

Hungary Country Profile

EU Tax Centre

June 2017

Key tax factors for efficient cross-border business and investment involving Hungary

EU Member State Yes

Double Tax Treaties With:

Albania	Denmark	Kazakhstan	Norway	Switzerland
Armenia	Egypt	Rep. of Korea	Pakistan	Taiwan
Australia	Estonia	Kosovo	Philippines	Thailand
Austria	Finland	Kuwait	Poland	Tunisia
Azerbaijan	France	Latvia	Portugal	Turkey
Bahrain	Georgia	Liechtenstein	Qatar	Turkmenistan
Belarus	Germany	Lithuania	Romania	UK
Belgium	Greece	Luxembourg	Russia	UAE
Bosnia & Herzegovina	Hong Kong	Macedonia	San Marino	Ukraine
Brazil	Iceland	Malaysia	Saudi Arabia	Uruguay
Bulgaria	India	Malta	Serbia	US
Canada	Indonesia	Mexico	Singapore	Uzbekistan
China	Iran	Moldova	Slovakia	Vietnam.
Croatia	Rep. of Ireland	Mongolia	Slovenia	
Cyprus	Israel	Montenegro	South Africa	
Czech Rep.	Italy	Morocco	Spain	
	Japan	Netherlands	Sweden	

Forms of doing business

Limited liability company (korlátolt felelősségű társaság), private limited corporation (zártkörűen működő részvénytársaság), public limited company (nyilvánosan működő részvénytársaság).

Legal entity capital requirements

Limited liability company - HUF 3,000,000 (approximately EUR 10,000),
Private limited company - HUF 5,000,000,
Public limited company - HUF 20,000,000.



Residence and tax system

A company is resident if it has been incorporated or has its place of management in Hungary. Resident companies are taxed on their worldwide income. Non-resident companies with a permanent establishment in Hungary are only subject to tax on their Hungarian source income.

Non-residents may be taxed on capital gains on the sale of Hungarian companies, including Hungarian real estate, and at the same rates as resident companies. However, DTTs may take precedence over this domestic legislation.

Compliance requirements for CIT purposes

A tax return (also including proposed advance tax payments) must be filed within five months following the end of the tax year. Advance tax payments must be paid monthly/quarterly with a top-up on the 20th of the last month of the financial year.

Financial year: calendar year or any other 12-month period in line with parent company.

Tax rate

The standard corporate income tax rate is 9 percent. There is a minimum tax base threshold of 2 percent of the total adjusted income, i.e. if neither the profit before tax nor the normally calculated tax base reaches this minimum tax base threshold, the taxpayer can opt either to pay the corporate tax based on the minimum threshold or to complete a form declaring that the income was a result of prudent management and business activities.

Local business tax is payable at a maximum of 2 percent on adjusted total trading turnover; it is deductible for corporate income tax purposes.

Withholding tax rates

On dividends paid to non-resident companies

WHT is not levied on dividend payments to non-resident companies (whether resident in a treaty or a non-treaty country).

On interest paid to non-resident companies

No WHT on interest payments.

On patent royalties and certain copyright royalties paid to non-resident companies

No WHT on royalty payments.

On fees for technical services

No

On other payments

Generally no. However, there could be capital gains tax on foreign shareholders selling Hungarian property-rich shares (certain thresholds apply in this respect). The CGT applies only where a treaty provides for it.



Branch withholding taxes

No

Holding rules

Dividend received from resident/non-resident subsidiaries

Dividends received are exempt unless received from a Controlled Foreign Company (CFC), or if tax deductible abroad.

Capital gains obtained from resident/non-resident subsidiaries

Exemption is available subject to certain conditions, unless obtained from investment in a CFC.

Tax losses

Tax losses incurred from 2015 may be carried forward for 5 years and can be offset against up to 50 percent of the tax base in any one year. Tax losses incurred in tax years starting in 2014 can be utilized by applying the rules in force as at December 31, 2014, i.e. until the end of the tax year beginning in 2025 at the latest.

Tax consolidation rules/Group relief rules

No, only for VAT purposes.

Registration duties

Only minimal registration fees at a fixed amount are due: HUF 600,000 (approximately EUR 2,000) for European Companies, HUF 100,000 (approximately EUR 340) for public and private limited companies and limited liability companies, HUF 50,000 (approximately EUR 172) for partnerships limited by shares and limited partnerships, HUF 30,000 (approximately EUR 117) for private companies, HUF 50,000 (approximately EUR 170) in the case of branches and commercial representatives. The duty is 40 percent of the abovementioned amount when increasing share capital.

