

## Tax system in Hungary

## DOUBLE TAXATION AGREEMENTS

### Double taxation agreements

The right to taxation in the event of sale of interests in property companies is subject to differing provisions. In accordance with the OECD Model Agreement, for those countries for which there is a “yes” in the real estate clause column the right to taxation in the case of share deals lies not with the country of residence of the vendor but with the country in which the property is situated.

Country	Effective date	Real estate clause	Dividends %	Interest %	Royalties %
Albania	24.08.1995	no	5/10	0	5
Australia	10.04.1992	yes	15	10	10
Austria	09.02.1976	no	10	0	0
Armenia	25.02.2010	yes	5/10	10	5
Azerbaijan	13.12.2008	yes	8	8	8
Bahrein	19.06.2015	yes	0/5	0	0
Belarus	24.06.2004	no	5/15	5	5
Belgium	18.04.1984	no	10	15	0
Bosnia and Herzegovina	01.01.2003	no	10	0	10

Country	Effective date	Real estate clause	Dividends %	Interest %	Royalties %
Brazil	22.05.1992	no	15	10/15	15/15
Bulgaria	07.09.1995	no	10	10	10
Canada	16.04.1996	yes	5/10	10	10
China	31.12.1994	yes	10	10	10
Croatia	07.06.1998	no	5/10	0	0
Cyprus	24.09.1982	no	5/15	10	0
Czech Republic	27.12.1994	no	5/15	0	10
Denmark	04.07.2011	yes	15	0	0
Egypt	22.05.1994	yes	15/20	15	15

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Country	Effective date	Real estate clause	Dividends %	Interest %	Royalties %
Estonia	05.07.2004	no	5/15	10	0
Finland	25.10.1978	yes	5/15	0	0/5
France	28.04.1980	no	5/15	0	0
Georgia	20.03.2012	yes	5	0	0
Germany	30.12.2011	yes	5/15	0	0
Greece	01.01.1986	no	10/45	10	0/10
Hongkong	29.11.2010	yes	5/10	5	5
Iceland	01.01.2006	yes	5/10	0	10
India	01.01.2006	yes	10	10	10

Country	Effective date	Real estate clause	Dividends %	Interest %	Royalties %
Indonesia	04.02.1993	no	15	15	15
Iran	30.12.2016	yes	0	5	5
Ireland	05.12.1996	yes	5/15	0	0
Israel	13.11.1992	no	5/15	0	0
Italy	16.05.1977	no	10	0	0
Japan	13.02.1980	no	10	10	0/10
Kazakhstan	03.03.1996	yes	5/15	10	10
Korea	29.03.1989	no	5/10	0	0
Kosovo	12.03.2014	yes	0/5	0	0

Country	Effective date	Real estate clause	Dividends %	Interest %	Royalties %
Kuwait	21.12.1994	yes	0	0	10
Latvia	24.12.2004	yes	5/10	10	5/10
Liechtenstein	24.12.2015	yes	0/10	0	0
Lithuania	24.12.2004	yes	5/15	10	5/10
Luxembourg	26.01.2017	yes	0/10	0	0
Macedonia	12.11.2002	no	5/15	0	0
Malaysia	25.12.1992	no	10	15	15
Malta	29.11.1992	yes	5/15	10	10
Mexico	03.11.2011	yes	5/15	10	10

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Country	Effective date	Real estate clause	Dividends %	Interest %	Royalties %
Moldova	16.08.1996	no	5/15	10	0
Mongolia	14.04.1998	no	5/15	10	5
Morocco	20.08.2000	no	12		10
Montenegro	01.01.2003	no	5/15	10	10
Netherlands	18.08.1987	no	5/15	0	0
Norway	01.01.1982	no	10	0	0
Oman	18.03.2017	yes	0/10	0	8
Pakistan	06.02.1994	yes	15/20	15	15
Philippines	07.02.1998	yes	15/20	15	15

