

## **HUNGARY**

- 0- SYNOPTIC TABLE: TAXATION OF RESIDENTS AND NON-RESIDENTS
- 1- AN OUTLINE OF COMPANY LAW
- 2- WHEN HUNGARIAN COMPANIES CAN BE CONSIDERED RESIDENT OR NON-RESIDENT?
- 3- BUSINESS AND NON-BUSINESS ACTIVITIES (ADMINISTRATIVE OFFICES, LIAISON OFFICES, PURCHASING OFFICES, ETC.)
- 4- WHICH FOREIGN LOCAL UNITS CAN BE OPENED IN HUNGARY: SECONDARY ESTABLISHMENTS, BRANCHES, SUBSIDIARIES OR PERMANENT ESTABLISHMENTS?
- 5- CALCULATING TAXABLE INCOME
- 6- TREATMENT OF LOSSES
- 7- IS INTEREST DEDUCTIBLE?
- 8- IS DEPRECIATION DEDUCTIBILITY ACKNOWLEDGED?
- 9- WHAT TAX TREATMENT IS APPLIED TO RESIDENT COMPANIES?
- 10- ARE GROUP COMPANIES CONSIDERED SINGLE COMPANIES FOR FISCAL PURPOSES?
- 11- WHAT TAX TREATMENT IS APPLIED TO FOREIGN LOCAL UNITS AND NON-RESIDENT COMPANIES?
- 12- ARE CAPITAL GAINS TAXED?
- 13- WHAT TAX TREATMENT IS APPLIED IN CASE OF COMPANY LIQUIDATION?
- 14- TRANSFER OR REPURCHASE OF SHARES: HOW ARE THEY TAXED?
- 15- WHAT OTHER TAXES ARE APPLIED IN HUNGARY?
- 16- DIVIDENDS, INTEREST AND ROYALTIES: HOW ARE THEY CONSIDERED AND TAXED?
- 17- HOW ARE CALCULATED STOCKS OR INVENTORIES?
- 18- HOW ARE RESIDENT INDIVIDUALS TAXED?
- 19- HOW ARE FOREIGN INDIVIDUALS TAXED? WHEN ARE THEY CONSIDERED RESIDENT?
- 20- TERMS FOR TAX PAYMENTS: THE FISCAL YEAR IN HUNGARY
- 21- WHAT TAX INSPECTIONS ARE MADE?
- 22- CAN TAXPAYERS AGREE IN ADVANCE THEIR TAX TREATMENT?

23- WHAT EXCHANGE CONTROLS ARE CARRIED OUT?

24- WHAT TAX RELIEFS AND INCENTIVES ARE GRANTED BY THE HUNGARIAN GOVERNMENT?

25- HAS HUNGARY SIGNED BILATERAL TAX AGREEMENTS WITH OTHER COUNTRIES? TABLE OF WITHHOLDING TAXES

Last reviewed: **January 10, 2024**

**Embassy of Italy in Hungary**

Budapest – Embassy of Italy  
Amb. Manuel Jacoangeli  
Stefánia Ut 95 - 1143 Budapest  
Tel. 003614606200  
Fax 003614606290  
Website: [www.ambbudapest.esteri.it](http://www.ambbudapest.esteri.it)  
E-mail: [ambasciata.budapest@esteri.it](mailto:ambasciata.budapest@esteri.it)

**Consulate of Italy in Hungary**

Nyíregyháza – Honorary Consulate  
Cons. On. Roberto Sarcia  
Széchenyi utca 2. II. em. - 4400 Nyíregyháza  
Tel. 003642311130  
Fax 003642311130  
E-mail: [nyiregyhaza.onorario@esteri.it](mailto:nyiregyhaza.onorario@esteri.it)

**Embassy of Hungary in Italy**

Rome – Embassy of Hungary  
Amb. Adám Zoltán Kovács  
Via dei Villini, 12 – 00161 Rome  
Tel. 00390644230598  
Fax 0039064403270  
Website: [www.roma.mfa.gov.hu/ita](http://www.roma.mfa.gov.hu/ita)  
E-mail: [mission.rom@mfa.gov.hu](mailto:mission.rom@mfa.gov.hu)

**Consulate of Hungary in Italy**

Milan – Consulate General of Hungary  
Cons. Gen. Jenő Csiszár  
Via Fieno, 3 – 20123 Milan  
Tel. 003902726009  
Fax 00390272095705  
Website: [www.milano.mfa.gov.hu/ita](http://www.milano.mfa.gov.hu/ita)  
E-mail: [consulate.mil@mfa.gov.hu](mailto:consulate.mil@mfa.gov.hu)

