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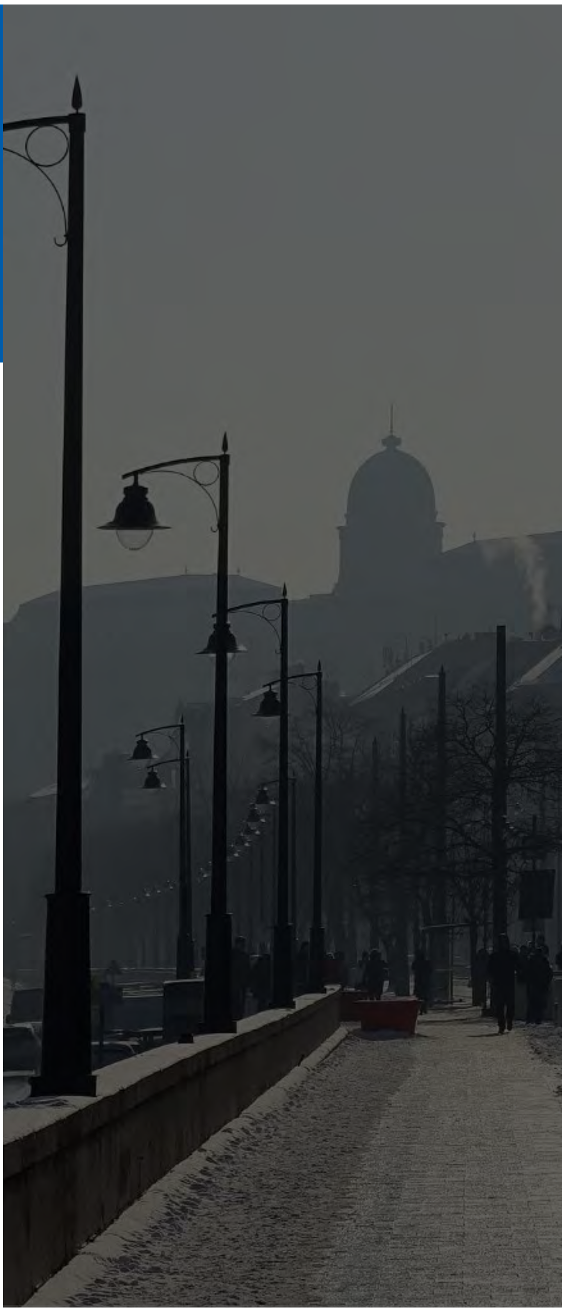
2023 Tax Guideline

Hungary

General information about Hungary



Location: Hungary is located in Central Eastern Europe, bordered by Austria, Croatia, Romania, Serbia, Slovakia, Slovenia and Ukraine.

Capital: Budapest

Area: 93,030 km2

Population: 9.72 million

Official language: Hungarian

Official currency: Hungarian Forint (HUF)

The head of state: Prime Minister

GDP growth: 4.0% in 2022 (KSH – 3rd Q 2022)

Membership:

- EU Schengen Agreement (2008)
- European Union (2004)
- NATO (1999) and other international organizations
- OECD (1996)
- WTO (1995)
- UN (1955).

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Legal forms of business

The Act V of 2013 on the Civil Code sets the types of business associations that can be established for business purposes. In the next table we have compiled the **most commonly used types of business associations** in Hungary with their basic information.

The form of business		Required subscribed capital	Information	Required number of founders
English	Hungarian			
Limited partnership	Betéti társaság (Bt.)	None	At least 1 member bears unlimited liability. Useful when funds are not available for forming a LLC (Kft.)	2
Limited liability company	Korlátolt felelősségű társaság (Kft.)	HUF 3,000,000 (ca. EUR 7,600)*	Limited liability for members - liable only up to their contribution as declared by the law.	1
Private company limited by share	Zártkörűen működő részvénytársaság (Zrt.)	HUF 5,000,000 (ca. EUR 12,900)*	Shares not listed on stock exchange. Recommended for owners who want to distribute rights and shares by their own preferences.	1
Public company limited by share	Nyilvánosan működő részvénytársaság (Nyrt.)	HUF 20,000,000 (ca. EUR 51,600)*	Can only be formed from an existing Zrt. Shares need to be subscribed publicly. Advised to use when company needs public funding for its activities.	2

** Applied exchange rate: 392 HUF/EUR*

All of these business associations are legal persons. The **amount of liability varies**, as well as the required subscribed capital and the number of founders.

