Hungary

Tax Guide

2016/17

FOREWORD

A country's tax regime is always a key factor for any business considering moving into new markets. What is the corporate tax rate? Are there any incentives for overseas businesses? Are there double tax treaties in place? How will foreign source income be taxed?

Since 1994, the PKF network of independent member firms, administered by PKF International Limited, has produced the PKF Worldwide Tax Guide (WWTG) to provide international businesses with the answers to these key tax questions.

As you will appreciate, the production of the WWTG is a huge team effort and we would like to thank all tax experts within PKF member firms who gave up their time to contribute the vital information on their country's taxes that forms the heart of this publication.

The PKF Worldwide Tax Guide 2016/17 (WWTG) is an annual publication that provides an overview of the taxation and business regulation regimes of the world's most significant trading countries. In compiling this publication, member firms of the PKF network have based their summaries on information current on 30 April 2016, while also noting imminent changes where necessary.

On a country-by-country basis, each summary such as this one, addresses the major taxes applicable to business; how taxable income is determined; sundry other related taxation and business issues; and the country's personal tax regime. The final section of each country summary sets out the Double Tax Treaty and Non-Treaty rates of tax withholding relating to the payment of dividends, interest, royalties and other related payments.

While the WWTG should not to be regarded as offering a complete explanation of the taxation issues in each country, we hope readers will use the publication as their first point of reference and then use the services of their local PKF member firm to provide specific information and advice.

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- Financial Planning / Wealth Management;
- Corporate Finance;
- Management Consultancy;
- IT Consultancy;
- Insolvency - Corporate and Personal;
- Taxation;
- Forensic Accounting; and,
- Hotel Consultancy.

In addition to the printed version of the WWTG, individual country taxation guides such as this are available in PDF format which can be downloaded from the PKF website at www.pkf.com

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MEMBER FIRM

City	Name	Contact information
Budapest	Zsolt Selenyi	+36 1 391 4220 selenyi.zsolt@pkf.hu

BASIC FACTS

Full name:	Republic of Hungary
Capital:	Budapest
Main languages:	Hungarian
Population:	9.9 million (2013 PRB)
Major religion:	Christianity
Monetary unit:	Hungarian Forint (HUF)
Internet domain:	.hu
Int. dialling code:	+36

KEY TAX POINTS

- Companies resident in Hungary are taxed on their worldwide income. A company is resident in Hungary if it is incorporated or has its place of management there. Non-residents carrying on business through a branch or permanent establishment are taxed on income of the branch or establishment.
- Capital gains of companies are treated as income.
- Local taxes include a local business tax at a maximum rate of 2%.
- There is a range of tax incentives for investment, including special incentives for small and medium-sized companies.
- Transfer pricing rules allow adjustment of taxable profits in respect of transactions between related parties.
- VAT at 27% applies to the supply of goods and services, subject to reduced rates or exemptions for certain supplies.
- Individuals resident in Hungary are taxed on their worldwide income. Non-residents are taxed only on Hungarian sourced income.

A. TAXES PAYABLE

COMPANY TAX

Hungarian resident companies are liable to corporate income tax on all sources of income wherever arising and whether or not remitted to Hungary. A company is resident in Hungary if it is incorporated or has its place of management in Hungary. Branch offices are liable to corporate tax based on their local activity. Generally, the fiscal and accounting years are both required to end on 31 December. However, companies are entitled to use a different fiscal year if their course of business makes it reasonable.

Tax is charged on the higher of the taxable profit for the year and the 'expected profit' at a rate of 10% up to 500 million HUF, and 19% above. The expected profit is 2% of the total revenue.

Resident companies are required to make advance payments of corporate tax. The advance payments are based on the preceding year's tax results. Most taxpayers must make payments up to at least 90% of their annual estimated tax liability by the 20th day of the last month of the tax year. Legal entities generally file their tax return and pay the taxes by 31 May, except where the fiscal year differs from the calendar year.

