



Hungary



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„Put it before them briefly so they will read it, clearly so they will appreciate it, picturesquely so they will remember it, and above all, accurately so they will be guided by its light.”

Joseph Pulitzer

Market Overview

Hungary is an independent, democratic constitutional state located in Central and Eastern Europe and joined the EU in 2004. Due to its location Hungary is an important industrial transit hub between Western and Eastern Europe, and a **strategic location in Europe**, access to EU markets, highly skilled and educated work-force, and sound infrastructure have led companies such as British Telecom, Exxon Mobil, Vodafone, Air France, GE, Alcoa, Morgan Stanley, IBM, Mercedes-Benz, Audi, Suzuki, Opel, Huawei Technologies and many others to locate facilities here, both in manufacturing and services.

Hungary is one of the most favored Business Process Outsourcing (BPO) and Share Service Centre (SSC) destinations in Europe. The main **strengths of the country** are its low employment costs, good IT and communication infrastructure, low legal risk and the profile of its capital city Budapest, which plays a crucial role in the Hungarian economy. It is by far the largest city and is the political, administrative, financial and cultural hub of the country. The vast majority of the telecommunications, banking, utilities, manufacturing and television sectors are in private hands and the private sector accounts for most of GDP.

In addition to this, real estate resources are excellent and good availability shows an increasing trend. Due to the high vacancy, large occupiers can achieve very competitive conditions compared to other office markets. A **multicultural environment** is a preferred business environment for the university educated population. A high number of the workforce has already studied or worked abroad.

Hungary is a member of 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.

Hungary maintains **an open economy and attracting foreign investment** remains a stated priority for the Hungarian government. According to the Hungarian Investment and Trade Development Agency (ITDH), "foreign direct investment (FDI) has been crucial in boosting economic performance and remains the driving force behind Hungary's economic success, fueling its strong export growth and significantly increasing productivity." Hungary's high-quality infrastructure, its productive and highly skilled labor force, and its central geographic location are often cited as features that make Hungary an attractive destination for investment.

In a survey recently completed by MasterCard Worldwide, Budapest was ranked first among 65 cities of emerging markets in quality of urban life, risk and security. It ranked **third in the economic and commercial environment categories, and sixth in the business environment category. In the overall rankings, Budapest came third worldwide and first in Europe.**

Investment Climate

Political and Economic Environment

Hungary reached the bottom of the economic recession cycle in the third quarter of 2009. To respond to the crisis, the Bajnai government in 2009 enacted a series of economic reforms and spending cuts intended to reduce the tax burden on labor, encourage employment, improve Hungary's economic competitiveness, and offset lost government revenue due to the deeper-than-expected recession. These measures included reforms to the pension and entitlement systems, as well as tax changes to shift the tax burden from labor to wealth and consumption. In addition to cuts in taxes for businesses and employees, tax changes included raising the value added tax (VAT), and a proposal for the introduction of a property tax. In 2009 GDP declined by 6.3%, and the Hungarian Government was able to meet the 3.9% deficit target.

The Orban government elected in 2010 has pledged to meet the 3.8% budget deficit target and launched a 29-point economic program designed to promote growth by reducing administrative burdens on businesses and lowering the tax burdens on small businesses. The plan also includes strict control of budgetary expenditures, and a tax on the financial sector of HUF 200 billion (about \$850 million), which would remain in effect for 2 years. Owing to the crisis management program, the Hungarian Forint seems to be stabilized around 270 EUR/HUF, while the NBH Central Bank rate stands at 6% as of February 2011, with analysts expecting a further 25bps decrease.

In 2010, the government passed a number of tax changes, including reductions in personal income and business tax rates in order to increase Hungary's regional competitiveness and attractiveness to investment. Weeks after the new government was swept into power with a two-thirds super majority, it announced the introduction of "crisis taxes" targeting banking, energy, telecommunications, and retail sectors. Manufacturing – clearly a sector that is valued by the Hungarian government - was not targeted by the taxes. The crises taxes were unveiled as being three-year, limited-duration, extraordinary measures. The government stated that they would use the funds generated by the crises taxes to shore up the government budget until more long-term, structural changes were made. However by March, just a few months after they were introduced, the government acknowledged that the "crisis taxes" will exist in some form until 2013, and the banking and financial services tax will continue in whatever form an EU-wide banking levy has taken by then.

Incentives for Foreign Investors

The Hungarian Government provides **different types of incentives for foreign investors** setting up business in Hungary. All incentives granted are in line with EU incentive standards.

Incentives and grants are allocated on case-by-case basis following negotiations between the investor and the government. All incentives granted are in line with the EU incentive standards. Performance requirement/incentives are available to all enterprises registered in

Hungary, regardless of the nationality of owners or location of incorporation, and applied on a systematic basis.

To comply with European Union rules, the government of Hungary no longer grants tax holidays based on investment volume. Hungary has a well developed incentive system for investors, the cornerstone of which is a special incentive package for investments over a certain value (typically over EUR 10 million).

The incentives are focused on investors establishing manufacturing facilities, logistics facilities, regional service centers, R&D facilities, bio-energy facilities, or tourist facilities. Incentive packages may consist of cash subsidies, development tax allowances, training subsidies, and job creation subsidies. Parliament enacted a new National Development Plan for 2007-2013. In the Framework of the New Hungary Development Plan (NHDP), Hungary will receive around EUR 22.4 billion from the EU.

Foreign Direct Investments

In Hungary Foreign Direct Investments (FDI) flow started in the late 1980's and showed a stable volume until 2004. Since Hungary joined the EU, FDI moved to a higher level and plays an important role in the very open Hungarian economy. With approximately USD 90 billion in FDI since 1989, Hungary has been a leading destination for FDI in Central and Eastern Europe over the past several years. Germany is the most important country of origin with 22 percent of all FDI, followed by Austria (14 percent) and the Netherlands (13 percent). The United States is the largest non-European investor at 10 percent of FDI. The Ministry of Economic Affairs established the ITDH in 1993, and this agency continues to help companies looking to make major investments in the country. ITDH has set up a "one-stop-shop" service for potential large investors. Effective January 1, 2011, ITDH will become the National External Economy Office (NKH), operating under the Minister of National Economy. The size of the NKH is anticipated to be much smaller than the former ITDH. The government has a National Development Program II (NDPII) for channeling EU development funds and the Smart Hungary investment incentive program, aimed at facilitating investments in key areas for development, especially in less developed regions.

