DOING BUSINESS IN

HUNGARY

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FOREWORD

This guide has been prepared for the use of clients, partners and staff of HLB member firms. It is designed to give some general information to those contemplating doing business in Hungary and is not intended to be a comprehensive document. You should consult us, therefore, before taking further action. HLB and HLB Hungary cannot be held liable for any action or business decision taken on the basis of information in this guide.

Laws in Hungary that regulate businesses and taxes can be complex. Therefore, we would advise you to consult the HLB member firm in Hungary before taking any specific action.

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ABOUT HLB

Formed in 1969, HLB is a global network of independent advisory and accounting firms. The network comprises member firms in 153 countries who, collectively, have 27,485 staff in 745 offices. Member firms provide clients with a comprehensive and personal service relating to auditing, taxation, accounting and general and financial management advice.

Up-to-date information and general assistance on international matters can be obtained from any of the member firm partners of Hungary listed in this guide or from the Global Office in London.

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GENERAL INFORMATION

GEOGRAPHY

Hungary is located in the centre of Europe. The country covers 93,030 square kilometres. It shares borders with Austria to the west, Slovenia, Croatia and Serbia to the south, Slovakia to the north, and Ukraine and Romania to the east. The population of Hungary is about 10 million people. The capital, Budapest, with about 2 million inhabitants, is the commercial, industrial and cultural centre of the country. Two large rivers, the Danube and the Tisza, flowing from north to south, divide the country roughly into thirds. The climate is temperate but continental, with colder winters and warmer summers than in Western Europe.

LANGUAGE AND CURRENCY

Hungarian is the spoken language of the people. In most Hungarian schools, English and German are taught as foreign languages. People engaged in business normally speak English or German.

The unit of currency in Hungary is the Hungarian forint, denoted as Ft, and usually as HUF in English.

CONSTITUTION AND LEGAL SYSTEM

Hungary is a parliamentary democracy. The laws of the country are based on the constitution. In 2011 the Parliament accepted a new constitution which entered into force from 1 January 2012 and it has been modified several times since then. Parliament is the supreme organ of power in Hungary and is comprised of the people's elected representatives. The president is the head of state. He or she is elected by parliament by a two-third majority for a term of five years. The government is comprised of the prime minister and his or her ministers. The prime minister is elected by a simple majority of the members of parliament.

The Constitutional Court has the primary obligation to uphold, enforce and interpret the constitution. It has the power to annul parts of laws passed by parliament if it considers that they violate any rule or principle of the constitution. The supreme judicial authority is the Curia. The Curia, the regional courts of appeal, the regional courts, administrative and labour courts and district courts are staffed by professional judges who are independent and must not take part in any political activity outside their judicial role.

Hungarian law is based upon the continental civil law system and is therefore codified. The Hungarian Civil Code covers the principal rules of civil relations, including property law and contract law, and is the basis of all civil law. However, there are many statutes and ministerial regulations that explain the specific rules of the Civil Code. With effect from 15 March 2014, a new Civil Code is applicable in Hungary. Hungarian law declares itself to be subject to the recognised rules of international law, and the legal system undertakes to harmonise itself with the obligations imposed on Hungary by its participation in international treaties.

INTERNATIONAL RELATIONS

In 1982 Hungary joined the IMF. This was the first step towards the economic liberalisation that took place in 1989. Furthermore, Hungary is a signatory to the General Agreement on Tariffs and Trade (GATT), and is a member of the WTO and OECD as well as of the United Nations and NATO. In 2003 the people of Hungary decided by a large majority to apply for membership of the European Union. From 1 May 2004, Hungary has been a full member of the EU.

Hungary's foreign trade is highly oriented towards the EU, which takes approximately 80% of all its sales. Hungary is still (and again) a favourable target for foreign direct investment.

INVESTMENT IN HUNGARY

POLITICAL BACKGROUND

Since its first free elections in 1990, Hungary has had a multiparty system. The most recent elections were held in April 2018, after which the FIDESZ-KDNP coalition of democratic parties was re-elected and formed a government.

THE BANKING SYSTEM

The National Bank of Hungary (NBH) is Hungary's central bank. The NBH performs its duties and carries out its obligations independently from the Government or any other institution or body. The major objective of the NBH is to achieve and maintain price stability, and at the same time to support the economic policy of the Government through monetary control. From 1 October 2013, the Supervision Authority for Financial Institutions merged with the NBH.

The following types of bank are distinguished based on their financial activities: commercial bank, specialised credit institution and co-operative credit institution (savings or credit co-operatives). Banks may be established with a minimum of HUF 2 billion in initial capital. In accordance with the EU regulations, a new law on Banks and Financial Institutions is in effect from 1 January 2014.

The Organisation for Economic Co-operation and Development (OECD) views Hungary's banking sector as one that is supported by a strong regulatory framework that broadly meets international standards.

FOREIGN EXCHANGE CONTROLS

The authority for the enforcement of foreign exchange regulations is vested in the Finance Ministry which exercises the related functions through the central bank. Importers have an automatic right to purchase foreign exchange through the banking system for all bona fide imports. Foreigners may freely repatriate profits and dividends in foreign currency.

Commercial banks may enter into deferred payment arrangements on behalf of their clients, without restriction, for up to one year. These arrangements need to be secured by bank commitments.

In January 1996 parliament passed a foreign exchange bill allowing the free exchange of forints into foreign currencies for any transactions for Hungarians and foreigners.

Following the decision of the Hungarian National Bank, the previous intervention band was abolished from 26 February 2008 (currently, as a result of the change, the forint is allowed to float free).

REAL ESTATE

Land in Hungary is subject to a system of registration. Ownership of property, and each transfer of property, must be entered in the Land Register. Acquisition of land by foreign persons is still subject to certain restrictions i.e. they could not purchase any agricultural land until the end of the moratorium (30 April 2014). From 1 May 2014, citizens of the EU may purchase agricultural land in Hungary only if certain strict conditions are met while in the case of third country persons the moratorium remains effective.

VISAS

Unless otherwise provided by law or international conventions, permits may be required for third country nationals in order to enter the Republic of Hungary, and stay in the country.

Types of permits:

- Visa
- Residence permit
- Domicile permit
- Work permit

The Visa regime is not applicable for European Economic Area (EEA) citizens. However, if the length of stay in Hungary exceeds 90 days, a residence card is required.

Generally, the third-country nationals who stay with a visa for less than three months, are residing legally in the territory of Hungary. If the residence exceeds three months, unless the law provides otherwise, third country nationals can carry out paid activity in possession of

- seasonal work visa, or
- a residence permit for humanitarian purposes, or
- a residence permit for carrying out paid activity, or for the purpose of study purposes or for family reunification, or
- EU Blue Card.

In general, third country expatriates who are coming to work in Hungary are required to possess a visa and a work permit. However, Hungary has entered into bilateral agreements that remove visa requirements from individuals from Canada and the United States. Individuals from these countries, who do not want to work in or derive income from Hungary, may enter Hungary without obtaining visas and stay in Hungary without obtaining residence permits (provided that the stay in Hungary does not exceed 90 days within a period of six months).