CAPITAL GAINS TAX

Capital gains of companies are treated as ordinary income and taxed accordingly. A participation exemption scheme exempts the disposal of 'reported participations' from corporate income tax. A reported participation is one of at least 10% in the capital of the relevant company, except for controlled foreign companies. The exemption only applies to participations held for at least one year.

BRANCH PROFITS TAX

Based on the Act of Hungarian Branch Offices and Commercial Representative Offices of Foreign Registered Companies, branch offices receive the same treatment as domestic companies.

VALUE ADDED TAX (VAT)

The general rate of VAT is 27%. A discount rate of 18% is applicable to milk, dairy products, bread and other bakery products. Pharmaceuticals, books, newspapers, district heating, certain meats and certain newly built residential properties are rated at 5%. Financial and investment services are tax-exempt.

LOCAL TAXES

Local authorities are permitted to levy the following taxes on individuals and businesses in accordance with a framing law. These taxes are deductible expenses in the computation of the taxable base.

LOCAL BUSINESS TAX

Economic activity may be taxed at up to 2% of net sales revenue less the cost of goods sold, the cost of mediated services, sub-contractors' expenses, material costs and the cost of R&D. There are certain limitations on the deductions. For temporary activity, a lump sum up to HUF 5,000 per day can be levied.

BUILDING TAX

The owner of a building may have to pay up to HUF 1,100 per square metre of the surface area or 3.6% of the market value.

LAND TAX

The owner of land not built on may be taxed at up to HUF 200 per square metre or 3% of the market value of the land.

COMMUNAL TAX OF PRIVATE PERSONS

The owner of a building or land, as well as the tenant of a flat not owned by a private person, may be subject to this tax. The upper limit of the tax is HUF 17,000 per real estate or rental right.

SOLIDARITY SURTAX

Credit institutions and financial companies pay 5% contribution of the interest on loans subsidised by the state. Credit institutions are liable to another special tax based on their modified balance sheet total of 2009. The tax rate is 0.15% of the tax base up to 50 billion HUF, and 0.24% of the tax base above 50 billion HUF. Insurance companies, financial enterprises and investment manager companies are also liable to a special tax based on their revenues. Credit institutions also pay 30%

surtax on their pre-tax profit, but this can be deducted from the special tax.

FINANCIAL TRANSACTION TAX

Financial institutions with a head office or branch in Hungary are liable to financial transaction tax on transactions such as bank transfers, collections, check payments, letters of credit, etc. The rate is 0.3% of the tax base, maximum HUF 6,000 (except for cash transactions, where it is 0.6%). The tax for payments by credit card is no more than 800 HUF per credit card per year (500 HUF in the case of Paypass cards).

B. DETERMINATION OF TAXABLE INCOME

Profits include all income and capital gains. The taxable basis is the accounting profit adjusted by prescribed items. Generally, expenses incurred wholly and exclusively for business purposes are deductible. The accounting profit is adjusted in accordance with the rules of the corporate income tax legislation, the most important of which are listed below.

DEPRECIATION

For tax purposes, the straight-line method is normally adopted. Assets should have depreciation time apportioned.

Asset	Annual Rate of Depreciation (%)
Industrial structures	2
Agricultural structures	3, 5, 10, 15
Motor vehicles	20
Computer equipment	33
Generally used computer equipment (computers used by the taxpayer)	50

Assets costing less than HUF 100,000 may be fully written off in the year of purchase. In the case of leased assets, the lessor is allowed to claim depreciation of 5% for buildings and 30% for machinery and equipment. Any depreciation rate can be applied to intellectual property between the rate calculated based on the useful lifetime and 50%.

INVENTORY

Inventories are generally valued at the lower of cost and market value. Cost may be determined on the basis of FIFO or average cost method.

CAPITAL GAINS AND LOSSES

See discussion above.

DIVIDENDS

Dividends received from non-CFC companies are not subject to corporate income tax. Only 50% of the royalties received is taxable.

