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DOING BUSINESS IN HUNGARY 2017

RSM Hungary Tax and Financial Advisory Services Plc.

FOREWORD

The editorial staff of RSM Hungary group and Szűcs & Partners attorneys-at-Law trust that our readers will find this publication useful. We hope that our work can provide some meaningful support for the preliminary assessment of your planned investment decisions.



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The aim of this, already the seventh edition of Doing Business in Hungary 2017 is to give a complex overview of the regulatory and economic environment affecting the establishment and operation of business entities for decision-makers contemplating a business investment in Hungary and this way to help them steer through the various taxation, economic and legal requirements in Hungary. This publication is an excellent starting point for foreign investors as it addresses specific issues concerning their business preferences and the given industry. Our highly qualified experts are readily available to provide an accurate analysis of those issues as well as the best ways to approach them.

Certain changes aimed at improving the competitiveness of the Hungarian economy play a key role among the various growth-enhancing opportunities in 2017. Employment taxes payable by employers have been reduced significantly and the corporate income tax rate was lowered to 9 percent. At the same time, the continuous rise of the employment rate puts significant pressure on wages while the number of employable people is dropping. Small and medium-sized enterprises ("SMEs") may become one of the main beneficiaries of European Union grants in the context of the current programming period ending in 2020 that mainly focuses on economic operators. The Hungarian economy was upgraded to investment grade, which brought about some positive changes at the end of last year. In addition, the banking sector's willingness to provide financing and its lending activity also improved compared to former years.

As a result of the amendment of certain accounting rules, some multinational companies are now obliged while others have an option to prepare their stand-alone financial statements in accordance with the IFRS rules instead of the Hungarian accounting rules.

The housing policy measures taking effect at the beginning of 2016 (such as the reduction of the VAT rate applicable to home sales from 27 percent to 5 percent, tax refunds on housing projects and the family housing allowance ("CSOK")) boosted the Hungarian property market and the momentum is expected to prevail also this year with beneficial effects on the construction industry and new projects. Several property development projects for investment purposes also contribute to the recovery of the Hungarian property market.

Hungary can be an attractive investment target for foreign direct investment as the country's position in the region is ideal, however, the scarcity of highly qualified workforce that speak foreign languages may pose certain challenges to employers owing to the rising employment rate.

The member firms of RSM Hungary group pursue highly-organized accounting, tax consulting, audit and legal activities in this developing and challenging economic environment with broad international background support as the exclusive Hungarian members of RSM International. RSM International is present in 120 countries of the world offering top-notch services and expertise in the field of financial advisory with more than 41 thousand employees in almost 800 offices. As a member of this excellent network, RSM Hungary offers its quality-oriented expert support for the achievement of business successes by both foreign investors in Hungary and Hungarian enterprises abroad.

We trust that the editorial team of RSM Hungary and Szűcs and Partners Attorney's Partnership will be able to provide some meaningful support for the preliminary assessment of your planned investment decisions in Hungary.

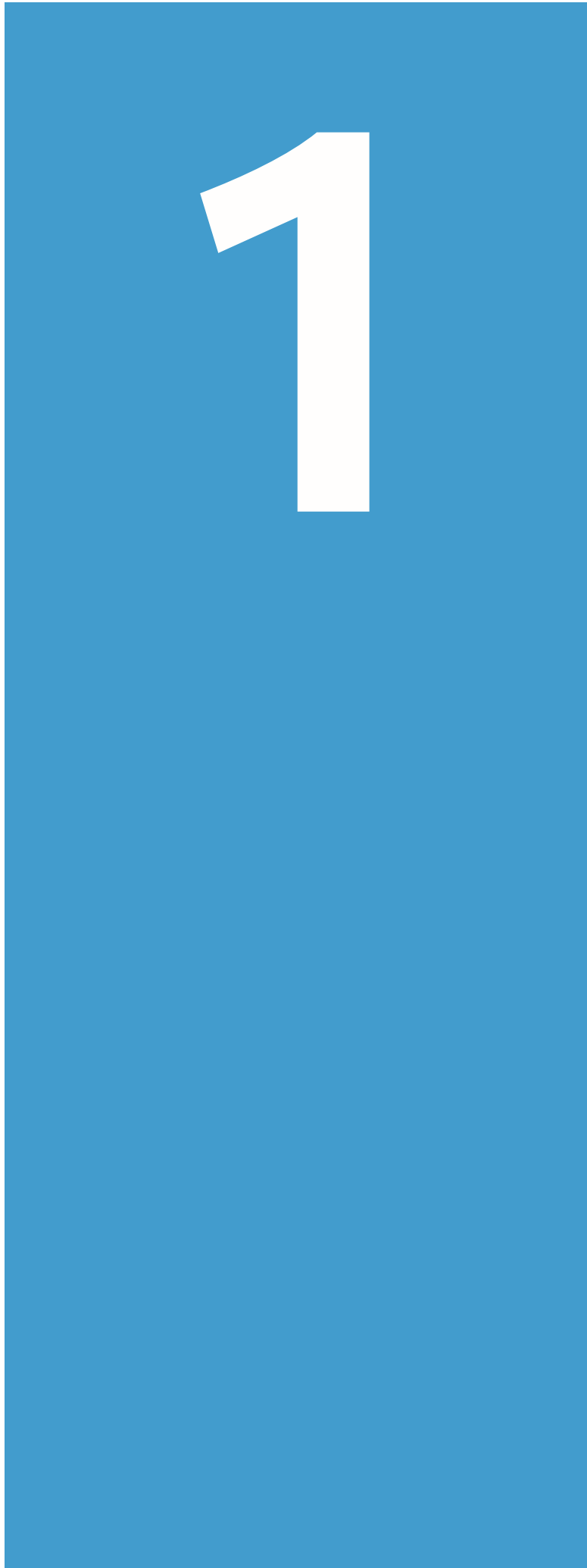
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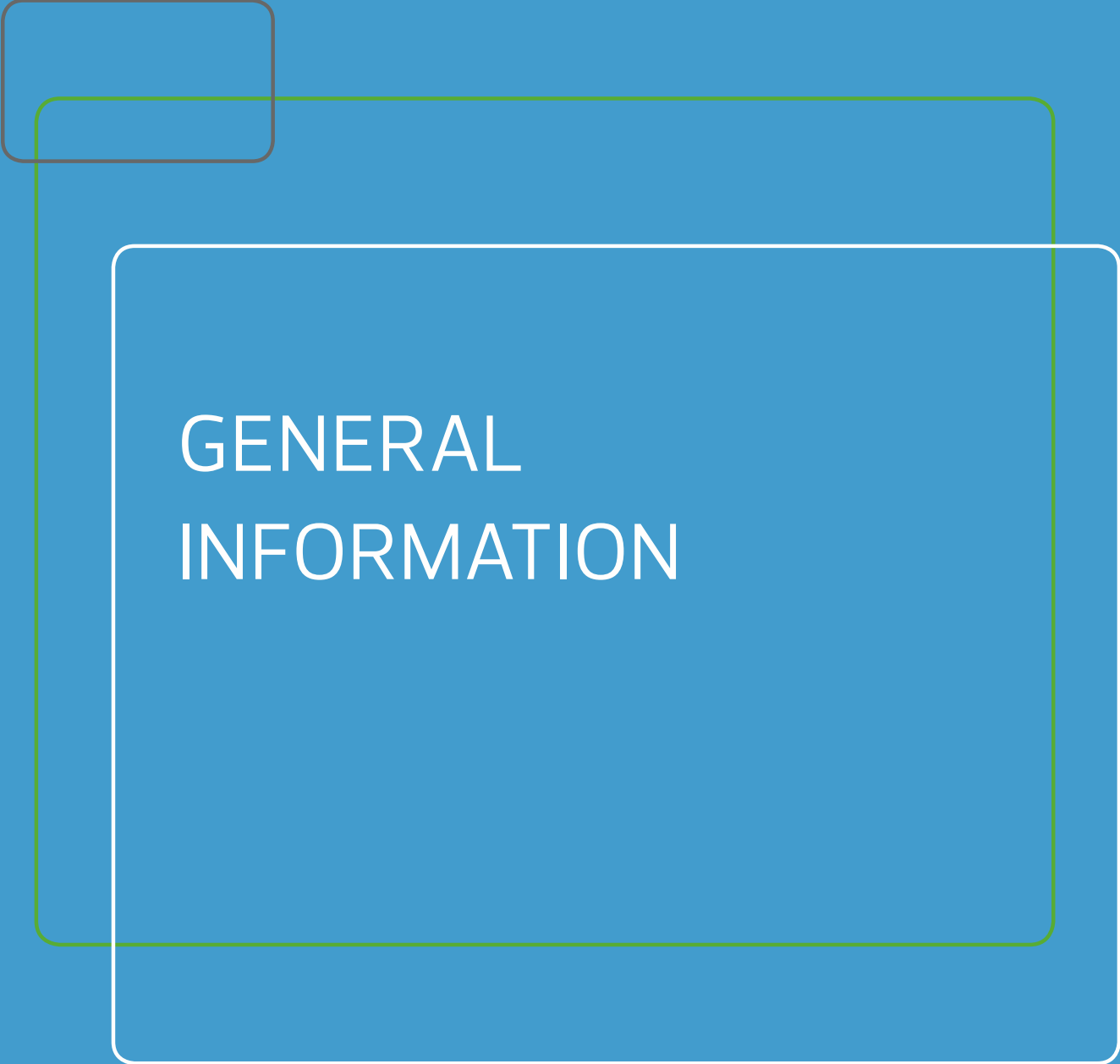
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GENERAL INFORMATION

1.1 Overview

Area: 93 036 km²

Capital: Budapest

Official language: Hungarian

Currency: Hungarian forint; abbreviations: Ft, HUF; prevailing interest and currency rates: <http://english.mnb.hu/>

Form of government: republic

Population: 9 830 485

International Airport: Budapest Ferihegy, BUD

OECD member since: 1996

EU member since: 1 May 2004

Videos about Hungary:

<http://www.youtube.com/watch?v=Hmz8Ni9zO4M&feature=related>

<http://www.youtube.com/watch?v=e0wkokaybWA>

<https://www.youtube.com/watch?v=qzi3Upxcfq8>



1.2 Geography and climate

Hungary is situated in Central Europe, between latitudes 44° and 48° North and longitudes 16° and 23° E and occupies an area of 93 036 km². Neighbouring countries: Slovakia to the north, the Ukraine and Romania to the east, Serbia, Croatia and Slovenia to the south and southwest, and Austria to the west.

The majority of the landscape consists of plains and low mountains. The highest point in the country is the Kékes at 1014 m. The two largest rivers, the Danube and the Tisza, are navigable. The Balaton, the largest lake in Central Europe, can also be found in Hungary. Natural treasures of the country include the arable land and the waterways, the latter including, in addition to a large number of rivers and lakes, a number of high-quality artesian springs and various types of thermal springs.

Hungary has a continental climate but is also influenced by the oceanic climate from the west and the Mediterranean climate from the south. Summers are generally warm and sunny with temperatures in the 25–30°C range. For a few weeks, daytime temperatures can reach around 35–38°C. Winters are cold with temperatures in the –10–0°C range. Spring and autumn are often short and usually wet.

1.3 Population

The population of Hungary has been declining steadily since 2001. According to figures of 1 January 2017, the total population of Hungary is 9 830 485. Bringing the population decrease to a halt is a primary government objective. The age pyramid depicts an aging population.

Close to 20 percent of Hungarians live in Budapest and its suburbs. This concentration is mostly due to the capital's primary role in the country's higher education, public administration and economy, as well as the traffic infrastructure. In addition to the high concentration in Budapest, the number of people living in large and mid-size towns is also significant, and migration from small towns is typical.

In terms of ethnic composition, the vast majority of the population are Hungarian, but the peoples from neighbouring countries and those that settled in Hungary during previous centuries have strong minority representation. The following is a list of minorities from the most to the least populous Gypsies, Germans, Croats, Slovaks, Romanians, Ukrainians, Serbs and Slovenians.

1.4 History

After a centuries-long journey, Hungarian tribes settled in the Carpathian Basin in 9th century A.D. The following century witnessed the development of centralised leadership over the tribes. Pagan Hungarians were converted to Christianity under Stephen I, the first King of Hungary, a process that lasted for several decades. The foundation of the Hungarian state is traced back to the date when Stephen I was crowned with the headpiece received from the Pope of Rome.

Despite the devastation caused by the Mongol invasion, centralised power and a strong state were established in the Middle Ages. The nation-founding House of Árpád was succeeded by the Anjou kings, who raised Hungary to a great European power. In addition to the country's political and economic roles in Europe, succeeding kings enhanced the importance of Hungary's cultural life, which resulted in a flourishing state during the Renaissance only to be brought to an end by the Ottoman occupation.

By early Modern Times, Hungary's political power had decreased, and with the Ottoman invasion its territory was broken up into three parts in 1541. The ensuing battle to recapture the country from the Turks turned the central area of the country into a wasteland. The Habsburgs ruling the western part of the country easily extended their influence over this central region previously occupied by the Turks and the Principality of Transylvania, a former vassal state of the Ottoman Empire in the east. Between the early 18th century and World War I, Hungary was part of the Habsburg Empire.

Hungary eventually regained its independence as a republic after World War I. The Peace Treaty of Trianon, signed on 4 June 1920, redefined state borders, as a result of which the country lost around two thirds of its pre-World War I territory and population. Between the peace treaty and World War II, Hungary was once again officially a kingdom, but was ruled by a governor.

In 1941, Hungary joined Germany in the Second World War with high hopes of regaining the territories it had been deprived of some two decades before. In 1944, the country was occupied by the Germans, who were defeated and replaced as the occupying force by the Soviet Red Army only to increase the material and human toll of the war.

The Paris Peace Treaty reinforced the state borders of the Treaty of Trianon. The post-war period of parliamentary democracy, lasting barely four years, ended in August of 1949 with the Soviet-backed Communist Party taking

over control of the country and establishing a one-party system. In the first half of the 1950s, Hungary was changed into a Stalinist totalitarian regime against which the 1956 Revolution broke out under the leadership of workers and young people. After the revolution was defeated by the communists relying on the support of Soviet tanks, government control tightened, yet this proved to be relatively mild ("goulash communism") compared to other countries in the Soviet-led communist bloc.

In the late 1980s, Soviet control began to slacken, paving the way for the change of political regime in 1989, with 23 October marking the birth of the new Republic of Hungary. The first democratic national and municipal elections took place in 1990. Complete democratic restructuring and stabilisation of the new institutional system went in parallel with a fundamental transformation of economic life.

As early as 1990, Hungary was striving for Euro-Atlantic integration, joining NATO in 1999, the European Union on 1 May 2004, and the Schengen Area in December 2007.

1.5 Political and legal environment

Since 1990, the Republic of Hungary has been based on a political system of Parliamentary democracy. Parliament is the highest body of popular representation. Members of Parliament are elected directly by the people every four years. Upon the recommendation of the President of the Republic, the Parliament elects the Prime Minister, who then forms the cabinet. Cabinet members are appointed by the President upon the recommendation of the Prime Minister. The President of the Republic is elected by Parliament for a period of 5 years.

The President's duties are primarily diplomatic, but he also announces the date of a national election and his approval is necessary for bills passed by Parliament to be enacted.

The 15-member Supreme Court is an independent forum designated to study whether or not specific laws are in compliance with the constitution. Enacted in 1949 and amended in 1989 on the occasion of the democratic transformation, the constitution was replaced on 1 January 2012, with a new constitution, which reflects the European and the general international principles.

Hungary is divided into 19 counties and the capital representing a separate region for public administration purposes, and 7 regions for development and statistical purposes.

1.6 Education and culture

The Hungarian education system is divided into three levels (elementary, secondary and higher education), all three with some publicly owned and some privately owned institutions. Hungary joined the Bologna Process in 1999.

1.7 Economic information

The sectoral structure of the Hungarian economy is mostly compatible with other countries at the same level of development.

The service sector accounts for slightly less than two-thirds of the GDP. Within the service sector, the private services (trade, tourism, finance and other economic services) are highly developed. Services, especially economic services, represent a sizeable portion of the country's export. The transportation sector (with some companies owned by the state and others by private corporations) offers optimum conditions for transit traffic due to Hungary's favourable geographical location. The state-run service sectors (health, education, public administration) failed to keep pace with the other service sectors and their fundamental transformation is therefore high on the political agenda.

The agricultural sector, for which Hungary has especially favourable climate conditions, represents approximately 4 percent of the country's GDP. In line with international trends, the industrial sector accounts for around one quarter of the country's GDP. Recently, primarily export-focused industries have been able to increase their output. These include the automotive industry, telecommunications and computer technology, while food and light industries have fallen back and the construction industry, as a result of the crisis, remains in a poor condition. The shortfall in the food industry is mostly attributed to the adverse conditions generated by Hungary's accession to the European Union. However strong it may once have been, Hungary's light industry is now almost non-existent, as Hungary has also lost out to Southeast Asian export markets.

1.8 Current economic situation

Global economic growth only slightly accelerate in 2017 (from 2.9 percent to 3.1 percent). The US will continue to grow moderately, supported by a combination of the improving employment picture, rising wages, higher household consumption and the Fed's hiking path which will be more gradual than formerly envisaged. This growth is curbed by a still strong US dollar and limited CAPEX expansion due to political uncertainty and still low oil prices.