From 2009, EU/EEA and Swiss citizens can be employed in Hungary without acquiring a work permit. Only a reporting obligation remains effective, based on which the Hungarian employer has to report at the relevant employment office the starting date and the termination date of employment.

In addition to tax-related reporting, host employers have to report any employee arriving in Hungary for assignment purposes (POSTING).

INCENTIVES, TAX INCENTIVES

Sources of funds

As Hungary is member of the European Union, various financial sources for investment or development supported by the EU are available for companies.

Additionally, from 1 June 2013, the Hungarian National Bank started the so-called Growth Loan Scheme in which the Hungarian National Bank provides refinancing loans to the credit institutions interest-free then the credit institutions provide these loans to the SME (small and medium sized enterprises) sector on favourable conditions (the interest rate of these loans provided by the credit institutions is capped at 2.5 percent). From 1 January 2019, the Hungarian National Bank launched a new version of the Growth Loan Scheme, the so-called Growth Loan Scheme

Fix. With the new version, the Hungarian National Bank intends to influence the structure of SME lending, with the aim of increasing the share of long-term and fixed-rate loans. The key parameters are similar to the earlier stages of the Growth Loan Scheme.

Development tax allowance

One of the most important tax incentives for companies is the development tax allowance which can be deducted from the amount of corporate income tax (up to the 80 percent of the calculated corporate income tax). This type of allowance can be claimed depending on the amount of the investment, the industry and the region in which the investment is performed. The taxpayer is entitled to the development tax allowance in the following cases:

- Investments exceeding HUF 3 billion at present value (approx. EUR 10 million);
- investments in preferred areas exceeding HUF 1 billion at present value (approx. EUR 3.3 million);
- investments exceeding HUF 100 million at present value (approx. EUR 330,000) regarding food hygiene in a food production facility;
- investments exceeding HUF 100 million at present value (approx. EUR 330,000) regarding environment protection, research and development and film and video production;
- investments by SMEs above HUF 500 million at present value (approx. EUR 1.7 million);
- investments made to create jobs;
- investments with a present value of at least HUF 100 million if the investment is carried out in a free enterprise zone. These are geographical areas treated together for the purposes of development assigned by the Government to promote developments in the said region;
- special investments exceeding HUF 6 billion (approx. EUR 20 million) at present value made by big enterprises;
- special investments exceeding HUF 3 billion (approx. EUR 10 million) at present value made by big enterprises to create jobs.

Additional conditions, like the determination of an obligatory increase in employee figures and yearly salary costs from year to year may apply for certain types of tax allowance. In the case of certain investments, the approval of the development tax allowance by a resolution falls within the competence of the Hungarian Government.

Social contribution tax allowance

Social contribution tax allowance applies in the case of the employment of unskilled workers, disadvantaged employees or persons eligible for social benefits received during child-raising. Social contribution tax allowance is introduced in connection with R&D activities, according to which research organisations are entitled to 50% allowance of social contribution tax for employees related to research activities.

Other tax allowances

The tax allowances on sponsorship of film production, performing artists and popular team sports (i.e. football, handball, basketball, water polo, ice hockey and volleyball) can be deducted up to 70 percent of the calculated corporate income tax as decreased by the development tax allowance.

The sponsor is entitled to receive a tax allowance, up to the amount specified in the donation certificate issued by the recipient (sport association, foundation) provided that the sponsor has transferred the amount to the recipient's account and reported it to the National Tax and Customs Authority (NAV). The donations are also acknowledged as business-related expenditure for corporate income tax purposes.

The sponsor is obliged to pay additional donations amounting to 75% of the value of the particular donation indicated on the donation certificate calculated using the 9% corporate income tax rate. The amounts of additional donations do not qualify as recognised costs incurred for the benefit of the business.

The above-mentioned tax allowances can be utilised up to the end of the eighth tax year calculated from the tax year when the sponsorship amount was granted.

Taxpayer's provision on taxes

The corporate income tax law includes another form of support, the tax allocation scheme, which thus expands the ways of supporting film-making and spectator team sports. From 2019 the operational costs of sport-purpose-properties may also be supported this way. Taxpayers can allocate part of their taxes or tax advances in relation to their tax advance payment, tax advance top-up or tax payment liabilities. The amount allocated by the taxpayer as financial support is not transferred directly by the taxpayer to the beneficiary but by the tax authority in a monitoring role after examining the declaration submitted by the taxpayer and the entitlement to allocate.

The taxpayer shall be entitled to a tax credit that shall be recorded by the tax authority on the taxpayer's corporate tax account as of the first day of the second calendar month following the due date of the corporate tax return. The amount of tax credit shall be

- 7.5% of the amount donated from the tax advance / top-up payments, up to 80% of the corporate income tax payable for the given tax year, and
- 2.5% of the amount donated from the final tax payment for the given tax year, up to 80% of the corporate income tax payable.

The law clearly determines the conditions that must be complied with so that the declaration is not declared invalid and the funds can be transferred. The tax authority shall notify the taxpayer and the organisation issuing the eligibility certificate within 15 working days of the completed transfer.

Reliable and risky taxpayers

From 1 January 2016 the law includes the "good taxpayer/bad taxpayer" concept which supports the rating of taxpayers by the National Tax and Customs Authority (NAV) on a quarterly basis. In line with the new system, taxpayers meeting their tax obligations in a regular, lawful manner and proving to be reliable shall be eligible for preferential treatment, better than under the general rules.

For reliable taxpayers, default penalties and the ceiling on tax penalties that can be imposed on them are 50% lower than the rates determined pursuant to the general rules. Another advantage is that the tax authority repays value added tax to "qualified" taxpayers within 30 days. A further positive feature is that reliable taxpayers shall have the opportunity to automatically apply once a year for their outstanding debt to be paid over 12 months in interest-free instalments. By default, the tax inspection of reliable taxpayers cannot exceed 180 days (provided the taxpayer cooperates with the tax authority and makes all the documentation available for inspection).

By contrast, taxpayers, who have accumulated tax shortfalls and high tax debts, or do not meet their obligations in a law-abiding manner, shall be rated as risky taxpayers. In order to make the inspections of such taxpayers more efficient, the duration of tax inspections in their case shall be extended by 60 days. The tax authority repays value added tax only within 75 days without exceptions, and they are subject to more stringent conditions as regards default charges, tax penalties and default penalties (the ceiling of the default penalty is 150% of the ceiling determined pursuant to general rules).

TYPES OF BUSINESS ORGANISATIONS

GENERAL PROVISION RELEVANT TO ALL BUSINESS ORGANISATIONS

A company which is formed and registered in accordance with Hungarian law has the right to acquire property and conclude contracts, as well as to file lawsuits and have lawsuits filed against it. In addition, it may engage in a wide range of activities. For certain activities, special permission is needed from the relevant authority. Companies with foreign participation may be set up in any form listed in the Companies Act. From 15 March 2014, the detailed rules for companies are regulated by the Civil Code instead of the Companies Act.

