



## International tax

# Hungary Highlights 2012

### Investment basics:

**Currency** – Hungarian Forint (HUF)

**Foreign exchange control** – No

**Accounting principles/financial statements** – Hungarian GAAP. Financial statements must be filed annually.

**Principal business entities** – These are the limited liability company (Kft), public company limited by shares (nyRt), private company limited by shares (zRt) and branch of a foreign company.

### Corporate taxation:

**Residence** – A corporation is resident in Hungary if it is incorporated in Hungary or, if incorporated abroad, its place of management is in Hungary.

**Basis** – Residents are taxed on worldwide income; nonresidents are taxed only on Hungarian-source income. Branches are generally taxed the same as subsidiaries.

**Taxable income** – Corporation tax is imposed on a company's accounting profits, adjusted by certain items. Normal business expenses are generally deductible in computing taxable income.

**Taxation of dividends** – Dividends received by a Hungarian company are exempt from corporation tax, except for dividends distributed by a CFC.

**Capital gains** – Capital gains are taxed as part of the accounting profit at 10%/19%. However, no tax is due if the participation exemption applies. Capital gains realized by a shareholder resident in a non-treaty country on the sale of its shares in a Hungarian real estate company are taxable at 19%.

**Losses** – Tax losses may be utilized up to 50% of the profit before tax of the given financial year and carried forward indefinitely (with special carryforward rules for mergers and acquisitions). Losses may not be carried back.

**Rate** – The rate is 10% up to a tax base of HUF 500 million and 19% above that.

**Surtax** – A special tax is levied at varying rates on financial institutions, as well as

energy, retail and telecommunication companies.

**Alternative minimum tax** – An alternative minimum tax may apply in certain circumstances.

**Foreign tax credit** – Domestic law provides a credit for foreign tax paid, although most of Hungary's tax treaties override this rule and provide for an exemption.

**Participation exemption** – A participation exemption applies to dividends received (see under "Taxation of dividends") without any holding requirements and to capital gains derived from the sale of an investment, but the taxpayer must hold at least 30% of the subsidiary (which cannot be a controlled foreign corporation) for at least 1 year. Similar exemption rules apply for the capital gain deriving from the sale of qualifying intellectual property.

**Holding company regime** – See under "Participation exemption."

**Incentives** – Development tax incentives apply in the form of a tax credit for certain investments, depending on the amount of the investment, the industry and the region within the country. In addition, a maximum EUR 2 million (equivalent of HUF 500 million) tax deductible "development reserve" set aside for material investments may apply. R&D tax incentives allow for double deduction for qualifying R&D costs. A 50% deduction rule is available for royalties received.

### Withholding tax:

**Dividends** – There is no withholding tax on dividends paid to a nonresident legal entity. Dividends paid to a nonresident individual may be subject to withholding tax at 16%, unless the rate is reduced by a relevant tax treaty.

**Interest** – There is no withholding tax on interest paid to a legal entity. Interest paid to an individual is subject to withholding tax at 16%, unless the rate is reduced by a tax treaty.

**Royalties** – There is no withholding tax on royalties paid to a legal entity. Royalties paid

to an individual are subject to personal income tax at a rate of 16%, unless the rate is reduced by a tax treaty.

**Technical service fees** – No

**Branch remittance tax** – No

**Other** – No

### Other taxes on corporations:

**Capital duty** – No

**Payroll tax** – No

**Real property tax** – Building tax/plot tax are imposed at the discretion of the municipalities.

**Social security** – Employers must pay a social security tax (replacing the social security contribution) at a rate of 27% on an employee's gross wages. (See also "Taxable income," under "Personal taxation.") A vocational training contribution of 1.5% also is payable by the employer.

**Stamp duty** – No

**Transfer tax** – The transfer of real estate or shares in companies holding Hungarian real estate is subject to 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.

**Other** – Other taxes include gift tax up to 40% and local business tax on adjusted turnover at a maximum of 2%.

### Anti-avoidance rules:

**Transfer pricing** – If the consideration applied in related party transactions is not at arm's length, the transfer pricing rules require that the tax base be adjusted accordingly. Related party transactions also must be documented for transfer pricing purposes and advance pricing agreements (APAs) are available.