**0- SYNOPTIC TABLE: TAXATION OF RESIDENTS AND NON-RESIDENTS**

	RESIDENTS	NON-RESIDENTS
CORPORATE INCOME TAX	9%	
TAXES ON CAPITAL GAINS	Taxed as ordinary income; 15% for individuals	
WITHHOLDING TAXES	Companies	Non-resident individuals
Dividends	0%	15%
Interest	0%	15%
Royalties	0%	15%
PERSONAL INCOME TAX	15%	
OTHER TAXES		
Gift duty	18% - 9%	
Tax on gambling	15% on winnings; 60,000 FT per year per slot machine	
Social security contributions	18.5% employees and 13% employers	
Excise tax	The amount of tax depends on the quantity and nature of the goods	
VAT	27%, 18%, 5%, 0%	
LOSSES		
Carried forward	Allowed for 5 years	
Carried back	Not allowed, except for the agricultural sector	
DEPRECIATION		
Fixed assets	Buildings: from 2% to 6%	
Intangible assets	Computers and machinery from 33% to 50%	

## 1- AN OUTLINE OF COMPANY LAW

BUSINESS ENTITY	MAIN TRAITS	FORMATION	GOVERNANCE
<p><b>Corporations:</b></p> <p><b>-Limited liability company (Korlátolt felelősségű társaság - Kft);</b></p> <p><b>-Joint stock company (Részvénytársaság- Rt);</b></p> <p><b>-Regulated investment company (Szabályozott ingatlanbefektetési társaság- Szt)</b></p>	<p>These corporations are separate legal entities, and a shareholder's liability is limited by their capital contribution.</p> <p>Joint stock companies are generally used when there are many shareholders. There are 2 different types of joint stock companies: the public joint stock company and the private joint stock company.</p> <p>Limited liability companies are generally used for fewer shareholders, usually known to each other. The management of a limited liability company is often more personalised than that of a joint stock company.</p> <p>Regulated investment companies are subject to certain regulations.</p>		<p>Corporations must use double-entry bookkeeping and are generally required to generate financial statements according to Hungarian accounting standards.</p>
<p><b>Partnership</b></p>	<p>A partnership is a separate business entity without legal personality which may obtain rights and undertake commitments (ie acquire property, conclude contracts, etc) under its own name.</p> <p>A general partnership (Közkereseti társaság or Kkt) is an association of general partners who carry on business with unlimited joint and several liability.</p> <p>A limited partnership (Betéti társaság or Bt) has at least one partner with limited liability (limited partner) and at least one partner with unlimited liability (general partner). The liability of the limited partners is limited to their contribution to the partnership.</p>		<p>The accounting and auditing requirements for partnerships are the same as for corporations.</p> <p>Partnerships, like corporations, are taxed as separate business entities</p>
<p><b>Sole proprietorship</b></p>	<p>A sole proprietor is a natural person who owns and operates a business. It is not a separate legal entity.</p> <p>The main disadvantage of sole proprietorships is that there is unlimited liability and very little asset protection. All the assets and liabilities of the business belong to the sole proprietor personally.</p>	<p>A sole proprietorship structure involves the least number of formalities and minimal formation costs.</p> <p>The sole firm may operate either with limited or unlimited liability based on the discretion of the founder.</p>	
<p><b>Branch</b></p>	<p>A branch office does not have legal personality but does have financial autonomy.</p>		<p>A branch office is an organisational unit of a foreign company that must be registered in the Hungarian company register.</p>

<b>BUSINESS ENTITY</b>	<b>MAIN TRAITS</b>	<b>FORMATION</b>	<b>GOVERNANCE</b>
<i>Trust</i>	Trusts (in the form of trust management agreements) are available and are regulated by the Hungarian legal system.		Within the framework of trust management agreements, trustees manage the assets entrusted to them by settlors on behalf of the beneficiaries.

## **2- WHEN HUNGARIAN COMPANIES CAN BE CONSIDERED RESIDENT OR NON-RESIDENT?**

A company is resident in Hungary if it is incorporated in Hungary or if it directs its activities from Hungary. A foreign-incorporated company may be treated as a Hungarian resident if its place of management is in Hungary.

A company is considered a non-resident if it is not incorporated in Hungary and its activities are not directed from Hungary.

## **3- BUSINESS AND NON-BUSINESS ACTIVITIES (ADMINISTRATIVE OFFICES, LIAISON OFFICES, PURCHASING OFFICES, ETC.)**

Hungary is a strategic location for companies wishing to trade with countries in Eastern Europe. Some international groups establish offices in Budapest that do not engage in actual trading activities, but are used solely for collecting information, advertising activities, or preparing and intermediating contracts.

## **4- WHICH FOREIGN LOCAL UNITS CAN BE OPENED IN HUNGARY: SECONDARY ESTABLISHMENTS, BRANCHES, SUBSIDIARIES OR PERMANENT ESTABLISHMENTS?**

A company is considered a non-resident if it is not incorporated in Hungary and its activities are not directed from Hungary.

Non-resident companies that are comparable to Hungarian corporations are generally taxed only on their Hungarian source income. For example, business profits of a non-resident company are only subject to Hungarian corporate tax if the non-resident company has established a branch, a PE or has an agent in Hungary. A non-resident company that owns real estate situated in Hungary is generally treated as if it has a PE in Hungary. Moreover, the performance of services (eg construction) in Hungary may lead to Hungarian tax liability even if the non-resident company has no fixed base in Hungary.