UNLIMITED PARTNERSHIP (KKT)

In an unlimited partnership, the liabilities of the members are joint and unlimited, and no minimum initial capital is required. Members do not have to contribute to the activities of the partnership.

LIMITED PARTNERSHIP (BT)

In a limited partnership, the liability of at least one of the partners is unlimited and, if there is more than one general partner, the general partners are liable jointly and severally. The liability of at least one of the partners is limited to the extent of his or her capital contribution. No minimum initial capital is required.

LIMITED LIABILITY COMPANY (KFT)

A private company limited by equity is founded with a predetermined amount of initial capital provided by its founder(s). The liability of each member in relation to the company extends to the provision of their initial contributions, beyond which they are not responsible for the company's liabilities. The rights of the members and the share due to them from the assets of the company are represented in the company's equity capital. A limited liability company is managed by one or more managing directors. As from 15 March 2014 the minimum capital was increased to HUF 3 million. The formation of a limited liability company can be arranged by a simplified procedure which is suitable for most companies; furthermore, the costs of the simplified procedure are significantly lower.

The most important costs payable in respect of establishing a Kft in Hungary are as follows:

- Initial minimum capital of HUF 3 million (approx. EUR 10,000);
- stamp duty payable on the request for registration or simplified registration of a limited liability company is free of charge;
- publication fee in the Company Gazette is also free of charge for a limited liability company;
- registration at the Chamber of Industry and Commerce applies (HUF 5,000 registration fee, approx. EUR 17);
- other charges for specimens of signatures, official translations and costs for legalization of documents that were signed abroad may apply (these amounts are relatively insignificant).

COMPANY LIMITED BY SHARES (ZRT, NYRT)

This type of company is established through the issuing of shares in a predetermined total nominal value. The liability of its members is limited to their contribution to the total nominal value of the shares. The shares of a company limited by shares are securities embodying membership rights. Limited companies can be established in Hungary privately (private limited company – Zrt.) – with a minimum capital requirement of HUF 5 million – or open to the public (public limited company – Nyrt.) – for public limited companies, the minimum capital requirement is HUF 20 million. A company limited by shares is managed by the board of directors and the public limited company (Nyrt) must have a supervisory board. The shares of public limited companies may be traded publicly, in contrast with the private limited company whose shares are not offered to the public.

BRANCH AND COMMERCIAL REPRESENTATION OFFICE

A foreign investor may decide to establish a presence in Hungary as a foreign private entrepreneur, through a commercial agent, as a commercial representative office or a branch of a foreign company.

A branch is an organizational unit of a foreign enterprise having no separate legal identity. The branch is authorized to pursue business activities independently. The foreign company must continuously provide the assets needed for the operation of the branch and settle its debts. The foreign founder and the branch bear joint and several unlimited liability for debts incurred in the course of the activities of the branch. The branch comes into existence and may start its operation when it is registered by the Court of Registration.

A commercial representation office is not allowed to pursue business activities in Hungary independently; its general purpose is to facilitate the local business activity of the foreign company.

SINGLE PERSON COMPANY

A single-person company is a type of corporate taxable entity (an organisation with legal personality, established by a natural person and registered in the company register).

ACCOUNTING AND AUDIT

ACCOUNTING PRINCIPLES

Hungarian accounting principles are regulated by the Act on Accounting, which took effect on January 1, 2001. This act is intended to move Hungarian financial reporting practices closer to International Financial Reporting Standards (IFRS) and to EU practices. The Act applies to all entities (with the exception of sole traders, civil law associations, building co-operatives and the Hungarian commercial-representation offices of foreign-registered companies).

AUDITING REQUIREMENTS

According to the Hungarian Accounting Act, audit is not required for enterprises whose annual net turnover does not exceed HUF 300 million and whose annual average number of employees is not more than 50 as an average for the two financial years preceding the current reporting year. For consolidated companies and for branches an audit is obligatory regardless of their size. In any other cases in which the auditing of accounts is not compulsory, the enterprise may choose whether to appoint an auditor. Audits must be carried out mainly in accordance with the International Standards on Auditing which are supplemented by a Hungarian National Standard.

REPORTING REQUIREMENTS

The minimum reporting requirements for a business entity depend on the nature of the entity's operations, its size, ownership control and its form, and on whether the company has a controlling interest in other companies. The various forms of statutory reporting are as follows: simplified report, simplified annual report, annual report and consolidated annual report. From 1 January 2016 the Hungarian accounting law was supplemented by the regulations regarding the annual report in accordance with the IFRS. An annual report consists of a balance sheet, a profit and loss account, supplementary notes and a business report. In case of a simplified annual report, a business report is not required and the content of supplementary notes is limited also. A simplified annual report is permitted for entities that over the previous two consecutive years have fulfilled at least two of the following criteria: less than HUF 1,200 million in total assets, up to HUF 2,400 million in turnover and the annual average number of employees is less than 50. Entities not meeting these criteria must prepare a normal annual report. A parent company that has at least one subsidiary must, depending on the size of the group, prepare a consolidated annual report. If the Hungarian parent company has a parent company within the EU, which prepares a consolidated report in which the Hungarian subsidiaries are included, the Hungarian parent company will be exempted from the preparation of a consolidated report. Separate guidelines apply to financial institutions and insurance companies.

Companies have to publish their annual financial statements via online submission up to the end of the fifth month from the end of the tax year at the Court of Registration. These reports become publicly available in hard copies at the Court of Registration upon request (documents are also available online).

From 2010, most companies (except for financial institutions) can opt to keep their books and prepare their financial statements in Euros and from 1 January 2014 in USD, as long as they have recorded their decision in their accounting policy and specified the Euro or USD as the accounting currency in their deed of foundation, prior to the first day of the given business year. The taxpayer is not allowed to return to forint-based book-keeping for three years after switching to Euro-based or USD-based accounting.

According to the regulations from 1 January 2017, the companies being listed in any stock exchange in the European Economic Area (EEA) and the credit institutions have to prepare their standalone financial statements according to IFRS. Furthermore, the IFRS reporting is optional for companies being audited and for those subsidiaries, whose parent company prepares a consolidated annual report in accordance with the IFRS.

SOCIAL SECURITY

HEALTH AND PENSION INSURANCE

Participation in the Hungarian social security system, which consists of health and pension insurance, is mandatory for all Hungarian citizens who work in Hungary and for all foreign nationals who work in Hungary for Hungarian companies. Special rules are applicable for assignments in Hungary from another EU Member State based on EU Directive 883/2004.

An employer is obliged to pay a 19.5 % social contribution tax on the gross salary as from 1 January 2018. Each employee is subject to a 10% pension contribution and 8.5% health care and labour market contribution on earnings from his or her principal employment. There is no upper daily limit for pension contributions paid by the employee meaning that the 10% pension contribution is payable regardless of the level of income.

