Business taxation

1. General notes

The Hungarian tax system is similar to the level of complexity found in other OECD countries and harmonized with EU directives and provides a secure legal framework for the conduct of business. Tax acts in Hungary are enacted by the Parliament; nevertheless, local municipalities may enact local tax decrees. The tax authority provides only interpretative and administrative guidelines for these laws. Court decisions currently play an increasing role in interpreting tax laws and the European Court of Justice (ECJ) case law is also applicable.

Hungarian taxation operates under a self-assessment system. Taxpayers are required to register, determine their tax obligation, make advance payments, file tax returns on their own behalf, make corrections to the tax returns as needed, keep records and supply information as required by law. Corporations are subject to continuous assessment throughout the year. The tax authority randomly examines tax returns to enforce the self-assessment system.

The tax year is the calendar year for individuals and the calendar year or the business year for companies. In general, tax returns must be filed annually. However, for VAT, payroll and social contribution quarterly or monthly filing is required. Generally, on the basis of the tax returns, taxpayers must pay their taxes monthly (VAT, social contribution) or quarterly (VAT) or annually. In addition, corporate taxpayers should top up their annual tax payable for the given tax year by 20th of December each year up to 90 percent of their expected annual tax liability. Corporate income tax returns for corporate taxpayers should be submitted within 150 days of the business year-end. Personal income tax returns for individual taxpayers are due by 20th of May following the calendar year-end.

Subject to the fulfillment of the general, size related conditions, companies may also choose to prepare a simplified annual report form.

The law repeals the condition that the impact of exchange rate changes upon the year-end revaluation of balance sheet items is to be recorded only if the effect is significant. A simplification is that the gain or loss is the value of participations or debt securities denominated in foreign currencies may be determined without filtering out the foreign exchange effects. Since 2010, any enterprise has been entitled to keep its books and prepare its financial statements in Euro without any restriction.

Hungary’s corporate tax rate is competitive in the EU, although the low corporate tax rate is complemented with local business tax levied by the municipalities, and high social security charges. Hungary does not impose withholding tax on dividends, interest or royalties paid to corporate entities.

Hungary has a broad network of bilateral tax treaties on double taxation and it is a signatory to DTTs with 73 countries worldwide[1]. The DTTs usually reduce foreign withholding tax down to zero or 5 percent.[2] Hungary also has set up a broad investment protection treaty network providing a safe and regulated environment to foreign investors. Regarding the investment protection in Hungary there are three independent layers in place within the system. These are the Treaty on the Functioning of the EU (TFEU)[3] that protects both EU and third country investors; bilateral investment protection treaties and the Hungarian Constitution. The TFEU and international treaties override the Hungarian domestic regulations.

2. Taxes, contributions and stamp duties in Hungary

Currently, the following taxes, contributions and stamp duties are imposed in Hungary:

2.1 Central Taxes

a) Corporate income tax (CIT)[4],
b) Simplified entrepreneurial tax (EVA[5])
c) Itemized tax for small businesses (KATA[6])
d) Tax for small business (KIVA[7])
e) Value-added tax[8] (VAT)
f) Personal income tax[9] (PIT)
g) Simplified contribution to public revenues (EKHO[10])
h) Special taxes[11]
i) Property taxes[12]
j) Registration tax[13]
k) Excise tax[14]

2.2 Local taxes[15]

a) Property taxes (Building tax and land tax)
b) Local business tax
c) Communal taxes (individual's communal tax and tourism tax)

1 Please find the list of the treaties and countries in appendix 1.
2 Please find the list of the applicable withholding tax rates in appendix 2.
3 Treaty on the Functioning of the European Union (TFEU)
4 Regulated by Act LXXXI of 1996 on Corporate Income and Dividend Tax (CIT Act)
5 The abbreviation of this tax reflects the Hungarian name of the tax's type: 'Egyszerűsített vállalkozói adó' regulated by Act XLIII of 2002 on Simplified Entrepreneurial Tax
6 The abbreviation of this tax reflects the Hungarian name of the tax's type: 'kisadózó vállalkozások tételes adója' regulated by Act CXLVII of 2012 on the Fixed-Rate Tax of Low Tax-Bracket Enterprises and on Small Business Tax.
7 The abbreviation of this tax reflects the Hungarian name of the tax's type: 'kisvállalati adó' regulated by Act CXLVII of 2012 on the Fixed-Rate Tax of Low Tax-Bracket Enterprises and on Small Business Tax
8 Regulated by Act CXXVII of 2007 on Value Added Tax
9 Regulated by Act CXVII of 1995 on Personal Income Tax
10 The abbreviation of this tax reflects the Hungarian name of the tax's type: 'Egyszerűsített közteherviselési hozzájárulás' regulated by Act CXX of 2005 on Simplified Contribution to Public Revenues
11 These taxes are regulated in various acts. These are the followings: Act LIX of 2006 on the Introduction of Special Tax and Bankers' contribution Intended to Improve the Balance of Public Finances; Act CXVI of 2012 on Financial Transaction Duty
12 Currently there is only one property type tax, regulated by Act LXXXII of 1991 on Motor Vehicle Tax.
13 Regulated by Act CX. of 2003 on Motor Vehicle Registration Tax
14 Regulated by Act CXXVII of 2003 on Excise tax and Special Regulations on the distribution of Exercise Goods
15 Act C. of 1990 on Local Taxes creates the framework of local taxes

