

Taxation and Investment in Hungary 2011

Reach, relevance and reliability



Contents

1.0 Investment climate

- 1.1 Business environment
- 1.2 Currency
- 1.3 Banking and financing
- 1.4 Foreign investment
- 1.5 Tax incentives
- 1.6 Exchange controls

2.0 Setting up a business

- 2.1 Principal forms of business entity
- 2.2 Regulation of business
- 2.3 Accounting, filing and auditing filing requirements

3.0 Business taxation

- 3.1 Overview
- 3.2 Residence
- 3.3 Taxable income and rates
- 3.4 Capital gains taxation
- 3.5 Double taxation relief
- 3.6 Anti-avoidance provisions
- 3.7 Administration
- 3.8 Other taxes on business

4.0 Withholding taxes

- 4.1 Dividends
- 4.2 Interest
- 4.3 Royalties
- 4.4 Branch remittance tax
- 4.5 Wage tax/social security contributions

5.0 Indirect taxes

- 5.1 Value added tax
- 5.2 Capital tax
- 5.3 Real estate tax
- 5.4 Transfer tax
- 5.5 Stamp duty
- 5.6 Customs and excise duties
- 5.7 Environmental taxes
- 5.8 Other taxes

6.0 Taxes on individuals

- 6.1 Residence
- 6.2 Taxable income and rates
- 6.3 Inheritance and gift tax
- 6.4 Net wealth tax
- 6.5 Real property tax
- 6.6 Social security contributions
- 6.7 Other taxes
- 6.8 Compliance

7.0 Labor environment

- 7.1 Employees' rights and remuneration
- 7.2 Wages and benefits
- 7.3 Termination of employment
- 7.4 Labor-management relations

8.0 Deloitte International Tax Source

9.0 Office locations

1.0 Investment climate

1.1 Business environment

Hungary is a parliamentary democracy with a unicameral Parliament, called the National Assembly. The National Assembly has 386 seats and it is elected by popular vote for a four-year term by a direct proportional system with a 5% threshold. It is the highest organ of state authority and initiates and approves legislation sponsored by the Prime Minister.

The President of the Republic, elected by the National Assembly for a five-year term, has a largely ceremonial role, but powers also include appointing the Prime Minister and choosing the dates of the parliamentary elections. The Prime Minister selects cabinet ministers and has the exclusive right to dismiss them. Each cabinet nominee appears before one or more parliamentary committees in consultative open hearings and must be formally approved by the President. An 11-member Constitutional Court has power to challenge legislation on grounds of unconstitutionality.

Hungary joined the EU in 2004, and its trade with the EU is fully liberalized and exempt from customs restrictions. Hungary is a member of the World Trade Organization (WTO) and is a signatory to the WTO Agreement on Financial Services. It also participates in the Pan-European Cumulation, comprising the EU, EFTA, CEFTA and Turkey.

Hungary is one of the most open economies in East-Central Europe, with significant sectors tied closely to Western Europe through trade and foreign investment. The vast majority of the telecommunications, banking, utilities, manufacturing and television sectors are in private hands and the private sector accounts for most of GDP. Hungary has established itself as a component production base and relatively low cost manufacturing area for EU-based supply chains.

Price controls

Hungary regulates prices on select items, such as electricity, natural gas, public transport, certain telecommunications services, postal fees, retail price margins on pharmaceuticals, publicly owned water and wastewater services, and district heating. The Ministry of National Development regulates retail and wholesale prices for the non-competitive public segment of the energy market. Prices in the liberalized segment of the energy market are determined by market forces.

Intellectual property

Patents, trademarks, industrial designs and models, and copyrights are legally recognized in Hungary. Legislation on intellectual property rights is comparable to that in Western European countries and Hungary has adopted EU rules on the protection of intellectual property.

The patents system has been fully integrated into the European Patent Convention. Inventors can apply for European patents at the Hungarian Patent Office.

Patents are protected for 20 years from the date of filing the patent application; an annual fee is required to maintain the patent. The Act on the Protection of Inventions by Patents conforms to EU legislation, and includes provisions for the compulsory licensing of patents. Under compulsory licensing, a patent holder may be forced to license a patent for use if:

- The patent holder has not introduced the patented item for availability on the Hungarian market within four years from the date of filing the application for registration; or
- The item is required for the business activities of a user that is entitled to use other patented items that cannot be used without the item in question. The patent holder may then attach conditions to the use of the patent, restricting it to the purpose for which the license is granted.

A patent holder or licensor suspecting patent infringement may file a lawsuit at the Budapest Metropolitan Court and may request an injunction to halt the alleged abuse, an award of compensation and damages, or confiscation of the goods produced under the infringing activity.

Trademark protection is granted for 10 years, and may be extended by additional 10-year periods. Industrial designs are protected for five years from the date of application and can be extended up to a maximum of 25 years.

All literary, academic, scientific and artistic works are protected by copyright. Generally, the person who creates a work (i.e. the author) is entitled to the total copyright (inherent rights) from the time a work is created. Inherent rights include the author's right to decide on publication of the work, to be designated as the author on the work and to have the unity of the work protected. Economic rights include the author's exclusive right to utilize his/her work (financially or non-financially) and to authorize all uses of the work. Copyright is protected during the author's lifetime and for 70 years after his death.

1.2 Currency

The currency of Hungary is the forint (HUF).

1.3 Banking and financing

With increasing demand from foreign and domestic corporate clients for simple and rapid services, more financial institutions are providing universal banking, which ranges from straightforward lending to investment banking and securities trading. Most foreign firms tend to access local credit and capital markets through home country financial institutions that have opened branches in Hungary.

Under the EU's "single passport" principle, a financial services provider authorized in one EU member state is free to provide that service anywhere else in the EU. EU-based financial institutions are not required to establish a local subsidiary or branch; they are only required to register with the Hungarian Financial Supervisory Authority.

Budapest, the capital, is Hungary's financial center.

1.4 Foreign investment

Hungary welcomes foreign direct investment. Foreign investors may establish wholly foreign-owned companies and joint ventures in various legal forms. New companies must register with the Court of Registration. The Companies Act, as well as the Act on Public Company Information, Registration of Companies and Company Dissolution, simplified company registration procedures, but also tightened corporate responsibility requirements.

Foreign investors may carry out "greenfield" investments or acquire all or part of state-owned enterprises being privatized, although private ownership (foreign or domestic) is restricted or forbidden in certain state-owned enterprises.

1.5 Tax incentives

Since Hungary's accession to the EU, investors are eligible for EU development subsidies, distributed through government schemes. In addition to EU funding schemes, the Hungarian government maintains several national incentive programs financed from the central budget. Approval for foreign investment is required in only a few industries or circumstances, such as financial institutions, telecommunications networks, investments with a major environmental effect and firms building a new shop or other business installation.

Development tax allowances above a certain amount (EUR 100 million), which are in accordance with EU regulations on government subsidies, are available on a case-by-case basis through a permit issued by the Ministry of National Economics. The corporate income tax payable may be reduced by up to 80% under these incentives for a 10-year period.