PRIVATE PENSION FUNDS

Besides the above-mentioned state social security system, there is also a system of regulations for private pension funds in Hungary. From January 2011 many former members of private pension funds returned to the state pension system. The number of people still being members of a private pension fund is very limited and a further drop in the number of members can be expected.

SOCIAL CONTRIBUTION TAX

This tax covers employer social security contributions. The rate is 19.5 % as from 1 January 2018.

SOCIAL SECURITY TREATIES

Hungary has concluded several social security treaties to provide relief from double social security payments and to assure a certain level of benefits coverage. Most of these agreements apply for an indefinite period. EU Regulations regarding Social Security are applicable from 1 May 2004 and override Hungarian rules. In addition to the members of the European Economic Area (EEA) Hungary has concluded bilateral social security treaties with the following countries: Montenegro, Bosnia-Hercegovina, Canada, Québec, Mongolia, Republic of Korea, Australia, India, Japan, Moldova, Serbia, Macedonia, Albania, the USA and Turkey.

From 1 January 2010, tax liabilities arising from benefits disbursed under the heading of social services, family support or welfare assistance on the basis of foreign laws must be determined in accordance with tax liabilities related to similar benefits under domestic law.

Generally, non-registered third country employers' third country citizens can be assigned contribution-free in Hungary for two years calculated from the date of assignment (this means the employee remains secured in the home country for this period for social security purposes).

TAXATION

GENERAL STRUCTURE

The Hungarian parliament adopted a number of wide-ranging tax reforms in its 1987 sessions, which effectively set the seal on a change to a free market economy and the abandonment of central planning in most spheres of economic activity. By now Hungary has a complex system of taxation to accommodate the increasingly sophisticated business environment. Hungary has concluded tax treaties with more than 80 countries[1].

Hungarian taxation operates under a self-assessment system. Taxpayers are required to register, determine their tax obligation, make advance tax payments, file tax returns on their own behalf, make corrections to the tax returns as needed, keep records and supply information as required by the law. Normally, individuals are assessed once a year, but corporations are subject to continuous assessment throughout the year. The authorities randomly examine tax returns to enforce the self-assessment system. The statute of limitations for tax liabilities in Hungary is five years from the end of the calendar year in which returns must be submitted for the relevant period. In 2011, Hungarian Tax Authority and Customs Authority merged under the name of National Tax and Customs Authority (NAV).

CORPORATE INCOME TAX

A company, which is domiciled in Hungary, is obliged to pay corporate income tax on its worldwide income. A non-resident company is taxable on its Hungarian source income, as well as income taxable in Hungary based on double taxation treaties. State companies, companies limited by shares (Zrt, Nyrt), limited liability companies (Kft.), partnerships (Bt and Kkt), branch offices of foreign enterprises and single-person companies are subject to corporate income tax. In addition, permanent establishments of foreign enterprises and foreign organisations may also, under certain circumstances, be liable to pay corporate income tax in Hungary.

Tax rate

The standard rate of income tax for Hungarian and in limited cases for foreign companies is 9%.

An “expected” minimum tax is levied on companies, whose corporate income tax base does not reach the “expected” minimum tax base, i.e. 2% of the total revenue (reduced by certain limited items). The “expected” tax base is subject to tax on the general corporate income tax rate (9%). Paying corporate income tax on the “expected” tax base can be avoided by filling out a detailed declaration regarding the income generated and costs recognised during a given business year.

Former offshore companies are subject to the general corporate income tax rate (9%) as well. The former effective tax rate of 8% for companies engaged in financing activities was abolished from 1 January 2010. Only companies generating royalties may be taxed at 4.5% on this income (royalty related rules became stricter after 30 June 2016).

1. Please see Appendix for the list of countries.

From 2010, if realising capital gains upon sale or in-kind contribution of their shares in companies holding real estate (except for reported shareholding), foreign entities, under some circumstances, may also be subject to Hungarian corporate tax.

Corporate tax – group taxation

From January 2019 at least two, Hungarian resident companies may create a group taxation arrangement – subject to the permission of the Hungarian Tax Authority. There are several conditions for establishing a corporate taxpayer group: there must be a related affiliate relationship among the taxpayers based on at least 75 percent voting rights and their balance sheet date, accounting currency, and accounting principles have to be identical. The tax base of the group for the tax year shall be the sum of the non-negative tax bases of the group members individually, which may be reduced by the cumulative amount of losses carry forward in light of the legal regulations. The tax liability of the group is fulfilled by a member appointed for this purpose as a representative. Transactions between group members are exempt from the transfer pricing rules and the transfer pricing documentation obligation should only be performed at the level of the corporate taxpayer group.

CFC rules

In accordance with the EU Council Directive No. 2016/1164 (the so-called Anti-Tax Avoidance Directive (ATAD)), the CFC concept of the Hungarian corporate tax law significantly changed as from 1 January 2019.

- The following tests have to be performed to determine whether a foreign company qualifies as CFC:

  a. **Influence test.** Is there a minimum of 50% share (ownership / voting / dividend rights) by a Hungarian taxpayer in the foreign company; AND

  b. **Tax rate test.** i.e. Is the foreign tax liability actually paid less than 50% of tax liability which the foreign company would have paid as if it were a HU taxpayer;

If conditions a) and b) are met then an activity test on the foreign subsidiary has to be carried out.

- As from 1 January 2019, as part of the activity test under c., the following points have to be checked for the given tax year. If any of the below points are not met, the foreign company does not qualify as CFC.

  a) the foreign company had any non-genuine business transactions which have been put in place for the essential purpose of obtaining a tax advantage;

  b) the foreign company had (1) pre-tax profit reaching HUF 243,952,500 (EUR 750,000) and non-trading income reaching HUF 23,495,250 (EUR 75,000); OR (2) had pre-tax profit reaching 10% of its operating costs; where e.g. interest, income generated by financial assets and income from shareholdings / utilization of IP rights and from the alienation of shares qualify as non-trading income. This means that pure shareholding activity will not create exemption from the CFC rules.

CFCs are less preferred in the system of taxation, since they cannot benefit from most of tax deductions, as opposed to general corporations. As an example, in case of a CFC, the amount of dividend received does not qualify as corporate income tax deductible.

Tax administration

Companies are assessed on a calendar-year basis or on a business-year basis. The business year may only differ from the calendar year if the Hungarian company is a fully consolidated subsidiary or branch of a foreign parent company that uses a business year different from the calendar year.

Taxable income is based on financial statements prepared in accordance with Hungarian accounting standards. Some items are tax deductible, such as dividends received (with the exception of dividends from controlled foreign corporations). The taxable profit is determined by adjusting the profit shown in the annual accounts by items specified in the Act on Corporate Income Tax.

Companies must file their corporate income tax returns and pay any balance of tax due by the end of the 5th month following the tax year concerned. Based on the actual corporate income tax liability indicated in the tax return, the company calculates its corporate income tax advance payments for the next 12-month period. If the tax liability is more than HUF 5 million, then the advance payments are payable monthly in 12 equal instalments, otherwise the tax advances are payable quarterly.