In Hungary, a permanent business establishment is defined as a place where business activities are conducted. This can be a place of business management, a representative office, a factory, a plant, a workshop, a mine, oil or natural gas well, or any other establishment for the exploration and exploitation of natural resources, the location of construction or assembly activities, including related supervision activities, if its duration lasts at least 3 months. A PE can also be the direct utilisation of natural resources in Hungary by a foreign person or a foreign person who insures risks located in Hungary (excluding reinsurance) through a person residing in Hungary. In addition, a person who acts on behalf of a foreign person, is considered to be a permanent establishment if the person negotiates contracts or maintains a stock of goods on behalf of the foreign person.

## **5- CALCULATING TAXABLE INCOME**

All income and cost is calculated according to the accrual method.

The following are not tax deductible:

- provisions made in accordance with accounting law for foreseeable liabilities and future costs are not tax deductible;
- expenses not relating to the income-producing activity of a taxpayer are not deductible (tax penalties, representation costs, business gifts, etc.);
- expenses incurred due to assumed liabilities, donations, money granted without consideration, etc, are not tax deductible if the beneficiary is resident in a country with

which Hungary has no tax treaty or the beneficiary is a controlled foreign company. Otherwise, they are tax deductible;

- bad debt provision are not tax deductible;
- foreign taxes on income paid or payable abroad are not tax deductible, however, either the relevant income is excluded from the Hungarian taxable income or the tax paid abroad can be offset against the Hungarian corporate income tax;
- any expenses (eg loss in value, foreign exchange loss) related to the reported participation are not tax deductible;
- a taxpayer may elect to eliminate from the tax base unrealised foreign exchange gains resulting from the year-end revaluation of long-term liabilities and financial non-current assets in foreign currencies.

The following are tax deductible:

- tax depreciation;
- tax losses carried forward are deductible to the extent of the taxpayer's positive pre-tax profit;
- 50% of income from royalties is excluded from the tax base;
- either 20% or 50% of donations given to some special Hungarian institutions and foundations are tax deductible.

## **6- TREATMENT OF LOSSES**

Trading losses and capital losses are generally offset equally against all trading income and capital gains received in the same accounting period.

At the taxpayer's election, a taxpayer may carry forward tax losses for five years. Before 2015, tax losses could be carried forward indefinitely. Losses generated prior to 2015 may be utilised until 2025. Losses used to reduce profits cannot exceed 50% of the profits before tax in any year. Losses acquired as part of the purchase of a company may be deducted from taxable profits in the first tax year after acquisition. Credit institutions (banks) may also carry forward tax losses. Taxpayers, other than specific taxpayers operating in the agricultural sector, cannot carry back tax losses.

There are no restrictions on carry forwards of losses where there is a change in the ownership of a company. In the case of legal succession, losses of a legal predecessor can be utilised by its legal successor.

## **7- IS INTEREST DEDUCTIBLE?**

Interest is deductible for Hungarian tax purposes on an accrual basis, irrespective of the payment date.

From 1 January 2019, the deduction for interest expenses is limited to the higher of 30% of EBITDA (earnings before interest, taxes, depreciation and amortisation) or Ft 939,810,000. Certain companies are excluded from the EBITDA rules, including financial institutions, investment companies and insurance/reinsurance companies. Excess interest may be carried forward for five years.

No withholding tax is payable on interest paid to foreign entities. Withholding tax of 15% must be deducted if interest is paid to an individual. If interest is paid to non-resident individuals, the withholding tax rate is to be determined considering the relevant tax treaty.

## **8- IS DEPRECIATION DEDUCTIBILITY ACKNOWLEDGED?**

Taxpayers may depreciate assets by using the straight-line method at the depreciation rates stipulated by law (see table below). The depreciation base is the initial cost (acquisition or production cost). Tax depreciation is calculated as of the date of the first use of the asset.

For some assets (eg all intangible assets, assets at a cost of less than Ft200,000), accounting depreciation may apply, whereas for other assets (eg land), the law does not allow depreciation. Foreign companies changing residence to Hungary may revalue their assets to market value in order to calculate depreciation for tax purposes.

The expected useful life of an asset is determinative for accounting depreciation, which is calculated by using the straight-line method, the diminishing balance method, or others, starting as of the date of the first use of the asset.

The corporate tax law stipulates tax depreciation rates for all assets.