d) Municipal tax

2.3 Social contributions[16]

- Contribution for sick payment
- Social contribution tax
- Health contribution (EHO)
- Health service contribution
- Vocational training contribution
- Pension contribution
- Contribution of health insurance
- Labor market contribution

2.4 Environmental taxes[17]

a) Environmental protection product fee [18]
b) Environmental pollution fee[19]
c) Energy tax[20]
d) Mining contribution[21]

2.5 Other taxes and fiscal obligations

a) Vocational training contribution[22]
b) Rehabilitation contribution[23]
c) Gambling tax[24]
d) Innovation contribution[25]
e) Cultural tax[26]
f) Public health product tax[27]
g) Accident tax[28]
h) Insurance tax[29]
i) Utility lines tax[30]
j) Telecommunications tax[31]
k) Advertisement tax[32]

16 The system of social contributions is regulated by Act LXXX. of 1997, Act LXXXI. of 1997, Act LXXXII. of 1997, Act LXXXIII. of 1997.
17 See this category in details Dr. György Herich: Nemzetközi adózás, Adózás az Európai Unióban (Penta Unio 2013)
18 Regulated by Act LXXXV. of 2011 on Environmental Protection Product Charges
19 Regulated by Act LXXXIX. of 2003 on Environmental Pollution Charges
20 Regulated by Act LXXXVIII. of 2003 on Energy Taxes
21 Regulated by Act XLVIII. of 1993 on Mining
22 Regulated by Act CLV. of 2011 on Vocational Training Contributions and Support for the Development of Training Programs
23 Regulated by Act CXCI. of 2011 on Allowances for Persons with Disabilities and the Amendment of Certain Legislation
24 Regulated by Act XXXIV. of 1991 on Gambling Operations
25 Regulated by Act XC. of 2003 on the Innovation Fund for Research and Technology
26 Regulated by Act CLVI. of 2011 on the Amendment of Taw Laws and other Related Regulation
27 Regulated by Act CIII. of 2011 on Public Health Product Tax
28 Regulated by Act CIII. of 2011 on Public Health Product Tax
29 Regulated by Act CII. of 2012 on Insurance Tax
30 Regulated by Act CLXVIII. of 2012 on Public Utility Cable Tax
31 Regulated by Act LVI. of 2012 on Telecommunications Tax
32 Regulated by Act XXII. of 2014 on Advertisement Tax

2.6 Stamp duties[33]

a) Duties of asset acquisition
b) Procedure duties

In this chapter we only deal with the significant taxes, contributions and stamp duties in details. Due to the complexity of the system in this paper we provide only the main characteristics of the tax system and do not elaborate the details of the taxes, contributions and stamp duties.

3. Corporate Income Tax

3.1 Tax liability and taxpayer

Corporate income tax is one of the most dominant central taxes in Hungary. A Hungarian corporate tax resident entity is taxed on its worldwide income. The resident corporate taxpayers are subject to unlimited tax liability, as long as nonresident corporate taxpayers are subject to limited tax liability in Hungary. If a nonresident entrepreneur or person performs business in Hungary through domestic premises, this activity triggers limited tax liability in Hungary and the person becomes corporate taxpayer in Hungary. **The effective place of management in Hungary creates unlimited corporate income tax liability.**

Subsidiaries of foreign companies registered in Hungary are corporate taxpayers; therefore, these are subject to corporate income tax under ordinary domestic rules. Foreign companies are deemed to be resident in Hungary, if their effective place of management is in Hungary. Registered branch offices and non-registered permanent establishments are taxed under the same regime applicable to Hungarian-registered corporate entities.

The shareholder of a company whose Hungarian real estate property exceeds 75 percent of the aggregate market value of assets shown in its financial statements is subject to Hungarian taxation when transferring the shares in the company, assuming a member of the company is resident in a country with which Hungary has not concluded a double tax treaty or if an applicable treaty allows the taxation of the capital gains in Hungary.