The greatest risk to the eurozone growth outlook is the potentially negative outcome of the Brexit negotiations, which may have a detrimental effect on business and consumer confidence, the financial markets, the already distressed banking system and through these factors on the GDP. The factors boosting growth include the improving labour market, expansive monetary policies and the generally good overall balance. Domestic growth in Germany is on the rise, owing to the continuous improvement of the labour market situation and the low oil prices, while the low interest rate environment and the housing program for refugees has boosted investment.

Emerging markets will continue to face challenges in 2017 with limited contribution to the global economic momentum, although their growth rate may pick up slightly.

In China, the economic policy measures have improved the short-term outlook: lending has accelerated, infrastructural expenditures have increased and the country has managed to overcome the financial market turmoil, yet we expect a somewhat slower growth rate than last year.

In Russia, rising oil and commodity prices may put an end to the economic downturn and moderate growth is also possible. The situation will be similar in Brazil.

The most dynamic emerging economy, India is set to grow by more than 7 percent next year. We see no inflationary threats in 2017. The inflation rate may accelerate somewhat in developed countries, primarily due to faster growth, abundant liquidity in Europe and rising oil prices.

The inflation rate will slightly decrease in emerging markets. Oil prices may rise by 15 percent in 2017, with Brent, WTI and Dubai at around USD 50–52 on average. However, geopolitical risks will linger on and may cause significant price fluctuations from time to time.

GDP growth

GDP momentum will pick up in 2017, owing to the "loose" fiscal and income policies preceding the elections, monetary easing as well as employment growth also supported by the state, pay rises due to wage pressures in tight labour markets and investment momentum generated by increased EU funding. Higher growth will be fundamentally driven by an increase in domestic consumption and accumulation, thus the rate of domestic consumption will significantly exceed GDP generation. Import dynamics will outperform export dynamics, thus net export will hold back growth. As regards production, growth will be driven by the industrial sector. At the same time, construction will begin to recover while the momentum of services will somewhat abate. In the light of the foregoing, we expect 3 percent growth and a nominal GDP of around HUF 37,400 billion for 2017.

Drivers of growth

Investments

In 2016, investments mainly declined due to the loss of EU funding. Although this also impacted our competitors in Central and Eastern Europe, Hungary's momentum plummeted even more, which forecasted further deterioration in competitiveness. In processing, after a year of decline, investments only picked up on Q2, mainly focusing on the automotive industry.

In 2017, strong investment momentum is expected to develop on the low base. The government will work very hard to demonstrate an upturn in the year preceding the elections by accelerating the allocation and distribution of EU funds. In the Budget Act, consolidated accumulation expenses exceed the 2016 target by 91 percent, of which investments represent 37 percent. The amount of budgetary resources available for corporate development projects is near the record-high levels of the previous years. The Cabinet has a clear preference for transport, ICT, tourism and investments generating employment, while "CSOK" (the new family housing allowance scheme) brings dynamism to residential developments. Corporate investments are also gaining momentum, owing to the economic recovery, the interest rate environment, the improvement in banks' ability and willingness to lend as well as the need to replace expensive or missing labour. Accordingly, investments may grow by up to 10 percent in the national economy as a whole.

Incomes

Strong wage increase has been forecast for 2017 due to the increasing shortage of labour and the run-up to the elections. The government and the private sector have reached an agreement about the minimum wage and the guaranteed minimum wage for 2017. Compared the 2016, the former grew by 15 percent while the latter by 25 percent.

Starting from 1 January 2017, the mandatory minimum monthly base wage (minimum wage) payable to full-time employees is HUF 127,500, gross. For full-time employees employed in positions that require at least completed secondary education or vocational training, the guaranteed minimum wage is raised to HUF 161,000, gross.

Employment is expected to grow further in 2017, although the growth rate may decrease, primarily because it is becoming more and more difficult for companies to hire the right employees due to the increasing shortage of labour. The labour market will become saturated and reserves will disappear. The level of public employment is not expected to change next year. We estimate employment at 4.4 million and the number of unemployed at 200, thousand on an annual average, thus the unemployment rate will drop to 4.4 percent.

Foreign trade

In 2017, export and import growth expressed in EUR are both expected to accelerate, the former may reach 6 percent, while the latter 7 percent. Accordingly, there will be a reversal in export compared to import dynamics. Due to the import bias, the surplus of the foreign trade balance will slightly decrease, however, it will still be close to EUR 9.9 billion. The concentration of our export remains very high and this will be further increased by the expected automotive investments. This is the main downside risk in our foreign trade forecast.

Current account balance

In the first half of 2016, a massive surplus (even exceeding former levels) was accumulated on real economy transactions, while the decrease in interest expenses reduced the outflow of income. Thus, the current account surplus exceeded the same amount in the first half of the previous year. However, the deceleration of EU transfers due to the launch of the new programming period slightly deteriorated the external financing capacity. For the whole of this year, beside the decline in import momentum due to the good export opportunities, the improving exchange ratio and sluggish investments, the surplus of real economy

transactions may be outstanding (EUR 11 billion). Owing to the drop in the outflow of income, the current account surplus may reach a record high EUR 6.5 billion, or 5.8 percent of the GDP. However, due to the temporary decline in EU transfers, the country's external financing capacity will slightly deteriorate, yet it may still reach 7.5 percent of the GDP.

General government balance

Keeping the budget deficit below 3 percent of the GDP and reducing the debt ratio are not expected to pose a difficulty either this year or next year. In the first half of 2016, growth momentum declined and inflation fell short of the target, which did not facilitate the implementation of the plans, however, the achievement of our fiscal objectives will be supported by the recovery of domestic demand and the fact that the reclassification of the country into investment grade strengthens the currency and reduces financing costs. The latter is also supported by the NBH's liquidity-providing policies resulting in loose monetary conditions.

The 2017 budget deficit may reach 2.6 percent of the GDP under ESA 2010 standards, which exceeds the 2.4 percent target specified in the Budget. The deviation is due to the lower real economy scenario forecasted by us, even though the positive effects resulting in the expansion of the tax base (wages, consumption, corporate earnings) still prevail. At the same time, we expect EU fund drawdowns to be less than planned. If the Government manages to save the National Protection Fund, the deficit target may be achieved. Better-than-expected growth and/or strict control over spending may contribute to the Government's room for manoeuvre.

State debt

The debt ratio may drop to 73.1 percent by the end of 2017. The debt ratio predicted by us is higher than in the convergence program because we foresee slightly less growth than the government forecast. However, the strengthening of the forint or the decrease in real interest rates on the state debt may lead to a lower debt ratio than our forecast.

Development of consumer prices

The impact of imported inflation will already be felt in 2017 owing to the rise in the price of oil and commodities. The carry-over effect from the previous year, the disappearance

of the demand-side barriers and the pressure resulting from the increase in specific wage costs will once again generate inflation in the Hungarian economy, however, its rate will not reach the NBH's inflation target. Our average inflation estimate is 2.1 percent for the whole of the year and 2.3 percent for December.

Development of interest rates

The policy of the National Bank of Hungary may become slightly more stringent in the second half of next year due to added fiscal easing in 2017, stronger inflation and the Fed rate hikes, however, this is not expected to take place through hiking the policy rate but rather through easing the restrictions on deposits. Accordingly, interbank rates and government bond yields may increase slightly even if the policy rate remains unchanged.

Due to the rising inflation rate, investment instruments increasingly return negative yields in real terms, while the falling real rates on bank loans strengthen both corporate and retail credit demand. Although the bank tax that has been halved this year and will further decrease next year and the decline in risk costs reduce the costs included in loan rates, this effect is partially compensated by the contribution payable by banks to the deposit and investor protection funds due to the defaults of small banks and brokerage firms. The re-entry of EU funds and the extended "CSOK" may boost credit demand which in turn will increase the nominal loan rates while boosting inflation.

Exchange rate development

In the wake of the Fed rate hike, the interest premium of the HUF vs the USD will decrease in 2017. This may reduce the attractiveness of short-term HUF instruments, although long-term government bonds are still expected to offer sufficient yield spreads to avoid any material weakening of the Hungarian currency. However, the forint may become somewhat weaker compared to the highs at the end of this year. We predict that one euro will be worth HUF 307 on an annual average and HUF 308 at the end of the year. The dollar may appreciate to HUF 302 on average and HUF 308 by the end of the year.

Output of main sectors

Industry

We expect that the growth rate of EU Member States and our key foreign trade partners will increase slightly in 2017, thus, export growth may accelerate (partly due to the low base), while domestic sales will be boosted by investments and the increase in household consumption. Accordingly, next year we expect an industrial growth rate of about 5 percent (i.e. higher than this year).

Construction

After the derailment of 2016, the construction industry may gain momentum from the low base. The main driver of the approximately 10 percent growth rate will be the acceleration of the allocation of EU funds and the construction of buildings (mainly residential) which may recover from the historic low and double its value.

Agriculture

Owing to the completed investment projects and the new investments of the Rural Development Program co-funded by the EU, agricultural output is expected to grow in 2017, despite the fact that profitability and thus the incentives for investment is declining in animal husbandry. There are two distinct trends. The first is a halt in animal husbandry, while the second is a change in the strategy of cereal (primarily wheat) production: the acceleration of the transition to intensive varieties and precision farming. The volume of the production of plants will increase by 2–3 percent, production of livestock will stagnate and production of milk will grow by 1–2 percent. The expansion of agricultural income can only exceed this level, if the expected price increases materialise. The stability of the existing agricultural capacities requires the renewal of the Hungarian processing industry in the medium term. Domestic food consumption will only moderately increase in 2017 (around 1–2 percent), which may be exceeded by import growth by 2–3 percentage points. Export is expected to grow slightly slower, by 2 percent, however, the overall foreign trade surplus of the agricultural sector may still exceed EUR 3 billion. Agricultural investments will expand with the increased availability of EU funding and will be 10 percent higher than in 2016.

Summary and conclusions

This year is characterised by controversial processes. The dramatic decline in investments is partly counterbalanced by the expansion of consumption, also promoted by the government, thus economic growth in excess of 2 percent is expected also for this year.

The combination of the dynamic growth of real wages, the reduction in retail loan instalments (as a result of the "debtor rescue package"), the recovery of lending in the wake of the reduction of the bank surtax and the low interest rate environment favour consumption, however, its growth generating effect is less permanent than that of investments. Sluggish growth is combined with (seemingly) robust balance indicators: foreign trade and balance of payments surpluses are at record high levels, the budget deficit is on the decline, the government debt ratio is shrinking and inflation is permanently low. In the meantime (although still mainly as a result of the public works program) employment is growing and unemployment is dropping significantly.

The reclassification of the country into the investment grade category contributes, although only to a small extent, to the attractiveness of financial investments, strengthens the currency and facilitates the financing of the government debt as well as private companies. However, there are also some adverse developments behind the improvement of the macroeconomic and balance indicators. Growth remains extensive: the expansion of employment goes hand-in-hand with the deterioration of productivity. The high level of external financing despite waning EU transfers reflects the absence of private investment. Companies are still net savers, instead of driving economic growth by borrowing to expand their operations. Extremely low inflation cannot be regarded as a great achievement since, in addition to the external deflationary effects, it reflects weak internal demand, i.e. the inadequacy of growth drivers, despite loose fiscal and monetary policies.

Although some of these controversies will abate in 2017, the structural problems hindering permanent growth will remain in place. Investments and employment will expand and the unemployment rate will drop below 5 percent as a result of the availability of new EU funding. Consumption will also grow (although to a lesser extent than last year) partly due to the "lenient" budgetary and income policies during the run-up to the elections and partly due to forced wage increases in the tight labour market. Inflation will also grow somewhat owing to higher external inflation and the rise in domestic demand, however, it will still not reach the target until the end of the year.

At the same time, the autonomous investments of the private sector will still lag behind the level that would be required for convergence, despite the fact that the external economic cycle will pick up slightly, liquidity will stay abundant globally and domestic fiscal and monetary policies will be accommodative.

Development is becoming more and more difficult due to the mounting shortage of labour. Although the improvement in the position of the banking sector will lead to greater credit supply and the recovery of the housing market and higher household incomes will create credit demand, yet companies will remain net savers despite the improved credit conditions.

Beside the still robust external financing surplus of the Hungarian economy, this will also facilitate the achievement of the general government deficit target and the further reduction of government debt, although the durability of budgetary consolidation could best be ensured by strengthening the growth potential. The controversial developments of the present primarily pose a threat to the future. Extensive growth relying on employment is impeded by mounting structural tensions in the labour market and by the absence of appropriately qualified workforce in an increasing number of industries, which is further aggravated by emigration and the centralised and "watered down" productivist education model.

The public works program is also not a solution, as the majority of persons employed as public workers are unable to enter the primary labour market. By exploiting the increased room for manoeuvre resulting from cheaper financing, the government is trying to promote economic recovery, however, the efficiency of these efforts are deteriorated by two factors.

Companies and working capital investors are still discouraged by the government's persistent moves towards centralisation, restrictions of competition and the threat of forced nationalisation by making their operations impossible. At the same time, the desired expansion of consumption is hindered by the fact that, through various tax cuts and incentives, the government favours high-income households whose consumption is already saturated. The shortage of labour and capital expenditure preserves an economic structure characterised by little added value and low competitiveness.

Summary forecast figures

(previous year = 100 percent)

Description	2014	2015	2016*	2017*
World economy				
GDP production	103,4	103,1	102,9	103,1
Of which - Euro zone	100,9	101,7	101,7	101,7
- Germany	101,6	101,5	101,7	101,7
Inflation in developed countries (percent)	1,4	0,3	0,5	1,5
Goods and services in world trade	103,7	102,6	102,0	103,0
Hungarian economy				
GDP production	104,0	103,1	102,2	103,0
Gross fixed capital formation	111,2	101,9	90,0	110,0
Household consumption	1102,1	103,1	104,3	103,1
Net household savings	5,8	8,0	3,7	3,7
Net savings of companies	0,4	4,6	0,3	0,3
Real income	103,2	104,2	107,7	103,5
Number of employees, as per workforce survey, annual average (thousand persons)	4 101	4 210	4 320	4 400
Unemployment rate, annual average	7,7	7,0	5,3	4,4
Export (at current prices, EUR)	104,2	107,1	103,0	106,0
Import (at current prices, EUR)	104,7	104,6	101,5	107,0
Balance of foreign trade, EUR million	6 402	8 595	10 080	9 854
Current account balance, EUR million	2 181	3 713	6 500	6 100
External financing capacity as percentage of GDP	5,8	7,9	7,5	7,5
State budget deficit as percentage of GDP (ESA '95)	-2,1	-1,6	-1,8	-2,6
State debt as percentage of GDP	75,7	74,7	74,0	73,1
Inflation, annual average (percent)	-0,2	-0,1	0,3	2,1
Inflation, year-end (percent)	-0,9	0,9	1,2	2,3
Prevailing national bank interest rate, end-of-year (percent)	2,10	1,35	0,9	0,9
yield of 3-month state bonds, end-of-year (percent)	1,4	0,8	0,8	0,9
HUF/EUR exchange rate, end-of-year	314,9	313,1	306	308
HUF/USD exchange rate, end-of-year	259,1	286,6	291	308
Industrial production	107,7	107,5	102,5	105,0
Construction	116,9	103,0	90,0	110,0
Agricultural production	111,9	97,0	105,5	102,0
Nominal GDP, billion HUF	32 400,1	33 999	35 359	37 400

* forecast by Pénzügykutató Zrt.

Source: penzugyutato.hu, http://penzugyutato.hu/sites/default/files/Penzugyutato_Prognosis_2016%20okt_Sajtotaj.pdf

1.9 The stock market: the Budapest Stock Exchange

The Budapest Stock Exchange (BSE) is the venue for trading with shares of public companies limited by shares and registered in Hungary, securities issued by businesses, and Hungarian state and other securities. The BSE has four trading sections: equities, securities, derivatives and commodities. For more information on the BSE and BUX, its leading index, see the BSE website:

<http://www.bse.hu/topmenu/marketsandproducts/indices/bux>.

The Budapest Stock Exchange is a full-fledged member of a number of international professional alliances and organisations:

- Federation of European Securities Exchanges (FESE)
- World Federation of Exchanges (WFE)
- Financial Information Services Division / Information Industry Association (FISD/IIA)
- Association of Futures Markets (AFM)

1.10 Visas, work and residence permits

The visa regulations of the Republic of Hungary are in compliance with the regulations and recommendations of the European Union and the Schengen Agreement. Hungary joined the Schengen area in December 2007.

- Regarding Hungary's Schengen membership, the following need to be highlighted:
- visas and residence permits issued by any member state of the Schengen area are valid in the Republic of Hungary, and vice versa
- visas issued by Hungarian legations abroad, and residence permits granted by Hungarian national authorities, are valid for the Schengen area as specified on the stamp of the visa issued in the member states: "ETATES SCHENGEN", i.e. valid for all Schengen States.

The Schengen visa and entry regulations apply only for stays that do not exceed 90 days. For periods longer than 90 days, the visa regulations of the respective member states apply.

For more detailed information regarding entry and residence permits and the relevant procedures, a list of countries whose citizens can travel to Hungary without a visa, and special regulations on the citizens of non-EU countries, please visit the [website of the Ministry of Foreign Affairs](#).

1.11 Other useful information

Hungary uses the metric system for units of measurements.

Hungarian date notation: year/month/day. Contrary to the Hungarian spelling rules, as from 1 January 2012, the food trade shall display the shelf-life of the products in the order of day/month/year in compliance with the regulations of the European Union.

Hungarian uses the comma as the decimal separator and the full stop as the thousand separator.

