction.

Projects aiming for renewal/renovation may be subsidised as well.

The rate of energy savings is to be measured considering the baseline regulations, or, in exceptional cases, against the energy consumption of a similar asset with the lowest energy efficiency (and attainable savings via installing the former) currently available on the market.

The tax incentive is applicable up to 45% of the eligible costs depending on the given region (but not more that the HUF equivalent of EUR 15 million at present value), which can be increased by 20% for small enterprises, and 10% for medium-sized enterprises. The tax incentive can be used, at the earliest, in the tax year in which the investment became operational and in the subsequent five tax years.

Tax holidays
Tax holidays may be granted in relation to film subsidies, developments, and SMEs.

Other tax incentives

Film and spectator sports incentives
In Hungary, companies are encouraged to subsidise film production and spectator sports through the high rate of tax savings available. As sponsors, companies are able to achieve tax savings of up to 104.75% of the financial support they provide for film makers or sport clubs. Also, the option of allocating 80% of the payable CIT to support sports and film production is available with the maximum tax credit of 7.5%. These two regimes are not applicable in parallel within the same tax year.

From 2017, the period for applying the tax incentive for providing financial support to film productions and sports organisations for popular team sports is extended to include the eighth calendar year (previously it was the sixth tax year) following the year in which the support was provided.

Rules for applying sports incentives have been amended as of 1 July 2017. The list of eligible sports, defined as spectator sports, now comprises football, handball, basketball, water polo, ice hockey, and, as a new addition, volleyball.

Tax incentive for SMEs
A tax incentive is available for SMEs (basically, those with a maximum of 250 employees; annual net revenue of a maximum of EUR 50 million; or a maximum annual balance sheet total of EUR 43 million). SMEs that take a loan from a financial institution for the acquisition or production of tangible assets may deduct the total amount of the interest paid on the loan from their tax due without any cap; however, certain limitations should be considered as per EU law.

Tax incentive for business start-ups
From 2017, pre-tax profits may be decreased by three times the cost of shareholdings acquired in start-up companies, subject to certain requirements. This tax base decreasing item should be utilised in four equal instalments, in the tax year of the acquisition and in the three subsequent tax years, but only up to HUF 20 million per tax year and per start-up company.

A start-up company shall mean a legal person registered according to the Government Decree on the Registration of Start-up Companies, and, additionally, the average statistical number of employees in the start-up company is two or more in the tax years when claiming the allowance.

Withholding taxes

Under the domestic rules, there is no WHT on dividends, interest, or royalties paid to non-individuals.

Tax administration

As a significant development in the area of tax administration in Hungary, a new Act on Rules of Taxation has been introduced with an effective date of 1 January 2018 (new ART). Along with its modified content and structure, the governing rules for tax procedures and tax audits have been set out in a separate new act, the Act on Tax Administration Procedure.

The primary goal of the above revamp is a change in the overall perspective of the tax authority, an aim to create a regulatory environment that is brief, transparent, and easy to follow for taxpayers. In addition, the new Act aims to strengthen the service provider nature of the tax authority. Note that to a large extent this major change is a reshuffle of the rules among different pieces of legislations in order to achieve a more coherent and transparent situation.

Taxable period
CIT must be calculated by reference to the accounting year, which is either the calendar year or, for group companies, the group's accounting year.

Tax returns
Returns must be lodged by the last day of the fifth month following the last day of the accounting year (31 May for a calendar year taxpayer). The tax payable is determined by self-assessment.

Tax returns may be submitted either electronically or in paper format. However, those who are legally obligated to submit monthly tax and contribution returns (e.g. employers and payers) may only submit tax returns electronically.

From 1 January 2017, entities subject to LBT may file their tax returns with the competent local municipality through the national tax authority. The national tax authority will forward tax returns to the competent local tax authorities in an electronic format only.

Payment of tax
CIT instalments must generally be reported and paid quarterly or monthly (above HUF 5 million tax payable). The final payment is due by the last day of the fifth month following the last day of the accounting year (31 May for a calendar year taxpayer). In the case of taxpayers with total trading revenues of over HUF 100 million, 100% of the expected final payment is due by the 20th day of the last month of the accounting year (top-up obligation). However, a late payment penalty is only levied if the company fails to pay at least 90% of the expected final payment by the above deadline. The late payment penalty is 10% of the difference between the tax advances paid (including the top-up payment) and 90% of the actual CIT liability.