3.2 Controlled foreign company

A company is deemed to be a controlled foreign company[34] (CFC) if a Hungarian tax resident ultimate beneficial owner owns or controls at least fifty percent participation in the foreign company or more than fifty percent of the company’s revenue derives from Hungarian source and the effective payable foreign corporate income tax of the

33 Regulated by Act XCIII. of 1990 on Stamp Duties
34 Act LXXXI. of 1996 on Corporate Income Tax and Dividend Tax, 4.§ 11.

company is less than nine percent of the gross pretax profit and the company is not registered in the EU or OECD countries or those jurisdictions that have double tax treaty with Hungary and there is no such an owner of the company that listed in recognized stock exchange and owns at least twenty five percent of the company, all over the tax year.

3.3 The corporate income tax rate

There is only one bracket in the corporate income tax rate, that is nine percent on the amount of the pretax profit.

3.4 Tax base

The taxable income of resident corporate taxpayers is based on pretax profits, calculated in the profit-and-loss statement prepared in accordance with the accounting rules, with a number of corrections for the differences in deductive and nondeductible items recognized by accounting and tax law. The tax base is the pretax profit modified by the decreasing and increasing items. The pretax profit contains the operating profit, the result on financial operations, modified by the extraordinary profit. The Corporate Income Tax Act contains the requirement of minimum income that is equal to the gross revenue[35] minus the revenue of the foreign premises; multiplied by 0,02.

3.4.1. Main tax-deductible and non-deductible items

The accounting system operates two levels tax base modification system. First, there are items that increase the tax base and there are items that decrease the tax base. Second, there are several tax-deductible and non-deductible items that modify the pretax profit. The general rule is that an item decreases the tax base if it is in connection with income generating activities of the taxpayer and it increases the tax base if it is not in connection with income generating activities of the taxpayer. The main tax base decreasing items are: depreciation and amortization, materials, wage cost, taxes and other public burdens, financial expenditures, extraordinary expenses. The main tax base increasing items (no connection with income generating activities of the taxpayer) are listed in the Corporate Tax Act.

There are items that modify the stated tax-base; these are the tax-deductible and non-deductible items.

Allowable deductions include:

- losses carried forward, maximum fifty percent of the tax-base in one accounting year;
- recognized provisions;

35 CIT Act. 4.§ 29.

- the costs of switching to double-entry accounting and switching between accounting currencies;
- foreign currency gains and losses;
- gain of reported participation;
- gain of reported intangible assets;
- received dividend;
- income of capital reduction;
- gains of supported participation exchange;
- Corporate taxpayers may deduct fifty percent of royalties but the deduction may not exceed fifty percent of the taxpayer's total pretax profits.
- The tax base may be reduced by research & development costs.

Non-deductible expenses include:

- non-business related expenses;
- loss in value accounted for in the tax year for receivables;
- interest on loans if the thin capitalization rule is applicable;
- fines;
- canceled debt if the claim is not uncollectable;

3.4.2. Depreciation

Depreciation is one of the most important items in determination of the tax base; therefore, we elaborate it further. Accounting depreciation of assets is generally calculated by the straight-line method, under which the same percentage of the original value of the asset is deducted each year.

The general rate of tax depreciation for machinery and equipment is seven years (14.5 percent per year). A three-year tax depreciation period (33.33 percent per year) applies to computers, office equipment, advanced industrial equipment, and many types of environmental protection, medical and laboratory equipment. Motor vehicles are depreciated over five years (20 percent per year).

Tax depreciation may be accelerated by applying a 50 percent rate instead of 33 percent or 14.5 percent rate to computers, computer accessories and new tangible assets purchased or produced in 2003 or thereafter. Equipment used for film and video production may be depreciated at a 50 percent rate.

For buildings, tax depreciation is set at 50 years (2 percent per year) for structures of long duration, 3 percent for those of medium duration and 6 percent for those of short duration. Building that are leased out are depreciable at 5 percent per year, and the equipment in the buildings at 30 percent per year. Industrial and agricultural structures are depreciable at annual rates of 2 percent and 3 percent respectively. Other structures depreciate at annual rates ranging from 2 percent to 20 percent.

Non-depreciable assets include registered land and works of art.

Companies may set aside a tax-deductible reserve for the purpose of general development up to 50 percent of the taxpayer's entire pretax profits, or up to 500 million in a financial year and make an immediate deduction by this development reserve from their tax base.

Enterprises may revalue liquid assets, intellectual property, tangible assets, except investments and financial investments, except for securities loans at the balance sheet date.