Companies limited by shares (Rt.) are business associations operating either as private company limited by shares (Zrt.) or public company limited by shares (Nyrt.) depending on their shares' availability on the stock exchange.

General partnership (Kkt.) is not mentioned in the table as it is uncommon to use. Its advantage is that no minimum initial capital is required to start this type of business, but this is certainly one of the riskiest forms. Members of a Kkt. assume unlimited and full liability for the company's obligations.

Due to one of the amendments in the past, the required subscribed capital of limited liability company (Kft.) has been raised significantly from HUF 500 thousand to HUF 3 million.

Personal income tax and social contributions

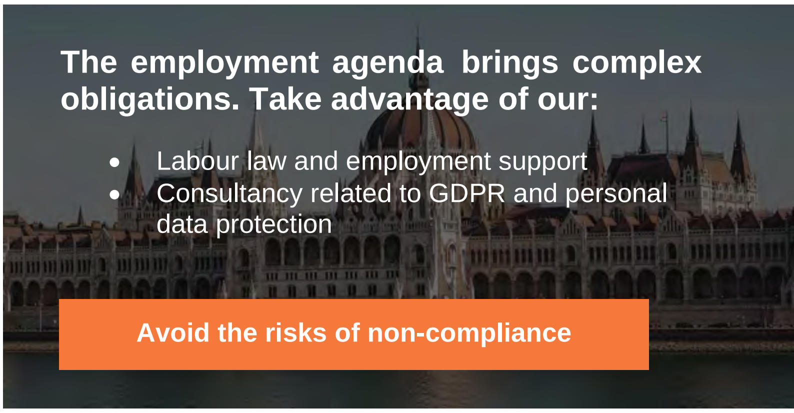
In Hungary flat rate personal income tax applies: 15%. The following contributions are generally payable:

Payable by employee	
Social security contribution	18.5%
Payable by employer	
Social contribution	13%
Vocational training contribution	0% - ceased

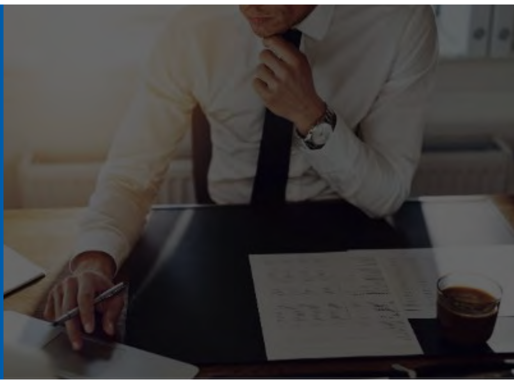
The total tax burden (tax + contribution) in case of normal salary is 33.5%, so the general level of net salary is 66.5% of gross salary. The net to total company cost ratio is 58.8%.

13%

Starting from 1 January 2022, the social contribution was reduced to 13% from 15.5%. This 13% SZOCHO is payable until the natural person's income reaches twenty-four times the mandatory minimum wage in the tax year (upper limit of tax payment). Passive incomes (such as dividends or capital gains) and the benefits in kind for employees become subject to 13% contribution, too.



Corporate income tax



General information

9%

Tax rate is 9% of the positive amount of the tax base.

The **tax base** both for domestic and foreign businesses is the pre-tax profit modified by items declared in **Act LXXXI of 1996 on corporate income tax** such as loss carried forward, provisions, depreciation, declared share, declared intangible good, dividends, received royalties, research and development, costs incurred that are not in relation with the business' interests, imposed penalties, thin capitalization, CFC.

Business associations need to submit their **CIT returns** by May 31st following the tax year. For taxpayers with a different tax year, the filing deadline is the last day of the fifth month following their business year.

Taxpayers with Hungarian residence have to pay corporate tax on their worldwide income (unlimited tax liability), while non-resident businesses only need to pay tax on the income from their Hungarian activities (limited tax liability).

Hungary grants **tax credits** related to funding film making, certain spectacle team sports, for business growth, for energy efficient investments and for small and medium businesses.

Income minimum

Should a company make **no profit, it still may have to pay** corporate income tax on the income minimum as tax base. If the pre-tax profit or the tax base – whichever is higher – fails to reach the profit minimum, the taxpayer either has to make a statement of its cost structure in its tax return or apply the income minimum as tax base (generally 2% of the total revenue).