Tax audit process
Generally, the tax authority selects the taxpayers subject to tax audit based on certain criteria, which are communicated to the public, and an elaborate risk assessment model. Tax audits can vary in the following ways: the tax authority can (i) re-audit tax returns, (ii) monitor the redemption of government guarantees, (iii) audit the fulfilment of certain tax obligations, (iv) gather data and information, (v) monitor compliance with duty payment obligations, or (vi) re-audit previously audited tax periods.

In accordance with the new ART, the rules for tax audits have been simplified. Instead of the previously existing seven different types, there are two types defined in the Act (note that as part of the reshuffle, four out of the five disappearing types are, in fact, remaining, but in other legislations).
During a compliance audit, the tax authority may inspect whether the taxpayer complied with its individual administrative tax obligations prescribed by relevant legislation, and, in addition, may gather data and may inspect the authenticity of economic events concerned.

When carrying out a tax audit, the tax authority inspects whether the taxpayer's tax assessment and the taxpayer's obligation to file tax returns have been fulfilled.

A tax audit period can cover any years that are not lapsed (five years after the last day of the calendar year in which the taxes should have been declared or reported, or paid in the absence of a tax return or declaration) or not closed by a re-audit of tax returns. The tax audit starts when a company receives the notice of audit and finishes when that company receives the report containing the tax authority's findings. The deadline for the completion of the tax audit has also been re-codified. According to the general rule, a tax audit is to be completed within 30-120 days, although in special cases (e.g. related tax audit, request for assistance from foreign tax authorities) can be extended three times by 90 days.

In order to avoid audits lasting for several years, tax audit deadlines cannot be suspended in special cases either (*see above*), and the audit shall not exceed 365 days regardless of any ongoing related tax audit or outstanding input from foreign authorities.

Once the tax authority has completed the audit process, it issues its minutes. The minutes detail all the findings of facts of the audit and serves as the background of the tax assessment, and the basis on which the tax authority will pass its first-instance resolution. Upon receipt of the minutes, the taxpayer has the opportunity to submit its remarks to the minutes and raise any disagreement with the findings of the audit.

As one of the most important amendments as of 1 January 2018, the rules for the taxpayer to dispose new evidence during tax proceedings have been significantly modified. Upon the receipt of the minutes, the taxpayer is able to submit its remarks to the minutes and present evidence supporting its case within a 30-day deadline (increased from 15 days). In the course of subsequent proceedings (e.g. if a taxpayer submits an appeal regarding the first-instance resolution), taxpayers will not be able to allege any new facts or present any new proof that the taxpayer was already aware of but did not disclose upon the request of the tax authority in its remarks to the minutes.

In case of a dispute, the tax assessment of the tax authority may be appealed and challenged before the second-instance tax authority, which has the right to annul the first-instance resolution and decide on the merits of the case, or to instruct the first-instance tax authority to carry out a new audit if the facts and circumstances have not been appropriately and fully developed.

The decision of the second-instance tax authority is final and binding. Following the receipt of this decision, the company may litigate the case before the courts in Hungary. The court may uphold, amend, or annul the Resolution of Second Instance and, if it is necessary, may order a new process in relation to the tax audit.

The superior tax authority or the minister in charge of taxation (minister appointed for the supervision of the tax authority, i.e. Minister of Ministry for National Economy in Hungary) may take supervisory regulatory action on request by the taxpayer. The superior tax authority or the minister can also amend or annul the unlawful resolution, and, if it is necessary, a new procedure can be ordered. The deadline to initiate a supervisory measure has been set at one year following the final decision.

Statute of limitations
In general, the statute of limitations is five years from the end of the calendar year in which the tax return should be filed. Certain self-corrections interrupt the term of limitation.

Topics of focus for tax authorities
The tax authority will take more stringent measures against 'aggressive tax planning' (tax planning that takes advantage of unintended administrative or legal loopholes) using its international experience and cooperation agreements. The tax authority will also focus on protecting the revenue of the central budget and supporting the competitiveness of the national economy.