Banking and Financing

With increasing demand from foreign and domestic corporate clients for simple and rapid services, more financial institutions are providing universal banking, which ranges from straightforward lending to investment banking and securities trading. Most foreign firms tend to access local credit and capital markets through home-country financial institutions that have opened branches in Hungary. The services industry is concentrate in Budapest with large SSCs from British Telecom, Exxon Mobil, GE Finance, Morgan Stanley to name a few.

Under the EU's "single passport" principle, a financial services provider authorized in one EU member state is free to provide that service anywhere else in the EU. EU-based financial institutions are not required to establish a local subsidiary or branch; they are only required to register with the Hungarian Financial Supervisory Authority.

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.

The **Hungarian Forint (HUF)** has been fully convertible for all transactions since 2001, a final step in a decade-long liberalization process. A government decree lifted all remaining foreign exchange restrictions and allowed free movement of capital, in line with EU regulations. Businesses and private individuals have free access to foreign exchange enjoying all advantages and disadvantages of the local currency and foreign exchange fluctuation. Foreign exchange rules allow Hungarian residents to open forint and foreign currency accounts abroad without applying for permission from the National Bank of Hungary, and foreign companies may hold foreign currency without restrictions.

The National Bank of Hungary (NBH) is the central bank and a member of the European System of Central Banks (ESCB). The NBH and the members of its decision-making bodies perform their duties and carry out their obligations independently from the government. With the exception of the European Central Bank, the NBH (and the members of its decision-making bodies) may not ask for or follow instructions from the government, the institutions and bodies of the European Union, the governments of other EU Member States or any other institution or body.

A commercial bank may only operate in Hungary as company limited by shares (Rt.) or as branch office of a foreign bank. A permit from the **State Supervisory Authority for Financial Institutions (PSZÁF)** is required before a commercial bank may be established and the commencement of operations in Hungary is allowed. In the case of a branch office of a foreign bank, a license for banking activities issued by its foreign authority is also required. The Financial Enterprises Act determines the range of financial services that commercial banks may provide.

The Hungarian Financial Supervisory Authority (HFSA) oversees the banking system, as well as the capital, insurance and pension fund markets. As a member of the supervisory community of the European Union and in an integrating financial market, the HFSA shall

- ensure reliable, continuous and transparent operation of the financial markets;
- strengthen confidence in the financial markets;
- promote the development of financial markets based on fair competition;
- protect the legitimate interests of market participants;
- support the reduction of consumers' risks by providing access to adequate information;
- actively participate in eliminating financial crime.

Since Hungary's accession to the EU, credit institutions registered in another Member State of the EU may engage in cross-border services.

Financial institutions whose controlling interest is owned by foreign professional investors constitute more than 90 percent of the registered capital of the sector, including 27

commercial banks (see their list on the website of the Hungarian Banking Association). Only the Hungarian Development Bank and Eximbank, two banks with special governmental functions, remained in state ownership.

A banking account at a commercial bank is required to register and run a company in Hungary. Wire transfers are used for over 80 percent for payment transaction, and new customers are sometimes required to pay in advance. A letter of credit is often used for more significant and high-value first transactions before mutual trust develops between partners. Credit cards are also used but mostly for individual purchases. The largest commercial banks in Hungary are: OTP - Hungarian Savings Bank, Hungarian Foreign Trade Bank (MKB), Citibank, Commercial and Credit Bank (KHB), Budapest Bank –GE Capital, Erste Bank Volksbank, UniCredit Bank, CIB Bank.

Trade and Imports

Tariff assessment and all other customs procedures take place at the first port of entry into the EU. However, Hungary still collects the Value Added Tax (VAT) on all goods with Hungary as a final destination.

The **Integrated Tariff of the Community**, referred to as TARIC (Tarif Intégré de la Communauté), is designed to show various rules applying to specific products being imported into the customs territory of the EU or, in some cases, when exported from it. To determine if a license is required for a particular product, check the TARIC. The TARIC can be searched by country of origin, Harmonized System (HS) Code, and product description on the interactive website of the Directorate-General for Taxation and the Customs Union. The online TARIC is updated daily.

Many EU Member States maintain their own list of goods subject to import licensing. For example, Hungary's restricted "Import List" includes goods like arms/military equipment, explosives and pyrotechnic products, security paper, uranium, radioactive isotopes, etc. The import list indicates code numbers, applicable restrictions, and the agency that will issue the relevant license.

Goods presented to customs are covered by a summary declaration, which is lodged once the goods have been presented to customs. The customs authorities may, however, allow a period for lodging the declaration, which cannot be extended beyond the first working day following the day on which the goods are presented to customs. The summary declaration can be made on a form corresponding to the model prescribed by the customs authorities. However, the customs authorities may permit the use, as a summary declaration, of any commercial or official document that contains the particulars necessary for identification of the goods. It is encouraged that the summary declaration be made in computerized form.

Goods temporarily imported into Hungary must be kept in a bonded warehouse until re-export. Customs authorities determine the period within which these goods must be re-exported or assigned a new customs-approved treatment or use. The maximum period the goods may remain under temporary importation status is 24 months, although customs authorities may shorten or extend this. A temporary import shipment does not have to be re-

exported in total. Any portion of the shipment destined for the domestic or EU market, however, is subject to duties and VAT at the time of importation.

Hungary imports nearly all of its energy, in the form of oil and gas, from Russia. The structure of exports is shifting towards high value-added goods, since most foreign direct investment has been in sectors such as machinery, computers, telecommunications equipment, electrical and electronic goods, and transport equipment.

Trademarks, Patents, Industrial Designs and Models and Copyrights

Intellectual property such as patents, trademarks, industrial designs and models, and copyrights are legally recognized in Hungary. Legislation on intellectual property rights is comparable to that in Western European countries and Hungary has adopted EU rules on the protection of intellectual property.

The patents system has been fully integrated into the European Patent Convention. Investors can apply for European patents at the Hungarian Patent Office.

Patent protection in Hungary covers the use, sale, offering for sale, and import of a patented product or products made using a patented process. The definition of infringement has been extended to include "supplying the means." A person who sells or offers to sell the means of producing a patented product is liable if that person is proven to have known that the means could be used for infringement.