Transfer pricing

The Hungarian transfer pricing rules are in line with OECD Transfer Pricing Guidelines. Accordingly, price setting of intra-group transactions has to follow the **arm's length principle**.

In Hungary, there are no provisions on which particular transfer pricing method is preferred. However, certain methods are listed in the CIT act and the law declares that other methods may only be used after the listed ones have been eliminated.

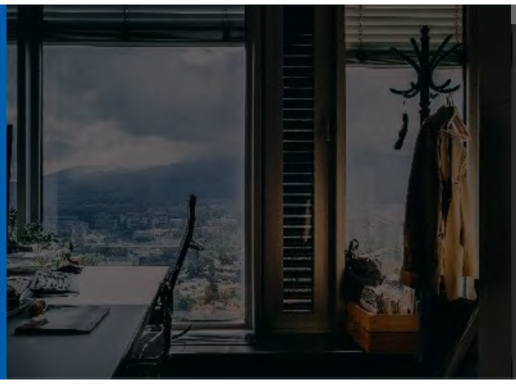
Hungary introduced the CbC reporting obligation in autumn 2017. First financial year affected is 2016.

In Hungary the **related party transactions are to be documented properly**; otherwise, the tax authority imposes harsh penalties for each missing or incomplete documentations ranging from HUF 5 million even up to HUF 10 million for repeated defaults regarding the same transfer pricing documentation.

Hungary implemented the Master file – Local file concept in the lay out and content requirement of TP documentation. FY 2017 can be documented according to the former rules either, but from FY 2018 the new concept is obligatory.

As of 1 January 2023, Hungary introduced data provision obligation for related party transactions, to be disclosed in the CIT return of each taxpayer who is subject to the transfer pricing documentation obligation. FY2022 is affected by this rule.

Taxes on individual income



Personal income tax (PIT)

Tax liability affecting the total revenues of resident taxpayers, the revenues obtained in Hungary by foreign individuals or other incomes that are taxable by law, in Hungary.

Taxpayers could be both residents (Hungarian citizens with exception of dual citizens without Hungarian residence, EEC member state citizens with more than 183 days of staying, third country citizens with residence permit and persons only with Hungarian residence) and non-residents (if they earn income from Hungary or according to an international convention, they earn income that is taxable in Hungary).

15%

Hungary has a personal income tax rate of 15% of the tax base. For resident taxpayers, the tax base is their whole income, while in the case of non-resident taxpayers it represents their locally taxable incomes.

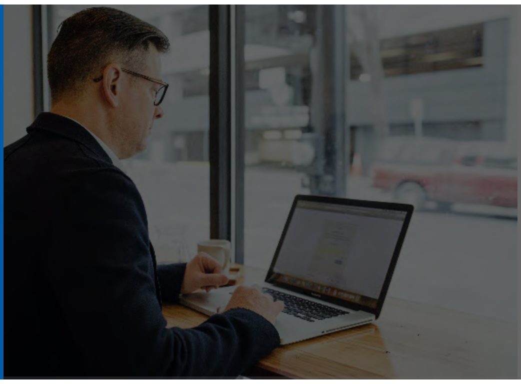
Simplified contribution to public revenues

Writers, journalists, artists, directors, actors, musicians, circus artists, professional athletes or trainers – under certain conditions – may choose this favourable tax form.

This tax exempts from the personal income tax, social security contribution and social contribution tax excluding taxes and contributions on the minimum wage. Its tax base is the individual's revenue reduced (if the private person is liable to pay it) with the value added tax.

The applicable tax rate in this case is 15% for private individual and 9.5% for pensioner.

For private individuals covered by social security in an EU member state, the EKHO rate is 9.5%. The payer is not obliged to pay EKHO.



Value-added tax

General information

27%

The VAT **general tax rate** in Hungary is 27%. Nonetheless, there are two reduced VAT rates in use: 5% and 18%.

VAT returns are required to be submitted monthly, quarterly or yearly. Deadline for filing the return is the 20th day of the month following the given period.

The **yearly VAT return** has to be submitted by February 25th following the given tax year.

Intrastat: in case a taxable person has EU transactions, Intrastat statistical reports must be submitted as well. The threshold for arrivals is HUF 250 million, while the threshold for dispatches is HUF 140 million in 2023.

