

News Flash

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Company establishment by foreign enterprises in Hungary in 2016

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Domestic investments by foreign citizens are protected and ensure legal security by the Hungarian law. This includes equality with local citizens, so foreign companies treated equally by the matter of company formation and subjected to equal treatment by company share. In our recent newsletter we are going to discuss the details of requirements, taxation and expenses about local companies established by foreign businesses.

Company establishment

In Hungary, foreign natural persons or businesses can establish company, set up commercial representative office or a branch office and gain share or units in other companies without any restriction or permit by local authorities. But it is also important to mention, that if the founder does not have any domestic address proven by documents, there is a need for a 'trustee on delivery' for the company, who has to presume that he/she forwards every official documents within 15 days after the delivery. Any kind of organization with domestic head office and every kind of natural person with domestic permanent residence can be a trustee and the documents about the assignment and the acceptance of it, must be attached to the registration application towards to the registry court,

Conditions of setting up a business association:

- *Founding capital:*
 - For setting up limited partnership (Bt.) or general partnership (Kkt.): no minimum requirement
 - For setting up limited liability company (Kft.): 3.000.000 HUF
 - For setting up private company limited by shares (Zrt.): 5.000.000 HUF
 - For setting up public company limited by shares (Nyrt.): 20.000.000 HUF
- *Founding document/deed of association countersigned by lawyer.*
- *Letter of representation of registration procedure.*

Costs of setting up a business association:

- *Levy:*
 - In case of single member company: 30.000 HUF
 - In case of limited partnership or general partnership: 50.000 HUF
 - In case of legal person, limited liability company or private company limited by shares: 100.000 HUF
 - In case of public company limited by shares or European company: 600.000 HUF
- *Service fee: 20.000 HUF*
- *Publication fee: 5.000 HUF*

Costs of setting up a business association by simplified procedure:

There is an option for some legal forms to set up a company by the agreement template attachment of the Hungarian company law. The benefit of this option is the shorter administration, while the disadvantage is that it can only differ minimally from the template

- *Levy:*
 - In case of setting up single member company: 15.000 HUF
 - In case of setting up limited partnership or general partnership: 25.000 HUF
 - In case of setting up limited liability company or private company limited by shares: 50.000 HUF
- *Service fee: 20.000 HUF*

It's important that in case of setting up a business association by simplified procedure there is no need to pay the publication fee, but this form cannot be applied to legal persons and for public companies limited by shares. We must also not forget that besides these expenses there is always additional cost for lawyer fees and other general expenses about company formation.

A foreign person can be manager of a local company without any restrictions – such as the exemption for work permit. The business association can be developed by the registry court via e-registration within 10-15 working days.

Which form should be chosen?

The most popular forms by the foreigners are the limited liability companies, branch offices and the commercial representative offices. Having a trustee-on-delivery is a must in all of these forms, whose job is to take and forward every deed and document emerged and created in relation with the operation of the company. The trade register must include the name and the permanent address of this trustee and it must be attached to the application for registration. The duties of the trustee cannot be fulfilled by the shareholders of the company, managers or the members of the commission.

Branch office

A foreign company's domestic premise is considered as a branch office which is registered through the application of trade register, and which is allowed to perform inland activities in Hungary after the procedure. The branch office can be operating in multiple locations and own multiple offices while it receives equal treatment with local premises. It can make commitment, contracts and acquire new rights in the name of the foreign company but cannot make representative activities. Unless the local law provides otherwise, the branch office is considered resident therefore their contracts should be concluded and their permissions should be obtained by the domestic

rules. The foreign parent company and the branch office jointly and severally liable for the possible debts of the branch office and shall also permanently provide wealth for the equalization of it and also for the continuous smooth operation too. During the execution of the possible debt the sentence could include the whole domestic wealth of the parent company. The representative at the branch office must have a clean criminal record, should be contracted through labour agreement and like every other employer at the branch office, is in contractual relationship with the parent company, while the foreign company is exercise the rights of the employer through the branch office.

Costs of registration:

- Levy: 50.000 HUF
- Registration fee: 5.000 HUF

Taxation:

According to the Hungarian Law, a domestic branch office of a foreign company is acts as a taxation attorney and meets the obligations of the parent company's local tax liability.

- *Corporate tax:*
The basis should be calculated just the same as like at local companies, but the 5 percent of the income gained by the mediation of the branch office is increasing the before tax profit of the site.
- *Value added tax:*
Legally the branch office is not a separate entity, just embodying the economic presence of the foreign company; therefore the transactions between the parent company and the local office are always VAT free
- *Local business tax:*
Domestic tax rules apply
- *Employee tax:*
As the employees are in with contract with the foreign company (because the

branch office is just the location of the work and still the actual company is the employer), although the parent company must pay the 27 percent social contribution tax just like local companies, but they are exempt from 1,5 percent contribution to vocational training.

Commercial representative office

Foreign companies can also establish permanent commercial representative offices in Hungary as a direct office to:

- *Mediating contracts between the foreign firm and Hungarian business organizations or private individuals.*
- *Participating in preparing contracts as described above.*
- *Concluding contracts required for the operation of the commercial representative office for and on behalf of the foreign firm.*
- *Performing informational and promotional activities related to goods, services and rights marketed by the represented foreign company, including organizing the foreign company's participation in exhibitions, fairs, professional lectures and other similar events held in Hungary.*

Similar to the branch office, the commercial representative office is also registered through

the application of trade register and the same rules apply for the acquisition of property and employment to it, just like at the previous mentioned form. This representation form is not competent in making business activity or conducting foreign legal activities, only have the right to conclude contracts for and on behalf of the foreign firm about the operation of the company.

Costs of registration:

- *Levy: 50.000 HUF*
- *Registration fee: 5.000 HUF*

If you are a foreign person or you are representing a foreign person and want to know additional information about establishing a company in Hungary, please contact us for additional details.

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Contact

Gábor Kertész

Tax Manager

E-Mail: Gabor.Kertesz@accace.com

Phone: +36 141 235 47



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