Taxpayers may apply for tax incentives for the following:

- Investments that exceed HUF 3 billion (approximately EUR 12 million);
- Investments in preferred areas that exceed HUF 1 billion (approximately EUR 4 million);
- Investments up to HUF 100 million (EUR 400,000) that are intended for environment protection, broadband Internet services, film and video making, as well as basic research, applied research and experimental development; and
- Investments by small- and medium-sized enterprises that exceed HUF 500 million (EUR 1.9 million) if the enterprise increases the number of employees by 20 (for small enterprises) or 50 (for medium-sized enterprises) within the following four years, or

increases its wage costs by at least 50 times (small enterprises) or 100 times (medium-sized enterprises) the annual minimum wage.

The processing and distribution of agricultural products also may be eligible for an incentive

For a five years following the first incentive year, the company must meet additional terms. The recipient of the tax holiday has two options: either increase the number of employees by at least 150 (or 75 in underdeveloped regions) or increase the wage costs by at least 600 times (or 300 times in under-developed regions) the annual minimum wage.

1.6 Exchange controls

There are no restrictions on foreign currency transactions. Foreign exchange (forex) rules allow Hungarian residents to open forint and foreign currency accounts abroad without applying for permission from the National Bank of Hungary (central bank), and foreign companies may hold foreign currency without restrictions.

The Hungarian government intends to further liberalize forex markets, in line with Hungary's accession to the EU's Exchange Rate Mechanism II and future adoption of the Euro.

Under an anti-money laundering law, information on a beneficial owner must be submitted to the authorities when entering into a business transaction exceeding HUF 2 million in value. The obligation to present identification applies to transactions that exceed HUF 300,000 at currency exchange offices. The execution of suspicious transactions can be suspended for 24 hours. The import and export of cash or cash-like instruments (e.g. travelers' checks or transferable securities) exceeding HUF 1 million in value must be declared to the customs authorities.

The removal of forex restrictions does not affect the provisions of other laws, including those applicable to insurance, foreign trade, finance and investment and customs. The restrictions incorporated in these laws remain in force.

2.0 Setting up a business

2.1 Principal forms of business entity

Foreigners may carry out continuous business activities in Hungary only if they establish a Hungarian company or register a branch or representative office. A company in Hungary may be established under a variety of legal forms. The most common for foreign investors are the company limited by shares (Rt), which may be public (nyRt) or private (zRt) and the limited liability company (Kft). Foreign investment also may take the form of a limited partnership (Bt) or general partnership (Kkt). All members of a general partnership are jointly and severally liable; at least one member of a limited partnership must have unlimited liability.

Since Hungary's accession to the EU, businesses may also be established in three other legal forms: the European corporation, European business association and the European co-operative.

Formalities for setting up a company

Owing to less stringent registration and operating procedures and lower minimum capital requirements, most new private sector firms incorporating in Hungary choose the limited liability company.

A single owner may form a limited liability company. Such a company may not publicly solicit others to become owners. The minimum capital requirement is HUF 500,000 and the company may not file for registration until at least 50% of each cash contribution has been paid (although there is no minimum cash requirement). The deadline for payment of in-kind contributions and remaining cash contributions must be established in the articles of association, but if in-kind contributions account for more than 50% of the total capital, they must be transferred at the time of registration. Any outstanding cash contributions must be fully paid no later than one year from registration, and outstanding in-kind contributions within three years.

Other requirements include an official statement of company authorization to sign on behalf of the company; certification by a bank regarding the deposit of cash contributions of capital as specified in company articles; a statement by the managing director regarding the status of in-kind contributions; and declarations of acceptance of the executive officers, members of the supervisory board and auditor (if required), including statements on any conflicts of interest. When a foreign company is one of the owners of the company to be registered, an extract from the Registrar of Companies of the foreign country and its official translation in Hungarian must be enclosed. Foreign persons registered in the Company Register (i.e. members or officers of the company) must have a delivery agent with an address in Hungary, who possesses power of attorney. Investments that are deemed to have an environmental impact must be accompanied by an environmental permit before registration may be completed.

A Hungarian lawyer must countersign the articles of association, although this may be an electronic signature for an electronic registration. Documents executed outside Hungary are subject to additional formalities. The application for registration must be submitted within 30 days of signing the company's founding documents. If an official license is required for the establishment of the company, the license must be attached to the application. The incorporation documents may be submitted electronically.

New entities may begin business as a "pre-company" upon signing the foundation documents. Any documentation or contract produced by the company during this preliminary period must identify the company as "under registration."

The Court of Registration must decide on the registration within 15 days after the application is submitted. If the Court does not make a decision within the 15 days, the company is deemed to be automatically registered on the ninth day following the expiration of the deadline. A company can register within two days under a simplified registration procedure.

Within 15 days of submitting an application for registration, the founders must register with the tax authorities and provide the tax identification numbers of the owners, executives and auditors of the future business entity. The founders also must submit information to the tax authorities about the legal predecessors (if any) of the new company.

A company limited by shares may be founded or held by a single shareholder, although this must be reported to the Court of Registration. Such a shareholder has unlimited liability in the event of failure to comply with this reporting requirement.

For a public offering to establish a public company limited by shares, a foundation memorandum must be prepared through which the shares of the company are subscribed. The foundation memorandum must detail the full plan for subscription and operations of the company, and must be in an official, private and notarized document. Subscribers must pay at least 10% of the amount for which they have subscribed into a bank account designated by the founders at the time of subscription. A statutory general meeting must be convened within 60 days of the closing date of the subscription, at which point subscribers must increase the amount paid up on their shares to 25%. The shareholders' meeting must produce the articles of association and elect a board of directors, a supervisory board and an auditor for the first year. The shareholders' meeting must approve or refuse the oversubscription procedures.

Forms of entity

Requirements for Rt and Kft

Capital. An Rt or a Kft can be established with either cash or in-kind contributions or a combination thereof. *Kft:* Minimum capital is HUF 500,000. A company may be registered only if at least half of the cash contribution has been paid up before the registration application is submitted. *Rt:* Minimum capital is HUF 20 million for an nyRt and HUF 5 million for a zRt.

Founders, shareholders. *Kft and Rt:* There are no restrictions on the number of shareholders or founders or on their nationality or residence.