The parliament repealed the provisions relating to the tax authority offering draft VAT returns, which means the introduction of the eVAT system is postponed for an undefined period of time.

From 1 July 2021, the MOSS system changed to OSS and its application has been extended with distance selling and all the services provided for non-taxpayers where the place of performance is in the Member State where the consumption took place. Taxpayers involved in distance selling may register in the one-stop shop system and settle their tax liabilities in respect of several Member States simultaneously. Tax returns must be filed electronically in the EU and non-EU one-stop shop system on quarterly basis.

For B2C distance sales of goods from outside the EU, the Import One-Stop-Shop (IOSS) scheme is applicable.

EUR 10,000

In line with EU provisions, the threshold for distance sales to non-taxable persons was reduced to EUR 10,000 on 1 July 2021.

From 1 January 2021, ex-post tax base reductions on the grounds of irrecoverable debts will be possible even if the buyer of the transaction underlying the bad debt does not qualify as a VAT taxpayer.

Reduced VAT rates

Certain products and services are the beneficiaries of lower VAT rates.

5%

The **5% rate** applies to some type of milk, poultry meat, fish fillets and other fish meat, fresh eggs, medicine, books, magazines, specific large live animals, district heating services, instrumental live music performed by artists at private events, commercial accommodation services, restaurants and internet.

18%

The **18% rate** can be applied to dairy products, products made from milk, corn, starch and open-air events' service providers.

Please note that VAT of certain group of services and products **are not deductible**, such as different types of fuels and motorcycles, passenger cars, taxis, parking services, food and beverages, catering services and residential properties and related activities to renovation of these buildings.

Domestic reverse charge mechanism

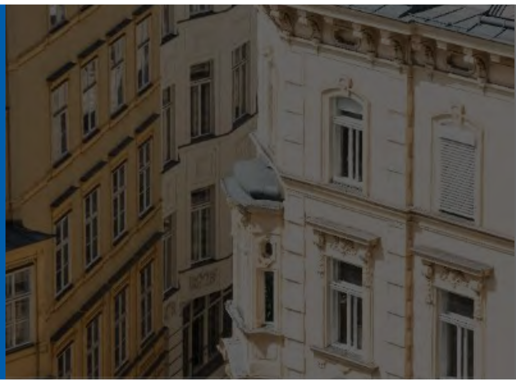
When both the buyer and the seller are taxable persons and not exempt from VAT, domestic reverse charge mechanism is to be applied with regard to certain services and product supply. Instead of including VAT in the invoice, the **seller should state** in the invoice, that the transaction is subject to the reverse charge mechanism; hence the buyer will have to pay VAT to the competent tax authority.

Domestic reverse charge VAT can be applied to services that require a building permit, construction work in connection with expanding, restructuring, demolition of buildings, maintenance, sale of certain metal products, grain, collateral assets, sale of real estate, trading greenhouse gas emission rights – when the vendor opts for taxability, and labour hire relating to specified construction and other installation works.

Live invoice data reporting

The legislation requires an immediate and automated data upload to the Hungarian Tax Authority, integrated to the invoicing software of taxpayers. As of 1 April 2021, the scope of live invoice data reporting was extended to almost all outgoing invoices issued under HU VAT ID.

Property taxes



Transfer tax

Purchasing real estate through an asset or share deal is subject to transfer tax obligations. The **assessed tax base** will be the gross market value of the real estate by the tax authorities' practice.

4%

The **transfer tax rate** is 4% up to HUF 1 billion and 2% for the rest of the amount. The **total amount** of transfer tax payable per property **is limited to HUF 200 million**.

Local business tax

Tax base for permanent activities performed in the jurisdiction of the local government is the net sales revenue reduced by costs of sold goods, value of mediated services (or above a certain amount of sales revenue by the proportional share of the above mentioned), subcontractor fees, material costs and direct value of research and experimental development.

The tax on temporary business activities is abolished. In the case of construction activity exceeding 180 days the tax on permanent business activity shall continue to be paid.

Building tax

Regardless of what they are intended or utilized for, both residential and non-residential buildings and structures may set building tax obligations for the taxpayer.

The **owner on January 1st** is subject to tax.

Should there be more owners, they need to pay tax according to their proportions of shares in the building.

