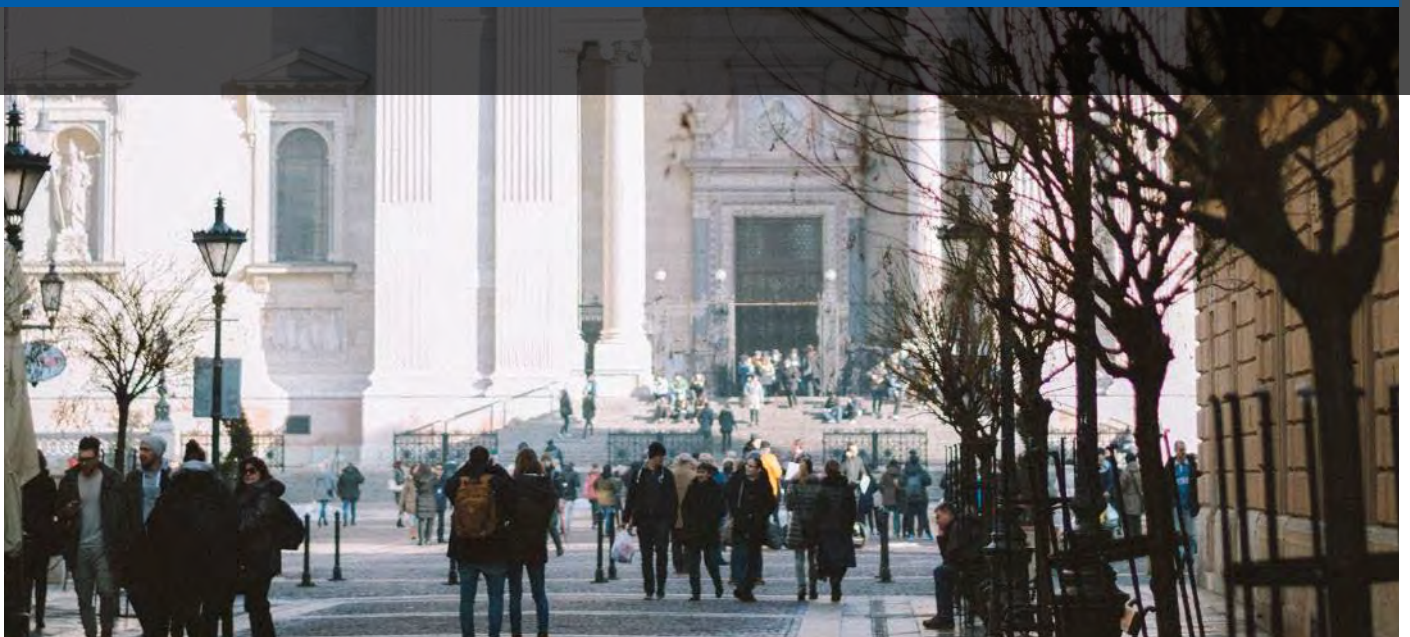




Company formation in Hungary



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LEGAL FORMS OF BUSINESS, MINIMUM CAPITAL, CONTRIBUTION

The Hungarian Civil Code determines four different corporate forms that may serve for investors as a basis to carry out business activity in Hungary. In addition to those 4, there are two other forms with which investors can establish Hungarian presence. All of these forms can exclusively be established and operated by foreign owners and management:

- Limited Liability Company (Kft.)
- Company Limited by Shares which may be privately founded (Zrt.) or publicly operated (Nyrt.)
- Limited Partnership (Bt.)
- General Partnership (Kkt.)
- Branch Office, Representative Office.

Limited Liability Company (Korlátolt Felelősségű Társaság | Kft.)



A Limited Liability Company is established with a predetermined amount of initial capital that is **HUF 3,000,000** provided by its Founders.

The liability of its members is limited to the provision of the company's initial capital. As a general rule, members are not otherwise responsible for the company's liabilities, meaning that the private property of the members cannot be touched by the liabilities of the company, except few cases which are specified by relevant legislation.

Members of a Limited Liability Company may not be solicited by public invitation. The capital contribution of members is provided in the form of core deposits. The capital contributions of members may differ in terms of value, however, the amount of each contribution may not be less than one hundred thousand forints. Each member shall have one core deposit. The members' rights and their title to the company's assets are represented by quotas (business share) in the company. Business shares shall come to existence upon the company's registration. The business shares of members shall be consistent with their respective capital contributions.