Type of shares. *Kft:* Ownership in a Kft is in book-entry form, recorded in the articles of association and at the Court of Registration. Ownership quotas have a minimum par value of HUF 100,000. The amount of capital contribution must be divisible by HUF 10,000. Every quota holder has one quota with a defined value, although there may be joint ownership of a single quota. *Rt:* Bearer shares are not permitted; all shares must be registered. Shares must be dematerialized for a public Rt, but they may be either dematerialized or printed for a private Rt. The transfer of shares of a private Rt may be limited in the deed of foundation. There are no limitations on foreigners acquiring shares. Other permissible types of shares include voting or dividend preference shares, shares with management appointment rights, employee shares, interest-bearing shares and convertible shares

Control. *Kft:* A simple majority vote is generally sufficient but a majority of at least 75% of the quota holders is sometimes necessary, such as to change the articles of association or remove a managing director. *Rt:* A simple majority vote is sufficient for most decisions; however, a majority of at least 75% is necessary for major decisions, such as amending the articles of association, deciding on transformation or termination of the company without a legal successor, modifying the rights attached to shares or converting shares from one class to another class of shares. Shareholders of an Rt representing at least 5% of the shares with voting rights may ask the board of directors to call a shareholders' meeting.

Management. *Kft:* Management may be conducted by one or several managing directors elected by the members' meeting for a definite term; alternatively, the articles of association may provide that all equity holders are entitled to manage the Kft as managing directors. The same duties and restrictions apply as for an Rt. *Rt:* The board of directors consists of three to 11 members elected by the shareholders at the shareholders' meeting. The board is responsible for preparing the financial statements and balance sheets of the company and for producing an annual report. No nationality or residence restrictions apply for directors (except that the board of directors of a credit institution must have at least two members holding Hungarian citizenship, qualified as residents according to forex laws and having had permanent residence in Hungary for at least one year). Members of the board are considered executive officers; members must inform, in writing, those companies of which they are already an executive officer within 15 days of acceptance of a new position. Except when acquiring shares in a public Rt, an executive officer may not acquire an interest in, or be an executive officer of, another business association pursuing the same activities. The majority of board members in a public Rt must be independent, i.e. not managers or directors in the company. For private Rts, it is possible to elect a chief executive officer instead of a board.

Supervisory board. *Kft:* A supervisory board of at least three members is permitted but not required unless the number of full-time employees exceeds 200. *Rt:* An Rt is required to have a supervisory board elected by the shareholders' meeting only if it is a public Rt not operating under rules for unified company management, if it is a private Rt in which 5% of shares with voting rights request it or if otherwise required by law. *Kft and Rt:* If the annual average number of full-time employees exceeds 200, a supervisory board is mandatory and one-third of the members must be elected by the employees. However, employees may reach an agreement with management waiving their right to supervisory board members; no supervisory board is then required. No restrictions apply to nationality or residence of supervisory board members.

Fees and taxes. *Kfts and Rts:* The registration fee for private Rts (Zrt) and Kfts is HUF 100,000, for public Rts (Nyrt), HUF 600,000, and for Hungarian branches of foreign registered companies, HUF 50,000. For changes in the company's registered capital, 40% of the above amounts must be paid. The registration fee for companies under simplified proceedings is HUF 15,000. There are no special tax considerations for the public listing of shares or private placements.

Branch of a foreign corporation

All foreign companies operating in Hungary must establish either a locally registered company or a branch office.

A branch of a nonresident company must be registered with the Court of Registration, but it may commence operation as a "preliminary branch" before completing registration. The registration documents are similar to those for a limited liability company. There are no capital requirements, but a branch in the financial sector must have the same initial share capital as that required for a domestically registered company. The foreign founder and the branch have joint and several liability for obligations of the branch.

In general, Hungary treats domestic companies and foreign branches equally regarding their establishment and operations. Branches may be involved in all types of business activities, but they are not permitted to conduct representative or agency activities on behalf of the foreign head office. Branch offices have no specific tax advantages over subsidiaries other than allocation of overhead expenses without invoicing. A sustained effort has been made to ensure that the tax laws that apply to branches are the same as those applied to domestically registered subsidiary companies.

A foreign company may establish a representative office in Hungary, which is subject to special rules. A representative office is permitted to provide direct commercial representation for nonresident firms, including the arrangements of trade agreements with foreign partners, prepare and sign trade contracts on behalf of the foreign office, and provide information and advertising services.

2.2 Regulation of business

Mergers and acquisitions

Mergers require permission from the Hungarian Competition Authority (GVH) if, based on the previous year: (1) the merging companies have combined annual revenue exceeding HUF 15 billion; and (2) the net sales revenue of the merging companies exceeds HUF 500 million. In calculating the HUF 500 million threshold, the revenue of firms acquired by the participating companies or groups in the preceding two years must be taken into account, even if the transactions are still awaiting regulatory approval. The merger of credit institutions or commercial banks requires permission from the GVH if 10% of the participating banks' combined revenue from interest, fees and securities transactions exceeds the HUF 15 billion threshold and when any shareholder increases its stakes above 20%, 33% or 50%.

The law does not distinguish between horizontal and vertical mergers. The GVH may not reject a merger unless it creates or strengthens a dominant position, hinders competition and results in disadvantages that outweigh any possible advantages arising from the transaction. The GVH must also review international acquisitions for the merger of local subsidiaries if they exceed the prescribed sales-revenue thresholds. The GVH may call for the separation or divestiture of merged entities if the parties fail to apply for authorization.

Legally, a merger is regarded as a concentration of undertakings under the Competition Act, which includes standard mergers or acquisitions of ownership shares or assets, but also the acquisition

of control over another undertaking (irrespective of any specific ownership stake) and the establishment of certain joint ventures.

The Companies Act requires that changes in ownership in an existing company be reported to the Court of Registration within 15 days if any owner acquires 75% voting rights in the company.

The Securities Act regulates the acquisition of public companies to protect small investors and improve transparency in acquisitions. Once a shareholder accumulates a 33% direct or indirect stake in a company, a public offer must be made on the full share package in the given company. If no single shareholder owns more than 10% of the company, the threshold for mandatory public offers is 25%. Shareholders increasing their ownership to more than 5% in a public firm must report their shareholding to the Financial Supervisory Authority. Company bylaws may impose stricter requirements, such as reporting requirements starting at 2% ownership.

Monopolies and restraint of trade

Monopolies and market dominance are not prohibited *per se*. Rather the Competition Act bans the abuse of a dominant position that restricts competition. A dominant position arises when substitute goods cannot be acquired elsewhere, or can be acquired only under conditions substantially less favorable; when a company's goods cannot be sold to another party, or can be sold only to a party under substantially less favorable conditions; or when a company can pursue its economic activities in a manner substantially independent of other participants in the market or without having to consider the attitudes of its competitors, suppliers, customers or other business partners.

The Competition Act includes the following non-exclusive list of agreements or concerned practices that might not be permitted if they have, as their object or effect, the prevention, restriction or distortion of economic competition:

- Price fixing or defining other business conditions;
- Restricting or controlling manufacturing, distribution, technical development or investment in a product or industry;
- Dividing purchasing sources, restricting freedom of choice in purchasing or excluding others from the purchase of goods;
- Dividing a market, excluding others from selling, restricting sales choices;
- Preventing others from entering a market;
- Discriminating against business partners through sales or purchase price or conditions; and
- Tie-in contracts, i.e. requiring specified purchases besides the original contract item.