In revaluing assets, where market value is less than book value, the difference must be accounted for as an added depreciation expense above the amount planned. When the market value is higher than book value the difference may be accounted for in a valuation reserve under the equity account and as a valuation adjustment under the relevant asset account.

3.5 Capital Gain Taxation – participation exemption regime

Capital gains realized by Hungarian taxpayers are generally treated as ordinary business income, with no difference in the tax treatment of long-and short- term gains. Thus, capital gains are included in the corporate tax base and taxed at the rate of nine percent; capital gains of foreign companies are generally tax-exempt with the exception of participation holders of companies whose Hungarian real estate property exceeds 75 percent of the aggregate market value of assets shown in its financial statements. These participation holders are subject to Hungarian taxation when alienating their participation in the company, assuming the participation holder of the company is resident in a country with which Hungary has not concluded a double tax treaty or if an applicable treaty allows the taxation of the capital gains in Hungary. ***Nevertheless, participation exemption rule provides that capital gains exempt from corporate income tax, if it is realized from the sale of declared participation.*** In order to qualify for the exemption; the Hungarian company has to acquire a minimum of 10 percent of the registered capital of a subsidiary and hold it for a minimum period of one year. Furthermore, acquired participation should be declared to the Hungarian Tax Authority within 75 days of the acquisition.

Capital gains derived from the sale of participation of a CFC do not benefit from the participation exemption regime.

3.6 Royalty regime

A similar exemption method applies to royalty as the declared participation regime. Only 50 percent of received royalties are included in the corporate income tax base reducing the effective corporate tax rate of inbound royalty to 4,5 percent.

Definition of royalty is very wide making Hungary an attractive jurisdiction for holding and licensing rights associated with intellectual property.

Royalty definition includes payments related to: patents, other industrial intellectual property and know-how exploitation, trademarks, trade names, use of business secrets, software, database, film and other audiovisual works, artistic and other works protected by copyright.

3.7 Taxation of research and development (R&D)

Hungary is at the forefront of R&D in Central Europe. The Hungarian National Innovation Office supports the development of the economy and competitiveness of Hungary. There is a special initiative providing preferential tax treatment for R&D. If a Hungarian company is engaged in R&D activity or renders R&D services from non-Hungarian residents or both, direct associated costs are doubly deductible from tax, first as expense, and secondly as a tax base adjusting/decreasing item. Furthermore, 10 percent of direct costs of salaries associated with R&D are deductible from corporate income tax beyond the generally deductible items. In addition, a further 15 percent of salaries of software developers engaged in R&D are deductible from corporate income tax from small and medium sized companies.

3.5 Transfer pricing

The Hungarian transfer pricing method is based on the arm's length principle. The Corporate Income Tax Act provides reference to the arm's length principle as follows[36]:

„If in the agreements and contracts between affiliated companies a higher or lower consideration is applied (calculated exclusive of value added tax) than the consideration enforced or that would be enforced vis-à-vis independent parties under fair competition and comparable circumstances (hereinafter referred to as "arm's length price"), the taxpayer - irrespective of any other items that are to be added to or deducted from the pre-tax profit as prescribed in this Act - takes the difference between the arm's length price and the consideration applied and shall:

1. *a) deduct it from the pre-tax profit, provided that:*
   aa) the consideration applied renders the pre-tax profit greater than it would have been had the arm's length price been applied, and

   ab) the affiliated company contracted is a resident taxpayer or a foreign person (other than a controlled nonresident company) who is subject to

36 Act LXXXI of 1996 on Corporate Tax and Dividend Tax - Section 18, paragraph 1

any tax that may be substituted for corporate tax according to the national law of the country where it is established, and

ac) it holds a document signed by both parties that contains the amount of the difference;

2. *b) add it to the pre-tax profit if the consideration applied renders the pre-tax profit lower than it would have been had the arm's length price been applied (with the exception of contracts concluded with private individuals, other than private entrepreneurs)."*

The Corporate Income Tax Act[37] provides a reference to the OECD Transfer Pricing Guidelines as well:

„This Act contains regulations adopted with regard to the following documents in conformity with the Convention on the Organization for Economic Cooperation and Development (OECD) published by Act XV of 1998, including the related protocols and accession statements:

a) Model tax convention on income and on capital;
b) Transfer pricing guidelines for multinational enterprises and tax administrations."