Time Zone

Hungary is in the Central European Time Zone (CET), which is one hour ahead of Greenwich Mean Time (GMT). The country uses the practice of daylight saving time, advancing clocks by one hour during the period from the last weekend in March to the last weekend of October.

Normal business hours:

- Private and public offices: 8 a.m. to 4 p.m., closed on Saturdays and Sundays
- Retail: 10 a.m. to 6 p.m. Monday to Friday, 9 a.m. to 1 p.m. on Saturdays
- Shopping centres, hypermarkets: 7 a.m. to 9 p.m., seven days a week
Restaurants: 12 noon to 10 p.m.

The information above is not exhaustive and should only be considered as a guide because business hours may differ significantly in specific cases.

Public holidays in 2017:

- 1 January New Year's Day
- 15 March National holiday
- 14 April Good Friday,
- 17 April Easter
- 1 May Labour Day
- 5 June Pentecost

- 20 August Commemoration of the founding of the Hungarian state
- 23 October Commemoration of the Revolution of 1956
- 1 November All Saints' Day
- 24 December Christmas-Eve
- 25-26 December Christmas day and Boxing day

- Paris, France: 1448 km
- Prague, Czech Republic: 525 km
- Warsaw, Poland: 741 km
- Bucharest, Romania: 821 km
- Kiev, Ukraine: 1107 km
- Amsterdam, Holland: 1395 km

Distances between Budapest and some major European cities:

- Vienna, Austria: 243 km
- Frankfurt am Main, Germany: 964 km
- Rome, Italy: 1225 km

2



SOME IMPORTANT
LAWS APPLICABLE
TO BUSINESS
ASSOCIATIONS

2.1 Civil law regulations

2.1.1 Content of the Civil Code

- The new Civil Code, Act V of 2013 effective from 15 March 2014, (hereinafter: Civil Code) integrates in a uniform structure and transforms the entire general system of rules of common law relationships. The Civil Code contains a code regulation of the following common law matters:
- General principles of civil law
- Regulation applicable to natural persons
- Regulation of legal persons (including the detailed rules of business associations)
- Family law
- Substantive law and property registration
- Contract law, types of contracts and liability for damages
- Inheritance.

Entry into force of specific provisions of the Civil Code

In general, the Civil Code entered into force on 15 March 2014, and unless provided otherwise in the act regulating the putting into force of the Civil Code, it is applicable to the facts arising, the legal relationships established and the legal declarations made after this date.

The general rule for contracts (obligations) is that the provisions of the legal regulations in force before the entry into force of the Civil Code (i.e. those of the former Civil Code) shall be applied to the facts arising and the legal declarations made after the entry into force of the Civil Code in relation to contracts in effect at the time of entry into force of the Civil Code. However, the parties may agree to submit their contract concluded before 15 March 2014, entirely to the Civil Code.

The provisions on liability for torts shall apply to tort actions following the entry into force of the Civil Code but the former regulation shall apply in the case of continuous tort actions started before the entry into force.

The Act on the Entry into Force and Transitional Provisions of the Civil Code also contains further detailed rules regarding entry into force and application for specific books of the Civil Code. For the details of the entry into force of the rules on companies, see section 2.3.1.

2.2 Most important general rules of the Civil Code relating to contracts

Freedom of contract and form of legal declarations

According to the principle of the freedom of contract, the parties may enter into a contract freely, selecting freely the other party and determining freely the content of the contract, i.e. they may diverge from the rules of the Civil Code unless prohibited by legal regulations. Specific conditions of the contract shall be interpreted with a view to the whole contract.

The parties may make contractual declarations orally, in writing or implied. A legal regulation or the agreement of the parties may prescribe a certain form for making contractual and other legal declarations in which case, the legal regulation will only be valid in this form. Based on the parties' specific agreement, silence may also qualify as a legal declaration. In the case of a person who does not understand the language in which the document containing the written declaration was drafted, the legal declaration will only be valid if the document states that the content of the declaration was explained to the person signing it by one of the witnesses or the person attesting the document.

2.2.2 Representation

Unless provided otherwise in the Civil Code, legal declarations may also be made through a representative. A right of transactional representation may be provided in an authorization. A general permanent authorization not relating to a specific group of affairs must be included in a private deed of full conclusive force or a public deed.

2.2.3 Co-operation and information obligation

The parties are obliged to co-operate with each other and to inform each other of all material circumstances concerning the contract not only during the term of the contract but also during the negotiations leading to the conclusion of the contract, the conclusion of the contract itself and during the termination of the contract. If the contract is concluded based on the negotiations, the party breaching this obligation must indemnify the other party for its relating damages in accordance with the rules relating to damages caused by breach of contract. No indemnification liability applies to the failure of conclusion of the contract, however, the breaching party is liable for damages under the rules of liability for torts for the breach of the co-operation and information obligation.

2.2.4 Conclusion of the contract

The contract is concluded by a mutual and unanimous expression of the parties' intention and it requires an agreement of the parties in all material matters and all matters qualified material by either of them. The matters the parties regard material and the fact that they do not wish to enter into the contract if an agreement regarding these is not reached must be expressed clearly.

Unless agreed otherwise by the parties, the customs agreed and the practice established between the parties during their prior business relationship becomes part of the content of the contract. In addition, unless provided otherwise, the customs widely known and regularly applied in the given industry in relation to contracts of similar kind also becomes part of the contract unless their application would not be justified between the parties.

The expression of contractual content and the offer covering material matters is binding on the party making the offer but he may determine the term of validity. Withdrawal is not possible if the offer was classified as irrevocable or within the relevant deadline if a deadline was set until which the offer may be accepted. An acceptance of different content to that of the offer qualifies as a new offer unless the supplementary or diverging condition is non-material. Such conditions shall not become part of the contract if they were precluded in the offer or if the other party objects against such condition without fail.

The court will establish the contract if the parties fail to conclude a contract despite a statutory obligation to do so or if, abusing its economic superiority, either of the parties rejects entering into or maintaining a contract without cause. If, despite agreeing on the conclusion of a future contract determining material conditions (pre-contract), the parties fail to conclude the contract, the contract shall be established by the court upon the request of either of the parties.

If the party requesting the offer requests offers from a two or more of persons with the intention of entering into a contract with the party making the most favourable offer (tender procedure), such party has a contracting obligation. The contracting obligation may be precluded in the offer or the call for offers may be withdrawn until the deadline specified in the invitation.

In the case of contracts concluded electronically, the party providing the electronic means must provide the other party with information on the technical steps of conclusion of the contract before making his legal declaration for the

conclusion of the contract. Such information must include whether the contract is a written contract or not and whether it will be accessible later or not and it must specify the means of correcting errors, the language of the contract, potential codes of conduct applicable and the accessibility of such codes of conduct. The contractual declaration made electronically shall become effective when accessible to the other party.

2.2.5 General contract terms

General contract terms are contractual terms and conditions defined unilaterally by the party applying such terms for the purpose of concluding a number of contracts and which are not discussed specifically by the parties. The burden of proof as to the discussion of a specific condition by the parties lies with the party applying the general contract terms.

General contract terms become part of the contract if the party applying such terms gave the other party the opportunity to get familiar with such terms before the conclusion of the contract and they were accepted by the other party. If any condition is substantially different from the terms prescribed by legal regulations, usual contract practices or the terms previously applied between the parties, information must be provided in this regard and such terms shall only become part of the contract if accepted based on the special information provided.

2.2.6 Invalidity of contracts

An invalid contract may be void or contestable. Void contracts are invalid from the date of conclusion. Voidness is examined by the court ex officio. Voidness may be claimed and a relating procedure may be filed by the party which has a legal interest in this regard or who is entitled by law to do so.

A contestable contract becomes invalid as a result of successful contesting as of the date of conclusion. The contract may be contested by the party suffering damage or the party who has a legal interest in this regard. A contract may be contested within one year of conclusion but the right of contest may be exercised later also subject to an excuse.

The contract is void if it violates any legal regulation, if it was concluded with evasion of a legal regulation or in deviation from the mandatory form, if it offends against good morals, infringes consumer rights or is aimed at an impossible service. A contract is also void if, taking advantage of the situation of one of the parties, it provides for a disproportionate benefit (usury contract) and, subject

to certain exemptions, a provision is void if it is aimed at the transfer of ownership or other material right as security for money receivable.

A contract may be contested in the case of an error relating to a material circumstance, a mutual incorrect assumption, misleading, an illegitimate threat, an apparent disproportion of value or an unfair general condition.

2.2.7 Performance of contracts

Unless the Civil Code provides otherwise, the risk of damages transfers to the other party upon performance. The contractual service must be suitable for its intended purpose, in particular, its specified purpose and any purpose for which other, similar purpose services are used and must have proper quality and attributes (as agreed, expected, specified in a public communication or prescribed by a legal regulation). The obligee must check compliance of performance in terms of quality and quantity at his own expense.

2.2.8 Breach of contract

A breach of contract means failure of the contractual performance of any obligation, in particular, default, defective performance, rejection of performance or performance becoming impossible.

Irrespective of the breach of contract, the obligee has the right to claim performance or to withhold the proportionate part of his due service until the other party performs or until appropriate security is provided. The party entitled to withhold service may withdraw from the contract or terminate it if the other party fails to remedy the breach or provide proper security within the agreed deadline.

The obligee has the right to withdraw from the contract (subject to the restoration of the original condition) or to terminate the contract for the future if his interest in the performance of the contract ceased. The termination declaration is only valid if it specifies the cause of the withdrawal or termination.

The party causing damage to the other party by a breach of contract must reimburse such damage. He is only released from his liability if he proves that the breach of contract was caused by a circumstance beyond his control unforeseeable at the time of conclusion of the contract and his avoidance

of this circumstance or his prevention of the damage could not be expected reasonably. The indemnification must cover the damage caused to the subject matter of the service and other damages and unrealized financial advantages (if the obligee proves that these were foreseeable at the time of conclusion of the contract). Full indemnification obligation applies in the case of an intentional breach of contract.

The aggrieved party is obliged to prove the damage and the extent thereof, which may pose a difficulty in a number of cases. The parties may provide for a penalty in writing for a breach of contract that is attributable to the obligor. The penalty may be enforced irrespective of whether or not the obligee actually incurred damages due to the breach of contract, however, the court may reduce any excessive penalty at the obligee's request.

The agreement between the parties may limit or exclude liability for breach of contract, provided that liability may not be excluded or limited in the case of deliberate breaches or breaches harming human life, physical integrity or health.

2.2.9 Amendment and termination of contracts

The parties may modify their contract by mutual agreement. Also, any party may request the modification of the contract from the court if, during a long-term legal relationship between the parties, a circumstance occurs after the conclusion of the contract as a result of which the performance of the contract under unchanged conditions would be against the material legal interest of the party. This is subject to the conditions that the possibility of the change of circumstances must not be foreseeable at the time of conclusion of the contract, it must not be caused by the given party and it must not fall in the category of normal business risks.

The contract may be terminated by a unilateral legal declaration by way of withdrawal with retroactive effect to the date of conclusion (ex tunc) or by way of termination for the future (ex nunc) by the party who is entitled to exercise these rights based on the contract or legal regulations. The parties may terminate the contract by mutual agreement or may withdraw from it with retroactive effect to the date of conclusion. The contract may also be terminated by court subject to these conditions.

2.3 Company law rules of the Civil Code

The general regulation of Hungarian economic associations is included in Book 3 of the Civil Code. Accordingly, the Civil Code replaced the former separate Act on Business Associations, Act VI of 2006 (the Company Act).

The main types of business associations under Part 3 of Book 3 of the Civil Code are identical to those regulated in EU countries. However, there are some others under EU law, such as the European Economic Interest Grouping (EEIG) regulated in Act XLIX of 2003 on the basis of Council Directive no. 2137/85/EEC, and the European Company (Latin original: *Societas Europaea*) regulated on the basis of Council Directive no. 2157/2001/EEC.

The procedures on founding, implementing changes in data and winding up of Hungarian associations are primarily governed by Act V of 2006 on Public Company Information, Company Registration and Winding-up Proceedings (hereinafter: Company Procedures Act).

The Civil Code applies so-called dispositive regulation, i.e. it allows for deviations, regarding the rights of business associations based on which the members (shareholders) of companies may deviate from the rules of the Civil Code in respect of the regulation of the relationship between members (shareholders) and their relationship to the company as well as the organization and operation of the company. The Civil Code prescribes a general restriction regarding such deviations according to which deviations are allowed unless prohibited by the Civil Code and the deviation may not violate the rights of creditors, employees or infringe minority rights of members and may not prevent the supervision of the legitimacy of operation. Case law is continuously outlining the scope of cases that are authoritative in determining which provisions are subject to the above restriction and from which companies may not deviate.

2.3.1 Entry into force of the rules relating to business associations

Business associations have to apply the provisions of the Civil Code, replacing Act IV of 2006 on Business Associations (the Company Act), the former special act regulating corporate law before 15 March 2014, based on the following rules:

- The companies that were already listed in the trade register on 15 March 2014 must comply with the rules of the Company Act.
- The companies registered after this date are obliged to make a decision, simultaneously with the first amendment of their articles of association after the entry into force of the Civil Code, on continuing their operation in accordance with the provisions of the Civil Code and to file this decision with the court of registration.

Certain business associations were obliged to make the decision on continuing their operation in accordance with the rules of the Civil Code until the following dates at the latest, provided that their articles of association had not been otherwise amended:

- 15 March 2015 for general partnerships and limited partnerships;
- 15 March 2016 for companies limited by shares and associations as well as those limited liability companies that held the minimum HUF 3 million registered capital as prescribed by the Civil Code until 15 March 2016.
- However, limited liability companies not having the minimum registered capital of 3 million forints prescribed in the Civil Code may decide in the case of a potential amendment of their articles of association not to increase their capital and not to continue their operation based on the rules of the Civil Code but to operate under the former rules stated in the Company Act (until 15 March 2017 at the latest).

The articles of association do not have to be modified in relation to the Civil Code if such a modification would only be necessary due to references to the Company Act containing the former regulation. If the modification is only necessary in order to conform to the provisions of the Civil Code or to apply the rules of the Civil Code allowing for deviations, the company procedure may be administered free of company procedure fee and publication fee.

2.3.2 Common provisions applicable to business associations

Business associations are enterprises with legal personality created with the financial contribution of the members for pursuing joint economic activity in a businesslike manner and in which the members share profits and bear losses jointly.

Although the Civil Code does not specify the persons who may establish a business association, it is basically foreign and domestic natural and legal persons who may do so. Hungarian acts do not provide an exhaustive list of legal persons but, based on Book 3 of the Civil Code, legal persons include associations, business associations and foundations as well as the state when acting as a legal person in civil law relationships.

A legal person may pursue any activity which is not prohibited or restricted by legal regulations. If a legal regulation prescribes an authority license for carrying out a specific business activity (as in the case of insurance, financial service or capital market activities which may only be carried out with a license from the National Bank of Hungary as the financial supervisory organization), the company may only commence such activity on the basis of an effective authority permit. The business association may only pursue activities for which legal regulations require a specific qualification if the company's member(s) involved personally in such activity or at least one person in a civil law or labour law work relationship with the company satisfies this qualification requirement.

2.3.3 Types of business associations

Business associations can be founded in the following company forms:

- General partnership (Kkt.) a business association whose members jointly undertake to provide the company with financial contributions for the purpose of the company's business activity and assume unlimited, joint and several liability for the obligations of the company not covered by company assets.
- Limited Partnership (Bt.) a limited partnership is a company whose members jointly undertake to provide the company with financial contributions for the purpose of the company's business activity and at least one member of which (the general partner) undertakes liability (joint and several liability with other general members, if any) for the obligations of the company not covered by company assets while the other members but at least one other member (the limited partner) has no liability for the obligations of the company (unless provided otherwise in the Civil Code).
- Limited Liability Companies (Kft.) are business associations founded with an initial capital consisting of

capital contributions of a pre-determined amount, in the case of which the liability of members to the company extends to the provision of their capital contributions, and to other possible services of pecuniary value as set forth in the articles of association. Unless provided otherwise in the new Civil Code, members are not liable for the liabilities of the company.

- Companies limited by shares (Rt.) are business associations operating with a share capital consisting of shares of a pre-determined number and face value, in the case of which the obligation of shareholders to the limited company extends to the provision of the face value or the issue price of shares. Unless provided otherwise in the new Civil Code, shareholders shall not bear liability for the obligations of a limited company. The company limited by shares whose shares are not listed on the stock exchange qualifies as a private limited company (Zrt.) while the company limited by shares whose shares are listed on the stock exchange qualifies as a public limited company (Nyrt.). However, those public limited companies (Nyrt.) that were founded under the Company Act (and had already been registered or had been under registration in the trade register at the time of entry into force of the Civil Code and were registered since then) the shares of which were not listed on the stock exchange were obliged to list their shares until 15 March 2016 or to adopt a resolution on changing their form of operation or on transformation.

The common rules governing business associations shall also be applied to associations, as appropriate, in addition to the four basic company forms described above. A grouping is a co-operative society vested with legal personality, founded by members in order to facilitate the success of their business activities and to co-ordinate such business activities, as well as to represent their professional interests. The purpose of a grouping is not to make a profit for itself; its members shall bear unlimited, joint and several liability for debts in excess of the grouping's assets.

2.3.4 Foundation of a business association

A business association is founded by all founding members signing the articles of association (statutes for companies limited by shares, deed of foundation for sole member limited liability companies), which is drawn up in a notarial deed, or in a private document countersigned by a lawyer or the legal counsel of one of the founders.