Country	Effective date	Real estate clause	Dividends %	Interest %	Royalties %
Poland	08.08.1995	no	10	10	10
Portugal	28.01.1999	no	10/15	10	10
Qatar	20.03.2012	yes	5	0	5
Romania	15.09.1995	no	5/15	15	10
Russia	03.11.1997	no	10	0	0
San Marino	29.11.2010	yes	5/15	0	0
Saudi Arabia	01.05.2015	yes	5	0	5/8
Serbia	01.01.2003	no	5/15	10	10
Singapore	18.02.1998	no	5/10	5	5

Country	Effective date	Real estate clause	Dividends %	Interest %	Royalties %
Slovakia	21.12.1995	no	5/15	0	10
Slovenia	01.01.2006	yes	5/15	5	5
South Africa	05.05.1996	no	5/15	0	0
Spain	10.03.1988	no	5/15	0	0
Sweden	01.01.1983	yes	5/15	0	0
Switzerland	09.11.2014	yes	0/5	0	0
Tunisia	19.07.1997	no	10/12	12	12
Thailand	11.10.1989	yes	15/20	10/25	15
Turkey	09.09.1995	no	10/15	10	10

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Country	Effective date	Real estate clause	Dividends %	Interest %	Royalties %
Turkmenistan	19.11.2016	yes	5/15	10	10
Ukraine	24.06.1996	yes	5/15	10	5
United Arab Emirates	04.10.2014	yes	0	0	0
United Kingdom	13.11.2011	yes	10/15	0	0
Uruguay	13.08.1993	no	15	15	15
USA	01.01.1980	yes	5/15	0	0
Uzbekistan	13.12.2008	yes	10	10	10
Vietnam	30.06.1995	yes	10	10	10

## TYPES OF ORGANISATIONS

### Types of organisation

	Name in local language	Registrable in commercial register / legal entity	Minimum capital	Sole-shareholder company
<b>Limited liability company</b>	Korlátolt Felelősségű Társaság (Kft.)	yes / yes	HUF 3,000,000 (EUR 7,500), HUF 100,000 (EUR 250) per shareholder	yes
<b>Stock company public</b>	Nyilvánosan Működő Részvénytársaság (Nyrt.)	yes / yes	HUF 20,000,000 (EUR 50,000) for public	yes
<b>Stock company private</b>	Zártkörűen Működő Részvénytársaság (Zrt.)	yes / yes	HUF 5,000,000 (EUR 12,500) for private	yes
<b>Cooperative</b>	Szövetkezet	yes / yes	no	no
<b>General partnership</b>	Közkereseti Társaság (Kkt.)	yes / yes	no	no
<b>Limited partnership</b>	Betéti Társaság (Bt.)	yes / yes	no	no
<b>Registered branch office</b>	Fióktelep	yes / no	no	n / a
<b>Permanent establishment</b>	Telephely	no / no	no	n / a

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	<i>Capital tax / registration fees</i>	<i>Written form / Notarisation or counter-signature by lawyer</i>	<i>Tax transparency</i>	<i>Registration with tax authorities</i>	<i>Statutory audit (revenues more than HUF 300 million (EUR 855,000), resp. number of employees &gt; 50)</i>
<b>Limited liability company</b>	- / registration in commercial register, changes in commercial register entries	yes / yes	no	yes	Where revenues exceed HUF 300 million (EUR 750,000), resp. number of employees > 50
<b>Stock company</b>	- / registration in commercial register, changes in commercial register entries	yes / yes	no	yes	Where revenues exceed HUF 300 million (EUR 750,000), resp. number of employees > 50
<b>Cooperative</b>	- / registration in commercial register, changes in commercial register entries	yes / yes	no	yes	Where revenues exceed HUF 300 million (EUR 750,000), resp. number of employees > 50
<b>General partnership</b>	- / registration in commercial register, changes in commercial register entries	yes / yes	no	yes	Where revenues exceed HUF 300 million (EUR 750,000), resp. number of employees > 50
<b>Limited partnership</b>	- / registration in commercial register, changes in commercial register entries	yes / yes	no	yes	Where revenues exceed HUF 300 million (EUR 750,000), resp. number of employees > 50
<b>Registered branch office</b>	- / registration in commercial register, changes in commercial register entries	yes / yes	n / a	yes	obligatory
<b>Permanent establishment</b>	- / -	- / -	n / a	yes	no

Exchange rate: EUR 1 = HUF 400 (rounded)

## MERGERS & ACQUISITIONS

### Financing

#### Financial assistance by the subsidiary

Financial assistance is prohibited in Hungary in the case of Stock Corporations. For limited liability companies there is no regulation.