The related parties are defined as follows[38]:

„'affiliated company' shall mean:

1. *a) the taxpayer and the person in which the taxpayer has a majority control - whether directly or indirectly - according to the provisions of the Civil Code,*
2. *b) the taxpayer and the person that has majority control in the taxpayer - whether directly or indirectly - according to the provisions of the Civil Code,*
3. *c) the taxpayer and another person if a third party has majority control in both the taxpayer and such other person - whether directly or indirectly - according to the provisions of the Civil Code, where any close relative holding a majority control in the taxpayer and the other person shall be recognized as third parties;*
4. *d) a nonresident entrepreneur and its domestic place of business and the business establishments of the nonresident entrepreneur, furthermore, the domestic place of business of a nonresident entrepreneur and the person who maintains the relationship defined under Paragraphs a)-c) with the nonresident entrepreneur;*
5. *e) the taxpayer and its foreign branch, and the taxpayer's foreign branch and the person who maintains the relationship defined under Paragraphs a)-c) with the taxpayer;"*

The arm's length price shall be determined by either of the following transfer pricing methods[39]:

37 Act LXXXI of 1996 on Corporate Tax and Dividend Tax - Section 31, paragraph 2
38 Act LXXXI of 1996 on Corporate Tax and Dividend Tax - Section 4, paragraph Subsection 23
39 Act LXXXI of 1996 on Corporate Tax and Dividend Tax - Section 18, paragraph 2

*a) **comparable uncontrolled price method**, where arm's length price means the price used by independent parties in connection with the supply of comparable products or services in an economically comparable market;*

*b) **resale price method**, in which the arm's length price means the price used in connection with the supply of products or services in an unaltered form to an independent party, less the reseller's costs and fair profit;*

*c) **cost and income method**, in which the arm's length price consists of the original costs of the products or services and the fair profit;*

*d) **transactional net margin method** that examines a net profit relative to an appropriate base (costs, sales revenues, assets), that a taxpayer realizes from a transaction;*

*e) **transactional profit split method**, where the combined profits from a transaction are split between associated parties on an economically valid basis that approximates the division of profits that would have been anticipated between independent parties;*

*f) **any other method if the arm's length price cannot be determined by neither of the methods** referred to in Paragraphs a)-e)."*

Act LXXXI of 1996 on Corporate Tax and Dividend Tax - Section 18, paragraph 5, and the Decree 22/2009 of the Ministry of Finance on transfer pricing documentation requirements:

„*Business associations, groupings, European public limited-liability companies, European cooperative societies, cooperative societies and nonresident entrepreneurs that are not considered small enterprises (with the exception of public-benefit nonprofit business associations, and the taxpayers in which the State has majority control - whether directly or indirectly -) shall fix, effective as of the last day of the tax year, the arm's length price and the formula (including the data and the type of events on which the formula is based) they use for determining it in line with the instructions laid down in the ministerial decree issued on the basis of the authorization conferred in this Act.*"

According to the main rule, transfer pricing documentation has to be prepared for each separate contract by the time the corporate tax return is due. Consolidated documentation may be prepared in the case of group of identical or closely related transactions.

Specific – simplified – regulation regarding the documentation of low value adding intra-group services might be applied. Low value adding intra-group services are routine services between related companies if the value of the services based on the agreements does not exceed HUF 150 million at arm's length price. This simplification measure might be used if the taxpayer accepts application of cost plus method. If the application of cost plus method would lead to another result than the arm's length price then this simplification measure might not be used.

3.6 No Withholding Tax

In Hungary, there is no withholding tax on dividend, royalties and interest payments made between corporate entities from a Hungarian source.

3.7 Dividend

Dividend paid on corporate entities is not subject to withholding tax, irrespective of the residence of the corporate recipient. Dividend received; except for dividend received from controlled foreign company is tax base decreasing item.

4. Special central taxes

4.1. Special tax on energy, retail, telecommunications and advertisement companies, and financial institutions

Besides the corporate income tax, there are some sectoral tax for energy, retail, telecommunications and advertisement companies and financial institutions. The government tries to tax those sectors where the average company's turnover and profitability rate is high.

4.1.1 Energy sector

The tax rate for energy suppliers is 1.05 percent of net turnover, for retail the tax brackets are: 0 percent for the first HUF 500 million pretax profit, 0.1 percent on the portion of the tax base exceeding HUF 500 million, 0.4 percent on that exceeding HUF 30 billion pretax profit, and 2.5 percent on that exceeding HUF 100 billion pretax profit.

4.1.2 Telecommunication tax

The telecommunication service providers are liable to telecommunication tax. The subject of this tax the telecommunication service itself. The base of this tax is the duration of launched calls from phone numbers operated by the service provider and the number of sent messages. The tax rate is HUF 2/minutes/messages limited to HUF 700/month/phone number, if the phone number belongs to individual and HUF 3/minutes/messages limited to HUF 5000/month/phone number, if the phone number belongs to non-individual.