The patent application process takes from six months to one year, and patents are issued for a period of twenty years from the filing date. Foreigners applying for a Hungarian patent whose permanent residence is not in the European Economic Area (EEA) must be represented by an authorized Hungarian patent agent.

Hungarian patent law conforms to the guidelines of the European Patent Convention, to which Hungary is a signatory. Trademarks may be granted for any product-distinguishing sign capable of being graphically represented. They are issued for ten years and are renewable. The Hungarian Patent Office has competency over patent revocation and trademark invalidity proceedings, while all disputes related to the infringement of IPR fall under the jurisdiction of the courts.

Under compulsory licensing, a patent holder may be forced to license a patent for use if, the patent holder has not introduced the patented item for availability on the Hungarian market within four years of the date of filing the application for registration; or the item is required for the business activities of a user who is entitled to use other patented items that cannot be used without the item in question. The patent holder may then attach conditions to the use of the patent, restricting it to the purpose for which the license is granted.

Patents are protected for 20 years from the date of filing the patent application, and an annual fee is required to maintain the patent. Trademark protection is granted for 10 years, and may be extended by additional 10-year period. Industrial designs are protected for five years from the date of application and can be extended up to a maximum of 25 years.

Licensing and Restriction, Competition on Market

There are no sectors in which the government particularly encourages licensing over other forms of investments and there are no restriction on licensing agreements.

Monopolies and market dominance are not prohibited per se. Rather the Competition Act bans the abuse of a dominant position that restricts competition. A dominant position arises when substitute goods cannot be acquired elsewhere, or can be acquired only under conditions substantially less favorable; when a company's goods cannot be sold to another party, or can be sold only to a party under substantially less favorable conditions; or when a company can pursue its economic activities in a manner substantially independent of other participants in the market or without having to consider the attitudes of its competitors, suppliers, customers or other business partners.

The Competition Act includes the following non-exclusive list of agreements or concerned practices that might not be permitted if they have, as their object or effect, the prevention, restriction or distortion of economic competition:

- Price-fixing or defining other business conditions;
- Restricting or controlling manufacturing, distribution, technical development or investment in a product or industry;
- Dividing purchasing sources, restricting freedom of choice in purchasing or excluding others from the purchase of goods;
- Dividing a market, excluding others from selling, restricting sales choices;
- Preventing others from entering a market;
- Discriminating against business partners through sales or purchase price or conditions; and
- "Tie-in" contracts, i.e. requiring specified purchases besides the original contract item.

Agreements between companies to engage in the above practices are not prohibited if the combined market share of the parties does not exceed 10% or if the companies are part of the same company group.

The Trade Act defines the concept of significant market power in the context of wholesale/retail businesses and their suppliers, and prohibits the abuse of such power. A company, or any group of undertakings or purchasing alliance to which it belongs, that has annual revenue of HUF 100 billion is considered to have significant market power. Such power also exists if a company has a dominant bargaining position under market conditions.

Right to Private Ownership

The Hungarian constitution guarantees the right to private ownership. Foreign and domestic private entities may establish and own business enterprises and engage in all forms of remunerative activity, except those prohibited by law. Hungarian law guarantees the right of establishment of private entities, as well as the right to acquire and dispose of interests in business enterprises. Many foreign companies operate through representative offices.

New companies shall be registered with the Court of Registration. The companies Act as well as the Act on Public Company Information, Registration of Companies and Company Dissolution, simplified company registration procedures but also tightened corporate responsibility requirements. The Court maintains a fully computerized registry, provides public access to company information, and an electronic filing system.

Company Formations

Foreigners may carry out continuous business activities in Hungary only if they establish a Hungarian company or register a branch or representative office.

Types of Principal Forms

Foreign investors usually run business in Hungary through a **company limited by shares (Rt.), which may be public (Nyrt.) or private (Zrt.) or through a limited liability company (Kft). Limited partnership (Bt.) or general partnership (Kkt.)**, both form required unlimited legal liability – meaning that all members of Kkt. are jointly and severally liable, and at least one member of Bt. shall have unlimited liability - may be taken.

The rights, facts and data included in the company registration records, and the data of the members and executive officers of companies are public information, and shall be published in the official journal denominated as Company Journal.

Some other facts shall be reported to the Court of Registration competent for the registered office, such as the existence of controlling interest.

A Kft. and Zrt. may be formed by one or more owners. It is not permitted to solicit others publicly to become owners. There are no restrictions on the number of shareholders or founders, or on their nationality or residence.

Capital, Contributions and Control

It is possible to establish an Rt. or a Kft. with either cash or in-kind contributions or a combination thereof.

Zrt.: Minimum capital is HUF 5 Million (€ 20.000). The Zrt. may be founded only with in-kind contribution without any cash contributions. The amount of capital contributed in kind shall be declared in writing and must be audited by certified auditors.

Bearer shares are not permitted, all shares shall be registered. Shares shall be dematerialized for an Nyrt., but they may be either dematerialized or printed for a Zrt. The transfer of shares of a Zrt. shall be limited in the deed of foundation. There are no limitations on foreigners acquiring shares. Other permissible types of shares include voting or divided-reference shares, shares with management appointment rights, employee shares, interest-bearing shares and convertible shares.

A simple majority vote is sufficient for most decisions; however, a majority of at least 75% is necessary for major decisions, such as amending the deed of foundation, deciding on transformation or termination of the company without a legal successor, modifying the rights attached to shares or converting shares from one class to another class of shares. Shareholders of an Rt. representing at least 5% of the shares with voting rights may ask the board of directors to call a shareholder's meeting.

Kft.: Minimum capital is HUF 500.000 (€ 2.000). A Kft. may not be filed for registration until at least half of each cash contribution has been paid and all in-kind contributions have been transferred. All outstanding cash contributions must be fully paid no later than one year from the registration. In case the value of the in-kind contribution reaches half of the registered capital, the in-kind contribution shall be provided upon the foundation in full volume. In case the in-kind contribution was not provided upon foundation, it shall be provided within three years following the incorporation.

Ownership in a Kft. is in book-entry form, recorded in the articles of association and at the Court of Registration. Ownership quotas shall be minimum HUF 100,000 par value. The amount of capital contribution shall be divisible by HUF 10,000. Every quota holder shall have one quota with a defined value, although there may be joint ownership of a single quota.