#### Subordinate debt (mezzanine capital)

The use of subordinate debt is allowed.

#### Interest expense for acquisition financing

Interest on debt used for purchase of a share in a subsidiary is tax deductible in the parent company.

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### **Interest expense on subordinate debt (mezzanine capital)**

Currently, there is no special legal regulation in Hungary regulating interest on subordinate debt.

## **EU interest barrier**

Deductible provided the investment constitutes assets of the business. Part of net financing costs exceeding the higher from 30% of the EBITDA (earnings before interests, tax, depreciations and amortisation of the tax year) or HUF 939,810,000 (approx. EUR 2,35 million) is not deductible.

## **Squeeze-out options**

### **Buy-out of minority shareholders ("squeeze-out")**

No squeeze out option exists.

## **Capital gains - corporations**

### **Sale of shares in a joint stock corporation**

The gain on the sale of shares in a joint stock corporation is taxable income.

### **Sale of shares in a limited liability company**

The gain on the sale of shares in a limited liability company is taxable income.

### **Sale of interest in a partnership**

The gain on the sale of ownership interest in a general partnership and in a limited partnership is taxable income.

### **International participation exemption**

Disclosed investment:

Since 1 January 2007, the acquisition of 10 % or more of the shares of a Hungarian company or foreign company can be disclosed to fiscal authorities within 75 days.

Capital gains/losses on the sale of such disclosed investments 1 or more years after the acquisition are tax neutral (neither taxable nor tax deductible).

## **Sale of business**

### **Definition**

Sale of the business is possible. The component parts of the business are tangible and intangible assets, liabilities and employees.

### **Valuation**

If the purchase price is higher than the value of the business as determined on the basis of the fair value of individually valued assets, a goodwill is created.

### **Goodwill**

Amortisation in financial accounts is possible if the value of goodwill continually decreases from year to year. For tax purposes 10 % amortisation per year is acknowledged.

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## Mergers and demergers

### Types of mergers described by commercial law

Upstream merger, side-stream merger, takeover of assets by main shareholder

### Valuation

Revaluation in financial accounting is optional. Possible in the case of companies which are terminated in the course of the merger.

### Valuation in financial accounting

Assets are recorded at fair value, liabilities remain at book values, and the remaining difference is recorded as capital reserve within the equity of the successor company.

### Goodwill amortization

N/A

### Tax consequences

Revaluation of assets is basically taxable, thereafter the basis for tax depreciation is the revalued amount.

Preferential merger: revaluation difference is not taxable, but is also not the basis for tax depreciation.

## Contributions (transfer of assets to the capital of a company)

### Contribution in kind

The shareholder may contribute assets to the registered capital of the company and the amount of contribution shall be determined by the fair value of the assets as agreed between the shareholder and the company. The contributor guarantees the agreed value. An expert opinion is voluntary. Tax losses cannot be transferred.

### Tax treatment

The difference between net book value and fair value of the contributed assets is taxable.

### Goodwill amortization

N/A

## VAT

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### Tax rates

Standard rate: 27 %

Reduced rate 5 %, e.g. for

- supply of pharmaceuticals
- supply of books
- district heating supply of meat, eggs, milk
- accommodation residential properties if sold within 2 years as of occupancy permit

Reduced rate 18 %, e.g. for

- supply of milk products, of products manufactured using flour and milk

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## Supply of goods

Supply of goods and withdrawal for private use (self supply) are taxable.

### Place of supply of goods

Principally the place where the item is located at the time disposal is transferred (static supply).

In case of dispatch/transportation by the supplier or purchaser: the place where dispatch/ transportation begins (moving supply).

