SHORT SUMMARY ON TAXATION AND HIGHLIGHTS OF HUNGARY 2024

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INVESTMENT FACTS:

Currency – Hungarian Forint (HUF)
Foreign exchange control – No
Accounting principles/financial statements Hungarian Generally Accepted Accounting Principles (GAAP), but certain companies may transfer to International Financial Reporting Standards (IFRS) from 2016. Financial statements must be filed annually. Companies whose shares are traded on a stock exchange within the European Economic Area (EEA) and financial institutions must use IFRS. Financial statements may be pre-pared in HUF, Euro (EUR), US dollar (USD) or in other currencies if certain conditions are met.
Principal business entities – These are the limited liability company (Ket.), 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 and its place of management is in Hungary.
Basis – Residents are taxed on worldwide income; nonresidents are taxed on Hungarian-source income only. 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 controlled foreign company (CFC).
Capital gains – Capital gains are taxed as part of the accounting profit at 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 this case, gains are taxable at a 9% rate.
Losses – Tax losses may be offset against up to 50% of the profit before tax of the relevant financial year. Tax losses generated before 2015 may be carried forward until 2030, while tax losses generated in 2015, and subsequent years may only be carried forward for five years. Losses should be used on a FIFO basis. The carryback of losses is not permitted. Special carryforward limitations apply to mergers and acquisitions.
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. Additional surtaxes on financial institutions, oil production companies, certain companies in the electricity sector, and airlines were introduced as from 1 July or 1 August 2022. The rates and scope of several existing surtaxes also were raised or extended at the same time. These measures are intended to stay in effect through 1 January 2025.
Alternative minimum tax – An alternative minimum tax may apply in certain circumstances. Foreign tax relief – Hungary's tax treaties usually provide for 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 for at least one year and the acquisition must be reported to the Hungarian tax authorities within 75 days from the acquisition of the investment. Similar exemption rules apply to the capital gain derived from the sale of qualifying intellectual property (except that the reporting is due within 60 days of the acquisition).
Holding company regime – See under “Participation exemption.”
Corporate taxpayer group – From 2019 affiliated companies are entitled to pay corporate tax as a group, if the direct or indirect majority control is at least 75% percent between members. The request for the registration can be filed between 1 and 20 November for companies whose financial year follows the calendar year. Those companies whose financial year end on 31 March, shall file the request between 1 and 20 February.
Incentives – Development tax incentives apply in the form of a tax credit for certain investments on the amount of the investment, the industry, and the region within the country. It is equally important, that a tax-deductible "development reserve" set aside for material investments may apply, limited to the amount of the profit before tax. Research and development (R&D) tax incentives al low for a double deduction of qualifying R&D costs. R&D tax incentives may be shared with associated enterprises that are Hungarian corporate taxpayers where certain conditions are fulfilled. From 2024, there is a new option for R&D tax incentives, under which certain direct costs of basic research, applied (industrial) research and experimental development (e.g. cost of patents used in the R&D project, operational and running costs incurred in a research and development project) can be deducted. A special deduction from taxable income is available for investments in start-up companies, subject to a maximum of 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. From 2024, tax credit can be claimed for investments in the construction of electricity storage facilities. Its condition is that at least 75% of the energy fed into the electricity storage in a given year must come from a power plant generating electricity from renewable energy. The amount of the tax credit, combined with all state aid requested for the investment, may not exceed 30% of the eligible costs of the investment per taxpayer and per investment, but not more than EUR 30 million. The tax credit can be increased by 20% for aid to small enterprises and by 10% for aid to medium-sized enterprises. Generally, multiple tax credits cannot be applied simultaneously to the same investment/eligible cost.