No securities may be issued in respect of the business quotas. A Limited Liability Company could operate even having one member (as a single-member Limited Liability Company).



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Company Limited by Shares (Részvénytársaság | Rt.)

This is the most strictly regulated corporate form, which shows similarity to the German AG or to the English Plc.

There are two types of stock companies:



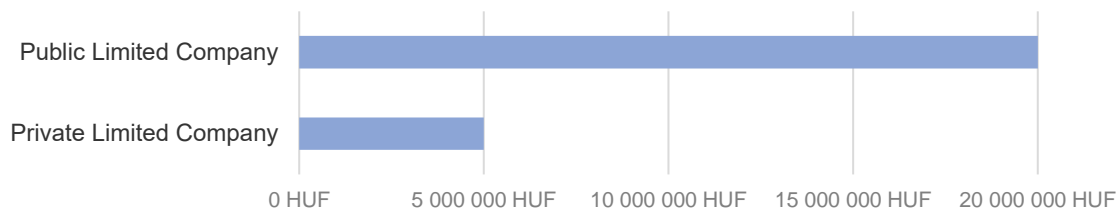
Private Limited Company (Zártkörűen működő részvénytársaság; Zrt.)



Public Limited Company (Nyilvánosan működő részvénytársaság; Nyrt.)

A stock company is particularly suitable to large business entities with several investors, but it is also possible to establish such entity as a single-person company.

A Private Limited Company in Hungary shall be founded with an initial capital consisting of a predetermined amount. **The minimum of the share capital of a Private Limited Company may be HUF 5,000,000, while in the case of a Public Limited Company it is HUF 20,000,000.**



The amount of cash contributions at the time of foundation may not be less than thirty per cent of the share capital. The liability of its members is limited to the provision of the nominal or issue value of the shares.

At foundation of a company limited by shares, it is compulsory to establish Private Limited Company, later the company may transform into Public Limited Company.

Shares may be:

- ordinary shares
- employee shares
- interest-bearing shares
- redeemable shares
- preference shares



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Limited Partnership (Betéti Társaság | Bt.)

In a Hungarian Limited Partnership, the members of the partnership agree to make available to the partnership the capital contribution necessary for its activities.



The minimum number of members is two, of which at least one - the general partner - bears joint and several liability and while at least one other partner - limited partner - is not liable for the obligations of the partnership, unless the relevant legislation provides otherwise.

Only the general partners may manage the partnership and represent the partnership in its dealings with third parties. The profit distribution is generally proportional to the capital contributed, but the parties are free to agree otherwise. It is against the law, however, to exclude any partner from the distribution of profits.

General Partnership (Közkereseti Társaság | Kkt.)

In a General Partnership, the members of the partnership agree to make available to the partnership the capital contribution necessary for its activities, the liabilities of its members are joint and several for the partnership's obligations.

No minimum initial capital requirement is set forth by law. By law, every member is entitled to represent the partnership unless its articles of association state otherwise.



The partnership must have at least two members. Individuals may also become members of a General Partnership, however minor persons and individuals already bearing a joint and several liability in another company are excluded.

The active participation of the partners in conduct of the partnership's business is legally required. No minimum capital is required to found and operate a General Partnership.

Representative Office, Branch Office

There are two other forms foreign investors might choose in Hungary to establish their presence.



Through a **Representative Office**, foreign investors can perform normal liaison functions, including assisting with contract negotiation, advertising and exhibiting products and other forms of marketing on behalf of the parent company; but the office is not allowed to pursue core business activities. This form can be useful if the foreign undertaking intends to familiarize itself with the local business conditions before embarking on an investment.



The other form to establish a presence in Hungary can be done via a **Branch Office**, which is an organizational unit of a foreign company, being authorized to carry out independently normal business activities.

MINIMUM DOCUMENTATION

Companies formed and registered under Hungarian law may undertake obligations and acquire rights in their own name.

As a general rule, companies may freely pursue activities; **however, a license of the competent authority is required for certain activities**. Thus, for example, banks can only be founded and operated as a company limited by shares and with license of establishment issued by the Central Bank of Hungary.



Companies can be founded by natural or legal entities, Hungarians and foreign nationals alike.

The founders of a company must first sign the **company's constitutive document** after which an attorney-at law (a member of the Hungarian bar) must countersign and file it to the competent Court of Registration with the other documents necessary for the foundation of the company. The company is established by the court's act of registration. A company's fundamental corporate data (instrument of incorporation) and its internal regulations are set forth in its constitutive document, i.e. (i) articles of association, or (ii) deed of foundation, or (iii) statutes depending on the corporate form.