4.1.3 Advertisement tax

The tax base for advertisement companies is the net turnover and the brackets currently are: 1 percent between HUF 0,5 – 1,5 billion, 10 percent between HUF 1,5 – 10 billion, 20 percent between HUF 10 – 15 billion, 30 percent between HUF 15 – 20 billion and 50 percent over 20 billion.[40]

4.1.4 Financial institutions

Financial institutions are subject to special sectoral tax. The tax base is the adjusted balance sheet total of the financial institution in 2009. The tax rate for credit institutions is a 0.15 percent of the tax base under HUF 50 billion and 0.53 percent of the tax base over HUF 50 billion. The tax rates for other financial institutions depend on the type of the institution and vary between 5,6 percent and 6,5 percent, respectively. As from 2011, a special tax on credit institutions applies at 30 percent of pretax profits, but capped at the amount of the special tax paid on the adjusted balance sheet total. Collective investment securities dealers and investment funds are subject to special tax as well. The tax base is the average daily net asset value of customer calculated in HUF every quarter and the tax rate is 0,05 percent.

5. Taxes for small businesses

The tax system provides special tax rates and methods for small businesses aiming to reduce the administration and tax burden of small entrepreneurs and parallel increase the willingness to pay taxes. These taxes are: simplified entrepreneurial tax (EVA), itemized tax for small businesses (KATA), tax for small business (KIVA).

5.1 Simplified entrepreneurial tax (EVA)

The Simplified Entrepreneurial Tax Act[41] is a "mixed" act as it contains taxation, accounting and procedural rules as well. This tax all in one redeems the corporate income tax, the dividend tax, the value added tax, the personal income tax and the vocational training contribution. The taxpayer may elect this taxation, if the annual turnover of the taxpayer is not higher than HUF thirty million and the taxpayer fulfills some special conditions provided in the act.[42] The tax base is the gross turnover (including VAT) of the company and the tax rate is 37 percent of the positive tax base. Once the taxpayer paid the simplified entrepreneurial tax, there is no further payable tax burden neither on corporate nor personal level.

5.2 Itemized tax for small businesses (KATA)

This type of taxes was designed for micro entrepreneurships providing to them reduced administration and tax burden as well. This tax contains the personal income tax payable by sole entrepreneurs, dividend tax, corporate income tax, personal income tax, all social security charges, and vocational training contribution, all in one. The taxpayer

40 These tax brackets are under negotiation with the representatives of the sector concerned and the rates will be change very probably in 2015.
41 Act XLIII of 2002 on Simplified Entrepreneurial Tax (EVA Act).
42 EVA Act. 2. § (1)-(9)

may be only sole entrepreneur, individual company, limited partnership and partnership having only individual members. The micro entrepreneur becomes taxpayer of KATA only, if the entrepreneurship registers at least one small taxpayer. The tax is HUF 50.000,- per month or HUF 75.000,- per month per person after each registered small taxpayer, respectivelly. If the total revenue of the entrepreneurship exceeds HUF 6.000.000,-, 40 percent tax payable on the exceeding amount. Once the entrepreneurship paid KATA, there is no any further tax or social contribution burden on the income.

5.3 Tax for small business (KIVA).

This tax was designed for small and middle size businesses providing to them reduced administration and tax burden, as well. The taxpayer may be individual company, limited partnership, partnership, limited liability company, private limited company, cooperative, housing association, forest tenures, executor firm, law firm, notary public office, patent attorney, foreign entrepreneur, foreign person having domestic space of management. The taxpayer must fulfill the following conditions to be able to apply KIVA: the average statistic workforce cannot be higher than 25; the turnover of the taxpayer cannot be higher than HUF 500; the taxnumber of the taxpayer was not canceled or suspended in the previous two callendar years; the balance sheet date of the financial year must be 31 December; financial account must be kept in HUF; the balance sheet total of the previous year cannot be higher than HUF 500. The tax-base is equal to cash income plus payroll payments. The tax rate is 16 percent and it covers the corporate income tax, social contribution and the vocational training contribution.

6. Value Added Tax (VAT)

The VAT rules[43] - as the VAT is an indirect tax – are harmonized with EU Council Directive 2006/112/EC of 28 November 2006 on the Common System of Value Added Tax. Taxable person is any legally competent person or organization who, independently, carries out in any place any economic activity, whatever the purpose or results of that activity.

The following transactions shall be subject to VAT[44]:

a) the supply of goods, supply of services for consideration within the territory of Hungary by a taxable person acting as such;,

b) the intra-Community acquisition of goods for consideration within the territory of Hungary;

c) the importation of goods.