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WITHHOLDING TAX:

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 an applicable 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 an applicable 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 15% unless the rate is reduced under an applicable 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 social tax currently at a rate of 13% on an employee's gross wages. 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 for example dividends, subject to a cap. (See also "Taxable income," under "Personal taxation.")
Stamp duty – Various stamp duties apply in administrative and court procedures.
Transfer tax – The transfer of real estate or of shares in companies holding Hungarian real estateare subject to transfer tax payable by the purchaser at a rate of 4% of the value of the property up to HUF1 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. Various exemptions may apply, e.g., for transfers made in preferential mergers or demergers of companies.

ANTI-AVOIDANCE RULES:

Transfer pricing – If the consideration appliedin related party transactions is not at arm's length, the transfer pricing rules require that the tax base be adjusted accordingly. 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 1149 million calculated at the HUF/EUR exchange rate applicable on 23 January 2024). 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 ruling, loans concluded before 17th June 2016 (and not modified) 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 of the given year 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 for the same revenue and the tax actually paid. A foreign entity (or PE) will not constitute a CFC if at least 50% of its annual revenue is generated from production, agricultural, servicing, investment or trade activities pursued with the entity's own assets and employees or if it has an owner/shareholder holding at least 25% of the shares on each day of its financial year and its owner/share-holder (or its related party) has been listed on a recognized stock exchange for at least five years on the first day of its financial year. Profits generated from certain activities carried out by the CFC (e.g., interest, royalties, finance leasing, etc.) are taxable in Hungary, while tax paid on such profits in the CFC's country of residence will be creditable.
Other – No
Disclosure requirements – See under "Transfer pricing."

COMPLIANCE FOR CORPORATIONS:

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 taxyear is generally 12 months but can be shorter in certain cases.
Consolidated returns – Each company files a separate tax return. However, companies may form atax group for corporate tax purposes. Members ofa tax group may offset losses against the profits ofother group members and enjoy simplified transferpricing rules.
Filing requirements – 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. Tax liabilities are assessed in HUF but, as from 2023, companies may elect to pay their corporate income tax and local business tax liabilities in EURor USD instead of HUF.
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 are also default penalties.
Rulings – A taxpayer may request an advance ruling on the tax consequences of a proposed transaction. Advance pricing agreements (APAs) are available.

PERSONAL TAXATION:

Basis – Hungarian resident individuals pay tax on worldwide income; foreign resident individuals are taxed on Hungarian-source income only.
Residence – An individual is resident in Hungary in the following cases: (1) the individual is a Hungarian citizen; (2) he/she has a permanent home exclusively in Hungary; (3) the center of the individual's 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.
Filing status – A self-assessment regime applies,and individuals are required to file their own returns, but the tax authority prepares a draft tax return for the individual.
Taxable income – Employment income is taxable, as well as income derived from an individual's trade or profession.
Capital gains – Capital gains generally are taxed at 15%.
Deductions and allowances – Subject to certain restrictions, deductions are granted for capital gains on the disposal of real estate. A family tax allowance may also apply.
Rates – The general personal income tax rate is 15%. Dividend income and bank interest also are subject to a rate of 15%

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.
Inheritance/estate tax – The general rate of inheritance duty is 18%, and a reduced rate of 9% on residential buildings and full exemption in the caseof direct descendants and a spouse.
Net wealth/net worth tax – No
Social security – Employees are required to make social security contributions of 13%, which is with-held from gross salary by the employer.
Compliance for individuals:
Tax year – Calendar year.
Filing and payment – Tax returns and the payment of any tax are due by 20th May following the tax year. An extension to 20th November may be granted if certain requirements are met.
Penalties – A 50% penalty (200% in certain cases) is imposed for tax underpayment; late payment interest of twice the base 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 is 27%, with reduced rates of 18%,5% and 0%.
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 (2017); Act on Corporate Income Tax and Dividend Tax (1996); Act on Value Added Tax (2007); Act on Personal Income Tax (1995)
Tax Treaties: Hungary has more than 80 tax treaties in effect. The OECD multilateral instrument(MLI) entered into force for Hungary on 1st July 2021. The provisions of the US-Hungary double taxation treaty no longer apply as of 1 January 2024.

Tax authorities: National Tax and Customs Office