The foundation of a business association must be announced to the registering court within 30 days of the date of incorporation of the deed of foundation in a notarial deed or the date of countersigning of the deed of foundation by a lawyer or legal counsel. If an authority permit is required for the foundation of the business association, this announcement must take place within 15 days of the receipt of the effective permit.

General partnerships, limited partnerships, limited liability companies, private limited companies or single member companies may be founded in a simplified procedure by articles of association drawn up on the basis of a template in the minister's decree. The deed of foundation is required to be prepared in a notary deed or countersigned in this case as well. In the case of this simplified procedure, the business association is registered by the court of registration within one working day of the receipt of the notice of the tax authority regarding the establishment of the tax number. The tax authority shall establish the tax number in the tax registration proceedings within one working day. If, as a result of the examination conducted on the basis of the tax identification number(s) disclosed by the court of registration it can be assumed that the establishment of the tax number has an impediment specified in the act, the tax authority shall pass its decision regarding the establishment or refusal of the tax number within a period of 8 working days. In the event the establishment of the tax number is refused in a non-appealable manner the court of registration shall reject the application for registration.

The articles of association must include (in addition to an expression of the founders' will to establish a legal person) the following for all business associations:

- the name of the business association;
- the registered office of the business association;
- the business association's main activity;
- the name and address or seat of the person or persons establishing the business association;
- the financial contributions to be provided to the business association, their value, and how and when the contributions are made available;
- the business association's first executive officer.

The wealth provided by the members (shareholders) to the business association may consist of financial contributions and contributions in kind. As contribution in kind, the members (shareholders) may transfer the ownership of things or rights of pecuniary value to the company. A

receivable may also be provided as contribution in kind if the transfer of the receivable was acknowledged by the debtor or if it is based on an effective court decision. If the value of the contribution in kind does not reach the value specified in the articles of association at the time of the transfer, the business association may claim the payment of the difference within 5 years of the transfer from the person providing the contribution in kind.

Agent for service of process

In accordance with the provisions of the Company Procedures Act, the foreign legal person or organization with legal personality and the foreign natural person without domestic residence recorded in the trade register (typically as the owner) shall appoint an agent for service of process. Any organization or natural person having its residence or seat in Hungary may act as the agent for service of process with the exception of the members, senior officers and members of the supervisory board of the company. The agent for service of process is responsible for receiving and forwarding to the foreign person any documents relating to the operation of the company addressed by courts and authorities to the foreign person. Receipt of the documents by the agent for service of process shall be deemed as receipt by the person represented by the agent.

Pre-company period

From the date of counter-signing of the articles of association by a lawyer or legal counsel or the date of incorporation of the articles of association in a notarial deed, the company may operate as the pre-company of the company to be established. The pre-company may obtain rights and responsibilities but can only carry out business activities after filing its registration request with the court of registration. With certain limitations (e.g. shares / business quotas may not be transferred), the same rules apply to pre-companies as to registered business associations. The pre-company period ends when the business association is registered in the company register and all legal transactions signed in the pre-company phase become the legal transactions of the business association. Under the effective regulations, business associations are required to file a separate report and tax return for the pre-company period provided that the company started its business activity in the pre-company period or the company is registered in the business year of its establishment.

2.3.5 Supreme bodies of business associations

In most cases, the decision-making body of the members of the company, the highest body of business associations is the meeting of the members, which has different names for specific forms of business associations (e.g. members' meeting, general meeting). In the case of sole member companies, the only member has the powers otherwise vested in the supreme bodies of other business associations. The supreme body is responsible for making decisions in fundamental business and personal matters of the company. The competence of the supreme body of business associations extends, in particular but not exclusively, to the approval of the financial statements prepared in accordance with the Act on Accounting, decision making regarding the distribution of profit and decision making regarding the enforcement of indemnification claims against members, executive officers, members of the supervisory board and the company's auditor.

In most cases, members (shareholders) attend the meeting of the supreme body in person but they can also delegate proxies. Instead of personal attendance, the articles of association may allow members to exercise their member rights at meetings of the supreme body using means of electronic communication (e.g. conference call) or the passing of decisions without holding a meeting. Decision making of this kind is initiated by the management by sending the draft decision to the members. Written decisions provide foreign owners with flexibility in exercising their rights.

2.3.6 Management of business associations

Executive officers

One or more executive officers or a board made up of executive officers has the right to make decisions regarding the management of the company not falling in the competence of the members pursuant to the provisions governing the specific forms of business associations.

In the case of general partnerships (kkt.) and limited partnerships (bt.) management is conducted by one or more managing directors appointed or elected from the members. If no such appointment or election is made in the case of general partnerships, all members are managing directors, however, the limited partner of limited partnerships may only act as the company's managing director if specifically

provided by the articles of association. Management of business associations is the responsibility of the general manager(s) in the case of limited liability companies (kft.) and the management or a board of directors in the case of companies limited by shares (nyrt. and zrt.), except for private limited companies where management is performed by a single person, the chief executive officer. However, due to the dispositive regulation of the Civil Code, the forms of management bodies may be established flexibly at companies.

Any person of legal age whose capacity was not limited within the sphere necessary for pursuing this activity may be an executive officer. If the executive officer is a legal person, such legal person must appoint a natural person who will fulfil the executive officer's tasks in the legal person's name.

The executive officer must perform his management tasks personally, representation is not possible. The executive officer may perform the management of the company under a service or employment relationship.

The executive officer manages of the company independently with the priority of the company's interest and, in this capacity, the executive officer is superseded by legal regulations, the articles of association, and the resolution of the company's supreme body and, with the exception of sole member companies, may not be instructed by the members of the business association. The general rule is that the company's supreme body may not take over any competence of the executive officer.

Providing they are not subject to disqualifying factors, executive officers may be appointed for an indefinite term, or for any definite period without time limitation, and may be recalled at any time. No person may be an executive officer of a business association

- who is a minor or is legally incapacitated,
- who has been sentenced to imprisonment by final verdict for the commission of a crime until relieved from the detrimental consequences related to his criminal record,
- who was effectively banned from this occupation or who was banned in an effective court verdict from an occupation carried out by the legal person in question during the term of such ban,

- who has been banned from performing executive office activities until the term of the banning verdict.

In addition, if a new company is founded, or there is a change in the owners or the position of executive officers, it is considered an excluding factor if the executive officer or majority owner has long-term outstanding taxes, or if he is or used to be the executive officer or member of another business association that has accumulated or failed to settle significant amounts of long-term outstanding taxes, or if the tax number of the business association has been deleted. In such a case the tax authority shall refuse the establishment of the tax number of the company, thus the performance of the economic activity may not be commenced or pursued with the participation of such a member or executive officer.

The responsibility of executive officers primarily covers the following:

- company foundation, announcement of the data of the business association prescribed by legal regulations to the court of registration and submittal of the annual report to the court of registration;
- providing of information to the members regarding the business association and providing members with access to documents and registers relating to the business association;
- legal representation of the business association.

Liability of executive officers

Executive officers are liable to the company based on the rules pertaining to damage caused by breach of contract. Based on these rules, the executive officer is released from liability if he proves that the breach of contract was caused by a circumstance beyond his control unforeseeable at the time of conclusion of the contract and avoidance of this circumstance or prevention of the damage could not be reasonably expected from him. This liability of executive officers is limited relative to general liability as it only extends to the damage caused to the subject matter of the service and other damages and lost profit is only reimbursable if the company proves that the damage was foreseeable at the time of conclusion of the contract as a potential consequence of the breach of contract.

Upon the executive officer's request, at the time of accepting the annual financial statements the supreme body of the company may provide a release from liability establishing compliance of the executive officer's management activity performed in the previous year. In this case the company may only place a claim for indemnification based on non-compliance with the executive officer's obligations if the facts or data serving as the basis for the release are untrue or incomprehensive.

If the executive officer causes damage to a third person in relation to his executive officer relationship, he will have joint and several liability towards such person with the company (the legal person).

If the business association ceases without legal succession, the creditors may enforce claims for indemnification up to the value of their unsettled receivables against the executive officers of the company based on the rules of tort liability if the executive officer did not consider the creditor's interests after the emergence of the situation representing a threat of insolvency of the company. This provision does not apply if the company ceased by voluntary dissolution under which creditors were satisfied in a specific order.

Company managers, employees having right of representation

In addition to the executive officers, the supreme body of the company may appoint employees of the company as company managers to assist the work of executive officers. The management may grant the company manager a general right of representation.

Also, the management may grant employees of the company the right to represent the company in respect of specific affairs in a written declaration. By the main rule, such right of representation may be exercised by the employee jointly with another person having the right of representation specified in the management's written declaration but deviation from this rule is possible.

2.3.7 Owner's control over the business association, supervisory board

The members or the founder may prescribe the setting up of a supervisory board in the articles of association for the task of exercising control over the management in order to protect the interests of the legal person. The supervisory board is made up of three members. The setting up of a supervisory board is an option in certain cases but an obligation in others. Members of the first supervisory board must be named in the articles of association. Subsequent members are elected by the supreme body. Supervisory board membership commences upon acceptance. The supreme body of a business association that is supervised by a supervisory board may adopt a decision concerning the annual report only if in possession of the written report of the supervisory board.

Pursuant to the Civil Code, the establishment of a supervisory board is mandatory:

- if the number of full time employees of the company exceeds 200 on an annual average and the worker's council did not waive the right of participation of the employees' representative in the supervisory board in which case one-third of the supervisory board shall be made up of representatives of the employees (employee participation);
- in the case of a private limited company if this is requested by shareholders holding, on an aggregate basis, at least 5 percent of the voting rights;
- in the case of a public limited company if the company does not operate under a one-tier system.

2.3.8 Auditor

The auditor shall be responsible for the proper performance of the audit and, based on the audit performed, for expressing an opinion in the independent auditor's report as to whether the annual report of the business association is in conformity with legal requirements, and whether it provides a true and fair view of the company's assets and liabilities, earnings, financial position and business profit or loss.

All undertakings keeping double-entry books must select an auditor, save for the cases specified in Act C of 2000 on Accounting (hereinafter Accounting Act) and in other legal regulations. According to the Accounting Act the auditing of books shall not be compulsory for the undertakings if the following two conditions are jointly met:

- The annual net sales (calculated for the period of one year) did not exceed HUF 300 million on the average of the two financial years preceding the financial year under review, and
- the average number of people employed by the undertaking did not exceed 50 people on the average of the two financial years preceding the financial year under review.

However, exemption based on the above value limits does not apply to the companies the audit of which is prescribed by law (for example: credit institutions), savings banks, consolidated enterprises, Hungarian branch offices of enterprises having their seat abroad and companies which have diverged from the provisions of the Accounting Act using the option provided in the Accounting Act in order to ascertain the provision of a reliable, true and fair view of their operation.

If the business association is not obliged by any legal regulation to select an auditor it may still do so at any time. If the company selects an auditor, it is the supreme body of the company that defines the essential content of the contract to be concluded with the auditor. The first auditor must be included in the Memorandum of Association. Subsequent auditors do not need to be included in the Memorandum of Association but they need to be registered with the court of registration. The auditor may not create such rapport with the management of the company that could jeopardize the impartiality of the audit.

2.3.9 Minority protection

Members (shareholders) having at least 5 percent of the votes have certain minority rights. These minority rights include the option of these members (shareholders) at any time to request the management to call a meeting of the supreme body of the business association or to make a decision without calling a meeting and to request the registering court to order the audit of the last annual report or any business event or undertaking relating to the management's activity in the last two years if such request has been refused by the supreme body of the business association or no decision has been adopted in the matter.

If the supreme body of the business association rejected or refused to put forward for decision making a proposal for the enforcement of any claim the company may have against any member, executive officer, supervisory board member or

the auditor, the members having minority rights may enforce such claim to the benefit of the company themselves as representatives of the business association.

2.3.10 Liability for the legal person's debts

In a certain regard, the Civil Code breaks the limited liability of members (shareholders). If a member or founder of the legal person abuses its limited liability as a result of which unsettled creditor claims remain after the cessation of the legal person without legal succession, the member or founder will have unlimited liability for such debts.

2.3.11 Qualified majority, majority influence

If a member of a limited liability company or private limited company holds (directly or indirectly) at least three quarters of the votes, he must announce this to the registering court within 15 days of acquiring such qualified majority. Within sixty days of the publication of the acquisition of qualified majority, after which deadline this right lapses, any member (shareholder) of the company may request the member having qualified majority to purchase his share in the company at market value but at least at the value of the company's equity proportionate to the offered shareholding.

In the event that any member acquires over 50 percent of the votes, has the right to designate or dismiss the majority of the executive officers of the other company or has the right or the actual ability (direct management) to assert major influence over the decisions of the other company by merger or acquisition, this member is deemed to fall under the scope of Act LVII of 1996 on the Prohibition of Unfair Trading Practices and Unfair Competition (hereinafter: the Competition Act) and in certain cases may need to request permission from the competent competition authority for such mergers.

2.3.12 Equity protection

In order to protect shareholder's equity and creditors, if the company's equity does not reach the mandatory registered capital prescribed for the given company form in two successive business years and the members fail to provide the required equity within 3 months of the acceptance of the financial statements of the second year, the company must decide on transformation, termination without legal succession or combination with another company within 60 days of the expiry of this deadline.

Furthermore, if (a) the company's equity decreases to half (two thirds for companies limited by shares) of its registered capital due to its losses; (b) the company's equity decreases below the statutory minimum amount of the registered capital; (c) the company is threatened by insolvency or has ceased to make payments; or (d) the company's assets do not cover its liabilities, members are required to (i) prescribe the supply of additional capital by members, (ii) make sure that the equity reaches the level of the registered capital otherwise or (iii) reduce the registered capital. In the absence of the above, members are required to resolve the company's transformation, merger, separation or termination without legal succession.

2.3.13 Termination of business associations

Business associations may be terminated with or without a legal successor. Cases of termination without a legal successor:

- the company was established for a definite period and this period expired,
- the termination of the company is subject to a specific condition and this condition is fulfilled,
- the members or founders declare the termination of the company,
- the body having this right terminates the company,

provided in each case that the court cancels the company from the register after completion of the relevant procedure for closing the financial relationships of the company.

If the business association is terminated by liquidation, the provisions of Act XLIX of 1991 on Bankruptcy and Liquidation Proceedings shall apply.

2.3.14 Transformation of business associations

In the case of transformation of a legal person into another type of legal person, the transforming legal person ceases to exist and its rights and obligations transfer to the legal person established by the transformation as its general successor in title.

A legal person may combine with another legal person by merger or acquisition. In the case of a merger, the merging legal persons cease to exist and a new legal person is created subject to a general succession in title. In the case of an acquisition, the acquired legal person ceases to exist and its general successor in title will be the other legal person participating in the combination.

A legal person may be divided into two or more legal persons by de-merger or separation. In the case of de-merger, the legal person ceases to exist and its assets transfer to the legal persons established by the de-merger as successors in title. In the case of separation, the legal person continues to exist and a part of its assets is transferred to the legal person created by the separation as successor in title.

In addition, a business association may also transform to a business association, association or co-operative of another company form.

General rules of transformation are included in the Civil Code while detailed rules are included in Act CLXXVI of 2013 on the Transformation, Combination and Separation of Legal persons also effective from 15 March 2014 and the Act on Accounting. A business association created by transformation has no pre-company period, as the legal successor business association may start its activities after being registered by the court of registration. Until the changes are registered, the predecessor company continues its activity unchanged.

The business association established by way of transformation is the universal successor of the business association transformed. The rights and obligations of the predecessor business association shall be transferred upon the successor business association. In the event of a division, the demerger agreement has to divide the rights and responsibilities of the business association being transformed; however, the successor business associations will bear joint and several liability for the obligations that have not been divided.

In the event of a transformation, draft statements of assets and liabilities and draft inventories of holdings will be prepared for the company undergoing transformation and its successor company. The draft statements of assets and liabilities and the draft inventories of holdings will be approved by an independent auditor, who may not be the auditor of the business association undergoing transformation.

In the event of a merger, the provisions of the Competition Act also have to be observed, and in accordance with this, in certain cases permits from the competent competition authority and the European Commission also have to be requested.

In accordance with Act CXL of 2007 on cross-border mergers of limited liability companies, limited liability companies and companies limited by shares may pass decisions about cross-border mergers with a business

association established in the European Union. The abovementioned act is designed to help compliance with Directive 2005/56/EC, supports flexible merger of business associations within the European Union and provides an opportunity for planning finances and taxes.

2.3.15 Limited liability companies

As a result of its limited liability and simple formal requirements, the limited liability company (kft.) is the most widely used form of business association in Hungary.

Performance of capital contributions and other services

The capital contribution is the member's financial contribution while the total amount of capital contributions is the initial capital, which may not be less than HUF 3 000 thousand (approximately EUR 10 thousand).

The capital contributions of the members may be different but the amount of individual capital contributions may not be less than HUF 100 thousand. Subject to an express provision in the articles of association, a member may have more than one capital contributions and the members may provide that two or more of them may hold one capital contribution based on the rules of joint ownership.

A member may co-operate in the company's activity personally in the absence of a separate legal relationship for this purpose (supplementary service). A member may claim consideration for his personal service provided to the company in a member's capacity and the company may enforce a claim against the member due to failure to provide personal co-operation if this is allowed and regulated in the articles of association.