**Thin capitalization** – Interest on debt (except bank debt) exceeding 3 times the equity is nondeductible for corporate income tax purposes. The amount of the debt may be decreased by the amount of cash receivables

accounted as long-term financial asset receivables or securities in the balance sheet of the company.

**Controlled foreign companies** – A CFC is a foreign company in which a Hungarian individual directly or indirectly holds at least 10% of the shares or most of the foreign company's income derives from Hungary, and the foreign company is effectively taxed at a rate of less than 10%. 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. Certain income received from CFCs that normally would be exempt is taxable, while certain expenses, which are deductible under general rules, are nondeductible if incurred in respect of a CFC. In addition, undistributed profits of a CFC also are taxable in the hands of the Hungarian resident shareholder.

**Other** – No

**Disclosure requirements** – No

### Administration and compliance:

**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.

**Consolidated returns** – Consolidated returns are not permitted; each company must file its own return.

**Filing requirements** – A self-assessment regime applies. Corporate tax returns are due by 31 May of the year following the tax year, or within 5 months of the year end for a non-calendar financial year.

**Penalties** – A 50% (or 75% in severe cases) tax penalty is imposed on underpayments of tax; late payment interest applies at twice the rate of the national Bank of Hungary and there are default penalties.

**Rulings** – A taxpayer may request an advance ruling on the tax consequences of a proposed transaction. APAs are available.

### Personal taxation:

**Basis** – Hungarian residents pay tax on worldwide income, foreign resident individuals on Hungarian-source income.

**Residence** – An individual is resident in Hungary: if he/she is a Hungarian citizen; if the individual has a permanent home exclusively in Hungary; if the individual has a permanent home not only in Hungary, the center of his/her vital interests is in Hungary; or, where residence cannot be determined based on the permanent home or the center of vital interest, if the individual's habitual abode is in Hungary. An EEA citizen will be regarded as Hungarian tax resident if he/she is present in Hungary for a total of at least 183 days during a calendar year.

**Filing status** – A self-assessment regime applies and individuals are required to file their own returns.

**Taxable income** – Employment income is taxable, as well as income derived from an individual's trade or profession. Social security tax paid by the employer on the gross wage also is part of the employee's taxable annual income exceeding HUF 2,424,000.

**Capital gains** – Capital gains are generally taxed at 16%.

**Deductions and allowances** – Subject to certain restrictions, deductions are granted for capital gains on the disposal of real estate. A child care tax base deduction may also apply.

**Rates** – The general personal income tax rate is 16%. Dividend income and bank interest also are subject to a rate of 16%.

### Other taxes on individuals:

**Capital duty** – No

**Stamp duty** – Various stamp duties apply in administrative and court procedures.

**Capital acquisitions tax** – Tax is levied on the acquisition of motor vehicles.

**Real property tax** – Building tax/plot tax are imposed at the discretion of the municipalities. Rates of 4% (up to HUF 1 billion) and 2% (above HUF 1 billion) on business property and plots and up to 4% on residential property apply on transfer.

**Inheritance/estate 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.

**Net wealth/net worth tax** – No

**Social security** – Employees are required to make social security contributions of 18.5% (increased from 17.5%) from their gross salary, withheld by the employer.

### Administration and compliance:

**Tax year** – Calendar year

**Filing and payment** – Tax returns and the payment of any tax are due 20 May following the tax year. An extension to 20 November may be granted if certain requirements are met.

**Penalties** – A 50% penalty is imposed for tax underpayment; late payment interest of twice the rate of the National Bank of Hungary is also levied, as is a default penalty.

### Value added tax:

**Taxable transactions** – VAT is levied on the domestic supply of goods and services and on imports.

**Rates** – The standard VAT rate increased to 27% (previously 25%) from 1 January 2012, subject to transitional rules for certain services. The reduced rates are 18% and 5%.

**Registration** – There is no registration threshold (except in the case of distance selling).

**Filing and payment** – Monthly, quarterly or annual filing and payment may be required depending on the amount of the VAT liability.

**Source of tax law:** Act on Rules of Taxation (2003); Act on Corporate Income and Dividend Tax (1996); Act on Value Added Tax (2007); Act on Personal Income Tax (1995)

**Tax treaties:** Hungary has 69 tax treaties in effect.

**Tax authorities:** National Tax and Customs Office

**International organizations:** OECD, EU, WTO

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