If previous year's net revenue exceeds HUF 100,000,000 companies must estimate their annual corporate income tax liability and pay the difference in addition to their advance payments by the 20th day of the last month of the current business year (top-up payment liability). If 90% of the actual corporate income tax liability (which is finalised only five months later) exceeds the tax-advance payments in total, a 10% default penalty is levied on the difference (FX fluctuations should not be considered for calculation purposes).

Tax losses

From January 2015, tax losses established in accordance with the good faith business principle may be carried forward for the five tax years following the tax year. Previous years' losses incurred up until the last day of the tax year commencing in 2014 and not yet used in the tax base may be written off by the taxpayer according to the rules prevailing when the losses were sustained until no later than the tax year including 31 December 2030. When offsetting the current tax year's positive taxable income by losses brought forward, the earliest losses must be used first (according to the FIFO principle). Moreover, taxpayers are able to use the accrued losses of previous years up to 50% of the tax base excluding losses used. This provision affects the schedule of the utilisation of accrued losses brought forward from earlier tax years.

Legal successors are entitled to use losses carried forward, if in the two fiscal years following the reorganisation, sales revenue is generated from at least one activity carried out by the legal predecessor. In the event of a spin-off, this obligation also applies to the taxpayer from which the spin-off took place. This condition no longer has to be met if the taxpayer is terminated without legal succession within two fiscal years following the reorganisation, or if the activity of the legal predecessor was only related to asset management.

In the case of company mergers, the legal successor can utilize the legal predecessor's corporate tax losses generated in the year of the merger from the year when the transformation took place.

Similar restrictions apply regarding the utilization of tax losses in the case of changes in the ownership of companies. The rules have been eased going forward since the two-year condition does not have to be met if the acquired company is terminated without legal succession within two fiscal years following the acquisition. As regards losses carried forward assumed in the course of restructuring or acquisitions, such losses can only be used in each tax year up to the proportion of the tax-year sales revenue or income from the continued activity relative to the average sales revenue and income in the preceding three years.

Interest deduction limit

Contrary to the former logic of the thin capitalization rule – where the taxpayer's debt-to-equity ratio had to be examined (currently 3:1) to determine the amount of non-deductible interest expenses – 'interest deduction limit' is determined in proportion to the profit before tax modified with certain items. The net borrowing costs (i.e. practically the amount by which the interest expenses exceed the taxable interest income accounted for a given year by a company) can be considered as recognized/fully deductible costs for tax purposes up to the 30% of the company's EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) or HUF 939,810,000 (whichever is higher). Contrary to the earliest regulation interest payable to financial institutions should also be taken into consideration when determining the net borrowing costs.

Transfer pricing rules

Transfer pricing documentation has to be prepared for contracts between related parties to support the market price. The related company concept was broadened, whereby parties shall also qualify as related companies if there is controlling influence over business and financial policy between the companies based on overlaps in the respective managements. Transfer pricing documentation rules cover transactions between a foreign company and its Hungarian branch as well as transactions between taxpayers and their foreign branches. Transfer pricing rules also refer to company foundation by way of contribution in kind if the founder becomes a person having majority interest upon establishing the company. Transfer pricing documentation can also be prepared in English, German or French.

From 1 January 2011, the Transactional Net Margin method and the Transactional Profit Split Method can be used to determine the arm's length price for transfer pricing documentation purposes in accordance with OECD Transfer Pricing Guidelines.

In some cases, there is no need to prepare transfer pricing documentation at all from 2012 while certain transactions qualifying as low value intercompany services can be documented by way of a simplified documentation.

No transfer pricing documentation has to be prepared for related party transactions with a net transactional value at arm's length price up to HUF 50 million (without VAT) in the corresponding tax year. From 1 January 2015, the rules on transfer pricing documentation have been tightened in that the use of statistical methods (interquartile ranges) is compulsory during database filtering.

From 17 November 2017 a new decree is in force regarding the transfer pricing documentation liability according to the BEPS requirements issued by the OECD. Due to the new decree, transfer pricing documentation consists of Master File and Local File. Furthermore, a new benchmarking search needs to be prepared every three year and financial data of the accepted comparable need to be updated yearly. This should inevitably be applied first regarding year 2018.

Country-by-Country reporting

Hungary accepts BEPS Action Plan with the purpose of preventing aggressive tax planning as well as tax evasion by multinational companies. To this end, in addition to the preparation of transfer pricing records (master file, local file), Action Plan No. 13 requires the preparation and submission of Country-by-Country (CbC) reports as well. The group member qualifying as the ultimate parent company is generally responsible for the preparation and the submission of the CbC report to the tax office by the given deadline (data provision). If its consolidated revenues did not reach EUR 750 million in the financial year preceding the financial year when the data was provided, the company has no data provision obligation. Group members generally have a notification liability towards the relevant tax authority by the end of the financial year also naming the company which will be liable to make the CbC reporting. In the absence of any other subsidiary which undertakes to fulfil its reporting obligation in terms of all EU subsidiaries, the HU group member may under certain circumstances be required to file CbC reporting.

Upon failure to comply with either the country-by-country reporting or the obligation to provide data (failing to submit the report or notification / late submission / providing incorrect information) the tax authority may levy a significant amount of default penalty on the party with the reporting or data provision obligation.

Most important corporate tax base-decreasing items

Development reserve. Companies are able to establish a tax-deductible reserve of up to 50% of their pre-tax profit, up to a maximum of HUF 10 billion per tax year. This development reserve must then be used for investment in tangible assets. Assets acquired using this reserve do not then qualify for tax depreciation up to the value of the reserve used, so this is, in effect, a form of accelerated depreciation. The reserve established must be applied within four years while the tax amount falling on any unused reserve amount has to be repaid with default interest.

Research and development. Pre-tax profit may be decreased by the direct costs of research and development incurred during the tax year performed in relation to the taxpayer's business activity (from 2012, R&D costs are re-defined in law). Companies may choose to decrease their pre-tax profit by depreciating the capitalised value of research and development. However, this rule applies neither to research and development costs financed by subsidies, nor to research and development services received. Under this provision, the accounting profit may be decreased by twice the amount of the research and development cost or the depreciation related to its capitalised value. As of 2014, taxpayers may lower their corporate tax base with the direct costs of research and development activity carried out by a related party, if the related party has not used such relief so far. This requires that the activity be related to the income-generating activity of the taxpayer and its related company, and that the taxpayer has its related company's statement on the amount of direct costs of research and development performed as part of its own activity.

Donations. In the case of donation contracts with public-benefit organizations in order to support their activities performed in the interest of the public the pre-tax profit may be decreased by 20% (by 40% in the case of long-term donation contracts) while pre-tax profit may be decreased by 50% if it is provided to the Hungarian Salvage Fund, the National Cultural Fund or certain educational institutions (university, college). These tax base deductions are available up to the pre-tax profit.