Additionally, preferential rates may apply in certain circumstances (eg for new asset purchases). If there is more than one rate which can apply to the relevant asset, the taxpayer has the right to choose which rate to apply. Some of the tax depreciation rates are as follows:

<i>Asset</i>	<i>Rate %</i>
Buildings (depending on the useful life of the building)	2/3/6
Hotel buildings	3
Rented buildings	5
Goodwill	10
Waste storage facilities	20
Motor vehicles	20
Software controlled machines and equipments; industrial robots; waste management machines; etc	33
Assets not used before (for which the 33% or the 14.5% rate would be otherwise applicable)	50
Assets used exclusively for film and video production	50
Computer technology assets (eg PC)	50
Rented tangible assets other than buildings	30
Any other assets (for which there is no special rate stipulated)	14.50

Most companies use the same rates for accounting depreciation as for tax depreciation in order to simplify book-to-tax calculations. This method is disputable considering the accounting regulation that depreciation should reflect the useful life of the asset.

#### **9- WHAT TAX TREATMENT IS APPLIED TO RESIDENT COMPANIES?**

Trading profits and other income of corporations, partnerships, sole firms and branches are subject to corporate tax, regardless of whether the profits or income are retained or distributed. Registered regulated investment companies are exempt from corporate income tax.

The corporate income tax rate for resident and non-resident businesses for 2023 is a flat 9% of the positive tax base.

Energy service providers and public utilities are subject to an extra 41% levy. This results in an effective corporate income tax rate for these companies of 50% (ie 9% plus 41%) for 2023.

If a company's before tax profit calculated under the regular tax regime is less than 2% of total gross revenue, excluding costs of goods sold and costs of resold services (the "minimum tax profit"), the minimum tax profit must be used to determine taxable income.

Sole proprietors may disburse money from the business to themselves during the tax year (entrepreneurial disbursement), which is then taxed on the individual in the same way as a salary. Trading profits and other income of sole proprietors remaining after any such disbursements (entrepreneurial income) are subject to entrepreneurial income tax at the 9% rate of the positive tax base (taxable profits).

Further, entrepreneurial income less entrepreneurial income tax is the entrepreneurial dividend tax base and it is taxed at a flat rate of 15%.

#### **10- ARE GROUP COMPANIES CONSIDERED SINGLE COMPANIES FOR FISCAL PURPOSES?**

Group taxation for income tax purposes is available in Hungary from 1 January 2019. Hungarian companies form part of a group if one company owns directly or indirectly at least 75% of voting rights in the other company.

Group taxation for VAT is available for taxpayers who are related parties and whose business seat is in Hungary. Taxpayers must make a mutual, written request seeking permission of the tax authority to utilise group taxation. The taxpayers participating in the group qualify as one taxpayer for VAT purposes for the entire period of the group taxation. Transactions within the group are not subject to VAT. The taxpayers in the group are jointly and severally liable for the VAT liability of the whole group.

#### **11- WHAT TAX TREATMENT IS APPLIED TO FOREIGN LOCAL UNITS AND NON-RESIDENT COMPANIES?**

The corporate income tax rate for resident and non-resident businesses for 2023 is a flat 9% of the positive tax base.

A Hungarian branch's taxable trading profits and capital gains are calculated on the same basis as those of a Hungarian resident company. However, a tax treaty's branch/PE provisions overrule the Hungarian regulations.

As a general rule, most of Hungary's tax treaties provide that a place used only for the supply or collection of information or the purchase of goods is not treated as a PE. Such offices usually do not attract Hungarian taxes.



## **12- ARE CAPITAL GAINS TAXED?**

The tax basis for capital gains is the difference between the acquisition price of the assets and the sales price of the assets.

Capital gains arising from the disposal of assets are taxed as ordinary income. There is no separate capital gains tax for companies.

For individuals, capital gains arising from the disposal of assets are taxed at a rate of 15%.

Capital gains realised on certain investment and intangible assets (such as shares and intellectual property) are exempt from corporate income tax. If a taxpayer acquires assets of a domestic or foreign company and holds them continuously for at least one year and reports the acquisition of the assets to the tax authorities, then the capital gain from the sales of these reported assets is eliminated from the corporate income tax base in the year of disposal. However, a capital loss on the disposition of the reported assets is not deductible.

Capital gains derived from the disposal of shareholdings in a Hungarian real estate company (ie a company whose assets on market value consist of at least 75% real estate in Hungary) is subject to 9% corporate income tax for companies and 15% personal income tax for individuals, provided there is no relevant tax treaty or the relevant tax treaty makes that taxation possible.

## **13- WHAT TAX TREATMENT IS APPLIED IN CASE OF COMPANY LIQUIDATION?**

A distribution of capital on liquidation of a company is treated as a return of capital. Any capital gain arising on liquidation is tax free to a corporate shareholder but is subject to the corporate tax at the liquidated company level as all assets and liabilities must be revalued to their fair market value in the course of liquidation.

Individual shareholders are subject to 15% withholding tax on such capital gains. A tax treaty may provide a lower withholding tax rate.

## **14- TRANSFER OR REPURCHASE OF SHARES: HOW ARE THEY TAXED?**

Hungarian law prohibits a company's reduction of capital unless the company undertakes detailed steps to protect creditors' claims. If a reduction is allowed, repayments of capital are tax free and reduce the book value of the company's shares in the hands of the shareholders. If the repayment of capital exceeds the initial cost of the share, the excess amount of capital gain is tax free to corporate shareholders but may be subject to corporate tax at the company level due to intercompany pricing regulations.