The instrument of incorporation must specify the following as a minimum:



company name;



registered seat;



a list of the company's founding parties, with their respective addresses;



the company's business (main) activities (certain activities require special administrative permits);



the amount of the equity capital, the method and date of its availability;



representative of the company, including decision on whether they perform the company management according to service contract OR labour relationship

Most documents at a company establishment will be prepared and countersigned by the attorney-at-law according to the will of the founder(s).

The list of the essential documents depends on the company form but followings shall be highlighted at establishment by a foreign person, or entity:

- **If a foreign company establishes a Hungarian company, the not more than 3 months old Register extract of the founder company and its attested translation to Hungarian language is necessary for an establishment.** It is important to obtain these in timely manner because the attested translation is slow procedure, only provided by one official translation office.
- **If a foreign person (who is not resident in Hungary) will be the member or executive officer of the company, a registered agent for service of process shall be mandated by the person.** The mandated person shall have a registered Hungarian address.
- if the required documents will be signed abroad in a foreign country, the documents shall be signed before a public notary and an apostille is also needed OR they shall be signed before the Hungarian consul.



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REGISTRATION PROCESS



The registration of business associations is a must in Hungary.

The Company's constitutive document must be drafted and countersigned by a Hungarian registered attorney. Incorporation procedure must be initiated by request.



The registration request must be filed with the competent Hungarian Court of Registration within **30 days** from the conclusion of the constitutive document.



Company registration proceeding is **fully electronic**.

If the applicable laws require any official license for the establishment of the company, it must be attached to the request form and the request form must be submitted within 15 days as of the receipt of the official license.

When the registration court receives the application for registry, a certificate is issued for the company with the company's name, address, temporary tax and statistical number and the number of reference of the registration. After receiving the above certificate, the company may commence to operate **in the form of a pre-incorporated company**. This means that the company may operate as an incorporated company but special provisions regarding personal liability of the founder(s) apply. **A pre-company may pursue business activities but is not allowed to conduct business activities requiring an official license. Upon registration by final decision of the court of registry the business association shall cease to function as a pre-company, and all transactions concluded in that capacity will be treated as if they were concluded by the business association.**



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SHAREHOLDERS

Company's supreme decision-making entity in Hungary is the **supreme body**.



In case of a single-member company the only member practises the rights of the supreme body. In matters falling within the supreme body's competence the founder or the sole member shall take decisions in writing, and such decisions shall take effect when communicated to management.



In case of **General Partnership** the supreme body is the Meeting of the Members, where all the members have the same value, and only members may be managing director of the General Partnership.



In case of **Limited Partnership** the supreme body is the Meeting of the Members, and only the general partner(s) – with unlimited liability – may be the managing director of the Limited Partnership.



In case of **Limited Liability Company** the supreme body is the Members' Meeting and the members entitled to dividend in the proportion of their quotas (business share). Not only members, anybody may be managing director of a Limited Liability Company.



In case of a **Company Limited by Shares** the supreme body is the General Meeting and the executive body is the Board of Directors.

Foreign and Hungarian persons also may be Member (Shareholder) and executive officer (managing director) in a company, but there are some general restrictions towards these people which must be satisfied independently from the nationality of a person.

Requirements for executive officers (grounds for exclusion)

- The executive officer must be of legal age (18 years) and must have full legal capacity in the scope required for discharging his functions. The executive officer shall perform management functions in person.
- In the case if the executive officer is a legal person, that legal person shall designate a natural person to discharge the functions of the executive officer in its name and on its behalf. The rules pertaining to executive officers shall apply to the designated person as well.
- Any person who has been sentenced to imprisonment by final verdict for the commission of a crime may not be an executive officer until exonerated from the detrimental consequences of having a criminal record.

- A person may not be an executive officer if he has been prohibited from practicing that profession. Any person who has been prohibited by final court order from practicing a profession may not serve as an executive officer of a legal person that is engaged in the activity indicated in the verdict.
- Any person who has been prohibited from holding an executive office may not serve as an executive officer within the time limit specified in the prohibition order.

Conflict of interest

Executive officers may not acquire any share in the capital of a business association - except for the shares of public limited companies - which is engaged in the pursuit of the same economic activity, as its main activity, as the business association in which they hold an executive office.