Generally, the following categories of taxpayers may expect to be scheduled for tax audits:

- Taxpayers that perform construction activities.
- Taxpayers whose main activity is e-commerce (e.g. webshops).
- Taxpayers whose managing directors or the shareholders were changed.
- Taxpayers that provide accommodation services (e.g. hotels).
- Taxpayers that provide passenger transport services.
- The tax authority will also pay more attention to risky taxpayers, risky activities, and priority taxpayers.

Special taxpayer categories
From 2016, the total tax difference charged to taxpayers classified as 'reliable' has to be reduced by the total tax difference credited to these taxpayers during the current year and the preceding five years. 'Reliable' taxpayers receive benefits, while 'risky' taxpayers fall under stricter rules.

The criteria for classifying taxpayers as reliable or high-risk has changed, along with the related legal consequences.

Reliable taxpayer
The tax authority classifies a taxpayer as 'reliable' if all criteria defined are met, including:

- at least three years of continuous operation (or being VAT-registered)
- no more than HUF 500,000 net tax debt
- not being classified as a risky taxpayer, and
- the balance of the taxpayer's total tax liability is positive.

Further conditions are that in the year in question and in the preceding five years:

- the tax difference on the taxpayer's expense should not be more than 3% of the total calculated tax liability of the year in question
- the taxpayer is not under foreclosure procedure
- the taxpayer is not under bankruptcy or under liquidation procedure, forced cancellation, or enhanced regulatory supervision by the tax authority, and
- the taxpayer's tax number is not under suspension or cancellation procedure.

Furthermore, the taxpayer cannot be classified as reliable if the sum of the default penalties in the previous two years before the year in question is more than 1% of the total calculated tax liability of the year in question.

Risky taxpayer
The tax authority classifies as 'risky' those taxpayers that are not under liquidation or forced cancellation, but are publicly listed due to a high tax deficit, tax debt, or employing an unreported workforce, or if the tax authority has had to apply business closure measures against the taxpayer repeatedly within a year, or the taxpayer's seat is located at a premise of seat service. The classification of a risky taxpayer lasts for one year, but will be cancelled in the subsequent quarter if the taxpayer settles its tax deficit or the tax debt and the related penalty and default.

Other rules
In line with the renewed profile of the tax authority as a service provider, start-up companies will be eligible for assistance as a part of a six-month mentoring period. The exact rules are currently in the development phase, but currently comprises lectures and personal consulting sessions offered to new businesses.

Other issues

Principal forms of doing business
- Branch.
- Partnership.
- Limited liability company.
- Private company limited by shares.
- Public company limited by shares.

Mergers and acquisitions (M&A) from a business and tax perspective
Mergers in Hungary are tax-free transformations if they qualify under the definition of preferential transformation. Preferential transformation means that a company, without going into liquidation, transfers all its assets and liabilities to another company in exchange for the issue to its shareholders of securities representing the capital of that other company and cash payment up to 10% of the total nominal value of the shares acquired in connection with the transformation, merger, division, or, where the shares have no nominal value, the percentage they represent in the subscribed capital.

In a preferential transformation, the predecessor company does not have to amend its tax base by the difference between the adjusted book value and the book value. The adjusted book value means the historical value of assets less any depreciation deducted from the tax base plus the readjusted amount of extraordinary depreciation. Furthermore, for shareholders, the income accounted in excess of the historical value of the shares they acquire in the preferential transformation is also not taxable for CIT purposes for as long as the shareholder holds its participation.

In any other case, if two companies merge, the difference between the market value and the book value of the assets and liabilities is taxable for the predecessor company. Furthermore, the predecessor company may decrease its tax base by the amount of the difference between the adjusted book value of its assets and their book value if the adjusted book value is the higher of the two. The company will increase its tax base if the book value is higher than the adjusted book value.

International Financial Reporting Standards (IFRS) adoption
Companies defined in Section 4 of Decision no. 1606/2002/EC (mainly companies listed on the stock exchange) have to prepare their consolidated annual reports according to IFRS. However, non-listed subsidiaries of EU-listed entities are exempt from the preparation of IFRS consolidated financial statements.

