International Tax

Hungary Highlights

In Plain English

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Investment basics:

Currency – Hungarian Forint (HUF)

Foreign exchange control – No

Accounting principles/financial statements – Hungarian GAAP, although subject to some exceptions, companies may opt to apply IFRS. Companies whose shares are traded on a stock exchange within the European Economic Area (EEA) and financial institutions must use IFRS. Financial statements must be filed annually. Financial statements may be prepared in HUF, euros (EUR), US dollars (USD) or other currencies if certain conditions are fulfilled.

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:

Rates	
Corporate Income Tax Rate	9%
Branch Rate	9%
Capital Gains Tax Rate	9%

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

Basis – Residents are taxed on worldwide income; nonresidents are taxed only on Hungarian-source income. Branches are taxed in the same way as subsidiaries, but if the head office is in a non-treaty country, certain additional adjustments may apply.

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

Rate – The corporate income tax rate is 9%.

Surtax – Various surtaxes are levied at a range of rates on financial institutions and financial transactions, insurance companies, telecommunication services and energy companies. Some of these surtaxes are based on income; others are based on revenue or total assets.

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

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

Capital gains – Capital gains are taxed as part of the accounting profit, at a rate of 9%. However, no tax is due if the participation exemption applies. Capital gains realized by a nonresident shareholder from the sale of its shares in a Hungarian company generally are not taxable, but Hungarian taxation may apply if the shares are held in a Hungarian real estate company by a shareholder resident in a non-treaty country or by a shareholder resident in a tax treaty country if the relevant treaty so provides. In that case, gains are taxable at a 9% rate.

Losses – Tax losses may offset up to 50% of the profit before tax of the relevant financial year. Tax losses generated before 2015 may be carried forward until 2030, but tax losses incurred in 2015 and subsequent years may be carried forward for only five years. Losses should be used on a FIFO (first in, first out) basis. The carryback of losses is not permitted. Special carryforward limitations apply to mergers and acquisitions.

Foreign tax relief – Hungary's tax treaties usually provide an exemption for active income and a credit for passive income. In the absence of a tax treaty, domestic law provides a credit for foreign taxes paid.

Participation exemption – A participation exemption applies to dividends received, without any holding requirements. A participation exemption also applies to capital gains derived from the sale of an investment if its acquisition was reported to the Hungarian tax authorities within 75 days, but the taxpayer must hold the subsidiary (which cannot be a CFC) for at least one year. Similar exemption rules apply to capital gains derived from the sale of qualifying intellectual property (except that the reporting of the acquisition is due within 60 days).

Holding company regime – See "Participation exemption."

Incentives – Development tax incentives apply in the form of tax credits for certain investments, depending on the amount of the investment, the industry, and the region in the country. In addition, a maximum EUR 30 million (equivalent to HUF 10 billion) tax-deductible "development reserve" set aside for material investments may apply. R&D tax incentives allow for a double deduction of qualifying R&D costs. R&D tax incentives may be shared with associated enterprises that are Hungarian corporate taxpayers if certain conditions are fulfilled. A special deduction from taxable income is available for investments in start-up companies subject to a maximum of EUR 60,000 per company (equivalent to HUF 20 million). Tax credits may be available for sponsoring certain sports or film organizations. A tax credit also is available for investments made for energy efficiency purposes. A 50% deduction from taxable income is available for profits on royalties.

Compliance for corporations:

Tax year – The tax year generally is the calendar year, although a taxpayer may elect a different financial year that also applies for tax purposes. The tax year generally is 12 months, but may be shorter in certain cases.

Consolidated returns – Each company files a separate tax return. However, companies may form a tax group for corporate tax purposes (subject to conditions). Members of a tax group may offset losses against the profits of other group members and enjoy simplified transfer pricing rules.

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

Penalties – A 50% tax penalty (200% in certain cases) is imposed on underpayments of tax; late payment interest applies at the base rate of the national bank of Hungary increased by 5%. There also are default penalties.