15 days

In the event of accepting a new executive office, within fifteen days of accepting such office the executive officer shall notify any other company in which he already serves as an executive officer or a supervisory board member.

With the exception of everyday dealings, an executive officer and his close relatives may not conclude any transactions falling within the scope of the main activities of the business association in his own name and on his own behalf.

Disqualification

The person who has been disqualified by a Registry Court of Hungary, according to the binding legislation, cannot be member or executive officer.

Tax law restrictions

Members, executives of those companies which:

- had tax debts for a long period;
- has been terminated (by forced termination) due to tax debt;

would not be eligible to be member or executive officer of another company due to the above stated reasons.

The examination of the above stated restrictions shall be done at the establishment of the company.



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INCORPORATION TIME



The registration request must be filed with the competent Hungarian Court of Registration within 30 days from the conclusion of the constitutive document.

Companies can be incorporated in two ways: simplified or standard electronic filing.

Simplified electronic filing

1 days

The Court of Registry shall make decision **within 1 working day** from the submission of the application and the concerning documents. In present procedure the companies must use a standardised template for the constitutive documents.

Only Limited Liability Company, Limited Partnership, General Partnership and Private Limited Company can be established by the simplified procedure. Public Limited Company cannot be incorporated by the simplified procedure.

Standard electronic filing

15 days

In course of standard electronic filing, the companies are not bounded by the standard templates for constitutive documents; content of it may be freely determined by the founders according to the relevant laws. The Court of Registry shall make decision **within 15 working days** from the submission of the application and the concerning documents.

Branch Offices and Commercial Representation Offices should also be registered by the Court of Registration and may start their activities only after the registration. The time of registration may take up to 15 days.

GENERAL OVERVIEW OF CORPORATE TAXES

Corporate income tax

Businesses in Hungary are subject to corporate income tax.

9%

is the corporate tax rate of the positive tax base.

Amortization

When determining taxable income for the corporate income tax, the relevant legislation allows for calculating with amortisation.

Accounting is done on a net value basis: depreciation increases corporation's pre-tax earnings, while amortization under the tax law reduces corporation's earnings before taxes.

In certain cases, the tax law allows for amortization or permits accelerated depreciation (e.g. immaterial assets, leased equipment).

Losses carried forward

All losses can be carried forward and used up within 5 years following the given tax year. Losses can be offset against future positive tax bases, up to max 50% of the given tax base.

Losses shall be used up with FIFO method.

Tax credits

Tax credits reduce corporate income tax and can also reduce taxable corporate income.

Struggling with corporate taxes? Get them all sorted:

- Tax registrations, compliance and filings
- Tax advisory and transactions
- Employee taxation, non-resident tax and global mobility services

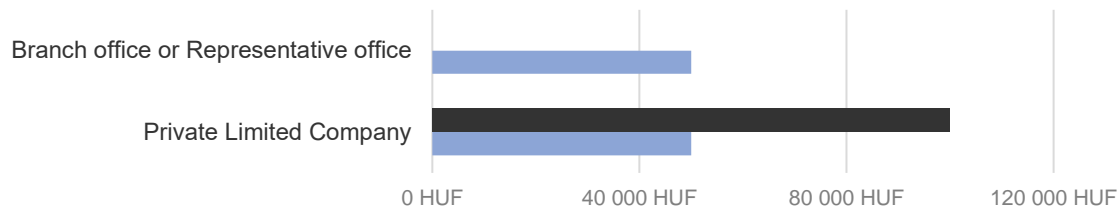
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DUTIES, FEES AND PENALTIES



Duties

Duty on company registration of the different corporate forms in Hungary are as follows:

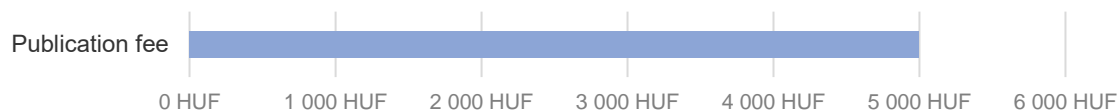


Duty on company registration of Private Limited Company is **HUF 50,000** in case of simplified electronic filing and **HUF 100,000** in case of standard electronic filing.

Duty on company registration of a Branch Office or a Representative Office of a foreign enterprise is **HUF 50,000**.

The registration of Limited Liability Companies, General Partnerships and Limited Partnerships shall be **exempt from duties**.