The articles of association may authorize the members' meeting to prescribe the provision of additional contributions by the members to cover losses. The articles of association must define the highest amount which may be demanded from a member and the frequency of demanding additional contributions. The method and schedule of and the deadline for providing additional contributions must be defined in the decision of the members' meeting (founders) prescribing the provision of additional contributions. The amount of the additional contribution will not increase the member's capital contribution and must be recognized in the books of the company as tied-up reserve. Additional contribution may also be provided in the form of a contribution in kind satisfying the requirements relating to contributions in kind.

The additional contributions not used for loss compensation must be repaid to the members included in the members' list at the time of repayment.

Business quota and transfer of business quotas

A business quota is the whole of the member rights and obligations relating to a capital contribution. The business quota is created by registration of the company. The rate of the business quota corresponds to the member's capital contribution. The same member rights relate to a business quota of the same rate but the members may also provide to assign different member rights to specific business quotas. Accordingly, business quotas with different rights may grant rights to more favourable dividends or voting rights.

Business quotas may be transferred by written agreement, but may only be transferred to outsiders if the member concerned has paid his capital contribution in full unless the transfer takes place because the membership of the member ceases due to his failure to provide his capital contribution or additional contribution or because the member was excluded. The other members, the company or the person nominated by the members' meeting (in this order) are entitled, based on the rules relating to the right of pre-emption, before others to acquire the business quota to be transferred against money but the members of the company may also diverge from this rule. The transfer of a right for the acquisition of a business quota before others is void.

The articles of association may prescribe the company's consent for the transfer of business quotas to outsiders which consent is granted by the members' meeting. By the main rule, a business quota may also be transferred by inheritance, as a gift but the transfer of business quota against money to outsiders cannot be excluded validly.

Payments by the company

The company may make payments to members with regard to their membership from its equity (with the exception of a case of capital reduction) in accordance with the provisions of the Civil Code from its unassigned profit reserve supplemented by the previous business year's after tax profit. No such payment may be made if the company's adjusted shareholder's equity does not reach (or would not reach as a result of the payment) the company's initial capital and if such a payment would threaten the company's solvency.

From the equity of the company available for division and ordered by the members' meeting to be divided for the purpose of payment to the members, each member is entitled to an amount determined in proportion to such member's capital contribution (dividend). However, the company's articles of association may provide that dividend is to be paid in a proportion different from the capital contributions.

During the business year (in the period between the acceptance by the members' meeting of two successive annual reports), the member's meeting may decide to pay dividend advance if

- it can be established based on the interim balance sheet that the company has sufficient funds for the payment of dividend,
- the amount of the payment does not exceed the profit, as established and as supplemented by unassigned profit reserve, generated since the closing of the books of the business year of the last annual report and
- the adjusted shareholders' equity of the company will not decrease below the initial capital as a result of the payment.

If the annual report prepared after the payment of the dividend advance shows that payment of dividend is not possible, the members are obliged to repay the dividend advance.

Scope and operation of the members' meeting

The members' meeting is the supreme body of the limited liability company.

The Civil Code does not provide a comprehensive summary of the competence of the members' meeting. However, the exclusive competence of the members' meeting extends, in particular, to the approval of the financial statements, the decision on the payment of dividend, the appointment and dismissal of executive officers and the determination of their remuneration, the approval of the division of business quotas, the acquisition of own quotas, the approval of the conclusion of contracts with members, supervisory board members or the elected auditor of the company or the close relatives of these persons.

By the main rule, the managing director convenes members' meetings to the seat of the company. Members' meetings may also be held using means of electronic communication.

Single-member companies

A limited liability company may be founded by one person and such a company may also be created by the acquisition of the entire business quota of an existing company of two or more members by the same member. In the case of a single-member company, the powers of the members' meeting are exercised by the founder or the single member. An important rule of form is that contracts between the single-member company and its member must be concluded in a public deed or in a private deed of full conclusive force. The rules pertaining to qualifying majority influence govern the liability of the member of a single-member limited liability company.

2.3.16 Company limited by shares

Companies limited by shares may only be founded as private companies. Public limited companies may not be established; only private limited companies may change their form of operation by listing their shares on the stock exchange.

Capital requirements

The minimum initial capital is HUF 5 million (approx. EUR 17 thousand) for private limited companies and HUF 20 million (approx. EUR 65 thousand) for public limited companies. A limited company may increase its initial capital by the issue of new shares, from the assets other than the share capital of the company, by the issue of employees' shares and by the conversion of convertible bonds to shares.

Share, share types, classes of shares

Shares issued by limited companies are equity securities representing membership rights which are registered, have a face value and are marketable. The relevant regulation is included in Act CXX of 2001 on the Capital market. The total face value of all shares represents the company's share capital.

According to Hungarian legal regulations, only registered shares may be issued in printed or in dematerialized form. Shares of private limited companies may be issued in printed or in dematerialized form. Printed shares may be transformed into dematerialized shares and vice versa. The shares of public limited companies are issued in dematerialized form.

When using dematerialised shares, the data representing the shares are recorded on a securities count. Shareholders may exercise their shareholder rights in possession of the shares or based on a deposit or ownership certificate after recording in the share register.

Share types regulated by the Civil Code:

- ordinary shares,
- preference shares,
- employees' shares,
- interest-bearing shares,
- redeemable shares.

Within preference shares, the articles of association may define classes of shares to provide the following rights:

- priority dividend,
- upon termination of the limited company without succession, priority for a share from the assets to be distributed,
- preference related to voting rights,
- priority for the appointment of executive officers or supervisory board members,
- pre-emption right (to be issued only for private limited companies),
- two or more of the above preference rights simultaneously.

However, the shareholders may issue types and classes of shares other than the above share types and classes of priority shares, not specified in the Civil Code provided that they specify the content and extent of the member rights represented by the shares to be issued in the statutes.

Limited companies may issue registered bonds that must be converted into shares based on the conditions defined in the statutes if requested by the holder of the bond (convertible bond) as well as registered bonds granting the obligee of the bond priority in the receipt or subscription of shares when the company's capital is increased by the issue of new shares (subscription bond).

Rights of shareholders

Shareholders have the right to participate, request information, make remarks and proposals, and vote if holding shares with voting rights.

Shareholders are entitled to dividends and interim dividends. Limitations on the disbursement of dividends are the same as those listed for limited liability companies.

General meeting

The Civil Code does not provide a comprehensive summary of the powers of the general meeting. The General Meeting shall have exclusive jurisdiction in the following matters, among others:

- making a resolution on the modification of the business association's corporate name, registered office, places of business and branches, and the activities of the business association other than its main activity
- the approval of the financial statements in accordance with the Accounting Act,
- making a decision about the payment of dividends and interim dividends,
- the appointment of the executive officers, permanent auditors and managers,
- providing a hold-harmless warrant to an executive officer, acknowledging his management activities,,
- approval of the supervisory board's rules of procedure,
- making a decision on the enforcement of claims for damages against executive officers, supervisory board members and auditors,
- making a resolution on the amendment of the articles of association, on changing the company form, on the transformation, merger or division of the company, on its dissolution without succession, and on the reduction of its share capital,
- making a resolution on increasing the share capital or on authorising the management board to increase the share capital,
- making a resolution on the issue of bonds with subscription rights,
- granting prior authorisation to the management board to acquire the company's own shares,
- prior approval of contracts to be concluded between a company limited by shares and a shareholder or his close relative or any person in which the shareholder has majority control,

In case of a private company limited by shares:

- making a resolution on filing an action for the exclusion

of a shareholder;

In case of a public company limited by shares:

- approval of financial assistance to be provided to third parties for the acquisition of shares issued by the public limited company under market conditions, from the assets available for the payment of dividends,
- making a prior resolution on the approval of any contract on the transfer of property to be concluded within two years from the public limited company's registration between the company and its shareholders, provided that the value of the compensation to be provided by the company reaches one-tenth of its share capital,
- defining the guidelines and framework for a long-term salary and incentive scheme for executive officers, supervisory board members and executive employees,
- approval of the corporate governance and management report of the company prepared according to the rules applicable to the actors of the given stock exchange.

General meetings may be held by means of electronic communication in the case of both private and public limited companies.

Board of Directors

As a general rule, the administrative duties of limited companies are handled by the Board of Directors, consisting of three natural persons. The Chairman of the Board is elected by the board members. Any provision of the statutes prescribing the setting up of a board of directors of less than three members is void. The board is an independent body that sets its own agenda.

In case of private companies limited by shares the articles of association may provide that the rights conferred upon the Board of Directors are exercised by the CEO as an executive officer.

Where the articles of association of a public limited company so provide, it may be controlled by the council of directors under a one-tier system instead of the management board and the supervisory board.

2.4 Branch offices and commercial representative offices of foreign business associations

2.4.1 Branch offices

Foreign entrepreneurs may conduct their business in Hungary by opening a branch office in the country. Such a branch office is a separate organisation unit of the foreign business association without legal personality registered by the Hungarian court of registration. Through their branch offices, foreign business associations are entitled to carry out business activities in Hungary and are represented towards the authorities and third parties by their branch offices. The branch office has full legal capacity, it acquires rights to the benefit of and assumes liabilities for the foreign enterprise under its own company name.

Each branch office shall be registered to the company registry. Branch offices may be represented by (a) natural persons employed at or assigned to the branch office or (b) with a permanent contract of employment and a domestic place of residence. Representatives of branch offices and their close relatives may only conclude transactions within the activities of the branch office if the deed of foundation of the branch office or the foreign business association approves it. The foreign company's written approval is needed if the person authorised to represent the branch office intends to acquire shares in another business association conducting the same business activities as the branch office, excluding the buying of shares in public limited companies.

The laws applicable to companies with domestic registered offices apply to the business activities and the domestic business behaviour of branch offices, and its books shall be kept in accordance with the Hungarian laws on accounting. Special rules apply to the branch offices of foreign businesses conducting financial activities. The employees of the branch office are in employment relationship with the foreign business association and employer rights are exercised by the foreign business association through its branch office.

The foreign business association shall continuously provide the assets necessary for the operation of the branch office and the settlement of its debts. No permit is required for a business association registered in an EEA member state to purchase real estate required for the business operations of its Hungarian branch office. In all other cases a permit

is required unless otherwise specified by an international agreement or no such property may be purchased based on the principle of reciprocity.

The foreign company and the branch office bear joint and several liability for debts incurred during the activity of the branch office. When judicial enforcement to collect debts is initiated against the foreign company, all its assets in Hungary become subject to enforcement. Enforcement procedure may also be initiated directly against the branch office, or creditors can enforce their claims even in a liquidation procedure initiated against the foreign business.

The branch office is terminated by being deleted from the company register. Deleting a branch office does not in all cases require its being free from public debt, the publication of an announcement about the termination, or verification that there are no authority or court procedures in progress against the foreign company in Hungary with regards to its activities conducted through the branch office. If the country of registration of the foreign company and Hungary have signed an international agreement on the competences of courts, the enforcement of court rulings and the collection of public debts for civil and commercial cases, or in the event such issues are governed by EU community laws.

2.4.2 Commercial representative office

Commercial representative office is an organisational unit of a foreign company without a legal personality, which can operate from the time it is registered in the company register. The scope of activities of commercial representation offices are limited to mediating and preparing contracts and carrying out information, advertising and propaganda activities on behalf of the foreign company.

In their own names, commercial representative offices may not conduct business activities that yield profits or other proceeds; however, they can conclude contracts related to their operation in the name and for the benefit of the foreign company.

The same employment rules apply to commercial representative offices as to branch offices.

2.5 General labour law rules

2.5.1 Labour law regulations

Starting from 1 July 2012, the rules of labour law are regulated in Act I of 2012 (hereinafter Labour Code), however, certain provisions of the Civil Code (as underlying law) also apply.

2.5.2. The content of an employment relationship

The establishment of an employment relationship

Employment contracts, any modification thereof, and the termination of employment must be incorporated in writing. The employment contract and all employment related documents may be inspected by the tax and labour authorities at any time.

Hungarian labour laws only provide for minimum requirements as to the content of employment contracts, however, the employer is obliged to disclose information to the employee in respect of a number of circumstances.

Employment contracts are usually concluded for an indefinite period of time. At the beginning of the employment relationship, the parties may specify a probationary period for a maximum of 3 months or in case of a collective bargaining agreement for a maximum of 6 months. Employment contracts may also be established for definite terms but the extension thereof requires the existence of the legitimate economic interest of the employer, and the period thereof may not exceed 5 years together with the extension of the contract. A definite-term employment relationship may only be established again within 6 months of the termination of another definite-term relationship in the case of a legitimate interest of the employer. In the event that a definite-term employment contract is extended for an additional definite term, the competent labour court may declare it an employment contract for an indefinite term.

Work schedule

The standard general daily working hours of employees is 8 hours to be scheduled from Monday through Friday under the general rules. The law regulates breaks during work, daily and weekly rest periods as well as weekly rest days and it also defines the length thereof by specifying the minimum periods due to employees.

Work outside of the schedule qualifies as overtime in respect of which the employee is entitled to a wage supplement, however, the maximum duration of overtime may not be exceeded even if the proportionate wage supplement is paid.

If it can be foreseen that the employer's operations require an uneven work schedule, the working hours may be determined flexibly, subject to the rules applicable to the working time banking period and the settlement period, within the statutory framework.

Wages

The employee's wages are mutually agreed by the parties, however, the applicable laws provide for the mandatory minimum wage amount as well as the guaranteed minimum wage amount payable to employees employed in job positions that require a secondary level school certificate or a secondary level vocational school certificate. In addition to the base wage, employees are also entitled to wage supplements in certain cases, such as overtime, night shift, stand-by or on-call duty. Deductions from the employee's wages are only allowed under certain circumstances.

Holidays

The annual paid holiday is 20 workdays, which increases with the age of the employee in categories with the maximum being 30 days. Expectant women and women giving birth are entitled to 24 weeks of maternity leave. By the main rule (i.e. in the case of one healthy child), childcare benefit is available until the child reaches the age of 3. The labour law protects women on maternity leave and those receiving childcare benefit against regular termination of their employment. The age limit for the full old-age pension is 65 years.

Liability

During the employment relationship, both the employee and the employer shall be liable vis-à-vis the other for damages caused, however, the employee's liability shall be limited to four months' of absentee pay for damage caused by gross negligence.

Non-standard rules

According to the law different rules apply to certain groups. For example, in general, young employees enjoy broader labour protection while the protection of executive employees is narrower.

Termination of the employment relationship

Termination of employment is usually based on mutual agreement of the parties or a unilateral notice given by one of the parties. The employer is required to provide a reason for the termination of the employee's contract that is realistic, clear and rational. Expectant women continue to be subject to a termination ban, however, the incapacity for work only postpones the beginning of the notice period until the end of the incapacity for work but does not, in itself, prevent termination. Employees may terminate their employment by notice without the obligation to provide a reason. If the employer terminates the employment relationship or is dissolved without legal succession, the employee shall be entitled to severance pay, provided that the employment relationship lasted for at least three years and the employee does not qualify as a pensioner yet, and the reason for termination is not the employee's conduct in relation to the employment relationship or the worker's capacity related to medical reasons. The maximum extent of severance pay shall be limited to six months' absentee pay, however, employees of pre-retirement age shall be entitled to a higher amount.

In the case of termination, the notice period shall be 30 days that may be prolonged depending on the duration of employment with the employer, provided that the employment relationship is terminated by the employer. The notice period shall reach the maximum of 90 days after 20 years of service, however, the parties may agree on a longer notice period which may not exceed 6 months.

Termination without notice shall be subject to certain strict conditions where a material obligation arising out of the employment relationship is breached intentionally or with gross negligence or if the employee's conduct makes the continuation of the employment relationship impossible. Both the employer and the employee are required to state their reasons for termination without notice.

Employees have a 30-day forfeit period for legal remedies if the termination with notice or with immediate effect is contrary to the law.

Labour relations

The Labour Code provides for various forms of communication between the employer and the employee.

Works councils shall monitor compliance with the provisions of employment regulations. To the extent required for their responsibilities, works councils shall be entitled to request information and to initiate negotiations. It is not mandatory to set up a works council, however, in view of the general

cooperation and information obligation, the employer is advised to inform employees about the possibility of electing a works council or a shop steward, where the conditions therefor are met. The employment relationship of the chairman of the works council may only be terminated with the consent of the works council. Among other things, the works council shall be entitled to conclude a works agreement.

Trade unions are designed to protect and represent employees' rights and interests provided under the law. Trade unions may request information on all issues related to the economic interests and social welfare of employees in connection with their employment, may initiate talks in connection with the employer's actions and, most importantly, may conclude the collective agreement, regulating the rights and obligations associated with the employment relationship.

The collective agreement may derogate from the rules pertaining to the statutory rights and obligations even to the disadvantage of the employee, which would otherwise not be possible.

Where the relevant statutory conditions are met, trade union officers are entitled to protection against termination and the consent of the immediate superior trade union body is required for the termination of their employment relationship. These unions are only strong in the public sector: national railway, public transport companies, healthcare professionals, etc.

Other forms of employment

Even though the law has provisions for part-time employment and teleworking (home office), these methods are not yet widely used. In addition, the Labour Code contains detailed rules concerning temporary agency work and other forms of employment offering more flexible working time and other arrangements.

2.6 Rules for employment of foreigners

With a few exceptions, foreigners need work permits to work in Hungary. The first question to answer is whether the employee is a citizen of an EU country or a third country.