A simple majority vote is generally sufficient but a majority of at least 75 % of the quota holders is sometimes necessary, such as to change the articles of association or remove a managing director.

Management

A director of a company shall be an individual, a natural person. Managing director(s) for a Kft.; members of the board of directors for a Zrt. A person who has been sentenced to imprisonment by final verdict for committing a crime may not be an executive officer of a company until relieved from the detrimental legal consequences related to his criminal record. Any person who has been banned by a final court verdict from accepting an executive office may not be engaged as an executive officer under the duration of such ban. Any person who has been banned by a final court verdict from any profession may not be engaged as an executive officer in a corporation whose main business activity covers such profession. For a period of two years after cancellation of a company from the register of companies based on winding-up proceedings, a person who, during the calendar year preceding such cancellation served as an executive officer of the terminated company, may not be an executive officer of another corporation.

A person may not be a managing director of another company, whose liability for claims not being satisfied during a liquidation proceeding has been declared by a court in a final decision – as the liability of the managing director of the liquidated company or of any owner thereof having at least majority controlling influence – and who has not fulfilled its payment obligations according to the final ruling. The above ban shall be effective for five years calculated from the end of an unsuccessful execution proceeding.

Unless otherwise prescribed in the articles of association, executive officers shall be elected for a fixed term of maximum five years, or designated in the articles of association.

Zrt.: Management is conducted by the board of directors, consisting of 3–11 members elected by the shareholders at the general meeting. It is possible to elect a chief executive officer instead of a board.

Kft.: Management may be conducted by one or more managing directors elected by the members; alternatively, the articles of association may provide that all equity holders are entitled to manage the Kft. as managing directors.

Supervisory Board

An Rt. is required to have a supervisory board elected by the shareholder's meeting only if it is a public Rt. not operating under rules for unified company management, if it is a private Rt. in which 5% of shares with voting rights request it or if otherwise required by law.

In case of a Kft. a supervisory board of at least three members is permitted but no longer required unless the number of full-time employees exceeds 200.

No restrictions apply to nationality or residence of supervisory-board members.

Auditor

All companies shall appoint at least one certified accountant as an auditor. An exception applies for companies with turnover of less than HUF 100 million in the preceding two years and the average number of employees of the preceding two financial years did not exceed 50 people. The auditor shall be a legal person or an individual registered with the Hungarian Chamber of Auditors.

Registered seat and Meetings

Every Hungarian company is required to have a registered office and address in Hungary. A law firm can also provide a service for registered office.

Annual board meetings and shareholders' meetings (called as members' meeting in case of a Kft.) should be held at least once a year. The place of the meeting must be in the registered seat, unless arranged otherwise.

Members and shareholders may be represented in the meeting by persons so authorized. Managing Directors, company secretaries, Supervisory Board members and the auditor may not be representatives.

Authorization shall be drawn up in a notary's document or private document representing conclusive evidence.

Members may pass resolutions without holding a members' meeting if the articles of association so provides.

Branch Office

All foreign companies operating in Hungary shall establish either a locally registered company or a branch office.

Branches of nonresident companies must be registered with the Court of Registration, but they may commence operation as a "preliminary branch" before completing registration. The registration documents are similar to those for a limited liability company. There are no capital requirements, but branches in the financial sector shall have the same initial share capital as that required for domestically registered companies. The foreign founder and the branch have joint and several liability for obligations of the branch.

In general, Hungary treats domestic companies and foreign branches equally regarding their establishment, operations and taxation. Branches may be involved in all types of business activities, but they are not permitted to conduct representative or agency activities on behalf of their foreign founders.

Foreign companies may establish representative offices in Hungary, which are subject to special rules. Such offices are entitled to provide direct commercial representation for nonresident firms, including the arrangements of trade agreements with foreign partners, prepare and sign trade contracts on behalf of their foreign parents, and provide information and advertising services.

Registration Process

As mentioned above, a single owner may form a limited liability company. Such a company may not publicly solicit others to become owners. The minimum capital requirement is HUF 500,000 and the company may not file for registration until at least one-half of each cash contribution has been paid (although there is no minimum cash requirement). The deadline for payment of in-kind contributions and remaining cash contributions must be established in the articles of association, but if in-kind contributions account for more than one-half of the total capital, they must be transferred at the time of registration. Any outstanding cash contributions must be fully paid no later than one year from registration, and outstanding in-kind contributions within three years.

Other requirements include an official statement of company authorization to sign on behalf of the company; certification by a bank regarding the deposit of cash contributions of capital as specified in company articles; a statement by the managing director regarding the status of in-kind contributions; and declarations of acceptance of the executive officers, members of the supervisory board and auditor (If required), including statements on any conflicts of interest. When a foreign company is one of the owners of the company to be registered, an extract from the Registrar of Companies of the foreign country and its official translation in Hungarian must be enclosed. Foreign persons registered in the Company Register (i.e. members or officers of the company) must have a delivery agent with an address in Hungary, who possesses power of attorney. Investments that are deemed to have an environmental impact must be accompanied by an environmental permit before registration may be completed.

A Hungarian lawyer shall countersign the articles of association, although this may be an electronic signature for an electronic registration. Documents executed outside Hungary require additional formalities. The application for registration must be submitted within 30 days of signing the company's founding documents. If the applicable laws require an official license for the establishment of the company, it must be attached to the application form. The incorporation documents also may be submitted electronically.

New entities may begin business as a "pre-company" upon signing the foundation documents. Any documentation or contract produced by the company during this preliminary period must identify the company as "under registration".

The Court of Registry shall examine all registration applications for compliance with formal requirements within three working days from the date when received. The competent court of registry shall examine within eight working days following the date of receipt of the application as to whether the data which are prescribed mandatory by the law for the type of company, and the documents which are required to be enclosed in support of the instrument of constitution and the application for registration, or other documents which need to be enclosed where applicable, are in compliance with the relevant statutory provisions.

Simplified process is where an application for a Kft. or Zrt. is accompanied by an instrument of constitution drawn up on a standard contract form as illustrated in the Act. The competent court of registry shall adopt a decision concerning an application for registration within one hour of receipt of the application.