Reported intangible asset. The concept of 'reported intangible asset' has been introduced in corporate taxation. Reported intangible assets are intangible assets that entitle their holder to receive royalties and are reported by the taxpayer to the Hungarian tax authority within 60 days following their acquisition. As of 1 January 2013, the concept of intangible assets is extended to cover also self-manufactured intangibles. Provided the taxpayer has kept the intangible asset in the books continuously for at least 1 year before the sale or in-kind contribution of the reported intangible asset, the pre-tax profit may be decreased by the gain from the sale or in-kind contribution of the reported intangible asset. The pre-tax profit may be decreased under certain conditions by the profit realised from the sale or from the cancellation from the books as a contribution-in-kind of (non-reported) intangible assets that entitle its holder to receive royalties.

Local business tax. Deduction from the corporate income tax base of the amount of local business tax accounted for as an expense is not possible.

Free benefits. Free benefits provided to foreign persons and persons with foreign tax residence based on the place of business management (grant, benefits or assets provided, or liabilities assumed, without a repayment obligation, or services provided free of charge in the given tax year) may no longer be reflected in the company's tax base as expenses incurred in the interests of the enterprise (even if the beneficiary is party to a double-taxation treaty with Hungary). To prove that such a benefit provided to a domestic company qualifies as justified expense, the recipient party has to provide a declaration with specific information about its profit.

Reported shareholdings

Capital gains/FX gains realized as a result of certain investments are exempt from corporate income tax. From 1 January 2018, if the taxpayer holds the shares of a domestic or foreign company continuously for at least one year, and the acquisition of shares was reported to the tax authority within 75 days following the acquisition, the corporate income tax base can be reduced by the capital gain/FX gain deriving from the sale or in-kind contribution of the registered stockholding in the year of disposal/contribution of the shares. However, losses are not deductible in the same way as the gains are not taxable.

Growth tax credit

Saving opportunity is available for growing companies. This allowance improves the liquidity of enterprises by enabling the taxpayer to pay the tax on the amount of the reporting pre-tax profit exceeding the pre-tax profit of the previous fiscal year (called growth tax credit) during the two subsequent fiscal years, instead of fulfilment in the reporting year.

WITHHOLDING TAX

No tax should be withheld from dividends paid to foreign organisations.

VALUE ADDED TAX (ÁFA)

Value added tax is the general sales tax in Hungary (known as ÁFA), and is based upon the framework of European Union directives. A completely new VAT law has been in effect in Hungary from 2008. VAT must be charged by all individuals as well as legal entities or foreign enterprises that supply goods or services on a regular basis within the territory of Hungary. From 1 January 2012, the standard rate of VAT is 27% and the preferential rate is 5%. Furthermore, besides the currently effective preferential VAT rate of 5% applicable for certain products (medicines, books, large livestock, certain heating services, until the end of 2019 sales of a new real estate etc.), there is another preferential VAT rate (18%), which applies e.g. to dairy products, bakery products, internet access services and catering.

The tax base is the net sales price. Imports (from third countries) are also subject to VAT at a taxable base calculated as the sum of the customs value, customs duties and other charges.

Transactions such as financial services, insurance, transfer of shares and provision of loans are exempt from VAT. In general, with certain exceptions, the sale and lease of properties is also exempt from VAT provided that the taxpayer did not opt for treating such transactions as taxable. As an exception, the sale of properties qualifying as “new” in accordance with the Hungarian VAT law and construction lands are subject to VAT. From 1 January 2016, 5% tax rate is applicable for the sale of a new real estate until 31 December 2019 (under a transitional rule, under certain limited conditions this prevail until 2023).

From 2019, due to the modification of the VAT Act, the limit for VAT exemption based on status of the taxpayer increases from HUF 8 million to HUF 12 million. The procedures for filing VAT returns depend on the amount of income constituting the base for the VAT calculation. As a general rule, VAT-registered taxpayers are required to file a VAT return quarterly (new taxpayers are subject to monthly VAT returns filing in the first two years of operation). Those taxpayers (excluding taxpayers possessing an EU VAT number) with an annual (either payable or receivable) tax balance less than HUF 250,000 in the second year preceding the actual year and with a yearly sales of goods / provision of services being under HUF 50 million have to file their tax returns annually. If the net cumulated VAT liability in the second year preceding the actual year calculated from the beginning of the tax year exceeds HUF 1 million, the taxpayer is obliged to file tax returns on monthly basis (or switch to monthly filing if the threshold is reached during the actual year).

Intra-community summary reports have to be submitted electronically. As a general rule, summary reports (for both products/ services and sales/acquisitions) have to be submitted to the Hungarian tax authority on a monthly basis by taxpayers obliged to make monthly VAT returns, and on a quarterly basis in the case of taxpayers obliged to make quarterly tax returns.

Irrespective of the applicable frequency of filing tax returns, any given taxpayer has to switch from quarterly summary statements to monthly statements if the total value of product sales or acquisition for the given quarter, calculated without VAT, exceeds EUR 50,000 (the applicable HUF amount should be calculated by using an FX rate of 252.19 HUF/EUR).

In line with the new provisions of the EU VAT Directive, from 1 January 2013, taxpayers complying with the terms and conditions set forth in the law and reporting this to the tax authority beforehand can opt for a cash accounting procedure regarding the settlement of value added tax. This system can be opted for by the end of the calendar year in question. A further criterion to opt for the cash accounting procedure is that the net sales during the current and the previous calendar year cannot exceed HUF 125 million.

Taxpayers have to submit a summary report for domestic product supplies (purchase of goods) and service supplies (use of services) where the amount of value added tax charged is at least HUF 100,000. The determination of this threshold and the reporting obligation is technically different at the vendor/service provider and the buyer/service user.

Based on Council Directive 2013/43/EU, the period to apply reverse charge taxation on certain agricultural products is extended until 30 June 2022. Another change affecting VAT regulations is that Directive 2013/43/EU enabled Member States to introduce the reverse charge system for certain steel products. On this basis, a reverse charge was introduced for the domestic supply of certain steel products from 1 January 2015. From 1 January 2015, the reverse charge mechanism also applies for hiring temporary labour (reverse charging will not depend on whether the construction work for which the labour was hired is subject to an official construction permit or acknowledgement from the construction authority).

Based on 282/2011/EU (1042/2013/EU) Council Directive, the place of supply regarding the telecommunications services, radio and television broadcasting services and electronically supplied services provided to non-taxable person (B2C environment) changed as of 1 January 2015. The place of supply now is the place where the non-taxable person is established, has his permanent address or usually resides.

Online invoice data reporting

From 1 July 2018 all domestic and foreign taxpayers registered in Hungary are obliged to use online data invoice reporting. Accordingly, VAT-registered taxpayers also have to provide the mandatory data required under the Hungarian VAT Act on their invoices issued to another taxable person if the VAT content of the invoice is at least HUF 100,000. If the data reporting obligation is not met or is late, incomplete, incorrect information is provided, a default penalty may be imposed for each invoice affected. The maximum default penalty for companies is up to HUF 500,000 (approx. EUR 1,600).