Individual shareholders are subject to 15% withholding tax on such capital gains. A tax treaty may provide a lower withholding tax rate.

A Hungarian company may only repurchase its own shares under specific circumstances, but it may not do it if it is not allowed to pay dividends. A company may not exercise voting rights in connection with any shares it has acquired. Within one to three years, the company must dispose of the shares purchased, or convey them to the members in proportion to their capital contributions without compensation or withdraw them applying the rules of capital reduction.

Once the repurchased shares are withdrawn, the gain realised on the withdrawal is tax free.

## **15- WHAT OTHER TAXES ARE APPLIED IN HUNGARY?**

### **VAT**

VAT is generally levied on any domestic supply of goods and services, intra-community acquisitions (ie acquisitions within the European Community) and the import of goods from third countries. The standard VAT rate is 27%, but the following reduced rates apply: a 5% rate applies to certain preferred goods and services such as books, newspapers, aids for the blind, pharmaceuticals, some kinds of food, internet access services, commercial accommodation services and distance heating; an 18% rate applies to certain basic foods and services, such as bread and certain types of milk.

Transactions exempt from VAT include medical services, post office services, education services, insurance services, banking services, credit lending and related services, sale of certain real estate, rental of real estate, intra-community sales and exports.

### **Capital transfer tax**

There is no capital transfer tax in Hungary.

### **Property transfer duty**

Property transfer duty applies to the transfer (ie purchase or exchange) of real estate and any rights associated with real estate, including the acquisition (directly or indirectly) of a 75% or higher shareholding in a Hungarian company owning any kind of real estate, even if the tax is only payable if the company's registered purpose is directly property related.

The duty is payable on the market value of the property transferred, for real estate and related rights (4%), per kilowatt (kW) for motor vehicles, except for environmentally friendly motor

vehicles, ie electric (including hybrid) and zero emission vehicles, which are exempt from property transfer duty.

No property transfer duty applies on the acquisition of shareholdings in a Hungarian company owning any kind of real estate, if the acquisition takes place between related parties.

#### **Environmental taxes**

Companies purchasing or selling certain goods in Hungary that may pollute the environment (eg petroleum products, tyres, packaging materials, batteries, electronic appliances, etc) must pay an environmental protection contribution. The amount of this contribution depends on the quantity and nature of the materials but there are certain allowances (eg due to the use of environment-friendly material). Entities polluting the environment (water, soil, or air) must pay environmental pollution charges. The amount of these charges depends on the quantity and nature of the emitted material that pollutes the environment.

#### **Tax on gambling**

The withholding tax for individuals on gambling winnings is 15% in the case of both cash and non-cash winnings. Winnings from lotteries, casinos and the totalisator systems for horse race betting are exempt. The net revenue of online gambling operators is taxed at 15%.

The gambling tax on slot machines is a flat rate of Ft 60,000 per year per machine.

Companies operating online gambling facilities require a licence. The maximum fine for operating without a licence is Ft100 million.

#### **Excise tax**

Hungary imposes an excise tax on the following consumer goods: mineral oils, alcoholic beverages, beers, wines, sparkling wines and tobacco products. The producer or the importer of the goods must pay any applicable excise tax. The amount of tax depends on the quantity and nature of the goods.

#### **Tax on motor vehicles**

Hungary imposes a vehicle tax on motor vehicles, which rates depend on the power and the age of the vehicle, whereas for buses, lorries and trucks is based on the weight of the vehicle. Environmentally friendly motor vehicles, ie electric (including hybrid) and zero emission vehicles, are exempt from this vehicle tax.

In addition to the vehicle tax, there is a company car tax on personal cars, for both individuals and companies, based on the engine power and the environmental classification of the car.

#### **Social security contributions**

A social contribution tax is payable by both employers and employees. The tax combines pension insurance contribution, health insurance contribution and workforce market contribution. The employee's portion is withheld by the employer and remitted to the tax authorities together with the employer's portion.

The rates for the 2023 tax year are 18.5% for employees and 13% for employers. The base of the contribution is gross salary (including premiums, bonuses, etc).

#### **Educational contributions (repealed)**

Before 1 January 2022, employers paid a 1.5% educational contribution. The base of the contribution was gross salary (including premiums, bonuses, etc). Instead of paying the educational contribution, an employer could fulfil its obligations entirely or partly by organising practical education for students or by educating its own employees. From 1 January 2022, the educational contribution was repealed.

#### **Incorporation duty**

The incorporation of a new company in the commercial register as well as any later modification of the company's data is subject to incorporation duty, which depends on the kind of entity and the nature of modification.

#### **Building tax**

Companies or individuals that own buildings may be subject to local building tax if their municipality imposes it. The maximum amount of building tax is Ft1,100/m<sup>2</sup> per annum or 3.6% of the market value of the building.