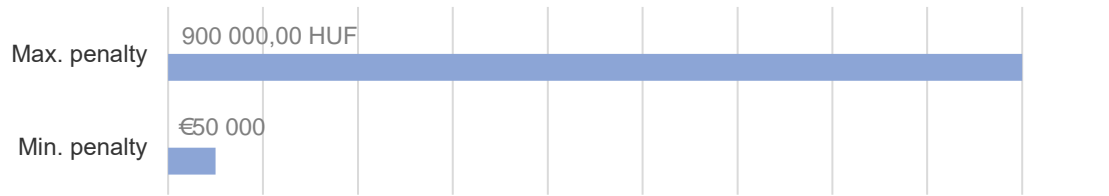
Publication fee



Publication fee of company registration is **HUF 5,000** for Private Company Limited in standard electronic filing.

In any other cases (for General Partnership, Limited Partnership and Limited Liability Company regardless the form of filing, and Private Company Limited, in case of simplified electronic filing) payment of publication fee is not needed.

Penalty



Failure to comply with deadlines stated by relevant legislation could result in a penalty amounting from **HUF 50,000 to HUF 900,000.**

INVESTMENT INCENTIVES



The Hungarian Investment and Promotion Agency supports high value-added investment projects with a one-stop-shop service including a VIP treatment and comprehensive information about available subsidies for investment projects.

The maximum available aid intensity decreases if the investment is a large investment (exceeding EUR 50 million):



50% of the maximum aid intensity determined in the regional aid map is available for investment between EUR 50 and EUR 100 million



34% of the maximum aid intensity for investment over EUR 100 million.

The incentive package may consist of the following elements:

- **cash subsidy** decided individually by the Hungarian Government (for investments, training, job creation and R&D)
- **development tax allowance** (reduction of corporate tax, social tax, or for encouraging R&D activities)
- **low interest loans**
- **special incentives** of the free enterprise zones

Key investment sectors: Automotive; Electronics; Information and Communications Technology; Shared Services Centres; Renewable Energy; Medical Technology; Life Science; Food Industry; Logistics.

OTHER ASPECTS



Other registrations of a newly registered company

A newly registered company must also register with the **local municipality, Hungarian Tax Authority, Central Statistical Office and Social Security Authorities.**

Simultaneously with the submission of the registration application, the court registers companies with the Hungarian Tax Authority (for VAT and income tax purposes) and with the Statistical Office through an online system.

Opening a bank account

15 days

According to the binding registration, a bank account shall be opened in 15 days from the tax registration of the company.

For opening a bank account, personal presence of the executive officer is mandatory in most cases.



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- Support by evaluation of business start-up costs
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- Corporate and administrative services for a new-to-market company, consultancy on the operational structure and support with finding the right business partners in Hungary
- Due diligence on acquisitions and mergers, other transactions
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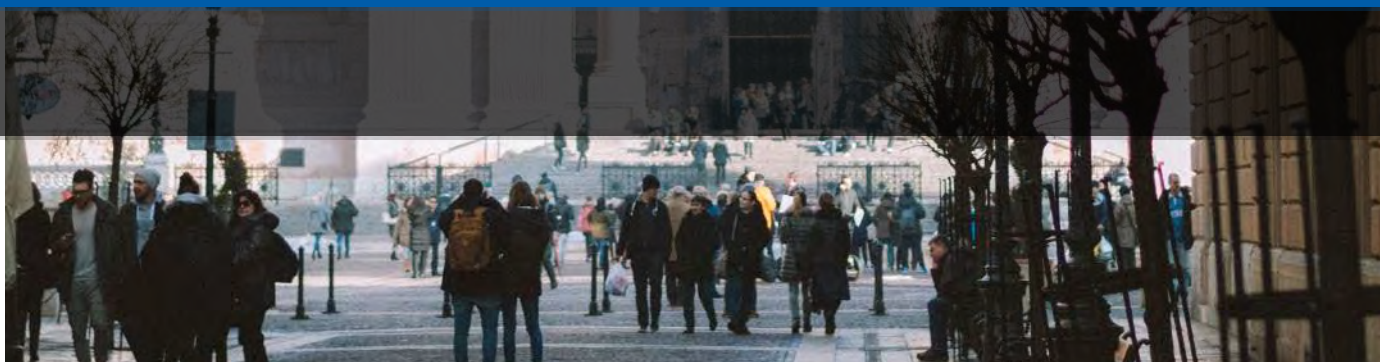
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