

# HUNGARY

## Economy

Hungary is located in Central/Eastern Europe, south of Slovakia, north of the former Yugoslavia, east of Austria, and west of Ukraine and Romania. Budapest is the country's capital, and also one of the main business hubs in Central and Eastern Europe.

Once part of the important Austro-Hungarian Empire, Hungary has always distinguished itself among the Central/Eastern European states as a progressive and prosperous state. Even during its years as a Soviet satellite state, Hungary was the most developed, liberal, and wealthy nation in Eastern Europe. It practiced a brand of communism referred to as "goulash communism" which allowed limited types of free market activities not permitted elsewhere in the former Soviet Union and Soviet satellite states. Therefore, of the former Soviet-controlled states, it has been one of the best prepared to deal with the transition. Not surprisingly, since the fall of the Berlin Wall in 1989 and the reorganization of the Hungarian Government into a republic, Hungary has continued to be the most prosperous nation in the region. Hungary was the first of the former Soviet satellite states to open a stock exchange (the Budapest Stock Exchange was opened in 1990).

Hungary is currently a member of the Organization for Economic Cooperation and Development (OECD), the World Trade Organization (WTO), and NATO. Hungary has applied for membership in the European Union and hopes to be one of the first Eastern European countries to join.

The Hungarian Economy continues to grow, and inflation is at a low level relative to the rest of the emerging markets in Central and Eastern Europe. Hungary is one of the largest recipients of foreign direct investment in all of Eastern and Central Europe, and the successor states of the former Soviet Union.

Hungary's application for EU membership will likely be accepted in the upcoming years. The nation will continue to strive for further political and economic stability, as well as continued increases in economic growth. With a good "track-record" in these areas along with a well-educated population, Hungary is an attractive choice for foreign investment.

## Foreign Investment

The overall environment for foreign investment in Hungary is very good. Foreigners may have up to 100% ownership in Hungarian legal entities. Repatriation of Hungarian profits in resident foreign entities is permitted. In addition, there are no minimum investment requirements and no trade restrictions for foreign investors. Foreign companies, as with all companies in Hungary, must register with the local court of registration, the tax authorities and the social insurance authorities.

Certain types of investment incentives may be available for foreign investors, and should be investigated through the use of qualified legal or tax counsel.

## **Offshore Companies**

Companies registered in Hungary as “offshore” companies must meet the following requirements:

- The company must be 100% foreign-owned with no Hungarian resident owners
- The company should be exclusively engaged in trade with foreign countries
- The company must not be engaged with providing financial services
- No interest can be held in a Hungarian company
- The company must have a bank account in Hungary

Interest paid to such companies will be subject to the 18% withholding tax, but may be reclaimed as a result of tax treaty relief. An offshore company must pay corporate tax at the rate of 3%.

## **Local Professional Representation**

All legal work, including the establishment of legal entities and the establishment of intellectual property rights, must be completed by someone who is accredited to practice law in Hungary. It is also recommended that a reputable local accounting firm be consulted as well if one is planning to do business in Hungary.

## **Corruption and Organized Crime**

It would be fair to say that the transition of the Eastern European countries from command economies to market economies has been hampered by increasing levels of organized crime and corruption. However, the Hungarian government has taken several measures to curb such problems by introducing anti-corruption laws in 1997 and 1999. This, combined with the extreme attention and scrutiny the media gives to corruption scandals, is working to keep the problem to a minimal level in comparison with other former Eastern Block countries.

## **Currency and Banking regulations**

The official currency is the Hungarian Forint (HUF). The currency is freely convertible for companies that need to pay for imported goods or services, interest, allowable dividends, the repatriation of capital and loan principal. Hungarian companies may maintain bank accounts in Hungarian Forint or in foreign currencies.

Most subsidies and price controls have been eliminated, with controls remaining only on certain basic products and services, such as utilities, mass transit and pharmaceutical products.

Hungary has repaid all of its debts to the International Monetary Fund (IMF) and no longer requires such assistance.