Depending on the local government's decision, building tax is either **calculated by the useful space** in m^2 (maximum tax rate is HUF 1,100/m^2/annum) **or adjusted market value** (maximum 3.6% of the adjusted market value of the building).

Land tax

The **owner on January 1st** may be subject to land tax. Depending on the local government's decision, **land tax is either calculated by the land's area in m^2** (maximum tax rate is HUF 200/m^2/annum) decreased by the structure's space on the land itself, **or the adjusted market value of the land** (capped at 3%).

Both building and land taxes' rates are heavily affected by the local government's decisions, so it is advised to obtain the necessary information regarding which method is being used.

Customs duties

The **National Tax and Customs Administration of Hungary** is the competent authority for customs duties. Since Hungary is a member state of the European Union, **no customs procedures are required** as free movement of goods is ensured between member states, unless you exceed the non-commercial quantity declared in the Hungarian Excise Act.

Goods purchased for **non-commercial purposes** are exempt from customs procedures as well. However, transport of specific goods or items such as alcohol, tobacco, weapons, medicines and pets are subject to restrictions depending on the **country of origin** and **means of transport**.

Passengers carrying goods from third countries that are outside the EU face **more solid restrictions** on these products if they depart from another member state.

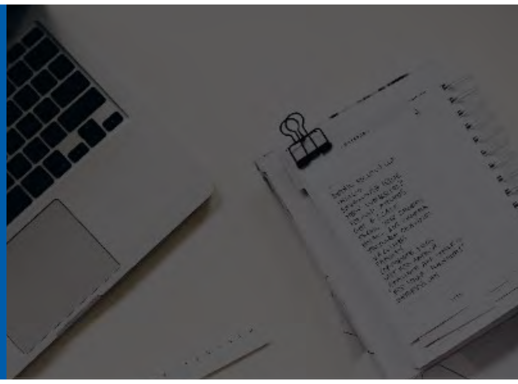
In addition to the above goods, passengers are exempt from customs duty and taxes for goods imported

up to the value of **EUR 300**

and up to the value of **EUR 430 if travelling by air**

The import VAT exemption for imported goods below EUR 22 has been abolished, customs declaration is required for these goods as well. From that date, import VAT will be payable on imports of consignments regardless of their value. However, in case of import of goods of a value of under EUR 150 the customs exemption remains unchanged i.e. if the value of the goods will be below EUR 150, the consignment will be exempted from customs duty but VAT must be paid on the full value of the consignment.

Investment incentives



Both refundable and non-refundable incentives are available to investors coming to or expanding in Hungary. The main types of incentives related to investments are:

- cash subsidies (either from the Hungarian Government or from EU Funds)
- tax incentives, low-interest loans
- land available for free or at reduced prices.

The regulations on incentive opportunities are in accordance with EU rules. As tax incentives are the most popular and commonly used form of incentive, we will expand on them further.

In Hungary there are two groups of corporate income tax allowances related to investments:

- one of them is decreasing the tax base,
- the other has decreasing impact on the calculated tax liability.

Tax base decreasing items

Investment allowances of small and medium enterprises

This type of allowance is applicable by entities considered as small or medium enterprise at the end of the financial year and has only private person member(s). According to the allowance the enterprise is entitled to decrease its profit before taxation with the amount of investment related to new assets not capitalized during the financial year. The amount of allowance cannot exceed the amount of profit before taxation.

Development reserve

Entities have the possibilities to create development reserve while decreasing the retained earnings for future asset investments. The amount shown as development reserve at the end of the financial year is tax base decreasing item according to the Act on CIT.

As of 1 January 2021, the HUF 10 billion cap on the companies' development reserve will be abolished, thus higher corporate tax base reduction will be available in 2021.

Investment related to historical buildings

In case of cultural heritage related investment projects on monuments, buildings recorded as historic value, property qualifying under special protection, the double of cost of renovation (investment) of the property can be taken into account as tax base decreasing item. There is the possibility that the cost will be utilized at the related company of the investor. The amount of the allowance on the level of calculated tax cannot exceed the HUF equivalent of EUR 100 million.

Tax allowances

Tax allowance based on interest on investment loan

Small and medium enterprises are entitled to tax allowance based on interest on loan requested from financial institute for fixed asset investment. The tax allowance available in given year equals with the interest amount paid during the financial year.