Employment of foreigners from third countries (non-EU citizens)

With a few special exemptions, the employment of third country nationals is subject to the appropriate permit and authorisation. In principle, those third country nationals can engage in gainful employment that hold a) a seasonal

employment visa, b) a residence permit granted on humanitarian grounds, c) a residence permit for the purpose of gainful employment, family reunification or in order to pursue research or studies, d) an EU Blue Card, or e) a residence permit for intra-company secondment.

If the purpose of the third country national's application for a residence permit is the establishment of an employment relationship with a designated employer in the territory of Hungary for more than ninety days within one hundred and eighty days, the residence permit will be issued in a consolidated procedure. If the third country national is not subject to the provisions applicable to consolidated permits, he/she may be employed in Hungary under a work permit.

With some exceptions, work permits are valid for a maximum of 2 years with the option of extension for another 2 years. If the residence permit is applied for as a consolidated permit, the period of validity may not exceed the duration specified in the resolution of the competent authority (subject to the statutory exceptions), which may be extended until the time specified in the resolution of the competent authority issued in the new procedure. Officially, the employee applies for the consolidated permit, but first the employer must document that they had already tried to fill the position with a Hungarian citizen with the help of the employment centre. Next, the employer submits an application for the permit using certified copies of documents verifying the personal data and qualifications of the employee. Employers have to comply with strict registration regulations regarding the employment of foreign employees.

In certain cases, the law allows for the issue of a permit for third country citizens without any investigation of the job market. These special cases include, but are not limited to the employment of a foreign national in a key position at a foreign interest company established in Hungary or when the majority of a business association is owned by foreign nationals or the percentage of foreign employees in the previous quarter does not exceed 5 percent of the total headcount.

In other cases, third country citizens may be employed simply by making a formal announcement without the need for a work permit. These positions include, for example, the managers of branch offices and representations of foreign companies or senior officers, members of the supervisory board of business associations with foreign shareholding. The employer is responsible for making the appropriate announcement and issuing accurate documentation verifying the conditions of employment of foreign nationals without a work permit.

In the meaning of the amendments effective from 30 September 2016, further opportunities are available to those third country nationals that wish to stay in the territory of Hungary and, in some special cases, the territory of the European Union for employment purposes. This shall include intra-company secondment and applications for a residence permit for that purpose as well as for a long-term mobility permit. One of the advantages of an intra-company secondment permit is that it allows employment with the Hungarian host entity without a separate permit, provided that the employee holds a valid residence permit issued by any Member State of the European Union for intra-company secondment and also meets the other conditions, provided that the duration of his/her stay does not exceed ninety days within one hundred and eighty days.

On the basis of their appropriate visas, foreign nationals are required to apply for a residency permit from the Office of Immigration and Nationality if they do not file applications under a consolidated permit procedure.

Non-EU citizens may only begin their employment in Hungary after they have obtained all permits and documents necessary for their employment.

Employment of citizens of EU member states

In general, since 1 January 2009, citizens of EU member states and their family members may be employed in Hungary without a work permit. The employer is required to report the employment data of EU citizens to the employment centre according to the general regulations. The employment centre registers this reported data for statistical purposes.

However, the scope of the regulation providing for the above reporting obligation does not include the employment in Hungary of persons benefiting from the freedom of movement and residence, provided that an employer established in an EEA member state sends such employees to a Hungarian employer to provide services under a secondment, assignment or temporary agency work arrangement.

No residence permit is necessary for EU citizens who plan to spend more than 3 months in the country for employment purposes. Nevertheless, they are required to report the details of their extended stay to the Office of Immigration and Nationality and to apply for a residence card.

3



TAXATION

3.1 Introduction

Taxation in Hungary is divided into central and local levels. While central taxes constitute the revenues of the state budget, local taxes are due to the municipalities.

Central taxes may be divided into general and special categories based on their intended purpose. General taxes include the traditional tax types (corporate income tax, value added tax, personal income tax) while special taxes include the tax types levied on specific industries/sectors (income tax of energy utilities, levies on financial organisations and credit institutions, credit institution contribution, energy tax, public utility tax, telecommunication tax, advertisement tax, public health product tax).

Levying and determining the rate of local taxes (the material ones being local business tax, land tax, building tax) falls within the competence of the individual municipalities.

In Hungary, the general rule applicable to taxation is the principle of self-assessment. Enterprises and individuals are required to assess, declare and pay their taxes themselves. Beside self-assessment, in certain cases, the authority may charge or levy taxes based on filing. For example, tax is charged in the case of VAT on imports of goods, registration tax, local communal tax and building tax, while it is levied in the case of duty on the transfer of property and procedural stamp duty.

Stamp duties and contributions also play an important role in the system of equal tax treatment.

In the Hungarian tax policy regime, central taxes are being shifted from income to consumption and from general taxes to special levies.

Hungary, as a member of the European Union, has a harmonised value added tax, customs and excise regime. In the operation of its tax system, the country tries to make sure that its domestic tax administration complies with the requirements of the European Union, the OECD and BEPS.

Despite the seemingly complex tax regime and the sometimes excessive red tape, it is worthwhile to invest in Hungary also from a tax perspective, as the low corporate income tax base, the broad range of tax incentives (in particular investment and development tax incentives) and the continuously decreasing tax burden on employment create an accommodating tax environment.

If you intend to invest in Hungary, you should clarify the following questions

Why come to Hungary?

First of all, you need to define the purpose of your business in Hungary. Whether you only wish to distribute the goods and services already created by you or whether you wish to invest capital in Hungary? You need to assess whether your business requires economic establishment. For certain activities, you are free to decide whether or not you establish your business in Hungary, while for other activities you are required to have economic presence and a specific form of enterprise in Hungary. If you opt for economic establishment, you are required to decide whether you wish to set up a legal entity, a branch office or potentially only a commercial representative office in Hungary.

What does establishment for business purposes mean? Why is this important for you?

Subject to certain exceptions, non-residents engaged in regular and permanent business activities in the territory of Hungary for profit and at a risk whose facilities used for the above purposes give rise to a permanent establishment may carry out business-like economic activities in the form of an establishment for business purposes.

In order to accurately assess the tax liabilities, whether or not the business activities give rise to a permanent establishment should be separately determined for corporate income tax and value added tax purposes. It is possible that you do not have a permanent establishment for corporate tax purposes while you do have one for value added tax purposes in respect of which you incur value added tax liabilities. The treaties on the avoidance of double taxation play a key role in determining whether a permanent establishment exists or not.

This is important because your tax liabilities will be largely dependent on whether or not you are established for business purposes.

What activities do not require establishment for business purposes?

If you have no domestic employees, you may engage in research and education activities at education, vocational education and higher education institutions, performing arts activities, professional sports activities and other activities exclusively aimed at the sale of products acquired

by you abroad and located in Hungary and/or the supply of services, provided that it does not require personal presence, without establishment for business purposes. Similarly to the above, the utilization of real estates or natural resources for consideration also does not require establishment for business purposes.

In principle, the cross-border supply of services by a service provider established and pursuing legitimate service activities in an EEA member state who is a beneficiary of the freedom to provide services is not contingent on economic establishment, licencing, the notification of the commencement of service activities or the existence of any attestation, administrative certificate or degree. The provision of services in the territory and across the borders of Hungary by entities benefiting from the freedom to provide services may not be restricted and no special requirements may be imposed.

Who may represent business entities? What does financial representation mean?

In principle, only a domestic branch office may proceed in tax matters in relation to domestic business activities on behalf of a foreign entity, if the foreign entity is obliged to establish or otherwise possesses a domestic branch office. The branch office shall exercise the rights associated with taxation, comply with the tax liabilities and proceed before the authorities and vis-à-vis third parties on behalf of the foreign entity.

If you become subject to taxation in Hungary in respect of your business activities, you may appoint a proxy to comply with your tax liabilities. In certain cases, you are obliged to appoint a financial representative to deal with your tax matters. Appointing a financial representative is mandatory for enterprises established outside of the EU but conducting taxable transactions domestically. It is possible for entities established in another member state of the European Union to appoint a financial representative.

It is mandatory to appoint an agent for service of process if a business entity is incorporated in Hungary and its shareholders or managing directors are foreign residents without a permanent address in Hungary. The agent for service of process is responsible for receiving and forwarding to the foreign person any documents relating to the operation of the company addressed by courts and authorities to the foreign person.

For already established business entities, the right of representation before the tax authority may be based on an organisational decision directly made pursuant to the law

(statutory representation) or on the transfer of the right of representation by means of a unilateral statement (delegated representation). Senior officers and other duly authorised employees may represent the business entity in writing by their signature. The authorisation may take the form of a public deed or a private deed of full conclusive force.

What are the forms of enterprise? What are their features?

- Independent/private entrepreneur
- business association,
- branch office or
- commercial representative office.

Who can become a private entrepreneur?

Citizens of a member state of the European Union or another state that is a party to the Agreement on the European Economic Area who are subject to the Act on the Entry and Residence of Persons with the Right of Free Movement and Residence are entitled to commence private entrepreneur activities in Hungary.

The registration of private entrepreneurs is free of charge. Upon registration, the activities to be pursued within the framework of the private entrepreneurship must be notified. The private entrepreneurship is limited to the notified activities and business activities may be commenced upon registration following notification. Certain specific activities (such as letting of property) are not subject to registration as a private entrepreneurs as they can also be pursued as independent activities. Private entrepreneurs are required to keep their financial accounts on a cash basis, therefore, it is advisable for them to retain an accountant.

Please also note that the liability of private entrepreneurs is unlimited, i.e. their total assets may be used to cover their debt.

What are the advantages of business associations? How long does it take to set up a company and what is the cost?

Foreign nationals may set up or acquire a quota in a company in Hungary. If you opt for setting up a company in Hungary, you need to establish a business association with legal personality. Please note that where a company is set up, the parent company's liability does not extend to the debts of

the company established by it, however, the parent company is liable for the debts of the branch office and the commercial representative office.

Electronic administration allows the fast registration of a new company and by means of the so-called "one stop shop" system, you may also register with the tax authority and request a tax number simultaneously with the registration of your company. Upon registration of the company you are required to choose the value added tax method to be followed. You are required to retain an accountant or hire an employee with accounting qualifications to keep the company's books, to comply with the tax liabilities and to prepare the company's financial statements.

Please note that it is also mandatory to have your books audited, provided that the company's annual net sales exceed HUF 300 million or the headcount exceeds 50.

The legal and tax status of branch offices

Foreign entrepreneurs may conduct their business in Hungary by opening a branch office in the country. Such a branch office is a separate organisation unit of the foreign business association without legal personality registered by the Hungarian court of registration. Through their branch offices, foreign business associations are entitled to carry out business activities in Hungary and are represented towards the authorities and third parties by their branch offices. The branch office has full legal capacity, it acquires rights to the benefit of and assumes liabilities for the foreign enterprise under its own company name.

The branch office is a separate legal entity for taxation purposes.

You are required to retain an accountant or hire an employee with accounting qualifications to keep the company's books, to comply with the tax liabilities and to prepare the company's financial statements.

The branch office's employees are in a legal relationship with the foreign entity, however, their tax liabilities are to be met through the branch office.

The legal and tax status of commercial representative offices

Commercial representative office is an organisational unit of a foreign company without legal personality, which can operate from the time it is registered in the company register. The scope of activities of commercial representation offices

are limited to mediating and preparing contracts and carrying out information, advertising and propaganda activities on behalf of the foreign company.

In their own names, commercial representative offices may not conduct business activities that yield profits or other proceeds; however, they can conclude contracts related to their operation in the name and for the benefit of the foreign company.

The same employment rules apply to commercial representative offices as to branch offices.

Acquisition of property by foreign nationals in Hungary (real estate, land)

Foreign legal entities or natural persons may not acquire ownership of land. Foreign legal entities or natural persons may acquire ownership of property that does not qualify as agricultural or forestry land with the approval of the Budapest or county government office with competence at the location where the property is situated. No government office approval is required where the property is acquired by the citizens, legal entities or entities without legal personality of the European Union, EEA member states or Switzerland and also in the case of inheritance.

The obligations of companies that hire employees

Foreign entities (employers) that are not required to register under Hungarian laws and that employ employees working in Hungary under a relationship that is subject to compulsory insurance, and foreign entities that employ employees outside of Hungary that are subject to the community regulations on coordination of social security systems are obliged to comply with their declaration, filing and contribution payment liabilities through the branch office or the financial representative or, in the absence of the above, directly by themselves.

In the event that the foreign entity does not have a representative (branch office or financial representative) to comply with its contribution obligations and it fails to register as an employer, then the natural person employee shall comply with the declaration, filing and contribution payment obligation and shall bear the legal consequences of the failure to comply with the contribution obligations.

Taxes on wages related to employment are levied on both the employer and the employee in Hungary.

Related parties and the relevant obligations

Related parties are entities that belong to the same group of owners and that have majority control over each other. Majority control means a relationship where an entity controls over fifty per cent of the voting rights in or has dominant influence over another entity. If the management teams of two or more companies are the same, they are also considered related parties in Hungary.

Related parties are obliged to take account of the arm's length prices that would be applied by two unrelated entities when determining the tax base of transactions with each other. Subject to certain exceptions, related parties are obliged to demonstrate the arm's length nature of the transfer prices applied in transactions with each other each year by appropriate transfer pricing documentation. All entities are required to notify their related parties following the execution of the first contract with such related party as well as any cash transactions provided that the amount exceeds HUF 1 million.

Why are double tax treaties, the OECD Model Convention and the BEPS Action Plans important?

As regards corporate tax, not only the provisions of the Corporate Income Tax Act but also the provisions of the treaties for the avoidance of double taxation with respect to taxes on income signed by Hungary as well as the OECD Model Convention and its Commentaries and the Report must be taken into account.

In addition to the avoidance of double taxation, the BEPS Action Plan developed by the OECD is aimed at the development of international tax regulations that ensure the taxation of business activities in double "non-taxation" situations and propose regulations for the detection and reporting of such tax planning strategies.

The BEPS study is a plan containing 15 actions that urges internationally coordinated cooperation in order to reduce global aggressive tax planning schemes. The 15 BEPS Action Plan covers three different areas:

- recommendations and models for domestic tax legislation,
- the amendment of the OECD Double Taxation Model Convention and guidelines for the implementation thereof, and
- other reports.

What does "taxpayer rating" mean and what you need to know about it?

In Hungary, the tax authority rates corporate taxpayers based on which entities are classified into three categories: general, reliable and risky taxpayers.

New companies may not be rated as reliable in the first three years of their operation. If an entity is rated reliable, it enjoys various benefits both with regard to its tax compliance and during tax audits. On the other hand, a risky rating involves enhanced supervision by the tax authority, greater administration burden and more frequent audits.

What is there to know about and when to expect tax audits by the tax authority?

Apart from a few exceptional cases, there are no mandatory tax audits in Hungary. The most typical case where an entity can almost certainly expect a tax audit if they file a tax return in which they reclaim tax from the state. The tax authority selects taxpayers for audits on the basis of risk assessment.

The tax authority informs taxpayers about the commencements of audits, specifying the tax types, transactions and periods to be audited. At the beginning of tax audits, the taxpayer is normally requested to submit documents that are examined by the auditors. The tax authority is authorised to perform various inspection/ inquiry procedures, such as requesting statements, hearing witnesses, conducting on-site inspections and may also initiate audits at other taxpayers in relation to transactions. At the end of the audit, the authority issues a report that may be commented on by the taxpayer. If the report mentions any deficiencies or tax arrears, the tax authority makes a resolution on the basis of the report. Any tax arrears and the related tax penalty, late charges or default penalty (in respect of any failure to pay tax) are assessed by the tax authority in the resolution.

Appeals against the resolution may be filed with the superior body of the tax authority. If the taxpayer disagrees with the second instance resolution, he may seek legal redress from the court.

In Hungary, the term of limitation of tax liabilities is the last day of the fifth year after filing the tax return containing the tax liability.

3.2 Income taxes

3.2.1 Income taxation of enterprises

Corporate income tax

In Hungary, companies are obliged to pay corporate income tax on their income obtained from economic activities performed for profit and other similar gainful activities.

Taxpayers, tax base

In Hungary, the tax liability of resident taxpayers extends to both their domestic and foreign income. For non-resident taxpayers, the tax liability only extends to income obtained from economic activities performed domestically (i.e. at a permanent establishment in Hungary) and/or if the taxpayer obtains income through the transfer or withdrawal of participating interest in a company with real estate holdings.

Among others, the following qualify as resident for taxation purposes:

- business associations (such as public limited companies, private limited companies, limited liability companies and limited partnerships) including among others non-profit businesses and regulated real estate investment companies, too;
- foundations, public foundations,
- companies holding real property,
- Societas Europaea (SE), European Research Infrastructure Consortium (ERIC), European regional co-operation partnerships,
- assets managed based on a trust contract.

Foreign individuals qualify as resident taxpayers if they make any income from the sale or withdrawal of their shares in a business association that owns real estate. A business association qualifies as a company that owns real estate if the value of the real estate located in Hungary represents more than 75 percent of the book value as of the balance sheet date of the assets recognized in the financial statements of either the taxpayer independently, or together with its affiliates resident in Hungary or affiliates qualifying as foreign entrepreneurs. An additional criterion is that a member of the business association that owns real estate, or any member of the group, be established for at least one day during the tax year in a state with whom

Hungary has not signed a treaty on the avoidance of double taxation or the treaty allows the exchange gain to be taxed in Hungary.