PERSONAL INCOME TAX

Personal income tax is an obligation imposed on all private persons in relation to income derived from sources within Hungary as well as to any foreign-source income of private persons resident in Hungary. From 1 January 2016 a flat 15% personal income tax rate is levied on incomes that are subject to tax as part of the consolidated tax base (e.g. employment income) as well as for income taxed separately (e.g. interest, dividend income).

A significant family tax benefit system has been introduced into personal income taxation. In the case of one dependant the deductible amount from the tax base is HUF 66,670 per eligible dependant per month. In the case of two dependants HUF 133,330 is deductible per eligible dependant from the personal income tax base per month. In the case of at least three dependants HUF 220,000 is deductible per eligible dependant from the tax base. Certain additional documents are needed to benefit from this deduction. From 1 January 2014, private persons who are unable to fully utilise the family tax allowance during a certain calendar year due to lack of a sufficient tax base, are entitled to utilise the remaining amount of the tax allowance in the form of relief from individual health insurance and pension contributions payable. In order to claim family allowance, children of the Hungarian and also of the foreign citizens should have a tax identification number. There are limitations on family allowances claimed by non-resident foreign individuals to protect the taxable base.

A new tax allowance is introduced from 2015, called “newlywed allowance” for people getting married for the first time, based on which the spouses can claim a collective monthly tax base allowance of HUF 33,335 (in 2018) for a period of no more than 24 months from the month following their marriage even if they become entitled to receive family tax allowance during this period. Once in possession of the allowance statement, spouses can claim the tax deduction upon calculation of tax advances (via payroll).

For further information on the applicable treaty withholding tax rates on dividends, interest and royalties regarding personal income tax, please see Appendix 1.

LOCAL BUSINESS TAX

A company may be subject to local business tax within the territory of a given municipality if it has its registered seat or a permanent establishment there. The maximum rate of the local business tax is 2% of the tax base (i.e. net revenue based on Accounting law – cost of materials – purchase price of goods sold – intermediated services – direct costs of research and development).

When assessing the taxable base for local business tax, the cost of goods sold and the value of intermediated services are deductible from the tax base only to a limited extent in certain cases from 1 January 2013. Detailed rules are laid down in the law to regulate the deductible ratio. The entire amount is deductible up to a net sales revenue figure of HUF 500 million (full deduction is not possible in respect of a tax base exceeding HUF 500 million).

From 1 January 2015, local government authorities are entitled to introduce municipal taxes alongside local taxes in their jurisdictions.

PROPERTY TRANSFER TAX

From 2010, the general rate of transfer duty payable on property transfers is 4%. If the market price of the property (before allowing for any encumbrances) exceeds HUF 1 billion, the rate of duty will be 2% on the portion in excess of this, although the total amount of transfer duty payable per property cannot exceed HUF 200 million. In the case of companies buying-selling properties, the rate of duty is 2% provided that the company complies with the related statutory regulations.

The acquisition of a participation (shares, equity interest, co-operative share, investment share) in a company holding properties in Hungary may be subject to transfer tax (and a reporting obligation). Company with domestic real estate representing a value of at least 75% of the asset value in its balance sheet (excluding loans and accrued charges) and company having at least 75% ownership in another company in which the book value of Hungarian real properties represent more than 75% of the total assets are considered as companies holding real estate.

Acquisition of such participations as well as properties between related parties is free from transfer tax/stamp duty. In the case of transfer of properties, the related party recipient's main business activity should be the transfer or lease of properties to qualify for exemption from transfer tax.

There is duty exemption for acquisitions of movable assets not subject to duty on onerous property transfer by economic entities within uncompensated transfers of assets or free transfers of receivables between economic entities if certain conditions are met. The conditions for this are that the property acquirer (based on its declaration) must have its registered office /legal/ address or have residency based on the place of business in a state in which the actual corporate tax to tax base ratio reaches 9%, the lowest tax rate is at least 9%, and the income from the sale of business interests or capital contributions is subject to tax similar to corporate tax of at least 9%.

OTHER TAXES AND CHARGES

EKAER system

As of 1 January 2015, road transport with road vehicles of over 3,500 kgs can only be undertaken in possession of a special number (called EKAER number). In addition, an EKAER number must also be requested for transport via smaller vehicle if the goods delivered qualify as risky goods as per the regulations. In the case of risky goods, a security deposit is also payable by the taxpayer.

Possibilities for individual exemption from EKAER liabilities also exists: no EKAER number has to be requested if weight of goods in one shipment is less than 2,500 kgs and net value of shipped goods is below HUF 5 million are transported. This threshold is 500 kg and HUF 1 million for risky food and for other risky goods.

Transportation without an EKAER number means that unreported products shall be considered to be of unverified origin, enabling the Hungarian tax authority to impose default penalties of up to 40% of the value of the goods in question.

Advertising tax

People subject to the advertising tax can basically be classified into two groups. Taxpayers in the first group can briefly be referred to as advertising publishers (media service providers, media product publishers, entities utilising means of outdoor advertising, etc.). The other group includes advertising customers. This means companies whose core activity is not advertising (e.g. manufacturing and trading companies) may also be subject to the tax.

Special tax on financial organisations

Credit institutions and financial organisations have to pay a special tax based on a modified balance sheet total deriving from the annual report. The law determines different tax bases for other financial organizations (e.g. investment organisations). In the case of credit institutions, the rate of tax up to a tax base of HUF 50 billion is 0.15% and on the part in excess of HUF 50 billion it is 0.2%, while the tax rate differs for other types of financial organizations.

Financial transaction tax

A financial transaction tax is levied on financial transactions like money exchange activities, money transfer, paying off loans and cash withdrawal. The general tax rate payable by financial institutions is 0.3% but it is capped at HUF 6,000 while in the case of cash withdrawals the tax rate is 0.6% without any upper limit. From 2019, certain low-value bank transfers made by private individuals is not subject to this tax.

Tax on public utilities

From 1 January 2013, a new tax is levied on the owner of a public utility line as per the ownership status on the first day of the calendar year (if the owner is the Hungarian state or local government, the taxpayer is the operator of the public utility pipeline). The taxable base is the length of the public utility line in metres. The tax amounts to HUF 125 for each metre. Taxpayers with telecommunication lines can apply for some allowance (on a declining scale) for a section less than 500,000 metres (taxpayers with telecommunication lines in excess of 500,000 metres must pay the entire amount of the tax).

Tax on energy service providers

Energy service providers are subject to a special income tax being 31% on the basis of their adjusted pre-tax profit.

Insurance tax

This tax is payable by insurance companies on specified insurance services. The tax base is the insurance fee. The general tax rate varies between 10 and 20% depending on the type of insurance.