Importation from third country: If the supplier owes the import VAT – import country

In case of transportation by ship, airplane, railroad within the EU: the place of dispatch

Special provisions for chain and triangular transactions

## Supply of services

Supply of services and private use / supply of services without consideration (self-supply) are taxable

### Place of supply of services

From 1 January 2010 a differentiation is made between services rendered

- to taxable persons ("Business to Business", "B2B") or
- to non-taxable persons ("Business to Customer", "B2C").

For purposes of determining the place of the supply of services,

- taxable persons and
- non-taxable legal entities holding a VAT registration number will be considered as "taxable persons".

### Basic rule

B2B	B2C
Place of recipient  (The place where the recipient of services has established his business)	Place of supplier  (The place where the supplier of services has established his business)

### Special cases

	B2B	B2C
Supplies of services by intermediaries	Place of recipient (basic rule)	Place of the underlying transaction
Property services	Place of the property	Place of the property
Cultural, artistic, scientific, educational, sports, entertainment or similar services, like services in connection with fairs and exhibitions including services of the respective organizers	Place of recipient (basic rule)	Where the services are physically carried out
Other services concerning the right of admission and related other services for events like fairs and exhibitions	Place of recipient (basic rule)	Where the services are physically carried out
Passenger transport	Distances covered	Distances covered
Transportation of goods (without intra-community portion)	Place of recipient (basic rule)	Distances covered
Intra-community goods transportation	Place of recipient (basic rule)	Place of departure of the transport

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	<b>B2B</b>	<b>B2C</b>
Ancillary transport services	Place of recipient (basic rule)	Where the services are physically carried out
Appraisal and processing of movable tangible objects	Place of recipient (basic rule)	Where the services are physically carried out
Restaurant and catering services	Where the services are physically carried out	Where the services are physically carried out
Restaurant and catering services in connection with intra-community passenger transport	Place of departure	Place of departure
Hiring of means of conveyance for up to 30 days	Where the means of transport is actually put at the disposal of the customer	Where the means of transport is actually put at the disposal of the customer
Hiring of means of conveyance for over 30 days	Place of recipient (basic rule)	Where non-taxable person is established Special regulations for hiring pleasure boats
"Listed services" to third country recipients	Place of recipient (basic rule)	Where non-taxable person is established
Telecommunication, broadcasting and electronically supplied services	Place of recipient (basic rule)	Where non-taxable person is established

## Mini-One-Stop-Shop (MOSS) / One-Stop-Shop (OSS)

Currently taxable persons from an EU member state or third country – who provide electronically supplied services, telecom, radio and TV services to consumers within the EU – can, subject to certain conditions, make use of simplifications within the MOSS system. The taxable person will thereby only be registered for VAT purposes in the member state where the headquarters of the economic activity and/or the permanent establishment are located.

As of July 1, 2021 a registration in the country of destination is not required anymore for the following services, because sales can be declared in one member state of the EU via the One-Stop-Shop (OSS) and VAT can be paid in a centralized way:

- B2C services
- Supplies to consumers: turnover threshold is eliminated (exception for micro-businesses).
- Import: Tax exemption for imports from goods with value < EUR 22 is eliminated; Import One-Stop-Shop (IOSS) is applicable for imports to consumers for goods with value < EUR 150
- Platforms: certain platforms are treated as if they delivered the goods by themselves (notional delivery); platform may become a tax debtor

## Reverse Charge (reversal of tax liability)

For all supplies of services and work supply Special regulation (among others) for building services

### Requirements

The supplier of the service has no domestic domicile or habitual abode, nor a domestic permanent establishment involved in supplying the service

The recipient of the supply of services is a taxable person registered in Hungary (even for non-taxable activities)

### Consequences

Invoice without VAT, indication of the reverse charge, VAT registration numbers of the supplier and the recipient

The recipient owes the VAT.