INTEREST DEDUCTIONS

Interest paid by a company is treated as an ordinary business expense unless it falls under the provision of thin capitalisation. The proportional amount of interest on loans is not deductible for tax purposes if the amount of the total loan exceeds three times the borrower's own equity. Interest on bank loans is fully deductible.

LOSSES

Losses can be carried forward for 5 tax years, and can only be used up to 50% of the tax base for any particular year. Losses may not be carried back against profits of previous years. No distinction is made between trading and capital losses.

FOREIGN SOURCE INCOME

Hungarian authorities levy taxes on resident companies on all profits arising from foreign sources in the same way as income from Hungarian sources.

TAX INCENTIVES

Tax incentives for innovative investments (developments) are granted by the Hungarian Government at the request of the taxpayer. These incentives are granted for all companies that meet the requirements set out in law. The value of the incentive is determined by the Ministry of National Economy. The minimum value of the investment must be at least:

- HUF 3 billion; or,
- HUF 1 billion in certain regions determined by the Government; or,
- HUF 500 million for investment made by small and medium enterprises; or,
- HUF 100 million in the case of research and development, environment-protecting investments, film and video production; or,
- Job creation (there is no minimum value); or,
- HUF 100 million in ‘free entrepreneurial zones’ designated by the Government; or,
- HUF 100 million in the case of energy efficiency projects.

The incentives are available for the year when the investment is made and in the following nine years.

TAX CREDITS ON DONATIONS

A tax saving is available for companies on donations given to film productions, performing arts and certain sport clubs and associations (football, handball, basketball, hockey and water polo). This can be achieved through a tax credit and a tax base decrease.

OTHER TAX INCENTIVES

Micro, small and medium-sized companies may deduct investment expenses incurred for putting business assets into use of up to HUF 30m if: (i) the company qualifies as a micro, small or medium size company at the end of the tax year and (ii) the owners of the company are exclusively private persons throughout the whole tax year.

Small and medium sized companies may reduce their tax liability by 60% of interest paid (maximum HUF 6 million per tax year) on loans granted by financial institutions for purchasing tangible assets. A reserve for investments is available up to 50% of pretax profit, not exceeding 500 million HUF per tax year. Amounts classified as investment reserve are tax-exempt, but can only be used for investment purposes in the four tax years following the creation of the reserve.

C. FOREIGN TAX RELIEF

Domestic law provides unilateral relief in the form of credits for foreign taxes paid. In addition, there are international treaties for avoiding double taxation.

D. CORPORATE GROUPS

All taxable entities that have a registered seat or permanent establishment in Hungary and belong to the same corporate group can choose VAT grouping. The members of the group will be recognised as a single taxable person and they will file one consolidated VAT return.

There are no group taxation provisions for corporate income tax purposes.

E. RELATED PARTY TRANSACTIONS

Transfer pricing rules allow the tax authorities to adjust taxable profits where transactions between related parties are not at arm's length. Transfer pricing documentation must be prepared if there are controlled transactions with related parties.

F. WITHHOLDING TAX

There is no withholding tax on dividends, royalties and interest paid to non-resident companies.

G. EXCHANGE CONTROL

There is no exchange control in Hungary.

H. PERSONAL TAX

Resident individuals are taxed on their worldwide income, although special rules apply to foreign nationals residing in Hungary only for employment purposes. Non-residents are taxed only on their income from Hungarian sources.

Individuals with a Hungarian citizenship are deemed to be Hungarian residents. If residency cannot be determined by citizenship, rules of permanent residence and regular place of actual residence must be used.

A flat rate of 15% applies to all income of private individuals, including both the consolidated tax base and separately taxed income (i.e. interest, dividends, etc.). Fringe benefits are treated as taxable income. There is a 17.85% personal income tax on fringe benefits (a 32.13% healthcare contribution or social contribution tax is payable as well). Benefits specified in the Act include childcare services and certain accommodation facilities provided and operated by the employer.