Vehicle registration charge

Following accession to the EU, a charge has to be paid by the owner of a car or a motorcycle at the time of its initial registration. The registration charge has to be paid on the basis of the performance of the engine (expressed in kW) registered in the official registry instead of each commenced cm^3 of cylinder capacity, and should be differentiated on the basis of the vehicle's age in order to ensure that the stamp duty payable on the acquisition of vehicles is more in line with the value of the vehicle.

Tax on company cars

Companies must pay tax on cars owned or leased by them regardless of whether the company cars concerned are used for private purposes or not. Until the end of 2011 the tax amount on company cars was payable on a quarterly basis depending on the cylinder capacity of the particular car (HUF 7,000/15,000). However, from 2012, the monthly company car tax is payable on a quarterly basis as one of the 12 tax amounts determined by matching the environmental impact of the cars based on the vehicle's environmental protection class with one of four engine performance (kW) categories in accordance with the table below:

ENGINE PERFORMANCE (KW)	VEHICLE'S ENVIRONMENTAL PROTECTION CLASS		
	0-4	6-10	5; 14-15
0-50	16,500	8,800	7,700
51-90	22,000	11,000	8,800
91-120	33,000	22,000	11,000
above 120	44,000	33,000	22,000

Innovation contribution

Companies that do not qualify as micro or small sized enterprises have to pay an innovation contribution. From 2019, the determination as to whether a company qualifies as a micro or small sized enterprise is – again – based on cumulative individual and affiliated company data. The payment liability is 0.3% on the local business tax base (net revenue based on Accounting law – royalty income – cost of materials – purchase price of goods sold – intermediated services – direct costs of research and development). From 2012, a tax advance top-up payment liability exists for this type of tax, i.e. companies have to estimate their annual innovation contribution liability and pay the difference in addition to their advance payments by the 20th day of the last month of their current business year.

Environmental protection contribution

An environmental protection contribution is payable on products that may damage or pollute the environment (e.g. petroleum products, batteries, tyres, electronic appliances and equipment as well as packaging material) calculated mainly based on their net weight. Such payment is due upon production, importation, intra-Community acquisition and subsequent domestic sale or own use of goods if certain conditions are met. From 1 January 2015, the scope of taxable products was extended to other plastic products, other chemical products and office paper products.

Public health product tax

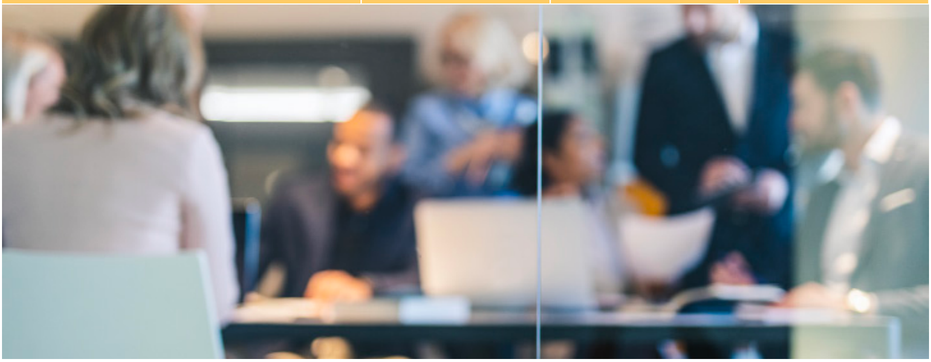
A public health product tax was introduced as at 1 September 2011 to decrease the consumption of unhealthy food. The tax base is the quantity of the taxable component (litre, kgs) of products. The tax rate is different depending on the component of the taxable products.

APPENDIX

TREATY WITHHOLDING TAX RATES 2019

	DIVIDENDS %	INTEREST %	ROYALTIES %
Albania	5/10	0	5
Armenia	5/10	5/10	5
Australia	15	10	10
Austria	10	0	0
Azerbaijan	8	8	8
Bahrain	0/5	0	0
Belgium	10	15	0
Belarus	5/15	5	5
Bosnia and Herzegovina	10	0	10
Brazil	15	10/15	15/25
Bulgaria	10	10	10
Canada	5/10/15	10	10
China	10	10	10
Croatia	5/10	0	0
Cyprus	5/15	10	0
Czech Republic	5/15	0	10
Denmark	0/0/15	0	0
Egypt	15/20	15	15
Estonia	5/15	10	5/10
Finland	5/15	0	5
France	5/15	0	0
Georgia	0/5	0	0
Germany	5/15	0	0
Greece	10/45	10	10
Hong Kong	5/10	5	5

	DIVIDENDS %	INTEREST %	ROYALTIES %
Iceland	5/10	0	10
India	10	10	10
Indonesia	15	15	15
Iraq (ratified, not yet in force)			
Iran	0	5	5
Ireland	5/15	0	0
Israel	5/15	0	0
Italy	10	0	0
Japan	10	10	10
Kazakhstan	5/15	10	10
Kosovo	0/5	0	0
Kuwait	0	0	10
Latvia	5/10	10	5/10
Liechtenstein	0/10	0	0
Lithuania	5/15	10	5/10
Luxembourg (-)	5/15	0	0
Macedonia	5/15	0	0



	DIVIDENDS %	INTEREST %	ROYALTIES %
Malaysia	10	15	15
Malta	5/15	10	10
Mexico	5/15	10	10
Moldova	5/15	10	0
Mongolia	5/15	10	5
Morocco	12	10	10
Netherlands	5/15	0	0
Norway	10	0	0
Oman	10/0	0	8
Pakistan	15/20	15	15
Philippines	15/20	15	15
Poland	10	10	10
Portugal	10/15	10	10
Romania	5/15	15	10
Russian Federation	10	0	0
San Marino	0/5/15	0	0
Saudi Arabia	5	0	5/8
Serbia & Montenegro (+)	5/15	10	10
Singapore	5/10	5	5
Slovak Republic	5/15	0	10
Slovenia	5/15	5	5
South Africa	5/15	0	0
South Korea	5/10	0	0
Spain	5/15	0	0
Sweden	5/15	0	0

	DIVIDENDS %	INTEREST %	ROYALTIES %
Switzerland	15	0	0
Taipei	10	10	10
Thailand	15/20	10/25	15
Tunisia	10/12	12	12
Turkey	10/15	10	10
Turkmenistan	5/15	10	10
Ukraine	5/15	10	5
United Arab Emirates	0	0	0
United Kingdom	10/15	0	0
United States (-)	5/15	0	0
Uruguay	15	15	10/15
Uzbekistan	10	10	10
Vietnam	10	10	10
Quatar	0/5	0	5
Nontreaty countries	0	0	0

EXPLANATION

If there are two different rates, then the lower rate has to be applied if the receiving party owns directly at least 25% of the payer (according to the OECD model). For special cases please check the detailed double tax treaty.

(+) Although different countries, the same Treaty applies until separate ones are concluded.

(*) The treaties are not in effect yet.

(-) The new treaty is not in effect yet, the old treaty applies.

HLB IN HUNGARY

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