### Special regulations

Apply to Hungarian construction services, among others, and areas susceptible to fraud (e.g. hiring out of labour, cereals, metal products, scraps)

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## Tax reliefs

Important differentiation concerning input VAT deduction

### **Exemption (Input VAT deductible even though no VAT chargeable on supply of goods and services)**

- Exports of goods
- Subcontracting
- Cross-border goods transportation
- Cross-border passenger transport by boat and aircraft
- Mediation of the above transactions

### **Zero rates ("Non-genuine" tax exemption) (Input VAT is not deductible)**

- Sales of banks, insurance companies and pension funds
- Property sales (the supplier can opt for tax liability)
- Tax-free renting of property
- Sales of doctors, dentists etc.

## Deductible input VAT

For VAT invoiced to the business for the supply of goods and services

Generally no deduction of input VAT with respect to:

- supply of personal car, yacht, motor, residential property, food, drink
- supply of services regarding transport (taxi, parking), construction and renovation of residential property, catering and entertainment

## Input VAT correction

In case of fixed assets: If the circumstances which have been relevant for the input VAT deduction change subsequently, a corresponding positive or negative input VAT correction must be made.

As a general rule, the observation period for input VAT correction is 60 months. The observation period for input VAT correction related to properties is generally 240 months.

## Real Estate

### **Rentals**

Renting of immovable property is VAT exempt; the lessor can opt for tax liability

### **Sales**

Revenues from the sale of real property are VAT exempt; the seller can opt for tax liability (27 %).

### **Exception:**

Sale of building lots and of land with buildings without permit of use or with permit of use younger than 2 years is always taxable.

## Refund of input VAT for Hungarian taxable persons within the EU

Electronic application to be made by the Hungarian taxable person at its competent Hungarian tax office at the latest by 30 September of the following year. Separate applications are required for each member state.

Filing of original invoices is only necessary if required by fiscal authorities of the respective member state.

Minimum amount of refundable input VAT: EUR 400 (EUR 50 if the refund period coincides with the calendar year).

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## Foreign taxable persons

Taxable persons without domicile or permanent establishment in Hungary.

### Registration

Registration required if sales are effectuated in Hungary.

### Refund of input VAT for taxable persons domiciled in the EU

If no sales are made in Hungary, electronic application at the competent tax office in the EU member state (originating country) of the taxable person.

### Refund of input VAT for taxable persons not domiciled in the EU

If no sales are made in Hungary, refund has to be applied for by September 30 of the following year at the latest. Official form, invoices to be submitted. Minimum input VAT refundable: EUR 400 (EUR 50 if the refund period coincides with the calendar year). Only for countries Hungary has a bilateral treaty with.

## GENERAL MANAGERS

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### Civil law

Contracts for services / employment contract

### Social insurance

Subject to social insurance

### Income tax

Income tax on wages and salaries, including all payroll-related costs

### VAT

No VAT

### Work permit

Not required

### Residence permit / settlement permit

Not required

### Liability

In case of negligence, e.g., with respect to employer's taxes, or delay in declaring insolvency.

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## Minimum remuneration

None

## SOCIAL INSURANCE AND NON-WAGE LABOR COST

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### Social insurance

Statutory health, accident and pension insurance for all gainfully employed persons (covers benefits in kind and in cash)

### Contribution rates and maximum contribution

Contribution rates are fixed, no contribution ceiling for pension insurance

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Contribution rates are fixed, no contribution ceiling for pension insurance

### Self-employed persons

#### Health Insurance

Included in 13 % social contribution tax and 18,5 % social insurance contribution (not split)

#### Pension insurance

Included in 13 % social contribution tax and 18,5 % social insurance contribution (not split)

#### Obligatory pension fund

Included in 13 % social contribution tax and 18,5 % social insurance contribution (not split)

#### Accident insurance

Included in 13 % social contribution tax and 18,5 % social insurance contribution (not split)

#### Maximum contributions

No limit

### Employed persons

#### Health and accident insurance

Included in 13 % social contribution tax and 18,5 % social insurance contribution (not split)

#### Pension insurance

Included in 13 % social contribution tax and 18,5 % social insurance contribution (not split)

#### Maximum contributions

No limit

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**Others**

None

**Severance fund**

None

**Non-wage labor costs**

If the number of employees exceeds 25 and the number of the disabled employees is less than 5 %, the employer shall pay disability contribution.