A certain range of fringe benefits are taxed at a rate of 17.85% and only 16.66% healthcare contribution is payable on them. These fringe benefits include vacation contributions, local travel passes, hot meal vouchers, the value of meals provided at the workplace not exceeding HUF 12,500 per month per person, etc.

There is a family allowance scheme available: HUF 66,670 per child is deductible from the monthly consolidated tax base if the employee has one child, HUF 83,330 per child if the employee has two children, and HUF 220,000 per child is deductible if the employee has at least three children, under some circumstances. The unused family personal income tax allowance can be deducted from social security contributions.

Resident expatriates are taxed on 100% of their compensation. A social security contribution exemption is available for secondments below 2 years. Social security contributions are paid by the employee at a rate of 18.5%.

Employers pay 27% social contribution tax on gross income of their employees.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)	Interest (%)	Royalties (%)
Non-treaty countries:			
Corporations	0	0	0
Individuals	15	15	15
Treaty countries[1]:			
Albania	5/10	0	5
Armenia	5/10	10	5
Australia	15	10	10
Austria	10	0	0
Azerbaijan	8	8	8
Bahrein	0/5	0	0
Belarus	5/15	5	5
Belgium	10	15	0
Bosnia and Herzegovina	10	0	10
Brazil	15	10/15	15/25
Bulgaria	10	10	10
Canada	5/10/15	10	0/10
China	10	10	10
Croatia	5/10	0	0
Cyprus	5/15	10	0
Czech Republic	5/15	0	10
Denmark	0/15	0	0
Estonia	5/15	10	5/10
Egypt	15/20	15	15
Finland	5/15	0	5
France	5/15	0	0
Georgia	0/5	0	0
Germany	5/15	0	0
Greece	10	10	10
Hong Kong	5/10	5	5
Iceland	5/10	0	10
India	10	10	10
Indonesia	15	15	15
Ireland	5/15	0	0
Israel	5/15	0	0
Italy	10	0	0
Japan	10	10	0/10
Kazakhstan	5/15	10	10
Kosovo	0/5	0	0
Kuwait	0	0	10
Latvia	5/10	10	5/10
Liechtenstein	0/10	0	0
Lithuania	5/15	10	5/10
Luxembourg	5/15	0	0
Macedonia	5/15	0	0

	Dividends (%)	Interest (%)	Royalties (%)
Malaysia	10	15	15
Malta	5/15	10	10
Mexico	5/15	10	10
Moldova	5/15	10	0
Mongolia	5/15	10	5
Montenegro[2]	5/15	10	10
Morocco	12	10	10
Netherlands	5/15	0	0
Norway	10	0	0
Pakistan	15/20	15	15
Philippines	15/20	15	15
Poland	10	10	10
Portugal	15/10	10	10
Qatar	0/5	0	5
Romania	5/15	15	10
Russia	10	0	0
San Marino	0/5/15	0	0
Saudi Arabia	5	0	5/8
Serbia[2]	5/15	10	10
Slovakia	5/15	0	10
Slovenia	5/15	5	5
Singapore	5/10	5	5
South Africa	5/15	0	0
South Korea	5/10	0	0
Spain	5/15	0	0
Sweden	5/15	0	0
Switzerland	10	10	0
Taiwan	10	10	10
Thailand	15/20	10/25	15
Tunisia	10/12	12	12
Turkey	10/15	10	10
Ukraine	5/15	10	5
United Arab Emirates	0	0	0
United Kingdom	0/10/15	0	0
United States	5/15	0	0
Uruguay	15	15	10/15
Uzbekistan	10	10	10
Vietnam	10	10	10

NOTES:

1 The rates under the heading 'Treaty' apply only to individuals. There is no withholding tax on payments made to corporations.

2 The treaty of 2001 concluded between Hungary and the former Federal Republic of Yugoslavia.

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