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

Individual taxation:

Rates	
Individual Income Tax Rate	15%
Capital Gains Tax Rate	15%

Residence – An individual is resident in Hungary in the following cases: (1) he/she is a Hungarian citizen; (2) he/she has a permanent home exclusively in Hungary; (3) the center of his/her vital interests is in Hungary; or (4) where residence cannot be determined based on the permanent home or the center of vital interests, the individual's habitual abode is in Hungary. An EEA citizen will be regarded as a Hungarian tax resident if he/she is present in Hungary for a total of at least 183 days during a calendar year.

Basis – Hungarian resident individuals pay tax on worldwide income; foreign resident individuals are taxed only on Hungarian-source income.

Taxable income – Employment income is taxable, as is income derived from an individual's trade or profession.

Rates – The general personal income tax rate is 15%. Dividend income and bank interest also are subject to a rate of 15%.

Capital gains – Capital gains generally are taxed at a rate of 15%.

Deductions and allowances – Subject to certain restrictions, deductions are granted for capital gains on the disposal of real estate. A family tax allowance also may apply.

Foreign tax relief – Hungary's tax treaties usually provide an exemption for active income and a credit for passive income. In the absence of a tax treaty, domestic law provides a credit for foreign taxes paid.

Compliance for individuals:

Tax year – Calendar year

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

Husbands and wives are treated as separate taxpayers.

Filing and payment – Personal income tax and social security generally are paid through withholding. Tax returns and the payment of any tax are due by 20 May following the tax year. An extension to 20 November may be granted if certain requirements are met.

Penalties – A 50% penalty (200% in certain cases) is imposed for underpayment of tax; late payment interest of the base rate of the national bank of Hungary increased by 5% also is levied, as is a default penalty.

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

Withholding tax:

Rates

Type Of Payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
Dividends	0%	15%	0%	15%
Interest	0%	15%	0%	15%
Royalties	0%	15%	0%	15%
Fees for Technical Services	0%	15%	0%	15%

Dividends – No withholding tax is levied on dividends paid to a nonresident legal entity. Dividends paid to an individual may be subject to personal income tax at a rate of 15%, unless the rate is reduced under a tax treaty.

Interest – There is no withholding tax on interest paid to a legal entity. Interest paid to an individual is subject to personal income tax at a rate of 15%, unless the rate is reduced under 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 15%, unless the rate is reduced under a tax treaty.

Fees for technical services – There is no withholding tax on fees for technical services paid to a legal entity. Fees for technical services paid to an individual are subject to personal income tax at a rate of 15%. For nonresident individuals, tax only applies if the services are provided through a fixed base maintained in Hungary.

Branch remittance tax – No

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. The following transfer pricing methods may be used: comparable uncontrolled price method, resale minus method, cost-plus method, transactional net margin method, and profit-split method. If none of these methods leads to a proper result, the taxpayer may apply any other defensible method. Documentation requirements apply for related party transactions, and advance pricing agreements (APAs) are available. Hungary has adopted country-by-country reporting requirements.

Interest deduction limitations – "Exceeding borrowing costs" are deductible up to the greater of 30% of the taxpayer's EBITDA or EUR 3 million (equivalent to HUF 939 million calculated at the HUF/EUR exchange rate applicable on 12 July 2016). For companies in a corporate tax group, exceeding borrowing costs and EBITDA figures are calculated on a consolidated basis. Exemptions for standalone entities and members of a consolidated group for financial accounting purposes apply. Exceeding borrowing costs may be carried forward indefinitely, and unused interest capacity may be carried forward for five years. Based on grandfathering rules, loans concluded before 17 June 2016 (and not modified thereafter) are subject to the previous thin capitalization rules that apply a 3:1 debt-to-equity ratio, although a taxpayer may opt to apply the current rules instead.

Controlled foreign companies – A CFC is a foreign entity in which a Hungarian company holds a direct or indirect participation exceeding 50%, or a foreign permanent establishment (PE), if the tax paid by the subsidiary/PE is less than the difference between the tax that would have been payable in Hungary on the same revenue and the tax actually paid.