Agreements between companies to engage in the above practices are not prohibited if the combined market share of the parties does not exceed 10% or if the companies are part of the same company group.

The Trade Act defines the concept of significant market power in the context of wholesale/retail businesses and their suppliers, and prohibits the abuse of such power. A company, or any group of undertakings or purchasing alliance to which it belongs, that has annual revenue of HUF 100 billion is considered to have significant market power. Such power also exists if a company has a dominant bargaining position under market conditions.

2.3 Accounting, filing and auditing filing requirements

As a general rule all companies are required to appoint at least one certified accountant as an auditor. An exception applies to companies with turnover of less than HUF 100 million in the preceding two years and where the average number of employees in those years did not exceed 50 persons. The auditor must be a legal person or an individual registered with the Hungarian Chamber of Auditors.

The Hungarian accounting system is based on the Hungarian Accounting Act, which incorporates the Hungarian Accounting Standards. As a member of the EU, Hungarian law is in accordance with European Commission (EC) Regulation No. 1606/2002, which requires the application of IFRSs in the preparation of consolidated financial statements of listed companies. Hungarian Accounting Standards are supplemented by government decrees based on special requirements

for banks, insurance companies, stockbrokers, investment funds, pension funds and various nonprofit institutions.

Hungarian companies should prepare their unconsolidated financial statements based on Hungarian law. Consolidated financial statements, if necessary, could be prepared based on the Hungarian Accounting Law or IFRS. The annual financial statements must be submitted electronically to the Company Service, which forwards the statements to the Court of Registration. It is possible to file directly with the court, but this does not eliminate the requirement to file with the Company Service. Public companies limited by shares have more extensive publishing and disclosure obligations. Issuers on the Budapest stock exchange must compile and publish earning reports on a quarterly or semi-annual basis, depending on capitalization or the number of shareholders.

Unconsolidated financial statements also are prepared to provide a basis for the determination of corporate income tax with certain adjustments.

3.0 Business taxation

3.1 Overview

The main national taxes are the corporate income tax, local business tax and the value added tax (VAT). Hungary's corporate tax rate is competitive in the region, although the relatively low corporate rate is balanced by high local business taxes levied by the municipalities. Other taxes include VAT, transfer tax, real property tax and the innovation contribution. There is no branch profits tax, excess profits tax or capital tax.

No withholding tax is levied on dividends, interest or royalty payments made to foreign entities. The absence of withholding tax, combined with the participation exemption available for capital gains on qualifying shareholdings, makes Hungary an attractive location for holding companies.

Hungary's offshore tax regime ended on 1 January 2006, when all remaining offshore companies lost their status and favorable tax rate.

3.2 Residence

A company is resident in Hungary if it is incorporated under Hungarian law or has its place of management in Hungary. A foreign company is deemed to be resident in Hungary if its actual place of management is in Hungary.

3.3 Taxable income and rates

Hungarian resident entities are subject to tax on their worldwide income. The taxable income of both resident and nonresident corporate taxpayers is based on pretax profits, calculated in the profit and loss statement prepared in accordance with the accounting rules, with a number of corrections for the differences in deductible and nondeductible items recognized by accounting and tax law.

Hungarian-registered subsidiaries of foreign companies are taxable under ordinary domestic rules.

Registered branch offices and non-registered permanent establishments (PEs) are taxed under the same regime applicable to Hungarian-registered firms.

Taxable income defined

The basis of the computation of the taxable income ("taxable base") for corporate income tax purposes is the accounting profit or loss, which is then adjusted by several increasing and decreasing items in accordance with the relevant provisions of the Corporate Income Tax Act. Foreign-source income is included in the taxable base.

In determining the taxable base, allowable deductions from the profit and loss statement include: provisions built up for expected liabilities and recaptured costs accounted for as revenue in the tax year; write-back of unplanned depreciation that increased the corporate tax base in previous tax years; and dividends received accounted for as revenue (except dividends from a controlled foreign company (CFC)).

Rate

The corporate income tax rate is 10% up to HUF 500 million, and 19% on the excess amount.

Deductions

All expenses incurred in deriving taxable business income generally may be deducted in computing corporate income tax liability. Allowable deductions include losses carried forward; recognized provisions; the costs of switching to double entry accounting and switching between accounting currencies; foreign currency gains and losses; and depreciation and amortization of assets as set out in the Corporate Tax Act.

Corporate taxpayers can deduct 50% of royalties (so that 50% of such revenue/income can be exempt from corporate income tax), but the deduction may not exceed 50% of the taxpayer's total pretax profits.

The tax base can be reduced by R&D costs, which means that these costs are deducted twice (once as an accounting expense and once as a tax base adjustment). One hundred percent of the allocated direct cost of R&D decreased by the value of R&D subcontractors' fees and R&D funds received, are deductible.

The Corporate Income Tax Act includes the concept of "costs not in the interests of the enterprise," largely to cover items that are of potential abuse for tax evasion purposes. Travel expenses may not be deducted if a trip was not exclusively for business purposes. The consideration for a service in excess of net HUF 200,000 if the use of such services contradicts the requirement of reasonable management is also not deductible. Other nondeductible include expenses due to subsidies, assumed liabilities and assets given free of charge to non-Hungarian companies, as well as receivables waived against related parties, interest on loans if the company is thinly capitalized (except for loans from financial institutions) and fines.

Depreciation

Accounting depreciation of assets is generally calculated by the straight-line method, under which the same percentage of the original value of the asset is deducted each year.

Tax depreciation is more stringently regulated, with the law setting the mandatory rates for most asset types. This can be more than accounting depreciation, resulting in a net deduction. The general rate of tax depreciation for machinery and equipment is seven years (14.5% per year). A three-year tax depreciation period (33.33% per year) applies to computers, office equipment, advanced industrial equipment, and many types of environmental protection, medical and laboratory equipment. Motor vehicles are depreciated over five years (20% per year). An owner of assets leased to another party may use accelerated depreciation up to 30% (33.33% on some types of asset) of the acquisition cost of the leased assets (5% of acquisition cost for buildings).

Tax depreciation can be accelerated by applying a 50% rate instead of a 33% or 14.5% rate to computers, computer accessories and new tangible assets purchased or produced in 2003 or thereafter. Equipment used for film and video production may be amortized at a 50% rate.

For buildings, tax depreciation is set at 50 years (2% per year) for structures of long duration, 3% for those of medium duration and 6% for those of short duration. Buildings that are leased out are depreciable at 5% per year, and the equipment in the buildings at 30% per year. Industrial and agricultural structures are depreciable at annual rates of 2% and 3%, respectively. Other structures depreciate at annual rates ranging from 2% to 20%.

Other fixed assets not specifically included in the depreciation table are depreciated at 14.5% per year. Non-depreciable assets include registered land (except some land that has been used for waste disposal) and works of art. Write-off periods tend to correspond to international standards.