Disability contribution is HUF 2 088 000 / employee, payable on the basis of the percentage of disabled employees to work who are absent.

## IMMOVABLE PROPERTY

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**Tax depreciation****Straight-line**

Straight-line, using the rates prescribed in Corpo- rate Income Tax Act 1996 No. LXXXI, recognising depreciation under commercial law

**Additional**

Of rights (also in connection with real estate), where as a result of contractual changes the rights can no longer be successfully asserted

On property, plant and equipment, in the event of physical damage as a result of "force majeure"

**Depreciation categories****Land**

No depreciation

**Buildings****Durable construction**

2 % (concrete, reinforced concrete, brick, etc.)

**Medium-life construction**

3 % (light steel and other metals, etc.)

**Lightweight construction**

6 % (planks, etc.)

**Rental property**

5%

**Tax base for buildings**

Acquisition and construction costs as defined in accounting law

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## Special depreciation

None

## Write-ups

None

## Real estate income tax

### Objects of taxation

Capital gains from the sale of real estate property or the reation, sale and termination of rights in immovables by individuals

### Tax rate

15%

### Tax Collection

declared and paid with the individual's annual personal income tax return

### Exemptions

The income from the sale of real estate property or rights in immovables is determined after the deduction of costs in the following percentages:

- 100 per cent of the calculated amount in the year of acquisition and in the following year,
- 90 per cent of the calculated amount in the second year following the year of acquisition,
- 60 per cent of the calculated amount in the third year following the year of acquisition,
- 30 per cent of the calculated amount in the fourth year following the year of acquisition,
- 0 per cent of the calculated amount in the fifth year following the year of acquisition and in subsequent years.

## Property transfer tax

### Objects of taxation

Acquisition of Hungarian real estate for consideration (transactions between associated parties may be tax exempt)

under certain circumstances acquisition of invest- ments in a company owning real estate located in Hungary (transactions between associated parties may be tax exempt)

under certain circumstances in connection with reorganisations of a company owning real estate located in Hungary (exception: under certain circumstances tax advantaged reorganisation)

Sale of Hungarian real estate reclassified from outer area into inner area within the 10 year period before sale might be subject to real estate transfer tax

### Basis of assessment

Market value in case acquisition

Value increase in case of sale of reclassified real estate

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**Tax rate**

Acquisition: for commercial buildings 4 % up to a fair value of HUF 1 billion (EUR 2.85 million), 2 % for exceeding amounts, maximum tax is HUF 200 million

(EUR 500,000)

reductions for residential property

Sale of reclassified real estate: 90% for the difference between market value as of sale and as of acquisition

**Property relatex tax****Property tax**

(land tax, buildings tax)

**Object of taxation**

Basis of assessment : Local government authorities decide between:

1. Area in m2
2. Market value

Amount of tax: Either an amount per m2 or a percentage tax rate, as determined by local government authorities; the statutory maximum amount or maximum tax may not be exceeded

Ceiling:

Land:

HUF 200 / m2 + Hungarian Official Consumer Price Index from 2003 or 3.0 % of the adjusted market value

Buildings:

HUF 1,100 / m2 + Hungarian Official Consumer Price Index from 2003 or 3.6 % of the adjusted market value

**Real estate funds****Owner of the fund assets**

The fund company, so that for the investor there is no entry in the Property Register and no property transfer tax.

**Valuation**

3/6-monthly valuation by expert.

**Borrowing**

Maximum permissible 60 %.

**Diversification of risk**

Value of any individual property not to exceed 20/30 % of total fund assets.

15 % of the fund assets: cash, securities.

**Taxation**

15 % if fund shares are owned by a private investor 9 % if the investor is subject to corporate income tax.