In addition to the above, a foreign person having its place of business management and funds managed under a fiduciary asset management agreement will also qualify as resident taxpayers.

A foreign person has to be regarded as having an establishment in Hungary in the case of the utilization or sale of real property or natural resources for consideration. Utilization includes the transfer and sale of rights of pecuniary value for consideration. This rule does not apply to the foreign real estate investment funds established in a state of the EEA if they are not subject to corporate tax in their state of foundation.

For domestic and foreign businesses alike, the corporate tax base is the earnings before taxation modified (increased or decreased) by the items identified in Act LXXXI of 1996 on corporate tax (hereinafter Corporate Tax Act).

Please note that if certain conditions are met, 50 percent of the income recognised as royalty and direct research and development costs are to be deducted from the tax base.

Furthermore, related parties may allocate the direct costs of research and development among themselves reducing the tax base of other companies as well.

Income recognised as dividend received in the target year reduce the tax base unless it originated from a controlled foreign company.

The taxpayer may apply the loss carried forward from previous years as a tax base decreasing item up to 50 percent of the tax base calculated without the loss carried forward. The unused loss may be carried forward to the subsequent years for 5 tax years.

Tax rate

Effective 1 January 2017, the tax rate is 9 percent of the tax base.

Income minimum

If the pre-tax profit of the company or its tax base, whichever is higher, fails to reach the income (profit) minimum, the taxpayer has the option to either:

- make a statement on the cost structure in its tax return, or,

- apply the income minimum as the tax base and pay the tax on that.

The income minimum is 2 percent of the modified total income.

In the tax year of the pre-company period and in the subsequent first tax year the regulations regarding income minimum do not have to be taken into consideration.

Controlled foreign company (CFC)

A foreign entity can qualify as a controlled foreign company if it does not qualify as a resident taxpayer for corporate income tax purposes and is not a foreign company. In line with the EU regulations, a foreign entity can become a controlled foreign company:

- the taxpayer holds, directly or indirectly, more than 50 percent of the voting rights or more than 50 percent of the registered capital or is entitled to a share of the after-tax profit in excess of 50 percent, and
- the tax corresponding to the corporate income tax actually paid abroad for the tax year is less than half of the corporate income tax rate applicable to the parent company (i.e. for a Hungarian parent company it is less than 4.5 percent).

A foreign entity or foreign permanent establishment does not qualify as a controlled foreign company if it can be established beyond doubt that it has the appropriate personnel, equipment, assets and premises through which it can pursue substantial business activities.

The taxpayer/Hungarian parent company may need to increase its tax base in relation to the CFC classification. That part of the CFC's income (tax base) shall be added to the taxpayer's tax base that is realised under a specific title, such as interest, royalty, participation from holdings, derecognition, finance lease, banking and insurance activities. However, the above rule only applies if, on the one hand, the income from the aforementioned revenues reaches one third of the overall income (tax base) of the controlled foreign company and, on the other hand, if the controlled foreign company is engaged in finance lease, banking, insurance or other financial activities and one third of its overall income is realised on transactions with the taxpayer or its related parties.

The taxpayer must prove that the company does not qualify as controlled foreign company.

Thin capitalisation

If the liabilities of the company (except for those against financial institutions as well as the amount of accounts receivable and accounts payable) are in excess of three times the company's equity, the proportionate value of the interest accounted shall be added to the corporate tax base.

When calculating the thin capitalisation rate, the amount of the liabilities outstanding against related parties must also be considered if, due to the application of transfer pricing regulations, the taxpayer reduced its pre-tax profit by the amount of the arm's length interest. For the purposes of the calculation of the tax base adjustment, the tax base decreasing item recognized with regard to the arm's length price has to be taken into account in addition to the interest expenditure recognized.

The value of liabilities may be reduced with a specific proportion of the accounts receivable.

Dividends

In Hungary, companies are not required to pay taxes on dividends and no withdrawing tax is levied on dividends paid to non-resident entities. Hungarian companies may deduct revenues accounted as dividends received (due) in the target year, unless it originated from a controlled foreign company.

Royalties received

Provided that certain conditions are fulfilled, 50 percent of the revenues accounted as royalties reduce the tax base. The amount of this tax base reduction may not exceed 50 percent of profit before tax.

Research and development

Provided that certain conditions are fulfilled, the direct incurred costs of research and development reduce the corporate tax base.

Also, subject to certain conditions, related parties may allocate the direct cost of research and development activities among themselves reducing the tax base of other companies as well.

Tax credits

Development tax credit

Companies are entitled to a tax credit up to 80 percent of the calculated tax in respect of

- an investment worth at least HUF 3 billion at current value,
- an investment installed and operated in the administrative area of certain beneficiary municipalities worth at least HUF 1 billion at current value,
- an investment, worth at least HUF 100 million at current value, in establishing the food hygiene conditions of a previously occupied facility producing food of animal origin,
- an independent environmental protection investment worth at least HUF 100 million at current value,
- an investment designed to promote basic or applied research or experimental development worth at least HUF 100 million at current value,
- an investment designed to promote films and videos worth at least HUF 100 million at current value,
- an investment designed to create jobs,
- an investment by an SMB worth at least HUF 500 million at current value,
- an investment of at least HUF 100 million at present value put into operation and operated within the territory of a free enterprise zone.

The investment must be a start-up investment implemented by a small or medium sized enterprise or by a large enterprise any of the regions outside Central Hungary or in towns of the Central Hungarian region specified in the government decree as eligible for subsidy as an investment for the performance of a new economic activity.

Tax credits for small and medium businesses

On the basis of a loan agreement concluded with a credit institution, small and medium sized enterprises are entitled to a tax credit on the interest of loans for the purchase or production of tangible assets. The tax credit is the interest paid in the target year.

Spectacle team sports tax credit

A tax credit may be used up to the amount stated in the sponsorship certificate issued of the sponsorship or benefit given without the obligation to be repaid to spectacle team sports (but no more than 70 percent of the tax due) in the tax year of granting and subsequent tax years until the tax year ending in the eighth calendar year from the calendar year of granting.

If the taxpayer provides sport sponsorship, it must also pay a so-called supplementary sport development support which is payable within 90 days of the end of the tax year to the national federation of the given sport or to a separate payment account opened by the sport public body for this purpose. The amount of the supplementary sport development support is not deductible from either the tax payable or the corporate tax base.

Tax credits related to funding film making and performance arts

If certain conditions are met, the company may use a tax credit up to 70 percent of the tax due to reduce the tax base of the given tax year and subsequent tax years, the last such tax year being the tax year ending in the eighth calendar year following the calendar year of sponsoring, by up to the amount stated in the certificate of sponsorship issued by the professional authority on the sponsorship of a performing arts organization or film making. Application of this tax credit is subject to the condition is that, in the tax year of sponsoring, the taxpayer must also provide supplementary support, based on the relevant conditions to the Ministry of Human Resources or the performing arts organization in the case of sponsoring a performing arts organization or to the Magyar Nemzeti Filmalap Közhasznú Nonprofit Zrt. or the filmmaker if sponsoring film making.

The sponsor is not entitled to any service from the sponsored performing arts organization for the sponsorship provided.

Tax credit for investments serving energy efficiency purposes

A tax credit may be applied in relation to the construction and operation of tangible asset investments resulting in the enhancement of energy efficiency.

The tax credit may be applied in the tax year of the commissioning of the investment or in the next tax year or in the next five tax years, at the taxpayer's discretion, and its total amount may not exceed the lower of 30 percent of

the eligible costs (which rate can be increased by a further 20 percent in the case of small companies and 10 percent in the case of medium-sized companies) or the HUF equivalent of EUR 15 million. According to the law, the mandatory operating period is 5 years.

The following are regarded as eligible costs for the purposes of the tax credit:

- the cost of tangible and intangible assets directly related to the achievement of a higher level of energy efficiency, provided that the value of these assets can be separately determined within the total value of the investment, or
- the part of the cost of tangible and intangible assets directly serving energy efficiency purposes that qualifies as an additional cost compared to a less energy-efficient investment that would have been implemented by the taxpayer in the absence of the tax credit or other state aid.

The tax credit can be applied as a tax withdrawal up to 70 percent of the tax liability less the development tax credit.

Tax credit for live music services

The amount of the tax credit may not exceed 50 percent of the consideration (fee), net of VAT, recognised by the taxpayer as a cost or expenditure in respect of live music services provided at a catering establishment operated by the taxpayer.

The part of the recognised cost/expenditure that is deducted from the tax liability by the taxpayer does not qualify as an eligible cost in the tax base, i.e. it shall be added to the corporate income tax base. The tax credit for live music services qualifies as de minimis aid granted in the tax year.

Grants from tax payable

Taxpayers may offer maximum 50 percent of the tax advance payable by them or maximum 80 percent of the amount of their current year top-up/tax payment obligation to support motion pictures, performing arts organizations or spectator team sports. The taxpayer will be eligible for a subsequent tax credit based on the amount of the offering (but maximum 80 percent of the tax payable). The rate of the tax credit is 7.5 percent in the case of a grant offered from tax advance or tax advance supplementation and 2.5 percent in the case of an offering from tax. The grant provided from the tax payable by the taxpayer may not be applied together

with the tax credit relating to the sponsoring of motion pictures, performing arts organizations and spectator team sports.

Tax Credit for Growth

A company that makes a statement to the tax authority before the end of the limitation period about its intention to apply for tax credit for growth and

- the company became a taxpayer in the third year preceding the current tax year or earlier, and
- the company was not involved in any transformation, merger or separation in the three tax years preceding the current tax year, and
- the part of the company's pre-tax profit in the current tax year in excess of the company's pre-tax profit in the previous tax year reaches or exceeds five times the absolute value of the taxpayer's pre-tax profit in the previous tax year,

may pay the tax advance/tax on the part of the pre-tax profit in the current tax year in excess of the pre-tax profit in the previous tax year over the next two tax years (tax credit for growth).

Tax filing and payment deadlines

In Hungary, companies are required to file a corporate tax return every year (for each business year) until 31 May of the year following the tax year. Depending on whether or not the company's tax liability for the previous tax year reaches HUF 5 million, it is required to pay corporate tax advance on a monthly or on a quarterly basis. If the annual turnover of the company for the year preceding the current year reached HUF 100 million, the company is required to pay a corporate tax top-up and file a return form on that. This advance corporate tax payment is designed to make up for the amount calculated as the tax liability of the company for the relevant year. The deadline for this tax top-up is 20 December of the current year. Deadlines for payment are harmonised with deadlines for filing.

Withholding tax

Hungary levies no withholding tax on dividends, interest or royalties, if payment is made to a company. If payment is made to a private individual, taxes are levied in accordance with the provisions of the applicable double tax treaties.

Simplified entrepreneurial tax (EVA)

EVA offers an opportunity to companies whose annual sales does not exceed HUF 30 million to reduce both their administrative and their tax burden. EVA replaces the following tax types: value-added tax, entrepreneurs' personal income tax, tax on entrepreneur's dividend base, corporate tax and personal income tax on dividends.

Taxpayers, tax base

Among other business forms, private entrepreneurs, single member companies, general partnerships and limited liability companies have the option of EVA. It is a condition precedent to opting for EVA that the total annualised revenue including value added tax does not exceed HUF 30 million and that the company recognised revenues in the previous two tax years.

The EVA tax base is the revenue increased by VAT and modified by certain items that increase and decrease the tax base.

Tax rate

The tax rate is 37 percent. If the total amount of the revenue and all revenue increasing items exceeds HUF 30 million, the rate of EVA will be 50 percent on the part of the tax base above this amount.

Tax filing and payment deadlines

For taxpayers not subject to the Accounting Act, the tax return is to be filed by 25 February of the year following the current year. These taxpayers include those keeping revenue accounts and private entrepreneurs. All other taxpayers are required to file their returns by 31 May of the year following the current year.

On the basis of revenues realised, taxpayers are required to make an advance tax payment by the 12th day of the month following the relevant quarter. The quarterly advance payments are required to be topped up to the expected tax amount by 20 December of the relevant year.

Small taxpayers' itemized lump sum tax (KATA)

KATA is a predictable and foreseeable alternative form of itemised taxation involving limited administration. By the payment of the tax, the company is released from corporate income tax, personal income tax, social contribution tax, health insurance contribution, pension contribution, labour market contribution, health care contribution and vocational training contribution liabilities.

Taxpayers

Private entrepreneurs, single-member companies as well as general and limited partnerships having only private person members may choose to apply KATA.

Tax base, tax rate

The small taxpayer enterprise shall pay a lump sum tax of HUF 50 thousand monthly for each full-time employee registered as a small taxpayer (or, based on his choice, HUF 75 thousand due to an application for eligibility for higher social security service base). Lump sum tax of HUF 25 thousand is payable by the small taxpayer enterprise for each registered small taxpayer not qualifying as a full-time employee (e.g. workers employed in 36 hours or more weekly, old-age pensioners, employees qualifying as insured abroad, entrepreneurs performing non-auxiliary activities in another enterprise).

In addition to payment of the itemised tax, the small taxpayer enterprise is liable to pay tax at a rate of 40 percent on the part of the revenue exceeding HUF 12 million.

Tax filing and payment deadlines

The lump sum tax is payable monthly, until the 12th of the month following the current month. If its revenue does not exceed HUF 12 million, the small taxpayer enterprise shall make a statement while if its revenue exceeds HUF 12 million, it shall file a tax return on its revenues in the calendar year until 25 February of the next year.

Small enterprise tax (KIVA)

KIVA offers a possibility for certain enterprises to comply with the majority of their tax liabilities pursuant to more favourable rules than under the "traditional" forms of taxation. If the company chooses to apply this tax type, it replaces corporate income tax, social contribution tax and vocational contribution payment liabilities.

Taxpayers, tax base

Single member companies, economic associations operating in any form other than as a public limited company (Nyrt.), co-operatives, foreign entrepreneurs and foreign persons having a place of business management in Hungary meeting the following statutory requirements may choose to apply KIVA:

- average statistical headcount not exceeding 25 persons,
- turnover not exceeding HUF 500 million,

- balance sheet total not exceeding HUF 500 million,
- tax number was not cancelled or suspended in the two years preceding the tax year,
- balance sheet date of 31 December,
- financial statements compiled in HUF,
- business year may not differ from the calendar year.

Please note that for the purposes of headcount and turnover calculation, the figures of related parties have to be considered aggregately.

The tax base is the approved dividend and the profit on capital transactions as well as the balance of certain other modifying items plus payments to personnel, but no less than the amount of payments to personnel. In principle, the tax base may not be lower than the amount of payments to personnel considered as the contribution base, i.e. tax is payable on at least the amount of payments to personnel.

Tax rate

The tax rate is 14 percent of the tax base.

Tax filing and payment deadlines

Taxpayers are required to assess the small enterprise tax base and the tax due for each tax year and shall declare and pay it by 31 May of the year following the tax year. Taxpayers of this tax type shall fulfil tax advance assessment, declaration and payment obligations quarterly until the 20th of the month following the current quarter.

3.2.2 Income taxation of private individuals

Taxation of private entrepreneurs

Natural persons may engage in regular and permanent business activities in the territory of Hungary for profit and other gainful activities at their own business risk as private entrepreneurs.

Taxpayers

Private entrepreneurs, notaries public, bailiffs and lawyers included in the register of private entrepreneurs.

The entrepreneur's personal income tax and dividend base

When assessing the tax liability, private entrepreneurs are first required to determine and pay the entrepreneur's personal income tax base and the tax due. The

entrepreneur's personal income tax base is established based on the total revenue of private entrepreneurs, deducting costs and applying the adjustment items prescribed by law. Private entrepreneurs account for deferred losses similarly to companies and are required to determine the tax due on the minimum income/profit.

Private entrepreneurs may opt for lump sum taxation if the relevant statutory conditions are fulfilled.

Thereafter, the entrepreneur's dividend base and dividend tax liability is determined on the after-tax profit.

Tax rate

The rate of the entrepreneur's personal income tax is 9 percent.

The entrepreneur has further tax payment obligation on the entrepreneurial dividend base established based on the after-tax entrepreneurial income. The tax rate is 15 percent.

Tax filing and payment deadlines

Private entrepreneurs are required to assess the tax due for each tax year and, if they are subject to value added tax, they shall declare and pay it by 25 February of the year following the tax year, and in all other cases by 31 May of the year following the tax year. Payers of this tax type shall fulfil tax advance assessment, declaration and payment obligations quarterly until the 20th of the month following the current quarter.

Personal income tax

The aim of personal income tax is for private individuals to contribute to public dues and to ensure tax revenues for the state and municipal budgets.

Taxpayers

Resident tax payers shall be subject to tax liability in respect of all their income (all-inclusive tax liability). The tax liability of non-resident private individuals shall apply to income that originates in Hungary, or income taxable in Hungary on the basis of an international convention or mutuality.

'Resident private individual' means:

- any citizen of Hungary (with the exception of dual citizens without a residence or a place of stay in Hungary),

- citizens of EEC member states if residing in Hungary for more than 183 days in the year,
- citizens of third countries with residence permits,
- persons with residence only in Hungary.

If the relevant countries have entered into treaties on the avoidance of dual taxation, that treaty shall prevail.

Tax base

Resident tax payers shall be subject to tax liability in respect of all their income (all-inclusive tax liability). The tax liability of non-resident private individuals shall apply to income that originates in Hungary, or income taxable in Hungary on the basis of an international convention or mutuality. Income taxed separately

Income tax separately

Income taxed separately includes, among others, income from the sale of real estate, from interest, dividends and long-term investments.