# **Income Taxes**

## **Taxation of Companies**

Business losses may be carried forward up to five years. Startup losses for the first three years of operation for a business may be carried forward indefinitely. However, no carry forward provision is available for financial institution losses.

All types of business income are taxable with the exception of dividend income. Many types of business deductions available in other countries are unavailable or restricted in Hungary, so it is prudent to get advice from an accounting professional who is familiar with these matters.

## **Taxation of Individuals**

Individual taxpayers must file an annual return and pay any outstanding tax by March 20<sup>th</sup> of the year following the applicable tax year. Estimated tax payments are required throughout the year. No filing of extensions is available under Hungarian Tax Law.

# **Tax Rates**

## **Corporate**

The corporate tax rate is set at 18%.

## **Individual**

Tax rates range up to 42% for incomes in excess of 1,100,000 HUF.

# **Income Tax Treaties**

Countries with which Hungary has income tax treaties include:

Albania, Australia, Austria, Belgium, Brazil, Bulgaria, Canada, China, Cyprus, Czech Republic, Denmark, Egypt, Finland, France, Germany, Greece, India, Indonesia, Ireland, Israel, Italy, Kazakhstan, Korea, Kuwait, Luxembourg, Malaysia, Malta, Moldova, Netherlands, Norway, Pakistan, Poland, Romania, Russia, Slovakia, South Africa, Spain, Sweden, Switzerland, Thailand, Tunisia, Turkey, Ukraine, United Kingdom, United States, Uruguay, Vietnam, Yugoslavia.

Others income tax treaties which have yet to be ratified include:

Croatia, Mongolia, Morocco, Philippines, Portugal, and Singapore.

It should be noted that in establishing the rate of tax in Hungary, foreign taxed income is not a part of taxable income for those countries with which Hungary has a tax treaty in effect, but the total worldwide income is used for determining the tax rate applicable to the taxpayers' taxable income.

## Value Added Tax (VAT)

VAT is charged on domestic and imported goods and services. The standard VAT rate is 25%, with some types of basic goods and services being subject to a VAT rate of 12%. VAT paid on exported goods and services is 100% recoverable. Any taxpayer with an annual turnover exceeding HUF 2 million must register for VAT. The VAT paid by a taxpayer can either be offset against VAT collections or reclaimed.

## Duties

Customs duties are levied on imported goods at varying rates, depending upon the type of goods and its origin. In addition, there are special levies on goods imported from non-WTO countries, and those that are not part of a free trade zone.

## Excise Tax

This tax should be paid by individuals and merchants for the sale and importation of tobacco, jewelry, passenger cars, fuel, and alcohol. Rates vary depending upon the product.

## Withholding Taxes

By law, unemployment contributions must be withheld from employment income by the employer for a given employee to be covered by the Hungarian Labor Law. Tax on employment income is also withheld by the employer and then paid on the employee's behalf.

In the absence of an income tax treaty, withholding taxes on the following distributions to non-Hungarian residents apply:

Dividends (%)	Interest (%)	Royalties (%)
20	18	18

## Social Security Tax and Payroll Taxes

Social Security taxes are paid by the employer and employee at the following rates (as a percentage of gross salary):

Employer:

Pension & Health	39.0%
Unemployment	4.0%
Total	43.0%

Employee:

Pension and health	10.0%
Unemployment	1.5%
Total	11.5%

## **Patents, and Trademarks**

Hungary has good intellectual property laws in line with the World Intellectual Property Organization standards. However, these laws can be difficult to enforce, and many foreign firms operating in Hungary have had difficulty obtaining legal recourse for intellectual property law violations.

### **Patents**

Patent rights are good for a period of 20 years, but such patents must be used within four years of the date of application or three years from the date of issue to be valid. This includes all literary, scientific, and artistic creations.

### **Trademarks**

Trademark registration is valid for up to ten years, and can be renewed. However, registration of trademarks can take up to one year.

