



## HUNGARY

Hungary is an independent, democratic, constitutional country located in Central Europe. Through its membership of the European Union and its diplomatic ties, Hungary offers an entry to the whole market of the EU. With highly skilled and educated work force, inexpensive and high-quality raw materials, Hungary is strategically located within the EU; furthermore, it acts as an important transit hub between Western and Eastern Europe. The main strengths of the country are its low employment, excellent IT and communication infrastructure and low legal risk. In addition, Hungary is a member of the Customs Union allowing for significant savings in time and administration when trading with other member states. Within the EU, Hungary is a country with one of the lowest tax rates for foreigners. Hungary is a member of the Organisation for Economic Co-operation and Development (OECD), the World Trade Organization (WTO) and is a signatory to the WTO Agreement on Financial Services. It also participates in the Pan-European Cumulation, comprising the EU, EFTA, CEFTA and Turkey.

### THE HUNGARIAN LEGAL SYSTEM

The Hungarian legal system is based on the German-Austrian legal system, and has a statute-based civil and criminal law system. The Hungarian Parliament is a legislative body whose range of law-making activity is extensive. The President of the Republic is Hungary's head of state, who is elected by Parliament by secret ballot for a term of five years. The traditional rights of the head of state, also set in the Hungarian Constitution, have been defined in relation to legislative, executive, and judicial authority, according to a system of separation of powers.

The Government consists of the Prime Minister and the government ministers. The Prime Minister is elected by a simple majority vote of the Members of Parliament. The Government takes the necessary measures to ensure public law and order and public security, participates in the determination of foreign policy and concludes international agreements on behalf of the Government of Hungary.

### INVESTMENT CLIMATE

The Hungarian Government provides **different types of incentives for foreign investors** setting up businesses in Hungary. All incentives granted are in line with EU incentive standards. Hungary EU-harmonizing reforms have created a financial environment where virtually all capital related institutions, products, and services can be found. The Hungarian Forint has been fully convertible for all financial transactions since 2001, and both the Hungarian financial market and capital market transactions are fully liberalized.

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## COMPANY FORMATIONS

Foreign investors usually run business in Hungary through a **company limited by shares (Zrt.), a limited liability company (Kft.), limited partnership (Bt.) or general partnership (Kkt.)**. A Kft. and Zrt. may be formed by one or more owners. There are no restrictions on the number of shareholders or founders, or on their nationality or residence.

Zrt.: Minimum capital is HUF 5.000.000 (€ 16.000).

Kft.: Minimum capital is HUF 3.000.000 (€ 10.000).

## TAXATION

The Hungarian taxation system is close to the level of complexity found in Western Europe, and is harmonized with EU directives and provides a secure legal framework for the conduct of business. Hungary has bilateral tax treaties on double taxation avoidance; therefore, Hungary does not impose withholding tax on dividends, interest or royalties paid to companies in treaty countries. Currently, the following significant taxes and levies are imposed in Hungary:

### 1. *Central Taxes*

- a) Corporate income tax, dividends
- b) VAT
- c) Personal income tax

### 2. *Local taxes*

- a) Building tax
- b) Land tax
- c) Local business tax

### 3. *Levies*

- a) real estate tax
- b) transfer tax of motor vehicles
- c) innovation contribution

### **Corporate Income Tax**

If a company is a Hungarian resident, it is taxed on its worldwide income. The taxable income of both resident and non-resident corporate taxpayers is based on pre-tax 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 non-deductible items recognized by accounting and tax law. The corporate income tax rate is 9% flat rate.

### **No Withholding Tax**

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

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### **Dividends**

Dividends paid on corporate entities are not subject to withholding tax, irrespective of the residence of the corporate recipient. Dividends received; except for dividends received from controlled foreign company are tax base decreasing items.

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

From 1<sup>st</sup> January of 2012 the general rate is 27% applied to most products and services (18% is applied to basic food products and the provisions of accommodation, 5% is applied to pharmaceuticals and certain medical equipment, aids for the blind, books and newspapers).

### **Personal Income Tax**

The tax payable on the incomes covered by the Personal Income Tax Act is 15 per cent of the tax base. In respect of the income of resident private individuals, the tax paid in a foreign country on such income is to be deducted from the tax. Unless otherwise provided for in this Act, in the absence of an international agreement, the inclusion of tax paid abroad does not reduce the tax payable below 5 per cent of the tax base.

### **Foreign Person's Tax-paying Obligation**

A foreign employee is obliged to pay income tax in Hungary even if receives salary from abroad. In case of a permanent residence (that means staying in Hungary for more than 183 days a year) tax on all income has to be paid. In the case of temporary residence, tax has to be paid only on the income received in Hungary. Foreign nationals living and working in Hungary are required to register as taxpayers.

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