In Hungary, IFRS was adopted in a multi-stage procedure. From 1 January 2018, the transition to stand-alone IFRS reports are obligatory for credit institutions, financial enterprises, and listed companies. From 1 January 2018, the adoption of IFRS is also mandatory for cooperative credit institutions and other credit institutions taking part in the integration of cooperative credit institutions and smaller credit institutions. The companies applying IFRS for stand-alone purposes will have to base their tax liability calculations (e.g. CIT, LBT, and energy suppliers' income tax) on IFRS as well. Companies that prepare IFRS reports at the head office level and/or companies that are subject to mandatory audit in Hungary are also able to opt to use stand-alone IFRS books in Hungary.

Foreign Account Tax Compliance Act (FATCA) agreement with the United States (US)
Hungary and the United States signed an intergovernmental agreement (IGA) on 4 February 2014 in order to implement the US FATCA. The Hungarian IGA is based on the 'Model 1 A' Agreement, which means a reciprocal information exchange between the Hungarian tax authority and the US Internal Revenue Service (IRS). As part of the negotiations regarding the IGA, Hungary can include further entities and accounts into Annex II of the Agreement with exempted or deemed-compliant status compared to the originally issued Model Agreement. Changes to the local legislation for FATCA and IGA purposes have successfully been adopted by the Hungarian Parliament.

Hungary has reporting obligation by the end of September each year. The first information exchange between the Hungarian tax authority and the US IRS was in September 2015.

Common Reporting Standard (CRS) agreement within the OECD
The CRS, developed in response to the G20 request and approved by the OECD Council on 15 July 2014, calls on jurisdictions to obtain information from their financial institutions and automatically exchange that information with other jurisdictions on an annual basis. It sets out the financial account information to be exchanged, the financial institutions required to report, the different types of accounts and taxpayers covered, as well as common due diligence procedures to be followed by financial institutions.
Hungary has reporting obligation by the end of September each year. The first information exchange between the Hungarian tax authority and the other participating jurisdictions took place in September 2017.

Hungarian trust
Under a Hungarian trust contract, the settlor entrusts the trustee to manage (in its own name but for the benefit for the beneficiary) the assets, rights, and receivables (trust asset) transformed thereto by the settlor. A trust contract cannot have a term longer than 50 years.

The trustee can be either a natural person or a legal entity, and its private fortune is handled separately from the trust asset/fortune. The trustee is liable for the tax administration (tax number, tax returns, etc.) and the bookkeeping of the trust. The Hungarian National Bank keeps an authentic registry of the Hungarian trustees.

The trust asset is subject to Hungarian CIT and LBT and is considered to be tax resident under domestic law (thus, may have access to treaty benefits). The Hungarian trust is a good business opportunity for companies since it may be inserted into a structure tax neutrally.

Accounting, filing and auditing requirements

The appointment of an auditor is mandatory if a company's average annual net sales revenue for two consecutive business years exceeds HUF 300 million, or the average number of employees exceeds 50 in two consecutive business years; otherwise, the appointment of an auditor is optional. The auditor must be registered with the Hungarian Chamber of Auditors.

The Hungarian accounting system is based on the Hungarian Accounting Act, which incorporates Hungarian Accounting Standards. As a member of the EU, Hungary's law is in accordance with European Commission (EC) Regulation No. 1606/2002, which requires the application of IFRS in the preparation of consolidated financial statements of listed companies. Hungarian Accounting Standards are supplemented by government decrees based on special requirements for banks, insurance companies, stockbrokers, investment funds, pension funds and various nonprofit institutions.

Hungarian companies must prepare their non-consolidated financial statements based on Hungarian law. However, from 1 January 2018, all listed companies and financial institutions will be obliged to prepare non-consolidated financial statements according to IFRS. Certain companies also may choose to prepare non-consolidated financial statements according to IFRS. Consolidated financial statements, if necessary, can be prepared based on the Hungarian Accounting Law or IFRS. The annual financial statements must be submitted electronically to the company service, which forwards the statements to the court of registration. It is possible to file directly with the court, but this does not eliminate the requirement to file with the company service. Public companies limited by shares have more extensive publishing and disclosure obligations. Issuers on the Budapest Stock Exchange must compile and publish earning reports on a quarterly or semi-annual basis, depending on the capitalization or the number of shareholders.

Non-consolidated financial statements also must be prepared to provide a basis for the determination of corporate income tax, with certain adjustments.