For registration of Kft. and Zrt. the fee shall be HUF 100.000 (€ 400), in the case of simplified process the fee shall be only HUF 15.000 (€ 60). If the company register is modified, HUF 15.000 (€ 60) fee shall be payable, but in the case of modification of the registered capital of the company the fee shall be HUF 40.000 (€ 160).

Publication fees for registration: HUF 5.000 (€ 20), even in the case of simplified process, and for a modification proceeding, HUF 3.000 (€ 12) shall be paid as publication fee.

A company limited by shares may be founded or held by a single shareholder, although this must be reported to the Court of Registration. Such a shareholder has unlimited liability in the event of failure to comply with this reporting requirement.

For a public offering to establish a public company limited by shares, a foundation memorandum must be prepared through which the shares of the company are subscribed. The foundation memorandum must detail the full plan for subscription and operations of the company, and must be in an official, private and notarized document. Subscribers must pay at least 10% of the amount for which they have subscribed into a bank account designated by the founders at the time of subscription. A statutory general meeting must be convened within 60 days of the closing date of the subscription, at which point subscribers must increase the amount paid up on their shares to 25%. The shareholders' meeting must produce the articles of association and elect a board of directors, a supervisory board and an auditor for the first year. The shareholders' meeting must also approve or refuse the oversubscription procedures.

Since Hungary's accession to the EU, businesses may also be established in three other legal forms: the European corporation, European business association and the European co-operative.

Labour Environment

The Labour code contains minimum provisions for employment contracts, job descriptions, place of work, hiring out labor and rules for termination of employment.

Working Hours

The standard working week of full-time employees is eight hours per day, or 40 hours per week. Exceptions may apply to special work schedules, but employer shall provide workers with adequate rest time. Workers must be paid minimum premiums of 30% for night work and 50% for overtime.

Regular Holiday

The Labor Code provides for an annual minimum of 20 days of regular holiday leave, with additional days depending on the age of the employee (rather than on total years of service). Employees older than age 35 are entitled to 25 days; those older than 45 are entitled to 30 days. Extra days may be awarded to employees younger than 18 (five days) and parents with children (up to seven days depending on the number of children).

Maternity Leave

The length of maternity leave in Hungary is 24 weeks. After the expiry of this period there are different types of maternity benefits until the child turns 3 years old.

Maternity allowance may be granted to persons living in the Republic of Hungary, if they

- are Hungarian citizens,
- have an immigration license or a settlement permit, or are recognized by the Hungarian authority as refugees,
- are persons subject to Regulation (EEC) No 1612/68 of the Council of 15 October 1968 on freedom of movement for workers within the Community (citizens of countries belonging to the European Economic Area), provided that they have a valid residence permit at the time of filing the request for the allowance, with the exception of cross-border commuters .

Sick Leave

A person is eligible for sick-pay if he/she becomes incapable of work while being enrolled in the national social security system. A person that has fallen ill is entitled to get 15 days of sick-leave annually (this provision does not apply to incapacity due to an occupational disease or an industrial accident pursuant to social insurance regulations). Therefore such person will get a sick-leave for the first 15 days of the period of incapacity for work, instead of sick-pay. An insured person eligible for sick-leave will get sick-pay as from the day following the expiry of sick-leave. 70% of the daily average reference wage, in the case of at least two years of continuous insurance coverage.

Voluntary Fringe Benefits

Voluntary fringe benefits include subsidized or free meals, food coupons, childcare assistance and holiday at company resorts. Some recently privatized firms continue to subsidize employees' commuting costs and offer low-cost housing loans. There are tax-free benefits, but fringe benefits are generally subject to tax at 70% or 38% (depending on the type of the benefit) as from 2011.

Termination of Employment

An employer shall give a specific reason for dismissing an employee. Employees have the right to sue for damages for unfair dismissal if the reason for dismissal is untrue or unclear. In addition, the rights of an employee remain in effect after a sale of the employer company. The minimum notice period for dismissal increases with the length of employment of the worker to be dismissed; the minimum duration of the termination period varies from 30 days to 90 days. The termination period cannot exceed one year.

Business taxation

The Hungarian taxation system is close to the level of complexity found in Western Europe, and harmonized with EU directives and provides a secure legal framework for the conduct business. Tax laws in Hungary are enacted by Parliament. 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. Authorities randomly examine tax returns to enforce the self-assessment system. Corporations are subject to continuous assessment throughout the year. The authorities randomly examine 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, quarterly or monthly filing may be required.

Generally, monthly (social security contribution) or quarterly (VAT) tax advances have to be paid during the year. In addition, companies should top up their annual tax payable for the given tax year by 20 December each year up to 90% of their expected annual liability.

Corporate income tax returns for companies are due by 31 May following the calendar year-end (or should be submitted within 150 days of the year-end with regard to companies whose business year differs from the calendar year).

Subject to the fulfillment of the general, size related conditions, private companies limited by shares and the Hungarian branches of non-Hungarian companies can also choose to prepare a

simplified annual report form 2011. For companies involved in consolidation, which my still not prepare a simplified annual report, the law states that this is also applicable for the parent companies. Non-calendar year companies can also choose to prepare a simplified annual report.

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 can be determined without filtering out the foreign exchange effects.

From 2010, any enterprise will be entitled to keep its books and prepare its financial statements in Euros (without any restriction): and conditions for keeping books in foreign currency other than euro will be more favorable.

Hungary's corporate tax rate is competitive in the region, although the relatively low corporate rate is balanced by high local business taxes levied by the municipalities, and high employment charges.

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 as follows:

COUNTRY	DATE OF SIGN	PROMULGATION	DATE OF APPLICATION
Albania	1992. XI. 14.	1996: XCI. Act	1996. I. 1.
Australia	1990. XI. 29.	1993: XXXVI. Act	1993. I. 1.
Austria	1975. II. 25.	1976. évi 2. law-decree.	1976. I. 1.
Azerbaijan	2008. II. 18.	2008: LXXXIX. Act	2009. I. 1.
Belgium	1982. VII.19.	20/1984. (IV. 18.) M.d.	1985. I. 1.
Belorussia	2002. II. 19.	2004: CXII. Act	2005. I. 1.
Bosnia Herzegovina	Former agreement with Yugoslavia is applicable		
Brazil	1986. VII. 20.	1992: XXVII. Act	1991. I. 1.
Bulgaria	1994. VI. 8.	1996: XCII. Act	1996. I. 1.

