HUNGARY: 10% TAX RATE

The main intention of the present booklet is to provide a brief guide to foreign individuals, entrepreneurs or corporations considering to establish a company in Hungary.

1- HUNGARY CORPORATE FEATURES

GENERAL		
Type of Company	KFT	RT
Political Stability	Good	
Type of Law	Civil	
Disclosure of Beneficial Owner	No	
Corporate taxation	10% up to a tax base of HUF 500 million; 19% on the tax base exceeding HUF 500 million	
Language of Name	Hungarian (English version can also be registered)	
CORPORATE REQUIREMENTS		
Minimum Number of Shareholders	One	One
Minimum Number of Directors	One	One
Corporate Directors Permitted	No	No
Company Secretary Required	No	No
Minimum Authorised Share Capital	HUF 500,000	HUF 5,000,000
LOCAL REQUIREMENTS		
Registered Office/Agent	Yes	Yes
Local Directors	No, but advisable	No, but advisable
Director's Meeting	Anywhere, but advisable in Hungary	Anywhere, but advisable in Hungary
Government Registry of Directors	Yes	Yes
Government Registry of Shareholders	Yes	Yes/No
ANNUAL REQUIREMENTS		
Annual Return	Yes	Yes
Submit Accounts	Yes	Yes
RECURRING GOVERNMENT COSTS		
Minimum Annual Tax/License Fee	N/A	N/A
Annual Return Filing Fee	N/A	N/A

Note: Exchange rates on July 5th 2011:

1 USD = HUF 182,38

1 EUR = HUF 264,00

2- MOST COMMONLY USED BUSINESS ENTITIES

The most commonly used companies are the Limited Liability Company (KFT) and the Corporation (RT). Foreign companies are allowed to set up companies, branches and representative offices.

2.1 THE LIMITED LIABILITY COMPANY (KFT)

The Hungarian KFT gives limited liability to all of its members. KFT is an ideal company form if the number of members is low.

Directors and members of a KFT are considered to be public records accessible at the Court of Registry.

KFT can be established with a minimum registered capital of HUF 500,000 (app. EUR 1,800), of which at least 50 percent must be paid up at the time of incorporation. If a KFT is incorporated with only one member the whole amount of the registered capital shall be deposited and all contributions in kind must be put at the company's disposal by the member before applying for company registration. The remaining balance must be paid in 365 days. The company has no issued shares. The business shares of the members represent the ownership of the company. The nominal value of each business share is at least HUF 100,000 and must be divisible by HUF 10,000.

It is a statutory requirement that a KFT must have a bank account opened in a Hungarian financial institution.

Statutory audit is required for a KFT unless the average net sales revenues and the average number of employees have not exceeded HUF 100 million and 50 people respectively in the past two years preceding the business year. In case of a newly incorporated KFT the estimated sales revenues for the first business year has to be taken into account.

A KFT must have at least one director who can only be a natural person. Annual General Meeting shall be held at least once in a business year but no personal attendance is required.

2.2 THE CORPORATION (RT)

The Hungarian Corporation is not used as often as a KFT, although large scale foreign investments are typically channelled through an RT.

It gives limited liability to all of its shareholders, and it is well suited for cases where

The number of shareholders is high or shares will be listed in a Stock Exchange.

In case of private limited companies (Zrt) only directors are considered to be public records accessible at the Court of Registry. Shareholders of a Nyrt are not regarded as public records; directors are responsible for keeping records of shareholders. Information on shareholders is provided only at request of government organs by directors.

In case of public limited companies (Nyrt) both directors and shareholders qualify as public records accessible at the Court of Registry.

The minimum amount of share capital is HUF 5,000,000 (app. EUR 18,000), of which at least 25 percent must be paid up at the time of incorporation. The remaining balance must be paid in 365 days.

It is a statutory requirement that an RT must have a bank account open in a Hungarian financial institution.

Statutory audit is required for an RT where shares subscribed by the public, otherwise the same rules apply as for a KFT. If contribution-in-kind is provided, then it must be valued – taken into account internationally accepted transfer pricing principles - by an independent auditor other than the statutory auditor.