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## TAX CONCESSIONS

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### Direct

None

### Indirect

#### Income tax concessions, e.g.

None

#### Tax credits

##### Family Bonus Plus:

N/A

##### Children surplus:

N/A

##### Sole earner deduction pa. :

N/A

##### Single parent deduction pa.:

N/A

##### Child deduction:

N/A

##### Alimony deduction:

Families can reduce their tax base monthly by a family allowance per child:

- with 1 child: HUF 66,670 (EUR 167)
- with 2 children: HUF 133,330 (EUR 333)
- with 3 or more children: HUF 220,000 (EUR 550)

##### If in employment / pension income p.a.:

N/A

#### Allowances and exemptions

##### Profit allowance:

None

##### Investment allowance:

The development tax allowance can be claimed as a tax retention from the calculated corporate tax, up to a maximum of 80 percent of the calculated corporate tax, for the investments defined by law.

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## Government subsidies

Government grants for the creation of new jobs

Investment grants

## OTHER TAXES

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### Business tax

Maximum of 2 % (depending on the municipality)

### Wealth tax

No

### Inheritance and gift tax

General tax rate 18%

### Property transfer tax

Tax rate is 4% up to the market value of HUF 1 billion, 2% for the exceeding part, the maximum tax amount is HUF 200 million per real estate property.

### Capital duties and fees

#### Contract duties

None

#### Registration fees

HUF 6.600 (EUR 16.5) / real property

#### Capital duty

Set-up duty defined by law depending on legal form of entity, amendment of registered capital 40% of set-up duty.

## FILING DATES AND DEADLINES

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### Annual tax returns

Income tax returns: 20 May of the following year

Corporate income tax returns: 31 May of the following year

VAT Returns: 25th February of the following year (annual filing period)

### VAT interim returns

20th of the month following the month of assessment, or quarterly (monthly or quarterly filing)

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## European Sales Listing

By the last day of the month following the period of assessment (month or quarter)

## INCOME TAXES

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### Tax rate

Generally at the rate of 15 %

### Tax-free allowance

None

### Tax liability

#### Unlimited

on worldwide income (except where DTA restricts the right to assess tax): Natural persons with their residence, habitual abode or vital interests in Hungary

#### Limited

on certain income in Hungary: Natural persons, who have neither their residence nor their habitual abode in Hungary, on certain Hungarian income

### Tax assessment period

Calendar year

### Income categories

1. Income from self-employment
2. Income from employment
3. Other income
4. Income of sole proprietors
5. Gains on transfer of property
6. Capital gains
7. Benefits in kind
8. Income from securities trading
9. Other income (e.g., rent)

### Accounting

None

Sole proprietors: receipts and payments accounting

### Loss set-offs

None

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## Loss carryback

None

## Loss carryforwards

None

## Operating expenses

Expenses of the business

## Tax allowable expenses

Expenses for acquiring, securing or maintaining the revenue of the business

## Lump sum option

One-man businesses with annual income of less than HUF 27 840 000 (EUR 69,600): flat rate deduction for business expenses

## Motor vehicles

Deduction of actual costs or rate per kilometre

## Social insurance

Non deductible

## Withholding tax

Withholding tax on income calculated using tax table is generally at the rate of 15 %

### Interest

15 %, or as reduced by the applicable DTA

### Royalties

15 %, or as reduced by the applicable DTA

### Dividends

15 %, or as reduced by the applicable DTA

## CORPORATE INCOME TAXES

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### Object of taxation

Income

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## Tax rate

9 %

Minimum corporate income tax base:

If the taxable income is not at least 2 % of total revenues, then the basis of assessment will be the second amount, unless the taxpayer submits a report about the reasons to the tax authorities.

## Tax liability

### Unlimited

Corporations resident or managed in Hungary

### Limited

Foreign corporations neither resident nor managed in Hungary, on their Hungarian income from Hungarian permanent establishments.

Foreign corporations with their income from sale of investments (including capital reductions) in real estate companies (owning real estate located in Hungary), if Hungary does not have a DTA with the state in which the foreign corporation is resident or if the DTA assigns the taxation right for such income to Hungary.

## Financial year

Calendar year; different financial year possible, but must be reported to the tax office in writing.

## Accounting

Generally, double-entry bookkeeping in accordance with accounting law.

## Loss carryback

Not possible

## Loss carryforwards

Losses can be carried forward for the next 5 years. Restrictions in case of reorganization:

If a shareholder obtains a majority in a legal successor, loss carryforwards of the legal predecessor can not be forwarded to the legal successor, if the majority shareholder did not have a dominating influence in the legal predecessor or the legal successor will not continue the business activity of the legal predecessor.