Cyprus	1981. XI. 30.	82/1982. (XII. 29.) M. d.	1983. I. 1.
Czech	1993. I. 14.	1996: XCIII. Act.	1995. I. 1.
Denmark	1978. X. 24.	45/1979. (XI. 10.) M. d.	1980. I. 1.
South-Africa	1994. III. 4.	1999: VII. Act.	1997. I. 1.
Egypt	1991. XI. 5.	1995: XVII. Act	1995. I. 1.
Estonia	2002. IX. 11.	2004: CXXVIII. Act	2005. I. 1.
Finland	1978. X. 25.	66/1981. (XII. 16.) M.d.	1982. I. 1.
France	1980. IV. 28.	65/1981. (XII. 16.) M.d.	1982. I. 1.
Philippines	1997. VI. 13.	2000: XVII. Act	1998. I. 1.
Greece	1983. V. 25.	33/1985. (VII. 1.) M.d.	1986. I. 1.
Holland	1986. VI. 5.	10/1988. (III. 10.) M.d.	1988. I. 1.
Hongkong	2010. V. 12.	2010: CXXIX. Act	
Croatia	1996. VIII. 30.	2000: XVIII. Act	1999. I. 1.
India	2003. XI. 3.	2005: CXLIV. Act	2006. I. 1.
Indonesia	1989. X. 19.	1999: X. Act	1994. I. 1.
Ireland	1995. IV. 25.	1999: XI. Act	1997. I. 1.
Iceland	2005. XI. 23.	2005: CXLV. Act	2007. I. 1.
Izrael	1991. V. 14.	1993: LXIII. Act	1993. I. 1.
Japan	1980. II. 13.	1980. évi 18. law-decree	1981. I. 1.
Yugoslavia (former)	1985. X. 17.	1988. évi 6. law-decree	related to Bosnia and Hercegovina
Canada	1992. IV. 15.	1995: XVI. Act	1995. I. 1.
Canada (amendment report)	1994. V. 3.	1999: XII. Act	1997. I. 1.
Kazakhstan	1994. XII. 7.	1999: XIV. Act	1997. I. 1.
China	1992. VI. 17.	1999: XV. Act	1995. I. 1.
Korean Republic	1989. III. 29.	1992: XXVIII. Act	1991. I. 1.

Kuwait	1994. I. 17.	1999: XVI. Act	1995. I. 1.
Kuwait (amendment report)	2001. XII. 9.	2003: LXX. Act	2003. I. 1.
Poland	1992. IX. 23.	1996: XCV. Act	1996. I. 1.
Poland (amendment report)	2000. VI. 27.	2002: XXVII. Act	2002. IX. 1.
Latvia	2004. V. 14.	2004: CXXX. Act	2005. I. 1.
Lithuania	2004. V. 12.	2004: CXXIX. Act	2005. I. 1.
Luxembourg	1990. I. 15.	1990: XCV. Act	1990. I. 1.
Macedonia	2001. IV. 13.	2002: XXXV. Act	2003. I. 1.
Malaysia	1989. V. 22.	1993: LX. Act	1993. I. 1.
Malta	1991. VIII. 6.	1993: LXVII. Act	1993. I. 1.
Morocco	1991. XII. 12.	2002: VIII. Act	2000. I. 1.
Moldavia	1995. IV. 19.	1999: XVIII. Act	1997. I. 1.
Mongolia	1994. IX. 13.	2000: LXXXII. Act	1999. I. 1.
UK	1977. XI. 28.	1978:15 law-decree	1979. I. 1.
Germany	1977. VII. 18.	1979:27 law-decree	1980. I. 1.
Norway	1980. X. 21.	67/1981. (XII. 16.) M.d.	1982. I. 1.
Italy	1977. V. 16.	53/1980. (XII. 22.) M.d.	1981. I. 1.
Russian Federation	1994. IV. 1.	1999: XXI. Act	1998. I. 1.
Armenia	2009. XI. 09.	2010: X. Act	
Pakistan	1992. II. 24.	1996: II. Act	1995. I. 1.
Portugal	1995. V. 16.	2000: XIX. Act	2000. I. 1.
Romania	1993. IX. 16.	1996: XCIX. Act	1996. I. 1.
San Marino	2009. IX. 15.	2010: CXXXII. Act	
Serbia and Montenegro (Yugoslavia)	2001. VI. 20.	2003: XXV. Act	2003. I. 1.
Singapore	1997. IV. 17.	2000: XXI. Act	1999. I. 1.



Slovakia	1994. VIII. 5.	1996: C. Act	1996. I. 1.
Slovenia	2004. VIII. 26.	2005: CXLVI. Act	2006. I. 1.
Spain	1984. VII. 9.	12/1988. (III. 10.) M.d.	1988. I. 1.
Switzerland	1981. IV. 9.	1982:23 law-decree	1983. I. 1.
Sweden	1981. X. 12.	55/1982. (X. 22.) M.d.	1983. I. 1.
Tajpej	2010. IV. 19.	2010: CXXXIII. Act	
Thailand	1989. V. 18.	13/1990. (VII. 25.) G. d.	1990. I. 1.
Turkey	1993. III. 10.	1996: CI. Act	1996. I. 1.
Tunisia	1992. X. 22.	1999: XXVIII. Act	1998. I. 1.
Ukraine	1995. V. 19.	1999: XXX. Act	1997. I. 1.
Uruguay	1988. X. 25.	1999: XXXI. Act	1996. I. 1.
Uzbekistan	2008. IV. 17.	2008: XC. Act	
USA	1979. II. 12.	49/1979. (XII. 6.) M.d.	1980. I. 1.
USA (new)	2010. II. 04.	2010: XXII. Act	
Vietnam	1994. VIII. 26.	1996: CII. Act	1996. I. 1.

In connection with the double taxation avoidance treaties between Hungary and the countries the opposite relation of withholding tax is remarkable. The taxability and tax rate depends on the nature of the income receiver, if a beneficiary or not.