#### **Land tax**

Companies or individuals that own land may be liable for local land tax if their municipality imposes it. The maximum amount of land tax is Ft200/m<sup>2</sup> per annum or 3% of the market value of the land. A company or individual cannot be subject to both building tax and land tax on the same property.

#### **Distant heating or "Robin Hood" tax**

Energy suppliers, either domestic companies or Hungarian permanent establishments of foreign entrepreneurs, must pay an additional income tax, the distant heating or "Robin Hood" tax, at the rate of 41% of the positive tax base.

The tax was originally introduced in January 2009 as a temporary measure, but has been extended indefinitely.

**Bank tax**

Financial institutions (credit institutions, financial enterprises, stock exchanges, etc) are subject to bank tax. The bank tax base for 2023 is calculated using the financial institution's 2021 financial statements.

The base differs for the various financial institutions:

<i>Type of financial institution</i>	<i>Tax base</i>	<i>2023 bank tax rate</i>
Credit institutions	Modified balance sheet total	0.15% on the first Ft50 billion, and 0.2% on the excess
Financial enterprises	Interest income and income from fees and commissions	6.5%

**Temporary surtax**

For tax years 2022, 2023 and 2024, credit institutions and financial enterprises are also subject to a surtax calculated on net sales revenue as determined by financial statements and ranging from 8% to 13% + 30% on the excess.

**Investment fund tax**

An annual tax of 0.05% is levied on investment fund managers on a quarterly basis based on the net asset value of the managed funds.

**Tax on financial transactions**

A tax on financial transactions (including cash payments, postal cheques, card payments and bank transfers) is levied on financial institutions. The tax rate is generally 0.3% of the value of the transaction, subject to a maximum of Ft 10,000 per transaction. For cash payments, the tax rate is 0.6% without a cap. For card payments, a flat rate of Ft 800 per year applies. If the card has also been used to make contactless payments within the same period, a reduced tax rate of Ft 500 per year applies.

**Public health products tax**

A tax is payable – at different rates - on certain unhealthy snack foods containing a high proportion of sugar, salt, caffeine or carbohydrate.

**Universal insurance tax**

A universal insurance tax is payable by insurance companies on gross insurance premiums as follows: 15% for certain motor insurance, and 10% for property and accident insurance services. Life and sickness insurance are exempt.

Insurance companies are also subject to a temporary surtax on gross insurance premiums from 1 July 2022 to 31 December 2024.

**Telecommunications tax**

A telecommunications tax is payable by providers of telecommunication services. The tax rate of Ft3 is payable per minute of connection time for initiated phone calls and per text message (SMS) sent. Phone calls to emergency services, phone numbers and text messages sent to **phone** numbers for fundraising are exempt.

For 2022 and 2023, telecommunication providers were also subject to a 1%-7% temporary surtax on their net turnover in the previous year.

**Tax on advertising revenue**

From 2017 income arising from certain advertising activities is subject to an extra tax of 7.5% on revenue exceeding Ft100 million. From 1 July 2019 until 31 December 2023, the advertising tax rate is 0%.

**Tourism development contribution**

A tourism development contribution is payable by companies that provide catering services or commercial accommodation services at the reduced VAT rate of 5%. The rate of the contribution is 4% of the net consideration received for the catering services or commercial accommodation services.

The tourism development contribution was temporarily suspended between 1 October 2022 and 31 March 2023.

**Retail tax**

A tax is levied on the net sales revenue of retail companies. The tax rates range from 0% to 4.1% on net sales revenue.

**Surtax on petroleum producers**

For tax years 2022 to 2024, producers of petroleum products are subject to a special surtax of 95%. The tax is payable on the difference between the average world market price of crude oil (as determined) and the purchase price of crude oil originating from the Russian Federation

multiplied by the number of barrels of crude oil purchased from the Russian Federation during the relevant month.

#### **16- DIVIDENDS, INTEREST AND ROYALTIES: HOW ARE THEY CONSIDERED AND TAXED?**

Dividends received or due from non-resident companies generally are exempt from Hungarian tax. Dividends received or due from controlled foreign companies are not exempt from Hungarian tax.

There is no withholding tax on dividends paid by a Hungarian company to a resident or non-resident company. If the dividend is paid to an individual, a flat rate of 15% withholding tax applies. A tax treaty may provide lower withholding tax rates.

There is no withholding tax on interest, royalties or service fees (eg management fees) paid to foreign entities in the absence of a tax treaty.

No withholding tax applies to Hungarian source dividends paid to non-resident companies.

Withholding tax at the rate of 15% is deducted at source from interest paid by a Hungarian company to non-resident individuals. This rate may be reduced or eliminated under a tax treaty.

#### **17- HOW ARE CALCULATED STOCKS OR INVENTORIES?**

Stock and work in progress are valued at cost or net market value, whichever is lower. The expense due to the write-downs of stock from cost to net market value is tax deductible provided that it is supported with sufficient documentation.