At the time of incorporation, an RT must appoint the Board of Directors and the Supervisory Board, with at least three natural persons as members in each Board, or may elect a General Director instead of the Board of Directors. Annual General Meeting shall be held at least once a business year, but no personal attendance is required.

The business share of an RT might be pledged with mortgage.

3- CORPORATE TAXATION

3.1 CORPORATE INCOME TAX

A two tier progressive corporate income tax system was introduced as of 1 September 2010 in Hungary. According to the new corporate income tax regime companies are obligated to pay income tax at a rate of 10% up to a tax base of HUF 500 million (app. EUR 1.8 million), and 19% on the excess amount of tax base.

As of 1 January 2013, the 19% bracket will be abolished and a flat 10% corporate income tax rate will be applicable.

3.1.1 Calculation of corporate income tax base

Hungarian resident companies are compelled to pay corporate income tax on their worldwide income. The corporate income tax base is the adjusted accounting profit. There are various items that are exempt from corporate income tax. The most important ones are as follows:

- 100% of dividend received except for dividend received from a CFC
- 100% of capital gain realized upon sale of "Declared Participation"[1] except for capital gain derived from the sale of shares held in a CFC
- 50% of inbound royalty (a cap of 50% of profit before tax is applicable)

3.1.2 Controlled Foreign Company (CFC)

A foreign company is deemed to be a CFC if:

- its effective tax burden (corporate income tax paid/corporate income tax base) is less than 10%, and
- Either a Hungarian resident individual holds directly or indirectly at least 10% of shares or voting rights of the foreign company, or the foreign company derives more than 50% of its revenues from Hungarian sources.

Exceptions:

A foreign company should not be regarded as a CFC if it produces zero or negative tax base and profit; and the nominal corporate income tax rate in the country of residence exceeds 10%.

A foreign company that is controlled during the given tax year in excess of 25% shareholdings by a company being listed on a qualified stock exchange (or by a company related to such a company) for at least five years is not considered to be a CFC. If a Hungarian company owns more than 30% of the share capital of a Hungarian or foreign company for a minimum of one year then capital gains realized on the sale of such shares are exempt of corporate income tax provided that the taxpayer declares purchase of such shares within 30 days of acquisition.

A foreign company does not qualify as a CFC if it is resident in a member state of the EU or OECD or in a double tax treaty country and conducts genuine business activity in that country.

It is considered to be a genuine business activity if the company and its related companies operating in the country of residence realize more than 50% of their aggregate revenues from production, assembly, agricultural, service providing, commercial or holding activities carried out with their own assets and employees (employment contract).

The Hungarian CFC legislation is primarily targeted to corporate structures having Hungarian resident beneficial owners. Nonetheless, a foreign company having nonHungarian resident beneficial owners but deriving their revenues mainly from Hungarian sources may also qualify as a CFC.

3.1.3 Withholding tax

As of 1 January 2011, there is no withholding tax in Hungary.

3.1.4 Avoidance of double taxation

Hungary has treaties on the avoidance of double taxation with some 60 countries. Hungary generally applies the credit method (imputation system) for the avoidance of double taxation. In absence of a double tax treaty Hungary still offers a credit up to 90% of foreign tax paid against Hungarian tax, which is limited in the average Hungarian tax burden calculated on the relevant foreign income.

3.2. LOCAL BUSINESS TAX

In addition to corporate income tax, Hungarian companies are obligated to pay local business tax imposed by municipalities where the company carries on its business activities. The actual rate of local business tax is to be set by the local municipality; however rate cannot exceed 2% according to the respective law. **It is important to mention that some municipalities (near Budapest) do not impose local business tax.**

The calculation method of local business tax base is different from that of corporate income tax. Local business tax is imposed on gross profit (net revenues less cost of goods sold, subcontractor fees, direct costs associated with R&D, etc.). However, inbound royalty, interest and dividend is exempt of local business tax.

3.3. INNOVATION CONTRIBUTION

The other type of small tax imposed on Hungarian companies is the innovation tax, at a rate of 0.3%. The calculation method of innovation tax is the same application as for local business tax. Accordingly, revenues derived from trading and services may bear innovation tax.

4- **VAT: 25 % (STANDARD RATE)**

For more information please feel free to contact us: info@trust4trust.com