Companies may set aside a tax deductible reserve for the purpose of general development up to 50% of the taxpayer's entire pretax profits, or up to HUF 500 million in a tax year and make an immediate deduction by this development reserve from their tax base. However, no tax depreciation can be applied to equipment or other assets acquired through the development reserve—this regime, in fact, results in accelerated depreciation.

Although the Accounting Act recognizes the "lower of cost or market" principle, the law contains special rules for asset revaluation that may be followed, among other purposes, to measure the effect of inflation. Enterprises may revalue certain assets at the balance sheet date. These include liquid assets, intellectual property, tangible assets, except investments and financial investments, except for securities loans.

In revaluing assets, where market value is less than book value, the difference must be accounted for as an added depreciation expense above the amount planned. Where the market value is greater than book value, the difference can be accounted for in a valuation reserve under the equity account and as a valuation adjustment under the relevant asset account. Generally, the revaluation increases the valuation reserve if the adjustment value of the current year exceeds that of the previous year (up to the value of the reserve adjustment); it decreases the valuation reserve if the adjustment value of the current year is less than that of the previous year. The value adjustment must be performed separately for all assets, and revaluations are not included as income in the taxable base.

Losses

Tax losses may be carried forward indefinitely, but may not be carried back.

3.4 Capital gains taxation

Gains derived from the sale of assets are treated as ordinary business income. Thus, capital gains are included in the corporate tax base and taxed at the 10/19% rate unless the participation exemption applies.

Under the participation exemption, capital gains realized on the sale of (Hungarian and foreign) participations are exempt from corporate income tax if the following requirements are met:

- The participation represents at least 30%;
- The taxpayer has held the participation for at least one year; and
- The taxpayer has reported the acquisition to the Hungarian tax authorities within 30 days of the acquisition.

Any capital loss or loss in value relating to such a participation is nondeductible.

Capital gains derived from mergers, divisions, the transfer of assets or the exchange of shares are tax-exempt if: (1) the transaction is a “preferential transaction,” in which the participating companies obtain no more than 10% of the nominal value of shares or assets in the successor; (2) the transaction does not involve a revaluation; and (3) the transaction is reported to the tax authorities. The tax relief, however, is only temporary for transformations, with tax liability deferred until the sale of the relevant assets.

3.5 Double taxation relief

Unilateral relief

Foreign-source income is taxable in Hungary, with a credit granted under domestic law for foreign tax paid, even if there is no tax treaty with the country of source.

Tax treaties

Hungary has a broad tax treaty network, which generally follow the OECD model treaty. Hungary's tax treaties provide for either credit for foreign tax paid or an exemption of the foreign income. Hungary has implemented OECD-compliant exchange of information provisions.

No special procedural requirements apply to obtain benefits under Hungary's tax treaties (but Hungary does not levy withholding tax on dividends, interest or royalties under its domestic law).

Hungary Tax Treaty Network			
Albania	Finland	Macedonia	Slovakia
Armenia	France	Malaysia	Slovenia
Australia	Germany	Malta	South Africa
Austria	Greece	Moldova	Spain
Azerbaijan		Mongolia	Sweden
Belarus	Iceland	Morocco	Switzerland
Belgium	India	Montenegro	Taiwan
Bosnia	Indonesia	Netherlands	Thailand
Brazil	Ireland	Norway	Tunisia
Bulgaria	Israel	Pakistan	Turkey
Canada	Italy	Philippines	Ukraine
China	Japan	Poland	United Kingdom

Croatia	Kazakhstan	Portugal	United States
Cyprus	Korea	Romania	Uruguay
Czech Republic	Kuwait	Russia	Uzbekistan
Denmark	Latvia	San Marino	Vietnam
Egypt	Lithuania	Serbia	
Estonia	Luxembourg	Singapore	

3.6 Anti-avoidance provisions

Transfer pricing

Hungarian transfer pricing rules specify that transactions between associated entities should be concluded at the same price as an equivalent transaction between unrelated partners. If an individual or an organization, directly or indirectly, has more than 50% ownership or voting rights in another entity, or direct or indirect management control of another entity, then the entities are associated. For private individuals, the law also includes family members. If the price applied between associated enterprises differs from the market price, either the taxpayer or the tax authority can adjust the tax base to reflect the market price.

Hungary's transfer pricing rules are generally based on OECD guidelines. The following transfer pricing methods may be used: comparable uncontrolled price method, resale-minus method and cost-plus method, and, as from 2011, the transactional net margin method and the profit split method. If none of these methods leads to a proper result, the taxpayer may apply any other defensible method. If the price applied between associated enterprises differs from the market price, the taxpayer or the tax authorities may adjust the tax base to reflect the market price. If the tax authorities make an adjustment, however, they may impose a fine of up to 50% of the additional tax liability and the taxpayer may have to pay late payment interest.

The tax authorities have increased scrutiny of transfer pricing in recent years. Related parties must prepare documentation justifying their transfer prices. Branch offices are subject to the same arm's length pricing requirements as all enterprises in Hungary, whether for prices between a branch and its head office or between multiple branches in Hungary.

Thin capitalization

Under the thin capitalization rules, interest paid or accounted for on debt exceeding three times equity is nondeductible for corporate tax purposes (i.e. the debt-to-equity ratio is 3:1). For the purpose of this rule, equity is calculated as an average daily balance of registered capital, capital reserves, retained earnings and tied-up reserves. Liability means the average daily balance of outstanding loan (except for bank loans), outstanding closed securities signifying a creditor relationship and bills payable (with the exception of bills payable to suppliers). Any liabilities in connection of which interest is paid are generally included in the definition of liabilities for thin capitalization purposes. The thin capitalization rule also applies between unrelated parties.

Controlled foreign companies

A controlled foreign company is a foreign company in which a Hungarian individual holds directly or indirectly at least 10% of the shares or most of the foreign company's income is derived from Hungary, and the foreign company is effectively taxed at a rate less than 10%.

Certain income received from a CFC that normally would be exempt is taxable, while certain expenses incurred, which are deductible under general rules, are nondeductible if incurred from a CFC. In addition, undistributed profits of the CFC are taxable in the hands of the Hungarian resident shareholder.

A company incorporated in an EU or OECD member state or a country that has concluded a tax treaty with Hungary is not a CFC if it has real economic presence in that foreign country.

General anti-avoidance rule

The substance over form principle applies; contracts, transactions and other similar operations are examined in accordance with their true content. Tax benefits of contracts and other transactions concluded with the intent to evade tax can be denied by the tax authorities.

3.7 Administration

Tax year

The tax year is generally the calendar year, although a taxpayer may elect a different financial year that also applies for tax purposes. The tax year is generally 12 months but can be shorter in certain cases. If a different tax year is chosen, the tax authorities must be informed of the change.

Filing and payment

Corporate income tax is assessed on an annual basis. A self-assessment system applies, under which the taxpayer establishes the amount of the corporate tax payable.

Advance tax payments based on anticipated profits for the year are due on a monthly basis for companies whose tax liability exceeded HUF 5 million in the preceding year, and filing is due by the 12th of each month. All other companies must make quarterly advance payments, with payment of 90% of the expected tax required by 20 December.