## **Bilateral Investment Treaties**

Hungary has bilateral Investment Treaties with the following countries:

Albania, Argentina, Australia, Austria, Belgium, Bulgaria, Canada, China, Cyprus, Czech Republic, Denmark, Egypt, Finland, France, Germany, Great Britain, Greece, Holland, Indonesia, Israel, Kazakhstan, Kuwait, Luxembourg, Malaysia, Moldova, Norway, Paraguay, Poland, Portugal, Romania, Russia, Singapore, Slovakia, South Korea, Spain, Sweden, Switzerland, Thailand, Turkey, Ukraine, USA, Uruguay, and Vietnam.

## **Trade Agreements**

As mentioned earlier, Hungary is a member of the OECD and the WTO. Hungary has also applied for membership in the European Union.

## **Considerations for Foreign Nationals Present in Hungary and Individual Residency Rules**

A “resident” for tax purposes is considered to be someone who has been physically present in Hungary for more than 183 days in a calendar year. Residents are taxed on worldwide income, at an upper limit of 42%. Non-residents are only taxed on Hungarian-source income. Expatriates working for firms in Hungary are not exempt from such rules and thus are subject to tax on Hungarian-source income. If the expatriate resides in the country for more than 183 days, they will also be subject to income tax on their worldwide income. Expatriates pay the same individual tax rates as Hungarian citizens.

Taxable income includes many fringe benefits available to expatriates working in Hungary. Such benefits may include, but are not limited to, housing allowances, reimbursed moving expenses, and schooling costs for children.

Business and tourist visitors may enter the country from the following countries and stay visa-free for up to ninety days, unless otherwise indicated in parenthesis:

Argentina, Austria, Belgium, Republic of Bosnia and Herzegovina (30), Bulgaria, Canada, Chile, Costa Rica, Croatia (30), Czech Republic, Cuba (30), Cyprus (30), Denmark, Ecuador, Estonia (30), Finland, France, Macedonia (30), Germany, Greece, Iceland, Ireland, Israel, Italy, Japan, South Korea, Latvia (30), Liechtenstein, Lithuania (30), Luxembourg, Malaysia, Malta (30), Mexico, Monaco, Netherlands, Nicaragua (30), Norway, Panama, Poland, Portugal, Romania (30), San Marino (30), Seychelles, Singapore (14), Slovakia, Slovenia, South Africa (30), Spain, Sweden, Switzerland, United Kingdom (180), Uruguay, USA, and Yugoslavia.

All other passport holders are subject to a schedule of visa requirements and fees. Providing such requirements are satisfied, visas are available in advance at Hungarian Embassies and Consulates, and at official borders and entries into Hungary.

For those foreign nationals wishing to establish long-term residency in Hungary, a working permit and long-term visa is required. This usually requires sponsorship from a Hungarian citizen or employer.

## **Types of Business Organizations**

Foreigners may participate in most types of business organization structures in Hungary. The principal business entities that foreigners may organize in Hungary are as follows:

### **General Partnership** (*közkereseti társaság- Kkt*)

All partners have unlimited liability.

### **Limited Partnership** (*betéti társaság-bt*)

One partner has unlimited liability while other investors may have limited liability. Those partners with limited liability may not manage the partnership.

### **Limited Liability Company** (*korlátolt felelősségű társaság-Kft*)

Shareholders have limited liability. However, the shares must not be traded publicly. Only one shareholder is required. The minimum capital required to establish a Limited Liability Company is 3 million HUF and each owner must contribute a minimum of 100,000 HUF.

### **Limited Liability- special type (közös vállalat- kv)**

An association of two or more companies having limited liability.

**Stock Company** (*Részvénytársaság- Rt*)

All publicly traded companies must be incorporated under this structure. However, not all companies incorporated under this structure are public trading companies. Stock companies may have as few as one shareholder, but three board members are required. Share capital is restricted to a minimum initial investment of 20,000,000 HUF and such capital may not be increased for the first two years of business operations. Banks and insurance companies must form this type of legal entity to operate in Hungary.