43 Act CXXVII of 2007 on the value added tax.
44 VAT Act. 2. §

From 1st January of 2012 the general rate is 27 percent applied to most products and services (18 percent is applied to basic food products and the provisions of accommodation, 5 percent is applied to pharmaceuticals and certain medical equipments, aids for the blind persons, books and newspapers). Certain services, e.g. financial, postal, educational (with exceptions), rental of business property (or other property excluding residential properties and land) and utilization of such properties in other ways (with options to tax), assignment, are tax-exempt.

Certain domestic transactions (especially in connection with real estate) are taxed according to the reverse charge mechanism, i.e. the buyer pays the VAT.

Following the elimination of trade barriers with the EU, sales transactions between Hungary and other EU member states are considered intra-community acquisitions or supplies. In intra-community supplies, the taxpayer may issue an invoice to its EU-based purchaser without charging VAT if it has proof that the goods left Hungary.

Imports are subject to VAT at the same rate that is applied to similar products of Hungarian origin. The basis of assessment is the sale value of the products and services. In the case of imported products the basis of assessment is the value for customs duty, increased by the amounts of customs duty and customs clearance charges.

Nonresident companies may reclaim Hungarian VAT if registered for VAT purposes in their home country.

Branch offices of foreign companies in Hungary are subject to VAT. Each branch of a single foreign company in Hungary is treated as a separate entity and must file separate VAT returns. The supply of services between a branch and its head office falls outside the scope of VAT unless the branch is member of a Hungarian VAT group.

All related firms and their branches in Hungary are eligible for group taxation and are collectively regarded as a single taxpayer. Services and products provided within the VAT group are not subject to VAT.

Providing the following services falls outside the scope of VAT in the case, if the registered seat of the recipient is located outside the European Union:

- temporary or final transfer of intellectual property;
- advertising;
- providing business, legal, accounting, tax, translation, computing and certain engineering advisory;
- data processing and information broadcast;
- financial services as insurance and reinsurance and other services except safe deposit box service;
- hiring-out of labor and staff service

- product leasing, except real estate and vehicles;
- energy transport, distribution, and related services, access to the natural gas-, heat- and cooling or electricity network located in EC;
- telecommunication service;
- radio and television service;
- e-services.

7. Personal Income Tax

Taxable persons are resident individuals having unlimited tax liability and nonresident individuals having limited tax liability. The tax liability of resident individuals covers domestic and worldwide income as well. Nonresident individuals are liable for tax only if the income origins from Hungary.

Resident individuals are Hungarian citizens, individuals staying at least 183 days in Hungary, individuals having resident status, stateless individuals staying in Hungary, and those individuals whose permanent residence or vital interest center or habitual residence is in Hungary. The personal income tax system is based on self-assessment system; therefore the taxable persons' tax liability covers the tax reporting, declaration, tax base and tax assessment, returning, tax payment, records management, tax document issuing and preservation, and data service obligations.

The tax payable on the incomes covered by Personal Income Tax Act[45] is 15 percent of the tax base. In respect of the income of resident individuals, the tax paid in a foreign country on such income shall be deducted from the tax. Unless otherwise provided for in Private Income Tax Act, in the absence of an international agreement, the inclusion of tax paid abroad shall not reduce the tax payable below 5 per cent of the tax base, and any tax refund that is due to the individual by virtue of an international agreement or on the basis of foreign law from the income tax paid may not be claimed under taxes paid abroad.

The consolidated tax base includes all income earned by an individual during the tax year by self-employment and by activities other than self-employment, as well as other income, furthermore, in connection with flat-rate taxation the standardized income calculated from revenues from private entrepreneurial and all agricultural smallholders' activities.

Employees with no other income have their tax deducted direct from salaries on a monthly basis. Those with additional income, the self-employed and persons with foreign-generated income are required to make advance payments of tax and to complete a tax return at the end of the financial year, at which time they must pay any additional tax due, or are reimbursed if their advance payment exceeded the amount of tax actually payable.

8. Social Security Contributions and Tax

45 Act CXVII of 1995 on the personal income tax.

The social security system provides health care, financial benefits, accident care and pension services. Providing funds for these services employers, employees and individual taxpayers must pay several types of social security contribution and tax. These contributions and taxes are divided into two parts: payable by the employer and payable by the employee or the policy-holder (individual taxpayer).

8.1 Contributions and tax paid by the employer:

- Contribution for sick payment (30%)
- Social contribution tax (the former employer's pension contribution, health insurance and labor market contribution) (23%)
- Health contribution (EHO) (6%, 14%, 15%, 20%, 23%)
- Health service contribution (HUF 6930,-/month)
- Vocational training contribution (1,5%).