The final payment of tax is made at the time the annual tax return is filed. Most returns are due by 31 May following the income year. Individual entrepreneurs, limited liability companies and limited partnerships under the EVA scheme have until 15 February each year to pay tax. If the fiscal year is different from the calendar year, annual tax returns are due by the 150th day following the end of the fiscal year.

Most companies in Hungary must file tax returns electronically. Electronic filing requires registration for a distinctive electronic code, which can be obtained through local government offices.

Consolidated returns

Hungarian law does not provide for group taxation for income tax purposes. Accordingly, it is not possible to file a consolidated tax return.

Statute of limitations

The general statute of limitations period is five years from the end of the year the tax return is due and the period for the enforcement and collection of tax is five years starting from the end of the year in which the tax is due.

Tax authorities

The tax authorities in Hungary comprise the state tax authority and the customs authority (jointly referred as National Tax and Customs Administration (NAV)) and the notaries of the municipal governments. The tax authorities' responsibilities include maintaining taxpayer records, assessing tax, collecting and enforcing taxes and other public dues enforced as taxes, controlling and supervising compliance with tax obligations, disbursing central subsidies and effecting payment of tax refunds.

Rulings

A binding advance tax ruling is available in Hungary for future transactions, upon submission of a request to the Ministry of National Economics (and countersigned by a tax advisor or lawyer). The application is subject to a statutory fee equal to 1% of the value of the transaction, but with a minimum of HUF 1 million and a maximum of HUF 8 million. If the application refers to a specific type of contract or contract package, the fee is HUF 10 million. The Ministry has 60 days to decide on the ruling after the submission of the request, which can be extended by another 60 days. If the tax treatment cannot be assessed by the Ministry, the taxpayer is entitled to a refund of 75% of the statutory fee.

An advance tax ruling cannot be applied to determine the arm's length price in related party transactions, but an advance pricing agreement (APA) can be requested from the tax authorities

regarding the determination of the applicable transfer pricing method and the arm's length price or price range. APA requests can be submitted to the tax authorities and must be countersigned by a tax advisor or a lawyer. The application is subject to a statutory fee from HUF 500,000 to HUF 10 million. If the exact fair market value can be determined, the statutory fee is equal to 1% of the fair market value. An APA is valid for a minimum of three years and a maximum of five years (with the possibility of a one-time extension for an additional three years). Applications for bilateral and multilateral APAs are also available. After submission of the request, the tax authorities have 120 days to decide on the APA, which can be extended twice by an additional 60 days. If the application is rejected, the taxpayer is entitled to a refund of 75% of the statutory fee.

3.8 Other taxes on business

Municipalities are permitted to impose a business profits tax of no more than 2% of net sales revenue of an enterprise less the cost of goods sold, the material cost and the value of intermediated services incurred by the enterprise.

4.0 Withholding taxes

4.1 Dividends

Hungary does not levy withholding tax on dividends paid to foreign companies.

4.2 Interest

The 30% withholding tax levied on payments of interest made to non-treaty countries was abolished as from 1 January 2011.

4.3 Royalties

The 30% withholding tax levied on payments of royalties and service fees made to non-treaty countries was abolished as from 1 January 2011.

4.4 Branch remittance tax

Hungary does not levy a branch profits tax.

4.5 Wage tax/social security contributions

The employer generally is responsible for assessing and withholding the amount of the employee's personal income tax and social security liability on a month's wages.

Corporate taxpayers are subject to a variety of social security taxes. Based on the gross wages of their employees, firms are required to pay a social security contribution of 27% (24% for pension insurance, 2% for health insurance and 1% for the unemployment fund); and 1.5% to the vocational training fund. Employers of more than 20 persons that do not fill at least 5% of staff positions with handicapped persons must pay an annual rehabilitation contribution for each position not held by a handicapped person.

5.0 Indirect taxes

5.1 Value added tax

VAT is levied on the supply of goods and services in Hungary. The standard VAT rate on products and services is 25%. An 18% rate is applicable to basic food products (milk, dairy products, bread, etc.) and the provision of accommodation. A 5% rate applies to pharmaceuticals and certain medical equipment, aids for the blind, books and newspapers. Services exempt from VAT include the sale of buildings with an occupancy permit issued more than two years ago or the rental of buildings (with an option for taxation), postal and financial services, education, certain health and public television services, and sport and lottery services. The few exempt products include basic medical materials and handicrafts. Rights and intangibles also are subject to VAT.

Following the elimination of trade barriers with the EU, sales transactions between Hungary and other EU member states are considered intra-community acquisitions or supplies. In intra-community supplies, the taxpayer may issue an invoice to its EU-based purchaser without charging VAT if it has proof that the goods left Hungary; the buyer would then settle the VAT payment. EU-based taxpayers supplying goods in Hungary can request VAT registration, but non-EU taxpayers supplying products in Hungary must use a fiscal representative for Hungarian VAT transactions.

Nonresident companies may reclaim Hungarian VAT if registered for VAT purposes in their home country. For firms registered outside the EU, Hungarian VAT may be reclaimed based on bilateral agreements (such agreements exist with Switzerland and Liechtenstein).

Branch offices of foreign companies in Hungary are subject to VAT. Each branch of a foreign company in Hungary is treated as a separate entity and must file a separate VAT return. The supply of services between a branch and its head office falls outside the scope of VAT unless the branch is member of a Hungarian VAT group.

All related firms and their branches in Hungary are eligible for group taxation and are collectively regarded as a single taxpayer. Services and products provided within the VAT group are not subject to VAT.

5.2 Capital tax

Hungary does not levy capital tax.

5.3 Real estate tax

See under "Transfer tax."

5.4 Transfer tax

The sale or transfer of real property is subject to real estate transfer tax. The tax, payable by the purchaser, is levied on the market value of the property. The rate is 2% for flats and houses with a value up to HUF 4 million, and 4% for the value exceeding HUF 4 million. The transfer of all other types of real property or the transfer of shares in companies holding Hungarian real estate are subject to a transfer tax payable by the purchaser at a rate of 4% of the value of the property up to HUF 1 billion, and 2% on the part of the value exceeding HUF 1 billion, with the total tax liability capped at HUF 200 million per property.

The transfer of motor vehicles is also subject to a transfer tax, amounting to HUF 18-36 per cubic centimeter of cylinder capacity.

5.5 Stamp duty

Administrative and court procedures are subject to procedural fees. In general, no stamp duty is levied on the conclusion of loan other agreements.

5.6 Customs and excise duties

No customs apply in relation to EU member states; rates determined by the Community Customs Code apply in respect of goods imported from outside the EU.

Excise tax is levied on items such as alcoholic beverages, petrol and tobacco products.