Restrictions in case of change of shareholder: Loss carryforwards may get lost if a new share- holder gains a major influence which he (or one of his related companies) has not had during the last two (tax) years.

No loss carrybacks

## Shell company purchase

Under certain circumstances, loss carryforwards may be lost in case of acquisition of shares and restructuring

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## Operating expenses

Expenses of the business

### Transfer prices

Arm's-length basis

### Interest on debt financing of acquisition of shares

Generally deductible

### Debt/Equity

No legally defined limits, administration: a certain equity ratio must exist, borrowing must be on normal market terms and conditions. The interest barrier rule is in force since January 1, 2019 (see also chapter Mergers & Acquisitions)

### Tax depreciation

Depreciation methods: straight-line

Each type of asset is assigned its particular rate of depreciation by law

Depreciation on a daily basis

Additional depreciation for extraordinary wear and tear or loss of useful value.

### Provisions

Not allowable for tax purposes

### Motor vehicle expenses

Deductible provided the vehicle constitutes assets of the business.

No input VAT on fuel of cars.

## Non-deductible expenses

Bribes and inducements

Personal taxes and VAT on non-deductible expenses

Expenses relating to non-taxable income

Expenses relating to time barred claims

## Interest barrier

Part of net financing costs exceeding the higher from 30% of the EBITDA (earnings before interests, tax, depreciations and amortisation of the tax year) or HUF 939,810,000 (approx. EUR 2,35 million) is not deductible.

## Interest and royalties to intra-group companies

Generally deductible.

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## Withholding tax

No withholding tax for dividends paid to corporations

### Interest

0%

### Royalties

0%

### Dividends

0%

## Controlled foreign corporation (CFC) rules

Taxation of certain income of foreign corporations/permanent establishments at the level of the controlling Hungarian corporation. The CFC rules will not apply if the controlled foreign company performs a substantial economic activity.

Requirements:

- Control of the foreign entity
- The profit before tax is higher than HUF 244m or profit from passive activity is higher than HUF 24m and profit before tax is higher than 10% of costs and expenses
- The effective taxation of the foreign entity in the foreign country is 4.5% or less

## Hybrid mismatches

Mismatches which, due to differing fiscal recognition methods, lead to a different tax treatment in different countries and may under certain circumstances lead to profit shifting or profit reduction must be neutralized, i.e. as a rule, the related expenses are treated as non-tax-deductible.

## National parent- subsidiary exemption

The acquisition of the shares of a Hungarian or foreign company may be disclosed to fiscal authorities within 75 days. Capital gains/losses on the sale of disclosed investments 1 or more years after date of acquisition are tax neutral (neither taxable nor tax deductible).

## International investments

The acquisition of the shares of a Hungarian or foreign company may be disclosed to fiscal authorities within 75 days. Capital gains/losses on the sale of disclosed investments 1 or more years after date of acquisition are tax neutral (neither taxable nor tax deductible).

## International parent- subsidiary exemption and portfolio investments

The acquisition of the shares of a Hungarian or foreign company may be disclosed to fiscal authorities within 75 days. Capital gains/losses on the sale of disclosed investments 1 or more years after date of acquisition are tax neutral (neither taxable nor tax deductible).

## Goodwill amortisation

Asset deal: Recognition of goodwill possible on acquisition of business.

Share deal: not available

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## Group taxation / pooling

### Tax Group

Yes

Corporate income tax payers linked by a direct or indirect participation of at least 75% in each other or by that of a third party can under specified circumstances constitute a group for tax purposes.

The sum of tax losses of tax group members with negative tax base can be deducted up to 50% of the sum of tax bases of tax group members with positive tax bases in the year of occurrence. Not used tax losses can be carried forward for 5 years.

The interest deduction restriction of HUF 940 million applies at group level.

The CIT Group is considered one taxpayer in terms of tax incentives.

For transaction between members of a tax group the transfer pricing provisions are not applicable basically.

### Pooling

No pooling possible

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