COUNTRY	Interest (%)	Royalties (%)	Dividend (%)
Albania	-	5	5;10
Australia	10	10	15
Austria	-	-	10
Azerbaijan	8	8	8
Belgium	15	-	10
Belorussia	5	5	5;15
Bosnia Herzegovina	the former Agreement with Yugoslavia is applicable		
Brazil	25;15	15	15
Bulgaria	10	10	10

Cyprus	10	-	5;15
Czech	-	10	5;15
Denmark	-	-	5;15
South-Africa	-	-	5;15
Egypt	15	15	15;20
Estonia	5;10	10	5;15
Finland	-	5	5;15
France	-	-	5;15
Philippines	15	15	15;20
Greece	10	10	10
Holland	-	-	5;15
Hongkong	5	5	5;10
Croatia	-	-	5;10
India	10	10	10
Indonesia	15	15	15
Ireland	-	-	5;15
COUNTRY	Interest (%)	Royalties (%)	Dividend (%)
Iceland	-	10	5;10
Izrael	-	-	5;15
Japan	10	10	10
Yugoslavia (former)	-	10	10
Canada	10	10	5;15
Canada (amendment report)			5;10;15
Kazakhstan	10	10	5;15
China	10	10	10
Korean Republic	-	-	5;15
Kuwait	-	10	-
Kuwait (amendment			



report)			
Poland	10	10	10
Poland (amendment report)			
Latvia	10	5;10	5;10
Lithuania	10	5;10	5;15
Luxembourg	-	-	5;15
Macedonia	-	-	5;15
Malaysia	15	15	10
Malta	10	10	5;15
Morocco	10	10	12
Moldavia	10	-	5;15
Mongolia	10	5	5;15
UK	-	-	5;15
Germany	-	-	5;15;25
Norway	-	-	10
Italy	-	-	10
Russian Federation	-	-	10
Armenia	10	5	5;10
Pakistan	15	15	15;20
Portugal	10	10	15
Romania	15	10	5;15
San Marino	-	-	5;15
Serbia and Montenegro (Yugoslavia)	10	10	5;15
Singapore	5	5	5;10
Slovakia	-	10	5;15
Slovenia	5	5	5;15
Spain	-	-	5;15
Switzerland	10	-	10



Sweden	-	-	5;15
Tajpej	10	10	10
Thailand	10;20	15	15;20
Turkey	10	10	10;15
Tunisia	12	12	10;12
Ukraine	10	5	5;15
Uruguay	15	15	15
Uzbekistan	10	10	10
USA	-	-	5;15
USA (new)	15		5;15
Vietnam	10	10	10

Significant Taxes and Levies in Hungary

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) employer social security contribution
- d) innovation contribution
- e) employee social security 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 nonresident 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.

Hungarian-registered subsidiaries of foreign companies are taxable under ordinary domestic rules. Foreign companies are deemed to be resident in Hungary if their actual place of management is in Hungary.

Registered branch offices and non-registered permanent establishments are taxed under the same regime applicable to Hungarian-registered companies.

The corporate income tax rate is 10% up to HUF 500 million, and 19% on the excess amount.

For transfer pricing, the transactional net margin and the profit split methods have been added to the existing comparable uncontrolled price method, resale price method and cost plus method as being generally applicable in related party transactions.

The shareholder of a company whose Hungarian real estate property exceeds 75% 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 tax treaty or if an applicable treaty allows the taxation of the capital gains in Hungary.

Main tax-deductible items

Allowable deductions include:

- losses carried forward;
- recognized provisions;
- the costs of switching to double-entry accounting and switching between accounting currencies;
- foreign currency gains and losses;
- and depreciation and amortization of assets as set out in the Corporate Tax Act.
- Corporate taxpayers can deduct 50% of royalties but the deduction may not exceed 50% of the taxpayer's total pretax profits.
- The tax base can be reduced by R&D costs.

Non-deductible expenses include:

- non-business expenses;
- loss in value accounted for in the tax year for receivables;
- interest on loans if the company is thinly capitalized;
- fines.

Depreciation

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 % per year). A three-year tax depreciation period (33.33% 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% per year).

Tax depreciation can be accelerated by applying a 50% rate instead of 33% or 14.5% 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 amortized at a 50% rate.

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

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% of the taxpayer's entire pretax profits, or up to 500 million in a tax 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 greater than book value the difference can be accounted for in a valuation reserve under the equity account and as a valuation adjustment under the relevant asset account.

No Withholding Tax

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

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.

Special tax on energy, retail and telecommunications companies and financial institutions

The tax rate for energy suppliers is 1.05% of net turnover, with various bands for the retail and telecommunications sectors. For retail, the bands are: 0% for the first HUF 500 million, 0.1% on the portion of the tax base exceeding HUF 500 million, 0.4 % on that exceeding HUF 30 billion, and 2.5% on that exceeding HUF 100 billion. The bands for telecommunications are: 0% on the first HUF 100

million, 2.5% on the portion exceeding HUF 100 million, 4.5% on that exceeding HUF 500 million, and 6.5% on that exceeding HUF 5 billion.

Credit institutions are subject to a 0.15/0.53% tax on their adjusted balance sheet total in 2011. As from 2011, a new special tax on credit institutions applies at 30% of pretax profits, but capped at the amount of the special tax paid on the adjusted balance sheet total.

Capital Gain Taxation

Capital gains realized by Hungarian taxpayers are normally 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 10/19% rate; capital gains of foreign companies are generally tax-exempt.

Other Taxes and Social Security Contribution

Real estate tax which is payable by the purchaser, is levied on the market value of the property. The rate is 2% for flats and houses with a value up to HUF 4 million and 4 % for the value exceeding HUF 4 million. The transfer of all other types of real property or the transfer of shares in companies holding Hungarian real estate are subject to a transfer tax payable by the purchaser at a rate of 4% of the value of the property up to HUF 1 billion and 2% on the part of the value exceeding HUF 1 billion, with the total tax liability capped at HUF 200 million per property.

The transfer of motor vehicles is subject to a **transfer tax**, amounting to HUF 18-36 per cubic centimeter of cylinder capacity.

The innovation contribution is assessed at 0.3% of annual turnover less the cost of goods sold, material costs and subcontracting fees. Exempt from the contribution are newly registered companies in the year of registration and businesses that employ fewer than 50 employees and have no more than EUR 10 million annual revenue.

Based on the gross wages of their employees, firms are subject to pay a **social security contribution** of 27% (24% for pension insurance, 2% for health insurance and 1% for the unemployment fund) and 1.5% to the vocational training fund.