#### **18- HOW ARE RESIDENT INDIVIDUALS TAXED?**

##### **Tax rates**

The uniform tax rate for individuals for 2023 is 15%.

##### **Inheritance and gift tax**

Inheritance duty applies to assets received by way of inheritance and bequests. The standard rate of the duty is 18%. A 9% rate applies to rights that have a monetary value and to residential property. The base of the duty is the net value of the estate. No inheritance duty is payable on the first Ft300,000 of moveable property per heir. No inheritance duty is payable if the inheritor is the parent, child, sibling or spouse of the beneficiary.

Gift duty applies to real estate, moveable property, and the gratuitous creation of a property right. The base of the duty is the net value of the gift. The standard rate of the duty is 18%. A 9% rate applies to rights that have a monetary value and to residential property. The forgiveness of debts and the free assumption of liabilities between companies are exempt from gift duty.

##### **Pension, social security and national health policy**

A social contribution tax is payable by both employers and employees. The tax combines pension insurance contribution, health insurance contribution and workforce market contribution. The employee's portion is withheld by the employer and remitted to the tax authorities together with the employer's portion.

The rates for the 2023 tax year are 18.5% for employees and 13% for employers. The base of the contribution is gross salary (including premiums, bonuses, etc).

#### **19- HOW ARE FOREIGN INDIVIDUALS TAXED? WHEN ARE THEY CONSIDERED RESIDENT?**

##### **Tax rates**

The uniform tax rate for individuals for 2023 is 15%.

##### **Pension, social security and national health policy**

A social contribution tax is payable by both employers and employees. The tax combines pension insurance contribution, health insurance contribution and workforce market contribution. The employee's portion is withheld by the employer and remitted to the tax authorities together with the employer's portion.

The rates for the 2023 tax year are 18.5% for employees and 13% for employers. The base of the contribution is gross salary (including premiums, bonuses, etc).

#### **20- TERMS FOR TAX PAYMENTS: THE FISCAL YEAR IN HUNGARY**

Generally, the tax year for all taxpayers in Hungary is their accounting year, which, apart from some exceptions, is usually the same as the calendar year.

A taxpayer must file Hungarian corporate tax returns by 31 May following the relevant calendar year if the tax year is the same as the calendar year, or within 150 days of the end of the tax year if the tax year differs from the calendar year.

The tax authorities may impose a tax penalty of up to 50% for undeclared taxes.

## **21- WHAT TAX INSPECTIONS ARE MADE?**

Taxpayers are required to submit their tax returns to the Hungarian tax authorities and remit tax owed according to self-assessment. For most taxpayers tax returns must be submitted electronically via the internet.

Taxpayers must retain data for 5 years in anticipation of tax audits. The statute of limitations on tax audits is 5 years, but in the case of fraud, it is extended,

Tax administration sanctions that arise during a tax audit include default penalties and interest and even prison, which terms depend on the amount of the concealed or embezzled tax.

## **22- CAN TAXPAYERS AGREE IN ADVANCE THEIR TAX TREATMENT?**

On request, the Hungarian Ministry of Finance may issue advance rulings regarding the tax implications of a specific transaction. The taxpayer must submit a request to the Ministry on a specified form with the signature of a lawyer or tax advisor. The Ministry has 90 days to issue its resolution (60 days for urgent requests). A ruling is binding only if the conditions for the relevant transaction remain unchanged.

## **23- WHAT EXCHANGE CONTROLS ARE CARRIED OUT?**

The currency is the Hungarian forint (Ft).

Inward investment is generally unrestricted. A Hungarian branch's or company's borrowings from abroad usually do not require prior permission. There may be a few exceptions for some countries.

Transactions of a Hungarian branch or company with a company abroad may have to be reported to the Hungarian National Bank for statistical purposes.

In certain cases, foreigners need prior permission to acquire real estate in Hungary.

## **24- WHAT TAX RELIEFS AND INCENTIVES ARE GRANTED BY THE HUNGARIAN GOVERNMENT?**

### **Tax credits**

There are special tax credits granted to companies:

- investing at least Ft3 billion
- for independent environmental protection projects worth Ft100 million or more
- for motion picture and video production projects worth Ft100 million or more, and
- for projects serving to create new jobs, etc.

Tax credits may vary and may relate to several years. Most corporate tax credits apply only to a specific year and may not be carried forward. Whereas others are available for multiple years and it is up to the taxpayer how to use them.

### **Research & development (R&D)**

100% allowances are available for direct research and development (R&D) expenditure as a corporate tax base deduction. Amounts paid to other companies or individuals for R&D services and subsidised R&D expenditures cannot be deducted.

A taxpayer may utilise research and development tax credits in the tax year they put the relevant investment into operation or in the subsequent tax year and the following 9 years if the research and development project meets certain criteria.