Transfer duties

On the transfer of shares

On the transfer of shares (except in the case of shares in real estate companies stated below) and other assets: 0 percent.

On the transfer of land and buildings

On the transfer of real property or the shares of a company holding Hungarian real estate property: at a rate of 4 percent up to a value of HUF 1 billion and 2 percent on the value exceeding HUF 1 billion (capped at HUF 200 million per property). A reduced rate is applicable for residential properties.

Stamp duties

There is no standard rate. Financial Transaction Duty was introduced as of January 1, 2013. The tax base is generally the amount of payment in question. As of August 1, 2013 the default tax rate is 0.3 percent capped at HUF 6,000 for each payment, while cash withdrawals are taxed at a higher rate



of 0.6 percent without a cap.

The tax should be assessed and paid by the payment service provider/credit institution/special intermediary, to the tax authorities before the 20th day of the month following that in which the payment transaction was carried out.

Real estate taxes

4 percent up to HUF 1 billion per property (residential or for any other immovable property), 2 percent on the excess market value, capped at HUF 200 million per property.

Real property acquisition for commercial purposes: 2 percent.

Acquisition of real property by real estate leasing entities: 2 percent.

Asset acquisition of regulated property investment companies: 2 percent.

Controlled Foreign Company rules

New CFC rules have been introduced as of January 18, 2017, partly implementing the relevant provisions of the Anti Tax Avoidance Directive (ATAD). However, wider exemptions than those set out in the Directive are available.

Transfer pricing rules

General transfer pricing rules

OECD guidelines on transfer pricing are applicable. In practice, however, few tax offices have challenged to date. Following the introduction of new documentary requirements as of January 1, 2010, transfer pricing has become a more significant issue. Advance Pricing Agreements (APAs) are available.

Documentation requirement

Yes

Thin capitalization rules

A debt-to-equity ratio of 3:1 applies to both domestic and cross-border interest bearing loans from related, as well as non-related, parties (not applicable to bank loans) and to non-interest bearing loans, if a transfer pricing adjustment has been made. The rules do not apply to intra-group financing companies.

General Anti-Avoidance rules (GAAR)

In addition to the specific rules listed above (CFC rules, transfer pricing and thin capitalization rules), general anti-avoidance rules apply in a domestic, as well as cross-border context. Hungary uses both the substance-over-form principle and a generic anti-avoidance rule where the main purpose of the transactions is tax avoidance. There is also a new anti-hybrid rule (post 2015) which triggers a switch-over to the credit method (from exemption) in certain double tax relief situation.



Specific Anti-Avoidance rules/Anti Treaty Shopping Provisions

Anti-hybrid rules for dividends received (not exempt in Hungary if tax deductible in source country). New GAAR regarding the purpose of a transaction have recently been introduced in Hungarian CIT law: if the main purpose of a transaction is to gain a tax advantage, the costs associated with this transaction will be non-deductible. Before the introduction of these rules, a restriction applied if the only purpose of a transaction was to gain a tax advantage.

Advance Ruling system

Frequently used binding ruling system is available; a ruling can be obtained within 90 to 150 days. Different rules regarding binding rulings apply to entities that use IFRS (e.g. higher fees, lengthier procedure).

IP / R&D incentives

- 200 percent deduction for direct R&D costs (double deduction). Tax allowance/credit regime in place for certain investments. 50 percent of the qualifying royalty net income is exempt from CIT where the qualifying royalty is calculated with the Nexus approach introduced by the OECD. The tax base can be decreased by 50 percent of the value of the qualifying royalty, limited to 50 percent of the tax base.
- Profits realized on the sale of 'reported intangible assets' (if entitled to royalty income) are exempt from CIT in certain circumstances.
- The above patent box regime was amended - in line with the modified nexus approach - from mid-2016, with grandfathering rules applicable for 5 additional years.

Other incentives

Incentives apply for certain investments and developments.

VAT

The standard rate is 27 percent, and the reduced rates are 18 percent and 5 percent. Group taxation is available.

Other relevant points of attention

Anti-avoidance rules vague, with formal approach taken by the tax office. However, there are general anti-avoidance rules that are rarely invoked.

Source: Hungarian tax law and local tax administration guidelines, updated 2017.



Contact us

Balint Gombkoto

KPMG in Hungary

T +36 188 77 159

E Balint.Gombkoto@kpmg.hu

www.kpmg.com

© 2017 KPMG International Cooperative (“KPMG International”), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

Country Profile is published by KPMG International Cooperative in collaboration with the EU Tax Centre. Its content should be viewed only as a general guide and should not be relied on without consulting your local KPMG tax adviser for the specific application of a country’s tax rules to your own situation. The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