The base of these contributions and taxes is the paid income of the employee.

8.2 Contributions paid by the employee:

- Pension contribution (10%)
- Contribution of health insurance (4%+3%+1,5%)
- Health contribution (EHO) (6%, 14%, 15%, 20%, 23%)
- Labor market contribution.

The base of these contributions is the income of the employee.

8.3 Health contribution (EHO)[46]

The health contribution is a tax type contribution aiming to provide additional funds for health care services. The taxable person may be the employer or any person paying taxable income or the individual taxpayer. The employer or any person paying taxable income to domestic individual must pay 23 percent health contribution calculated on incomes including to the consolidated taxable income or to the separately taxable income categories. Individuals must pay 14 percent health contribution after some capital types of income. These incomes are the followings: income from insurance policy if the insurance period is shorter than ten years, withdrawn income from undertaking, income from crediting securities, dividend, capital gain, rental income if it is higher than HUF one million. The cap of the health contribution payable on the above mentioned incomes is HUF 450.000,-. Individual taxpayers must pay 6 percent health contribution on interest income. The payable tax is 0 percent on some special long-term savings. Inclusive taxed small size agricultural producers pay 15 percent health contribution on the inclusive taxed income.

46 Act LXVI of 1998 on Health Contributions (EHO) The abbreviation of this tax reflects the Hungarian name of the health contribution: 'Egészségügyi hozzájárulás'

9. Local Taxes

The local taxes provide tax income for the local municipalities creating funds for the performance of local government functions. The local taxes actually levied are at the local municipalities' discretion. In the case of the local tax, the local municipality specifies the tax rate with local municipality decree. The maximum rate of tax is set by the central legislation in effect throughout Hungary.

The local taxes may be divided into four categories, such as property type taxes, local business tax, communal type taxes and municipal tax. The property type taxes are the building tax and the land tax. The communal type taxes are the individual's communal tax and the tourism tax.

In the case of property type taxes the taxable person is the owner of the property. The tax base is the net floor space or the floor space or the 50 percent of the adjusted market value. Tax rate depends on the decision of the municipality.

In the case of building tax, the maximum of the tax in 2015 is HUF 1852,1 /m2/year or maximum 3,6 percent of the adjusted market value of the property. In the case of land tax, the maximum of the tax in 2015 is HUF 336,7 /m2/year or maximum 3 percent of the adjusted market value of the land.

The local municipalities may levy local business tax at up to 2 percent on gross sales revenue, less the cost of goods acquired for resale, subcontractors' fees, the cost of materials and direct R&D costs incurred in the tax year. Companies may exclude royalty and interest income from the local business tax.

10. Stamp duties

The system of stamp duties may be divided into two main categories. The first and most relevant category is the group of asset acquisition stamp duties. This category may be divided into two subcategories such as duty of gratuitous asset acquisition and duty of asset acquisition for consideration. The gratuitous asset acquisition may be inheritance and gifting. The second category is procedural stamp duties. The territorial scope of the Stamp Duty Act[47] covers the transactions of assets registered or located in Hungary, procedures taken place in Hungary. The personal scope of the act covers individuals and legal persons as well. The application scope covers inheritance, gifting, acquisition for consideration of certain assets and procedures taken place in Hungary.

Inheritance stamp duty is payable in the case of having domestic legacy or inherited foreign legacy if in the later case the heir is domestic person and did not have to pay stamp duty abroad after the legacy. Gratuitous asset acquisition stamp duty or duty of asset acquisition for consideration is payable in the case of acquisition of domestic real estate, certain types of tangible and in tangible assets. The base of the gratuitous asset

47 Act XCIII of 1990 on the Stamp Duties

acquisition stamp duty is the market value minus debts, charges, fee of the will executor, funeral costs, intangible rights, value of the force heirship participation. The rate of the stamp duty varies between 0 percent and 18 percent, respectively, depending on the family relationship between the parties.

Upon acquiring certain type of assets such as real estate, motor vehicle, certain type of securities and rights, the acquiring party must pay stamp duty. The duty of asset acquisition for consideration is levied on the market value of the real property. In the case of real estate the rate of the stamp duty varies between 2 percent 4 percent, depending on the type and value of the property and the category of the purchaser. The transfer of participation in companies holding Hungarian real estate are subject to a stamp duty by the purchaser at a rate of 4 percent of the value of the property up to HUF 1 billion and 2 percent on the part of the value exceeding HUF 1 billion, with the total tax liability capped at HUF 200 million per property.