Value Added Tax (VAT)

The general rate is 25% 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 equipments, aids for the blind, 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, etc. are tax exempt.

From 1 May 2004, non-resident EU taxpayers or taxpayers from countries that have concluded bilateral agreements on reclaiming VAT (Liechtenstein and Switzerland) may obtain a VAT refund in certain circumstances. Based on the new VAT rules, 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. For firms registered outside the EU, Hungarian VAT may be reclaimed based on bilateral agreements.

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 case if the resident of the recipient is located outside the European Community:

- temporary or final transfer of intellectual property;
- advertising;
- providing business, law, accounting, tax, translation, computing and certain engineering consultancy;
- 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.

Excise Tax

Excise tax is levied on alcoholic beverages, petrol and tobacco products.

Personal Income Tax

The personal income tax rate have been reduced by replacing the progressive two-rate tax table with a single **16% rate** applicable to income in the consolidated tax base (e.g. employment income) and separately taxable income (e.g. dividends, exchange rate gains, interest income and income from the transfer of property). A HUF 62,500 per child monthly allowance (HUF 206,250 per child for families with at least three children) apply to decrease the tax base and is available to individuals eligible for the child care benefit under the laws of any EEA Member State. Additionally, the general employee tax credit rules are amended by reducing the monthly amount of tax credits to a maximum of HUF 12,100 for annual income of HUF 2,750,000 or less (phasing out for annual income above 3,960,000).

The personal income tax on employment income is payable based upon the gross income increased with 27% (so called super-grossing). Since the tax base shall be calculated in line with the abovementioned super grossing, the effective personal income tax rate is 20.32% in 2011. According to the tax law changes proposed to 2012 and 2013 the super grossing will be phased out in two steps; in 2012 the tax base will be calculated as the gross income multiplied by 1.135 and as of 2013 super grossing will be abolished.

Dividend income is subject to tax at a rate of 16%. Bank interest is also taxed at 16%.

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 permanent residence (that means staying in Hungary for more than 183 days a year) have to pay tax on all income. 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 a taxpayer there. Those who are permanently resident in Hungary are taxed on any income generated in Hungary or overseas, while foreign residents who are living and working on a temporary basis in Hungary are only taxed on their Hungarian income. Criteria used in defining permanent residence for taxation purposes include the usual family place of residence, property ownership and whether the taxpayer spends more than 183 days per year in Hungary.

Employees with no other income have their tax deducted direct from salaries on a monthly basis. Those with additional income, the self-employed and people with overseas-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 point they must pay any

additional tax due, or are reimbursed if their advance payment exceeded the amount of tax actually payable.

It is not necessary to pay Health Care payroll tax for people who do not receive a salary in Hungary. In this case, it is advisable to hold private health insurance. If you do not have cover you'll have to pay for each and any medical treatment you require when in Hungary.

As long as you pay payroll tax in Hungary, you will be issued a Social Security card which entitles you to public medical treatment. In this case it is advisable to also apply for the European Health Insurance Card (which you become eligible for as soon as you start paying social security contributions under the Hungarian system). The EU Health Card entitles you to free emergency treatment in all European countries.

Social Security

In 2011, the **social security contributions payable by the employee is 9.5% for pension insurance up to a prescribed maximum and 6% for healthcare, which is uncapped and 1.5% of gross wages to the unemployment fund.**

The general rate of sick pay is 60% if the employment period was longer than two years, and 50% in case of the employment period was less than two years and the maximum amount of sick pay could not exceed four times the minimum wage. Furthermore, the employer must pay 70% of wages for a maximum of 15 work days.

Under new rules, citizens of third countries who are seconded to Hungary by a foreign employer and who are nonresident in Hungary are not subject to social security charges only if the employment period in Hungary does not exceed two years. New rules also set out the principles for extending mandatory social security (for employment outside Hungary) in accordance with the rules of the EU Regulation on the Coordination of Social Security System.

Local Taxes

The taxes actually levied are at the local municipality's discretion. In some cases, e.g. in case of the local business tax, the rate of the tax actually levied is also decided by the local municipality. The maximum rate of tax is set by legislation in effect throughout Hungary.

- **Building tax:** Maximum HUF 1100 (approx. EUR 4)/m²/year or a maximum of 3,6% of the adjusted market value of the building (as determined by the local government). To be paid based on the floor space of buildings.
- **Land tax:** Maximum of HUF 200 (approx. EUR 0.7)/m²/year or a maximum of 3% of the adjusted market value of the land. To be paid on undeveloped land.
- **Local business tax:** The local municipalities can levy business taxes at up to 2% 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 base.

The Hajdu & Menyhei Attorneys at Law

From our beginning in 1993 the founders' vision has been to build a law firm operating under the highest professional and ethical standards to achieve the proper legal solution for our clients.

We truly believe that confidentiality, precision and ethics shall join together as our attorneys serve both the needs of our clients and the purpose and ideals of the profession. Through that process we are able to draw on a constant stream of new ideas to solve the toughest legal issues our clients may face.

Since Hajdu & Menyhei Attorneys at Law was founded, we have created a collaborative group where talented colleagues specialized in various fields of law and speaking several languages work together. We act with integrity and trust in our dealing with colleagues and clients. The founders, Dr. Hajdu György and Dr. Menyhei Ákos, have always focused on recognizing and respect individual talents and promoting team culture based on the eternal values of Hajdu & Menyhei Attorneys at Law.

As a law firm with young lawyers there is nothing old-fashioned about our thinking, but the traditional values of our profession are always at the forefront of our practice. Our working style encourages creative and lateral thinking to protect our client's rights and interests by providing sound legal advice through skillful negotiation and when necessary through vigorous litigation.

Additionally Hajdu & Menyhei Attorneys at Law is a traditional Hungarian law firm, the attorneys have had represented clients ranging from major multinationals, venture capital starts-ups and privately held corporations to private individuals all over the world.

Should you have any further question regarding the above matter we would be delighted to provide you with further advice, please do not hesitate to contacts us!

Kind regards,

Hajdu & Menyhei Attorneys at Law

Hajdu & Menyhei
Attorneys at Law

Petőfi S. str. 11. IV/18.
H-1052 Budapest
Hungary

Tel.: +36 1 318 1546

Fax.: +36 1 318 1157

www.hajdumenyhei.hu