5.7 Environmental taxes

The main types of environmental taxes include product charges, charges on emission and energy tax. Product charges are levied on domestic produced, imported or distributed products, which endanger the environment, e.g. fuel and mineral oils, tire, cooling devices, packaging material, promotional paper and electronic devices. Charges on emission of environmental polluting substance are levied in proportion to the amount of the substance that flowed into air, soil or landscape water. Energy tax is assessed on electricity, natural gas and coal.

5.8 Other taxes

Innovation contribution

An “innovation contribution” is collected by the government to generate more funds for corporate R&D. The contribution is assessed at 0.3% of annual turnover less the cost of goods sold, material costs and subcontracting fees. Corporate taxpayers may deduct the direct costs of their own R&D activities and the costs of R&D services purchased from certain entities from the amount of the innovation contribution. Newly registered companies in the year of registration and businesses that employ fewer than 50 employees and have no more than EUR 10 million in annual revenue are exempt from the innovation contribution.

Special taxes on financial institutions, energy, retail and telecommunications companies

To raise revenue to finance a reduction in corporate and personal income tax rates, while maintaining the budget deficit at the required levels, the government introduced special taxes on the financial, energy, retail and telecommunications sectors in 2010.

Credit institutions are subject to a 0.53 tax on their adjusted balance sheet total for 2011 (0.15/0.5% for 2010), and beginning in 2011, a new special tax applies, equal to 30% of the credit institution's pretax profit, but capped at the amount of the special tax paid on the adjusted balance sheet total. The amount of the new income based special tax can be deducted from the other special tax, resulting in no additional tax payment.

Insurance companies must pay progressive special tax rate of 1.5/6.4% on income from insurance fees in 2011 (6.2% in 2010). Investment companies, stock exchanges, commodity traders, venture capital fund management companies, and investment fund management companies also are subject to the tax.

A “crisis tax” introduced in 2010 is levied on the net sales revenue of energy, retail and telecommunications companies. The tax rates are as follows: for energy companies, 1.05%; retail companies, progressive rates of 0/0.1/0.4/2.5%; and telecommunications companies, progressive rates of 0/2.5/4.5/6.5%.

The above special taxes can be deducted from the base of the regular corporate income tax.

Contribution on interest subsidies

Credit institutions are required to pay a 5% contribution on interest income received with respect to a loan portfolio directly or indirectly affected by subsidies.

6.0 Taxes on individuals

Individuals in Hungary are subject to a variety of taxes, including the personal income tax, social security contributions, real estate tax, and inheritance and gift tax. Entrepreneurs may be entitled to opt to be subject to the simplified enterprise tax (EVA).

Hungary has abolished most social security exemptions for expatriates and their employers. If a Hungarian company employs a foreign individual, social security charges on both the employee and the employer are due in Hungary. Any exemptions from Hungarian social charges are based on the conditions of the assignment structure, EU social regulations or bilateral social security agreements.

6.1 Residence

Individuals with Hungarian citizenship (excluding dual citizens with no permanent residence in Hungary) and foreigners with a Hungarian settlement permit are tax residents. A foreigner without a Hungarian settlement permit is considered tax resident if he/she has a permanent home exclusively in Hungary. If the individual has a permanent home in another country in addition to a home in Hungary or has no permanent home in Hungary, the individual is regarded as a Hungarian tax resident if his/her center of vital interests is in Hungary. If the individual's center of vital interests cannot be determined, the individual is regarded as a Hungarian tax resident if he/she has a habitual abode in Hungary (e.g. he/she stays in the country for more than 183 days in a calendar year). An EEA national also will be deemed tax resident if his/her stay in Hungary exceeds 183 days in the calendar year. Residence status may be affected by a tax treaty.

6.2 Taxable income and rates

Residents are subject to tax on their worldwide income and nonresident individuals are subject to personal income tax only on their Hungarian-source income (including income from employment, business activities or real property transactions in Hungary).

For Hungarian residents, income for tax purposes is worldwide income from any source (income from employment, the carrying on of a business, capital gains, income from investments, etc.). For nonresidents, only Hungarian-source income is taxable. Hungarian-source income is defined as income received domestically or offshore for activities performed in Hungary, or income earned from Hungarian assets.

Gross income is considered the taxable base, which must be aggregated with income from other sources (excluding income taxed separately such as dividend income, capital gains, etc.).

Categories of tax-exempt income include benefits paid under the state social welfare provisions or by social insurance, allocations for childcare and state pension income, student scholarships for full-time study and tax refunds. Total tax credits may not exceed HUF 100,000 and generally are not available for individuals with annual income of more than HUF 3.4 million or HUF 6.5 million (except for family and housing tax credits).

Deductions and reliefs

Professional training, business travel and accommodation qualify as business expenses if properly supported by invoices. Housing provided by a Hungarian firm is taxable as part of employment income if evidenced by an employment contract. For foreign employees seconded to Hungary without an employment contract with a Hungarian firm, housing could be considered a non-taxable benefit.

A standard tax credit of 16% of salary applies, up to HUF 12,100 per month, but this is reduced at higher income levels. The ceiling on the credit applies.

Subject to certain restrictions, deductions are granted for capital gains derived from the disposal of real estate.

A new child care tax credit is introduced for 2011. Families with one or two children are entitled to a tax base decrease of HUF 62,500 per child per month and HUF 206,250 per child for families with three or more children.

Rates

As from 2011, a flat tax system applies to individuals. The tax rate is 16%, which applies to 127% of the total tax base, resulting in an effective tax rate of 20.3%. Dividend and interest income also are subject to the 16% rate. The tax system governing other types of remuneration (benefits in-kind) has been substantially overhauled.

A 14% health tax applies on income withdrawn from a business, dividends, income from securities lending, capital gains and income exceeding HUF 1 million from the renting out of real property.

6.3 Inheritance and gift tax

Inheritance duty of up to 40% is levied, but the first HUF 20 million of the inheritance is exempt in the case of close relatives. Inheritance is fully exempt in the case of direct descendants.

Gift tax is due on gifts of real estate property, movable property and the granting of a right, surrender of a right or exercise thereof without consideration, and the waiver of a right without consideration. The rate of gift tax ranges from 5% to 40%, depending on the value of the gift and the relationship of the parties.

6.4 Net wealth tax

None

6.5 Capital taxes

Hungary does not levy capital taxes.

6.6 Real property tax

A local tax may apply to dwelling places and land; municipalities have the right to impose such taxes and determine the rates, up to specified limits.

6.7 Other taxes

The municipalities levy a tax on motor vehicles.

6.8 Compliance

The taxable period for individuals is the calendar year.

The deadline for the filing of tax returns is 20 May of the year following the given taxable period. An extension on deadline is applicable in this respect until 20 September.

7.0 Labor environment

7.1 Employee rights and remuneration

The Labor Code contains minimum provisions for employment contracts, job descriptions, place of work, hiring out labor and rules for termination of employment.

Employees are entitled to organize trade unions. Trade unions may inform their members of their rights and obligations concerning financial, social, cultural as well as living and working conditions. They may also represent their members vis-à-vis the employer and before government agencies in matters concerning labor relations and employment.