A foreign entity (or PE) will not constitute a CFC if it realizes income only from genuine arrangements. Arrangements are not genuine if they are carried out primarily to gain a tax benefit and the significant people functions in terms of the assets owned and risks borne by the foreign entity are performed by a Hungarian parent company.

The proportionate part of the undistributed income from non-genuine arrangements of a CFC are taxable in Hungary as part of the taxpayer's tax base. Exemptions relating to the amount of pretax profit, profit from non-trading activity, and ratio of operating costs and pretax profit may apply. PEs in third countries (i.e. outside of the EU or the EEA) may obtain an exemption from CFC status if the country of the PE has concluded a tax treaty with Hungary that does not contain a "savings clause."

Hybrids – If a Hungarian taxpayer enters into an arrangement with related parties or is a party to a structured arrangement that results in a hybrid mismatch, costs are not deductible. No exemption is available for income realized by the Hungarian taxpayer if a payment is made under a financial instrument or by a hybrid entity and a hybrid mismatch arises, nor is an exemption available if the income arises from a payment made to a disregarded PE unless it is situated in a non-EU country with which Hungary concluded a tax treaty and the treaty provides for an exemption.

Economic substance requirements – A deduction from tax or taxable income or any other tax benefit is only available if the underlying arrangement has valid business reasons and is in line with the purpose and intent of the relevant tax rules. The economic substance should be properly documented.

Disclosure requirements – See "Transfer pricing."

Exit tax – In line with the EU ATAD rules, as from 2020, unrealized capital gains are subject to corporate income tax when a taxpayer transfers its tax residence to another country (within or outside the EU). Exit tax does not apply to assets that remain in Hungary. However, the tax does apply where assets are transferred from a Hungarian PE to the foreign head office or other foreign PEs, or if the activities of a Hungarian PE are transferred abroad and the transferred assets/activities are no longer within the scope of the Hungarian corporate income tax rules. Exit tax may be paid in five installments if the taxpayer moves its tax residence to another EU or EEA country.

General anti-avoidance rule – Hungary has implemented fully the general anti-abuse rule as required by the EU ATAD rules.

Value added tax:

Rates	
Standard Rate	27%
Reduced Rate	5%/18%

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

Rates – The standard VAT rate is 27%, with reduced rates of 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.

Other taxes on corporations and individuals:

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the federal level.

Social security contributions – Employers must pay social tax at a rate of 17.5% on an employee's gross wages. A vocational training contribution of 1.5% also is payable by the employer.

Employees are required to make social security contributions of 18.5%, which are withheld from gross salary by the employer. Social security contributions generally may apply on certain income types (such as dividends, subject to a cap).

Payroll tax – No

Capital duty – No

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

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 portion of the value exceeding HUF 1 billion, with the total tax liability capped at HUF 200 million per property. Various exemptions may apply, e.g. for transfers made in preferential mergers or demergers of companies.

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

Net wealth/worth tax – No

Inheritance/estate tax – The general rate of inheritance duty is 18%, and a reduced 9% applies to residential buildings. The inheritance is fully exempt in the case of direct descendants and the surviving spouse.

Other – Transfer tax is levied on the acquisition of motor vehicles. Other taxes include gift tax up to 18% with a reduced rate of 9% on residential buildings and full exemption in the case of direct descendants and a spouse.

Local business tax must be paid based on the business activity carried out in a municipality. The tax is imposed on the total revenue realized from the sale of goods and provision of services (except for royalty revenue) reduced by the cost of goods sold, cost of raw materials, cost of services on-sold, fees paid to subcontractors and R&D expenses. The tax rate is at the discretion of the municipality but cannot exceed 2%.

Tax treaties: Hungary signed the OECD multilateral instrument (MLI) on 7 June 2017 but has not ratified it yet. Hungary has 80 tax treaties in effect.

Tax authorities: National Tax and Customs Office