Energy efficient investments

The taxpayer is entitled to tax allowance based on investment for energy efficiency. The available tax incentive is up to 45% of the counted costs related to the investment, but at most HUF equivalent to EUR 15 million. The tax allowance can be used in the tax year following the year when the investment was placed into operation - or in the same tax year at the taxpayer's discretion - and in the following five tax years.

Development tax incentive

The taxpayer is entitled to development tax credit if:

a) it performs investment amounted to at least HUF 3 billion (on present value), or
b) it performs investment amounted to at least HUF 1 billion (on present value) in certain designated areas, or
c) it performs investment amounted to at least HUF 100 million (on present value) related to previously occupied facility used for zoogenic food production, or
d) it performs investment amounted to at least HUF 100 million (on present value) related to environment protection, or

e) it performs investment amounted to at least HUF 100 million (on present value) related to R+D, or

f) it performs investment amounted to at least HUF 100 million (on present value) related to only film and video production, or

g) investment related to job creation, or

h) it performs investment amounted to at least HUF 100 million (on present value) within 3 years following enter of stock exchange; or

i) on present value
- investment amounted to at least HUF 50 million performed by small enterprises,
- investment amounted to at least HUF 100 million performed by medium enterprises, or

j) investment amounted to at least HUF 100 million (on present value) performed in free entrepreneurship zone or

k) it performs investment amounted to at least HUF 6 billion (on present value), or

l) it performs investment amounted to at least HUF 3 billion (on present value) related to job-creating.

The rules of such tax credit are determined also by the given government decree beside the Act on CIT. There are different criteria for each tax credit. The main criteria for utilization of the tax credit are that related request has to be submitted to the Minister responsible for Tax Policy.

The tax credit can be utilized in 13 financial years (firstly in the financial year following the capitalization of the investment or based on decision right in the financial year of capitalization) but not later than the 16th financial year following submission of the request.

The taxpayer has reporting obligation related to the investment details in the financial years when the tax credit will be taken into account. The report is part of the annual corporate income tax return.

Complex solutions for your taxes in Hungary

Manage the risks and get your business to the next level by having access to our local team of tax experts, with deep insight into local legislation and best practices fitting the market. Whether you are seeking to enter the Hungarian market or improve the value of your current business operations, we are ready to provide you with an all-round-care and solutions you need.

Our service portfolio offers:

- Tax registrations with the Hungarian authorities for CIT, VAT, VAT refunds and other taxes, including consultation
- Assistance with any inquiries from the Hungarian tax offices, representation in communication and dispute resolution
- Tax compliance and filings, preparation and submission of statutory tax returns
- Processing of tax liability payments to local authorities
- Guidance and support by internal and external tax audits
- International tax advisory
- VAT registration in Hungary and obtaining a non-resident VAT number
- Filing of Hungarian VAT returns to meet all your statutory requirements
- Transfer pricing services
- Transactions services, M&A tax and legal structuring, due diligence
- Personal income tax, filing of tax returns and of other statutory reporting obligations for social security and health insurance
- Non-resident and global mobility services: creation of the tax-efficient employment structures for non-residents, evaluation of the tax filing requirements of the home country and the foreign country, preparation and filing of tax returns for non-residents in Hungary, payroll calculation and HR administration services for expatriates in Hungary and others

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About Accace Hungary

Accace Hungary is a consulting and outsourcing partner made up of highly qualified experts who turn customer needs into tangible solutions. By combining smart technology and forward-looking approach, we provide our customers with comprehensive professional support. With more than 20 years on the market, 70 Hungarian experts and over 200 satisfied customers, we have vast experience in facilitating the smooth operation and growth of small and large-scale businesses.

About Accace Group

Accace is a proactive consultancy and outsourcing partner who bridges the gap between needs and solutions. Combining smart and streamlined technology with a holistic approach, we provide an all-round care to clients and consider their matters as our own. With over 800 experts and more than 2,000 customers, we have vast experience with facilitating the smooth operation and growth of small to large-scale, global businesses.

Accace operates internationally as Accace Circle, a co-created business community of like-minded BPO providers and advisors who deliver outstanding services with elevated customer experience and erase the borders of service delivery. Covering over 50 jurisdictions with nearly 2,500 professionals, we support more than 15,000 customers, mostly mid-size and international Fortune 500 companies from various sectors, and process at least 200,000 pay slips globally.

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