### **Subsidies and grants**

Numerous subsidies and low-cost and guaranteed loans are available to ailing industries in Hungary or to overcome unemployment. They are usually granted by the Ministry of Finance or the Ministry of Agriculture and Country Development. Similar grants are available to new technology, environment protection, energy conservation, tourism, etc.

### **Tax incentives**

Hungary has direct tax incentives that reduce the tax payable as well as some corporate income tax base decreasing items. These include investment tax allowances, development tax allowances and allowances for small and medium sized enterprises.

Development tax incentives can reduce corporate income tax by up to 80%. To take advantage of development tax incentives, taxpayers must submit all required documentation to the Ministry of Finance before the investment begins. If granted, the incentive is available for 10 tax years (it can be applied for up to the 14th year from the year of filing the request).

Tax incentives – subject to certain conditions - are available for investments in the following sectors:

- environmental protection
- film and video production
- basic research, applied research or experimental development
- food hygiene
- free entrepreneurial zones

### Free entrepreneurial zones

Various tax incentives are available for companies established in a free entrepreneurial zone until 31 December 2027. The incentives include:

- a development tax allowance for companies investing over Ft100 million in a free entrepreneurial zone
- up to 100% depreciation for tangible assets used in a free entrepreneurial zone
- a vocational training allowance of up to Ft100,000 per month per new employee, and
- a 13% social security contribution tax allowance on monthly salaries of up to Ft100,000 in respect of contributions made for new employees. After 2 years, the allowance is reduced by 50% (ie to 6.5%). The incentive is available for 5 years from the date the company begins operations in a free entrepreneurial zone.

There are more than 1,000 free entrepreneurial zones, mostly in the counties of Bács Kiskun, Baranya, Borsod-Abaúj-Zemplén, Heves, Jász-Nagykun-Szolnok, Nógrád, Somogy and Szabolcs-Szatmár-Bereg.

### 25- HAS HUNGARY SIGNED BILATERAL TAX AGREEMENTS WITH OTHER COUNTRIES? TABLE OF WITHHOLDING TAXES

Hungary has concluded tax treaties with a number of countries which specify the withholding tax rates that apply. Non-treaty withholding tax rates apply when they are lower than the rate specified in the treaty. There is no Hungarian withholding tax on dividends, interest or royalties paid to non-residents. Therefore the following rates of Hungarian withholding tax apply to non-resident entities:

	<i>Dividends</i>	<i>Interest</i>	<i>Royalties</i>
	<i>%</i>	<i>%</i>	<i>%</i>
<i>Non-treaty countries</i>	0	0	0
<i>Treaty countries</i>			
Albania	0	0	0
Armenia	0	0	0
Australia	0	0	0
Austria	0	0	0
Azerbaijan	0	0	0
Bahrain	0	0	0
Belarus	0	0	0
Belgium	0	0	0
Bosnia and Herzegovina	0	0	0
Brazil	0	0	0
Bulgaria	0	0	0
Canada	0	0	0
China	0	0	0
Croatia	0	0	0
Cyprus	0	0	0
Czech Republic	0	0	0
Denmark	0	0	0
Egypt	0	0	0
Estonia	0	0	0
Finland	0	0	0
France	0	0	0
Georgia	0	0	0
Germany	0	0	0
Greece	0	0	0
Hong Kong	0	0	0
Iceland	0	0	0
India	0	0	0
Indonesia	0	0	0
Iran	0	0	0
Iraq	0	0	0
Ireland	0	0	0
Israel	0	0	0
Italy	0	0	0
Japan	0	0	0
Kazakhstan	0	0	0
Korea	0	0	0
Kosovo	0	0	0
Kuwait	0	0	0
Kyrgyzstan	0	0	0
Latvia	0	0	0
Liechtenstein	0	0	0

Lithuania	0	0	0
Luxembourg	0	0	0
Macedonia	0	0	0
Malaysia	0	0	0
Malta	0	0	0
Mexico	0	0	0
Moldova	0	0	0
Mongolia	0	0	0
Montenegro	0	0	0
Morocco	0	0	0
Netherlands	0	0	0
Norway	0	0	0
Oman	0	0	0
Pakistan	0	0	0
Philippines	0	0	0
Poland	0	0	0
Portugal	0	0	0
Qatar	0	0	0
Romania	0	0	0
Russia	0	0	0
San Marino	0	0	0
Saudi Arabia	0	0	0
Serbia	0	0	0
Singapore	0	0	0
Slovakia	0	0	0
Slovenia	0	0	0
South Africa	0	0	0
Spain	0	0	0
Sweden	0	0	0
Switzerland	0	0	0
Taiwan	0	0	0
Thailand	0	0	0
Tunisia	0	0	0
Turkey	0	0	0
Turkmenistan	0	0	0
Ukraine	0	0	0
United Arab Emirates	0	0	0
United Kingdom	0	0	0
United States of America	0	0	0
Uruguay	0	0	0
Uzbekistan	0	0	0
Vietnam	0	0	0

Hungary has signed the following TIEAs based on the OECD model convention with Guernsey, Jersey and Kazakhstan.