Financial statements may be prepared in HUF, euros (EUR) and US dollars (USD). Financial statements also may be prepared in other currencies if certain conditions are met.

The general deadline for submitting financial statements (other than consolidated financial statements) is the last day of the fifth month following the balance sheet date of the fiscal year, which harmonizes the deadline for submitting the statements with the tax return filing date for calendar-year companies. The document retention period required for accounting source documents, financial statements, general ledgers and other analytical records is eight years.

Taxes on individuals

Individuals in Hungary are subject to a variety of taxes, including the personal income tax, social security contributions, real estate tax and inheritance and gift tax. Entrepreneurs may be entitled to opt to be subject to the simplified enterprise tax (EVA) or to be taxed under the fixed rate tax for small taxpayers (KATA). There is no special regime for expatriates.

Hungary Quick Tax Facts for Individuals	
Income tax rate	15%
Capital gains tax rate	15%
Basis	Worldwide
Double taxation relief	Yes
Tax year	Calendar year
Return due date	20 May following the tax year
Withholding tax	
• Dividends • Interest • Royalties	15% 15% 15%
Health tax	14% or 22%
Net wealth tax	No
Social security	18.5% (employee), 22% (employer)
Inheritance and gift tax	9% or 18%
Real estate tax	May apply at municipal level
VAT	27% (standard rate)

Residence

Individuals with Hungarian citizenship (excluding dual citizens with no permanent residence in Hungary) and foreigners with a Hungarian settlement permit are considered tax residents. An EEA national will be deemed a tax resident if his/her stay in Hungary exceeds 183 days in the calendar year. A foreigner is considered a tax resident if he/she has a permanent home exclusively in Hungary. If the individual also has a permanent home in another country, or has no permanent home at all, the individual is regarded as a Hungarian tax resident if his/her center of vital interests is in Hungary. If the individual's center of vital interests cannot be determined, the individual is regarded as a Hungarian tax resident if he/she has a habitual abode in Hungary (e.g. he/she stays in the country for more than 183 days in a calendar year). Residence status may be affected by a tax treaty.

Taxable income and rates

Hungarian resident individuals are subject to tax on their worldwide income (i.e. income from any source, such as income from employment, the carrying on of a business, capital gains, investments, etc.). For nonresidents, only Hungarian-source income is taxable (including income from employment, business activities or real property transactions in Hungary). Hungarian-source income is defined as income received domestically or offshore for activities performed in Hungary, or income earned from Hungarian assets.

Gross income is considered the taxable base. Most income is aggregated, although certain income, such as dividends and capital gains, is taxed separately.

Housing provided by a Hungarian firm is taxable as part of employment income if evidenced by an employment contract. For foreign employees seconded to Hungary without an employment contract with a Hungarian firm, housing may be considered a nontaxable benefit.

Certain categories of income are exempt, including benefits paid under the state social welfare provisions or from social insurance, allocations for childcare and state pension income, scholarships for full-time study and tax refunds.

Deductions and reliefs

Professional training, business travel and accommodation expenses qualify as business expenses if properly supported by invoices.

A family tax allowance is available. Families with one child are entitled to a tax base decrease of HUF 66,670 per month; families with two children to HUF 100,000 per child per month; and HUF 220,000 per child per month for families with three or more children. The allowance is deducted from the tax base. If the family does not have enough income to use the entire amount of the family tax allowance, the family is able to claim the outstanding amount from their social security contributions in the form of a family contribution credit.

Newlyweds are entitled to a tax base decrease of HUF 33,335 per month per couple for two years following the date upon which they were married if certain conditions are fulfilled. The newlyweds are required to jointly verify the validation of the allowance.

Rates

The personal income tax is a flat rate of 15%. Passive income, such as dividends, interest and rental income also is subject to a 15% tax.

A 14% health tax is imposed on certain passive income, e.g. dividend income, capital gains and income exceeding HUF 1 million from the rental of real property. A 22% health tax may apply on certain other income.

Inheritance and gift tax

Inheritance duty of 18% is levied on assets, and a 9% inheritance duty is levied on property. Special rates are applicable to motor vehicles. A full exemption applies to inheritances received by direct descendants (including the spouse of the deceased). An exemption up to HUF 20 million applies to assets inherited by stepchildren and foster children.