Employees as a group are entitled to participate in the company's matters; these rights are exercised by the works council or the employees' trustee elected by the employees. Employers must inform the works councils or trade unions (if any) before decisions are made regarding a mass redundancy.

Discrimination against employees based on nationality, language, ethnicity, sex or sexual orientation is prohibited, as is discrimination with regard to establishing or terminating employment, application procedures, training and the determination of working conditions.

Working hours

The standard work week for a full-time employee is eight hours per day, or 40 hours per week, although this may be changed under a labor agreement. Exemptions may apply to special work schedules, but employers must provide employees with adequate rest time. Employees must be paid minimum premiums of 30% for night work and 50% for overtime.

Companies must not employ pregnant women or mothers with babies younger than one year for overtime work or in night shifts from 10 p.m. to 6 a.m. Mothers with babies younger than six months are entitled to have their working hours reduced by two hours per day. Employees aged 15-18 years may work up to eight hours per day and 40 hours per week.

There are nine national holidays in Hungary: 1 January, 15 March, Easter Monday, 1 May, Pentecost Monday, 20 August, 23 October, 1 November and 25-26 December.

7.2 Wages and benefits

The Labor Code provides for government decrees to set a basic hourly or monthly minimum wage for all types of work. The Code adopts the principle of equal wage for equal work. The basic monthly minimum wage is HUF 78,000 in 2011. However, a premium applies based on the education level of the employee.

Pensions

Hungary has a two-pillar pension system (the third pillar having been abolished as from 2011):

- 1) Mandatory State Social Security Pension (funded by the employer and employee contributions outlined on the previous pages); and
- 2) Voluntary Mutual Pension Funds (funded by voluntary employer and employee contributions into a self-administered tax-sheltered fund).

Social insurance

In 2011, the social security contributions payable by both the employer and the employee generally cover pension and healthcare insurance. Based on employees' gross wages, firms contribute 27% (24% for pension insurance, 2% for health insurance and 1% to the unemployment fund). Companies must pay 1.5% to the vocational training fund. The employee contributes 9.5% for pension insurance up to a prescribed maximum and 6% for healthcare, which is uncapped and 1.5% of gross wages to the unemployment fund. The employee contributions are assessed and withheld by the employer.

The general rate of sick pay is 60% if the employment period was longer than two years, and 50% if the employment period was less than two years; the maximum amount of sick pay cannot

exceed four times the minimum wage. The employer must pay 70% of wages for a maximum of 15 work days.

Other benefits

The Labor Code provides for an annual minimum of 20 days of regular holiday leave, with additional days depending on the age of the employee (rather than on total years of service). Employees older than age 35 are entitled to 25 days; those older than 45 are entitled to 30 days. Extra days may be awarded to employees younger than 18 (five days) and parents with children (up to seven days depending on the number of children). Maternity leave is provided up to 24 weeks.

Voluntary fringe benefits include subsidized or free meals, food coupons, childcare assistance and holiday at company resorts. Some recently privatized firms continue to subsidize employees' commuting costs and offer low-cost housing loans. There are tax-free benefits, but fringe benefits are generally subject to tax at 70% or 38% (depending on the type of the benefit) as from 2011.

7.3 Termination of employment

An employer must give a specific reason for dismissing an employee. Employees have the right to sue for damages for unfair dismissal if the reason for dismissal is untrue or unclear. In addition, the rights of an employee remain in effect after a sale of the employer company. The minimum notice period for dismissal increases with the length of employment of the worker to be dismissed; the minimum duration of the termination period varies from 30 days to 90 days. The termination period cannot exceed one year.

7.4 Labor-management relations

There is a prescribed seven-day conciliation period before a strike may be held. It is customary, but not required, for notice of a strike to be given one to two days before the strike. A national Mediation and Arbitration Service exists to help settle labor disputes, but its services are not obligatory.

Works councils are mandatory in all workplaces employing 50 or more persons. (For companies employing more than 15 but fewer than 50 persons, appointment of an employee delegate is mandatory.) The councils are forums for employee representation; the company's employees elect the members, who can then negotiate employment terms on behalf of the staff. Members of works councils are often union representatives as well.

Individual labor contracts are standard practice among companies in Hungary, and the Labor Code requires them for employment relationships. Collective-bargaining agreements for workers are negotiated at the enterprise level and are rare, although trade unions have been working to establish such contracts in several industries. Works councils may negotiate collective agreements in enterprises where there are no trade unions.

8.0 Deloitte International Tax Source

Professionals of the member firms of Deloitte Touche Tohmatsu Limited have created the Deloitte International Tax Source (DITS), an online resource that assists multinational companies in operating globally, placing up-to-date worldwide tax rates and other crucial tax material within easy reach 24/7.

Connect to the source and discover:

A unique tax information database for 65 jurisdictions including –

- Corporate income tax rates;
- Domestic withholding rates;
- Historical corporate rates;
- In-force and pending tax treaty rates on dividends, interest and royalties;
- Indirect tax rates (VAT/GST/sales tax); and
- Holding company and transfer pricing regimes.

Guides and Highlights – Deloitte’s Taxation and Investment Guides provide an analysis of the investment climate, operating conditions and tax system of most major trading jurisdictions while the companion Highlights series summarizes the tax landscape of more than 130 jurisdictions.

Tax publications – Global tax alerts and newsletters provide regular and timely updates and analysis on significant cross-border tax legislative, regulatory and judicial issues.

Tax tools – Our suite of tax tools include annotated, ready-to-print versions of the holding company and transfer pricing matrices; expanded controlled foreign company coverage for DITS countries; an information exchange matrix and monthly treaty update; and expanded coverage of VAT/GST/Sales Tax rates.

Webcasts – Live interactive webcasts and Dbriefs by Deloitte professionals give you valuable insights into important tax developments affecting your business.

DITS is free, easy to use and always available!

www.dits.deloitte.com

9.0 Office locations

To find out how our professionals can help you in your part of the world, please contact us at the office listed below or through the “contact us” button on <http://www.deloitte.com/tax>.

Budapest

H-1068 Budapest 84/C
Dózsa György Street
Hungary

Tel: +36 1 428 6800
Fax: +36 1 428 6801

[Security](#) | [Legal](#) | [Privacy](#)

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee, and its network of member firms, each of which is a legally separate and independent entity. Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, Deloitte Global Services Limited, Deloitte Global Services Holdings Limited, the Deloitte Touche Tohmatsu Verein, any of their member firms, or any of the foregoing's affiliates (collectively the “Deloitte Network”) are, by means of this publication, rendering accounting, business, financial, investment, legal, tax, or other professional advice or services. This publication is not a substitute for such professional advice or services, nor should it be used as a basis for any decision or action that may affect your finances or your business. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and deep local expertise to help clients succeed wherever they operate. Deloitte's approximately 170,000 professionals are committed to becoming the standard of excellence.

© 2011 Deloitte Global Services Limited