Gift tax is due on gifts of real estate or movable property; the granting of a right, the surrender of a right or the exercise thereof without consideration; and the waiver of a right without consideration. A full exemption applies to individuals who receive gifts from direct relatives or a spouse. The gift tax rate is 18% on assets, and 9% on real property. An exemption applies where the value of the asset or property is less than HUF 150,000.

Net wealth tax

Hungary does not levy a net wealth tax.

Real property tax

A local tax may apply to dwellings and land; municipalities have the right to impose such taxes and determine the rates, up to specified limits.

Social security contributions

Employees are required to make social security contributions of 18.5% from their gross salary, withheld by the employer. Employers are required to make social security contributions of 22% on the gross salary of the individual, and a 1.5% training fund contribution.

Hungary has limited social security exemptions for third-country national expatriates (non-EEA citizens) assigned to Hungary and their foreign employers. If a Hungarian company employs a foreign individual, social security charges on both the employee and the employer are due in Hungary. Any exemptions from Hungarian social charges are based on the conditions of the assignment structure, EU social regulations or an applicable bilateral social security agreement.

Other taxes

The municipalities levy a tax on motor vehicles.

Compliance

The taxable period for individuals is the calendar year.

Husbands and wives are treated as separate taxpayers. An individual must file his/her annual tax return by 20 May of the year following the relevant taxable period. An extension to 20 November is possible if certain requirements are met.

Hungary operates a self-assessment regime, however, as from 2017 (with regard to tax year 2016) the Hungarian tax authorities prepare draft tax returns in certain cases that need to be reviewed, modified if necessary and approved by the taxpayer. The filing of an individual tax return remains available even if a draft tax return is prepared by the authorities, and is mandatory in the absence of a draft return.

The employer is required to deduct tax (or tax advances) from salary, wages and other payments.

Labor environment

Employee rights and remuneration

The Labor Code contains minimum provisions for employment contracts, job descriptions, place of work, hiring out labor and rules for the termination of employment. The Code defines the sections that are binding, while other sections allow derogation to some extent.

Employees are entitled to organize trade unions. Trade unions may inform their members of their rights and obligations concerning financial, social, cultural and living and working conditions. They also may represent their members *vis-à-vis* the employer and before government agencies in matters concerning labor relations and employment.

Employees, as a group, are entitled to participate in company matters; these rights are exercised by the works council or the employees' trustee elected by the employees. Employers must inform the works councils or trade unions (if any) before decisions are made regarding a mass redundancy.

Discrimination against employees based on nationality, language, ethnicity, sex or sexual orientation is prohibited, as is discrimination with regard to establishing or terminating employment, application procedures, training and the determination of working conditions.

Working hours

The work day generally is eight hours, but may go up to 12 hours, including overtime and it depends on the working-time schedule. Employees are entitled to two nonworking days per week. Sunday workers, i.e. if Sunday work is performed during their regular working hours, must receive 150% of their regular daily salary and be provided with another day off. Exemptions to this rule may apply to special work schedules, but employers must provide adequate rest time for employees. Employees must be paid minimum premiums of 15% for night work and 50% for overtime work. The maximum overtime is 250 hours annually, and 300 hours if so provided by a collective agreement.

Each employee is entitled to a regular vacation of at least 20 days each calendar year. However, there are additional vacation days, depending on the age of the employee, e.g. when the employee is 45, there are 30 days of regular vacation. Supplementary vacation days are given if the employee has children, among other reasons.

Wages and benefits

The Labor Code sets a basic minimum salary in hourly and monthly terms for all types of work and the monthly minimum salary requirement must be adhered to. The Labor Code allows a range of specific minimum salary levels and guidelines for certain types of work (e.g. by skill level, degree of responsibility and industry).

Salary levels vary widely. Wages in the state sector or at wholly Hungarian-owned enterprises generally are lower than at multinational companies. Skilled white-collar labor commands a premium, particularly for qualified information-technology specialists. There also are disparities among different regions of the country: salary levels in Budapest and the western counties are higher than in certain eastern regions.

The Labor Code adopts the principle of equal wage for equal work, meant to address discrepancies between wages for male and female employees. Hungary is a signatory to, and adheres to, International Labour Organization conventions protecting employee rights.

Pensions

Hungary has a two-pillar pension system:

1) Mandatory State Social Security Pension (funded by the employer and employee contributions); and
2) Voluntary Mutual Pension Fund (funded by voluntary employer and employee contributions into a self-administered tax-sheltered fund).

Social insurance

The social tax payable by the employer and the employee generally covers pension and healthcare insurance. Based on the gross wages of an employee, the employer pays a 22% social tax. Companies also must pay 1.5% to the vocational training fund. The employee contributes 10% for pension insurance (uncapped), 7% for healthcare (also uncapped) and 1.5% of gross wages to the unemployment fund. Employee contributions are assessed and withheld by the employer.

Other benefits

The general rate of sick pay is 60% if the employment period has been longer than two years, and 50% if the employment period has been less than two years; the maximum amount of sick pay cannot exceed two times the minimum wage. The employer must pay 70% of wages for a maximum of 15 work days per year in case of illness.

In addition to the regular annual holiday leave of 20 days and additional days depending on the age of the employee, extra days may be awarded to employees younger than 18 (five days) and parents with children (up to seven days, depending on the number of children). Maternity leave is provided up to 24 weeks.

Fringe benefits can be provided to employees in the form of food vouchers, meals at workplace canteens, a "Szechenyi" holiday card (used for accommodation, food and beverages and recreation), schooling assistance, travel passes, etc. The tax rate for fringe benefits is 15%, but there is a tax base adjustment of 18%, resulting in an effective tax rate of 17.7%. There also is a health tax payment obligation for fringe benefits, which is 14% with a tax base adjustment of 18%, resulting in an effective health tax rate of 16.52%.

Benefits in kind may be provided to employees, provided they are available for all employees or a specifically defined group. The tax rate for benefits in kind is 15%, but there is a tax base adjustment of 18%, resulting in an effective tax rate of 17.7%. A 22% health tax obligation applies to benefits in kind, with a tax base adjustment of 18%, resulting in an effective health tax rate of 25.96%.

Termination of employment

An employer must give a specific reason for dismissing an employee. Employees have the right to sue for damages for unfair dismissal if the reason for dismissal is untrue or unclear. The rights of an employee remain in effect after a sale of the employer company. The minimum notice period for dismissal (between 30 and 90 days) increases with the length of employment of the employee.

Labor-management relations

There is a prescribed seven-day conciliation period before a strike may be carried out. It is customary, but not required, for notice of a strike to be given one to two days before the strike. A national mediation and arbitration service exists to help settle labor disputes, but its services are not obligatory.

Works councils are mandatory in all workplaces employing 50 or more persons. (For companies employing more than 15 but fewer than 50 persons, appointment of an employee delegate for the workplace is mandatory.) The councils are forums for employee representation; the company's employees elect the members, who then can negotiate employment terms on behalf of the staff. Members of works councils often are union representatives as well.

Individual labor contracts are standard practice among companies in Hungary, and the Labor Code requires them for employment relationships. Collective bargaining agreements for employees are negotiated at the enterprise level and are rare, although trade unions have been working to establish such contracts in several industries. Works councils may negotiate collective agreements in enterprises where there are no trade unions.

Employment of foreigners

Different rules apply depending on whether an employee is an EEA national or a national of a third country (i.e. a non-EEA country). EEA citizens and their family members do not need a work permit in Hungary. The employer must notify the competent labor center of the employment that is not subject to a work permit. The commencement of the employment must be reported no later than the start date of the employment; the termination of the employment must be reported on the day following the termination.

A third-country national generally may be engaged in employment (with very few exceptions) only if he/she has a valid combined work and residence permit. The combined work and residence permit is issued by the Office of Immigration and Nationality. The following documents are necessary for the application: pre-agreement on employment, a document certifying accommodation in Hungary, evidence of having the necessary qualifications for filling the position, certificate of expected annual income and health insurance. The labor center should grant their approval for Hungarian employment as part of the application process, the final employment contract may be concluded only after the combined work permit and residence permit is issued and may only last for the period set by the permit.

The above rules also apply to EEA or third-country nationals that are to be employed by a foreign company and transferred to Hungary on a secondment.