Incomes taxed separately also include benefits in kind as well as income from interest subsidy. The tax on these two latter types of income is to be declared and paid by the provider and not the individual.

Tax rate

The tax rate is 15 percent of the tax base.

Tax credits

Tax credits are only deductible from taxes calculated in respect of income that belongs to the consolidated tax base, i.e. they can not be applied vis-à-vis income taxed separately.

Family tax base credit

A foreign resident individual may only apply family tax credit if he or she is not entitled to the same or similar tax credit elsewhere for the same period and at least 75 percent of his or her total income is taxable in Hungary.

HUF 66 670 per month may be applied as family tax base credit for one child, HUF 100 thousand for two children and HUF 220 thousand for three or more children.

First marriage tax benefit

Married couples may decrease their tax base by HUF 33 335 monthly, on an aggregate basis, for a period of maximum 24 month if the marriage is the first marriage for at least one of the members.

Tax filing and payment deadlines

Private individuals are required to file their personal income tax returns once each calendar year. The deadline for filing the tax return is 20th May of the year following the relevant year. For private individuals involved in business activities, this deadline is 25th February of the year following the relevant year.

If the individual's income is from activities other than self-employment, in particular employment or a similar legal relationship, the individual's employer is obliged to file a tax return about any tax advances withheld in each month by the 12th of the month following the current month. Furthermore, the employer is obliged to issue a certificate to the employee containing the aggregate amount of such withheld tax advances following the current year. The employer is also subject to an electronic data disclosure obligation to the tax authority on a monthly basis.

Private individuals (where their income is not received from a payer or where the payer is not obliged to withhold the tax advance), private entrepreneurs and small-scale agricultural producers are obliged to pay the tax advance on a quarterly basis, by the 12th of the month following the current quarter and to declare it in the personal income tax return to be filed for the given tax year.

Employees on foreign assignments in Hungary have to pay a personal income tax advance by the 12th day of the month following each quarter.

Simplified contribution to public revenues (EKHO)

In order to promote the implementation of the freedom of artistic expression and, in particular, the development of sports, private individuals of the occupations specified in the law may apply the simplified contribution to public revenues.

Taxpayers

Journalists, writers, artists, directors, actors, musicians, athletes, trainers and circus artists.

The EKHO taxation scheme can only be used by private individuals whose annual income is less than HUF 60 million (HUF 125 million for athletes and trainers), has income from employment or other legal relationships on which the fulfilment of the liabilities regarding the contribution to public revenues takes place according to the general rules.

Tax rate

The EKHO contribution is 20 percent for the payer and 15 percent for the private individual (11.1 percent for the pensioner private individual).

For private individuals covered by social security in an EU member state, the EKHO rate is 9.5 percent. The payer is not obliged to pay EKHO.

Tax filing and payment deadlines

Private individuals are required to declare their EKHO income on their personal income tax returns within the applicable deadline.

3.3 Taxes on consumption

3.3.1 Value added tax

The Hungarian VAT Act is consistent with the EU VAT Directive that, in certain cases, allows member states to use their discretion as to the transposition of the given provision into their national law. The scope of the VAT Act covers the supply of goods and services in Hungary, the sale and acquisition of goods within the European Community, the exportation and importation of goods and the exportation and importation of services.

Taxpayers

Taxpayers are legal persons or organisations conducting business activities, regardless of location, purpose or result. If a taxpayer not established in Hungary performs an activity taxable in Hungary, he must have himself registered and request a tax number. Registration is not contingent on a minimum amount of turnover, i.e. it is mandatory to register a tax number in Hungary even for a transaction of small value.

However, foreign taxpayers are exempted from registration for VAT purposes in Hungary in several cases, for instance if they sell the goods within the Community following import to Hungary, as the party in the middle of a triangle transaction, in the case of simplification of call of stock as well as in the case of domestic supply within a VAT warehouse and intra-Community supply from a VAT warehouse.

Taxpayers registered for VAT but with no residence in Hungary for economic purposes may appoint a financial representative to exercise the rights provided under the VAT Act and fulfil its liabilities.

If the taxpayer liable for taxation settled in a third country with an economic purpose, they are required to appoint a financial representative.

Tax rate

The general tax rate in Hungary is 27 percent. In addition to the general tax rate, two reduced tax rates (of 5 and 18 percent) also apply.

The 18 percent tax rate applies, among others, to milk and dairy products (other than mother's milk and milk subject to the 5 percent tax rate) and products made using corn, flour, starch or milk, commercial accommodation services and services providing only access to occasional open-air events, as well as internet services and catering at restaurants.

The 5 percent tax rate applies, among others, to medicine, medical appliances, books, e-books, magazines, pigs, cattle, sheep and goat, poultry, birds' eggs, milk (other than mother's milk, milk treated at ultra-high temperatures and ESL milk), district heating services and the instrumental live music services of performing artists at private functions.

Tax base

The consideration expressed in money terms received by the supplier of the goods/services. If the consideration is not expressed in money terms, the tax base shall be determined in money terms at the arm's length price of the given product/service.

Tax due, tax refund

The taxpayer may reduce the tax payable by the aggregate amount of deductible pre-charged tax incurred during the tax assessment period. The difference of the tax payable and the tax charged is the tax due. If the tax due is positive, the taxpayer is obliged to pay this amount on the positive part simultaneously with the filing of the tax return. If the tax due is negative, the taxpayer may reclaim this negative amount on the negative part, subject to certain other conditions.

- The taxpayer may reclaim the negative tax due from the tax authority in the following cases, provided that the absolute value of the refundable tax reaches or exceeds:
- HUF 1000 thousand for monthly filers,

- HUF 250 thousand for quarterly filers,
- HUF 50 thousand for annual filers

Payment and refund of the VAT is rather strictly regulated in Hungary. For example, the issuer of the invoice is obliged to pay the VAT even if the customer has not settled the invoice.

Tax refund

If the taxpayer requests a refund, the tax authority is obliged to refund the VAT, as a general rule, within 75 days from the filing of the tax return or from the date on which the tax is due, whichever is later.

In the event that the taxpayer has fully paid the amount of the invoices in respect of which it exercised the right to reclaim tax until the date of filing and the amount of the refundable tax is less than HUF 1 million, the deadline for the tax refund is 30 days, while if the amount of the refundable tax is more than HUF 1 million, it is 45 days. In the event that the tax authority has classified the taxpayer as "risky", the deadline for the tax refund shall be 75 days, notwithstanding the above. In the event that the tax authority has classified the taxpayer as "reliable", the deadline for the tax refund shall be 45 days or, for public companies limited by shares classified as "reliable taxpayers", 30 days, notwithstanding the above.

Simplification of call of stock

Hungary has introduced the simplification regarding call of stock. Accordingly, goods suppliers who do not qualify as domestic taxpayers are not required to register under the VAT scheme if they deliver the goods from the EU to the warehouse of a domestic buyer as long as certain conditions are met. In such cases, the seller can charge intra-Community supply of goods to the buyer.

Property related rules

The sale of new buildings and building land is taxable and is subject to straight line taxation. A new building is a building, for which the first takeover for intended use has not yet taken place or for which the use permit was issued no more than 2 years earlier or the acknowledgement of takeover for use of which was no more than 2 years earlier. The sale of all other properties and the letting and leasing of all property exempt from VAT, however, a different taxation method may also be chosen (making these activities taxable) instead of exemption. If the seller makes the sale taxable and sells the property to another taxpayer, the rules of domestic reverse taxation shall apply.

In the event that a private individual in no taxable status sells 4 properties within two years, the fourth transaction results in the person becoming a taxable person.

Domestic (intra-Hungary) reverse VAT

- In the case of certain transaction types and if certain conditions are fulfilled, the person procuring the product or the person using the service from among domestic taxpayers will become the person liable to taxation. These include the following:
 - sale of turn-key property by the contractor,
 - services related to properties requiring a building permit, and building construction and other construction work aimed at the expansion, demolition or remodelling of properties,
 - the leasing or assignment of workforce for the supply of goods and services, the placement of staff, services of school associations, sale of waste,
 - sale of real estate, which is tax free according to the general rule, but the vendor opted for taxable status,
 - sale of collateral assets,
 - sale of grains and certain products,
 - sale of certain iron and steel industry products.

Electronic Trade and Transport Control ("EKAER") system

Hungary introduced the EKAR system to fight against tax fraud. The aim of the system is to track the actual route of goods and to ensure public revenues generated during the acquisition and sale of goods.

The following taxpayers are required to register and report under EKAER:

- who acquire or import goods from the European Union to Hungary by means of a vehicle that is subject to toll,
- who sell or export goods from Hungary to the European Union by means of a vehicle that is subject to toll,
- who is engaged in the first taxable sale of goods to an entity other than a consumer by means of a vehicle that is subject to toll.

Failure to register may lead to the seizure of the consignment and may give rise to a fine up to 40 percent of the value of the goods.

Recapitulative (VIES) report

Taxpayers are required to file a consolidated statement regarding the products sold and the services rendered within the European Community and the products procured and services used from the European Community on a monthly or quarterly basis. The recapitulative report is to be filed with the same frequency as VAT returns.

Recapitulative report

Taxpayers subject to value added tax are obliged, in the case of the acquisition of goods and services and the supply of goods and services, to submit in their VAT returns a detailed declaration on the invoices in which the amount of VAT charged is at least the amount specified in the law¹. In addition to this detailed report, the taxpayer exercising the right of deduction is also obliged to file a consolidated report if it deducts VAT in an amount exceeding the amount specified in the law based on a number of invoices accepted from the same taxpayer in the same tax return filing period. The taxpayer may fulfil the obligation of submitting recapitulative reports voluntarily, independently from a limit value.

Invoicing software notification

All taxpayers are obliged to notify the invoicing software used by them to the tax authority. The invoicing software is required to have an independent but integrated function titled "tax authority inspection data disclosure" that can export data concerning the invoices issued in the format prescribed by the tax authority ("NAV").

Tax filing and payment deadlines

Depending on the amount of their tax liability, taxpayers are required to file tax returns and pay the tax on a monthly, quarterly or annual basis until the 20th day of the month following the return period and, for annual filers, until 25 February of the year following the tax year. A liability to file a recapitulative statement or recapitulative report may also arise in relation to the filing obligation. In other words, there is no "preliminary" and final tax return in the Hungarian system but rather all tax returns filed are considered a final statement.

VAT refund to foreign entities

As of 1 January 2010, taxable entities seated in another EU member state are entitled to reclaim the Hungarian VAT by electronically submitting an application to the tax authority of the country where they are seated.

Taxpayers established in eligible third countries (Switzerland and Liechtenstein) can submit their applications directly to the Hungarian tax authority either in paper format or electronically.

Taxpayers with a registered office or permanent site in Hungary have to apply to the National Tax and Customs Administration (NAV) for the reclaim of the value added tax paid in another member state of the European Community (foreign VAT). NAV only has a preliminary filtering role in the procedure if the applicants fulfil the requirements of the law. The office is required to forward applications to the foreign authorities within 15 days of their receipt. The deadline for receiving applications is 30 September of the year following the relevant year.

3.3.2 Excise tax

EU tax regulations extend to the harmonization of excise tax also. However, there are no standard EU regulations for excise tax, i.e. there is no standard EU Excise Code applicable by all Member States (as in customs law). Instead, each Member State is responsible for adopting its own excise regulations in line with EU principles. The new Hungarian excise regulations, renewed in both form and content, enters into force on 1 July 2017 (Act VXXVII of 2016 on Excise Tax).

Taxable goods according to the new regulations

Excise goods: energy products, beer, still and sparkling wine, other still and sparkling fermented beverages, intermediate alcohol products, alcohol products and manufactured tobacco;

Energy products include:

- coal,
- electricity,
- natural gas,
- mineral oils:
 - lubricating oil,
 - heating oil,
 - gas oil,

¹ On 1 January 2017: HUF 1 million

- mineral oil products used as fuel

Manufactured tobacco includes:

- cigarettes,
- cigars,
- cigarillos,
- fine-cut smoking tobacco,
- other smoking tobacco,
- the new tobacco product categories,
- electronic cigarettes,
- lighter fluids.

Taxpayers

The goods listed above as subject to the Act on Excise Tax may only be distributed in free circulation, exported or imported, sold in or acquired from Community circulation in possession of an excise license specified in the Act on Excise Tax and subject to the conditions therein.

A dealer without an excise license may only procure excise goods from a tax warehouse, a dealer with an excise license, an importer or the holder of a use permit.

Tax liability arises when goods subject to excise tax are manufactured or when goods subject to excise tax are imported from third countries or introduced into the territory of Hungary from the EU. It is important to note that excise tax is a national tax type, thus imports from the EU also give rise to a tax liability. At the same time, the taxpayer is entitled to a tax refund in respect of exports of taxed products not only to third countries but also to the EU.

With certain exceptions, alcohol products and manufactured tobacco may only be released into free circulation, imported or distributed domestically if they carry a tax seal.

Tax base, tax rate

According to the new excise regulations effective from 1 April 2017, the excise tax rates are the following:

For petrol:

- if the world price of oil as per Subsection (3) exceeds USD 50/barrel: HUF 120,000/thousand litre,
- if the world price of oil as per Subsection (3) does not exceed USD 50/barrel: HUF 125,000/thousand litre,

For petroleum:

- if the world price of oil as per Subsection (3) exceeds USD 50/barrel: HUF 124,200/thousand litre,
- if the world price of oil as per Subsection (3) does not exceed USD 50/barrel: HUF 129,200/thousand litre,

For gas oil: if offered, sold or used as fuel or for heating purposes,

- if the world price of oil as per Subsection (3) exceeds USD 50/barrel: HUF 110,350/thousand litre,
- if the world price of oil as per Subsection (3) does not exceed USD 50/barrel: HUF 120,350/thousand litre,

For heating oil: if offered, sold or used for heating purposes: HUF 4,655/thousand kilogram, if offered, sold or used as fuel: HUF 116,000/thousand kilogram,

For LPG: if offered, sold or used as fuel in road vehicles: HUF 95,800/thousand kilogram, if offered, sold or used in other engines: HUF 12,725/thousand kilogram, if offered, sold or used for heating purposes: HUF 0/thousand kilogram,

For natural gas: if offered, sold or used as fuel in road vehicles: HUF 28/nm³, otherwise: HUF 0.3038/kWh,

For electricity: HUF 310.50/megawatthour,

For coal: HUF 2,516/thousand kilogram,

For beer: the tax base is the quantity of beer expressed in hectolitres and the actual alcohol content expressed in degrees of percent volume.

The tax rate per hectolitre and per actual degree of alcohol content

- for beer produced in a small-scale brewery: HUF 810,
- for all other beer: HUF 1,620.

For still wine: the tax rate is HUF 0/hectolitre.

For sparkling wine: the tax rate is HUF 16,460/hectolitre.

For all other still fermented beverages: the tax base is the quantity of the other still fermented beverage expressed in hectolitres. The tax rate per hectolitre:

- for packaged mixtures of still wine and sparkling water without added flavouring with an alcohol content below 8.5 percent volume, in which the ratio of still wine exceeds 50 percent: HUF 0,
- for all other still fermented beverages: HUF 9,870.

For other sparkling fermented beverages: the tax rate is HUF 16,460/hectolitre.

For intermediate alcohol products: the tax rate is HUF 25,520/hectolitre.

For alcohol products:

- in the case of distillates manufactured for an individual customer ("bérfőzető")
- for a quantity of no more than 50 litres per year manufactured for one individual customer (also if intended for sale to a tax warehouse): HUF 167,000/hectolitre,
- for a quantity of more than 50 litres per year manufactured for one individual customer or for the quantity not intended for sale to a tax warehouse: HUF 333,385/hectolitre,
- in all other cases not specified in clause a) above: HUF 333,385/hectolitre.

For cigarettes: HUF 16,200/one thousand pieces plus 25 percent of the retail price but no less than HUF 28,800/one thousand pieces,

For cigars and cigarillos: 14 percent of the retail price but no less than HUF 4,120/one thousand pieces,

For fine-cut smoking tobacco: HUF 16,200/kilogram,

For other smoking tobacco: HUF 16,200/kilogram,

For lighter fluids: HUF 65/millilitre.

3.3.3 Environmental product fee

The aim of the environmental product fee is to stimulate the reduction of pollutant emissions, to facilitate the sustainable management of natural resources and to enhance the implementation of waste management objectives based on domestic and international regulations.

Product fee liability is incurred if a product subject to the product fee is released for domestic circulation, or the product is used for own purposes, or the product is entered into the stock of the taxpayer that opted for payment upon entry into stock.

Products subject to environmental product fee

The Act on the Environmental product fee classifies products subject to the product fee into the following categories:

- batteries,
- packaging materials,
- other mineral oil products,

- electric, electronic equipment,
- tyres,
- advertisement paper,
- other plastic products,
- other chemical products,
- office paper.

Entities liable to pay environmental product fee

In principle, the entities subject to the Act on the Product Fee include:

- the entity that first releases the product for domestic circulation;
- the entity that first uses the product for its own purposes;
- the entity that enters the products into its stock.

Separate rules apply to other mineral oil products manufactured in Hungary, as in such cases the product fee is payable by the first buyer of the party first releasing the product for domestic circulation or the party first using the product for own purposes or, in the case of toll manufacturing, by the toll manufacturer. Furthermore, in the case of foreign packaging, the first domestic owner of the unwrapped packaging waste is liable to pay the product fee.

Environmental product fee base

The base of the environmental product fee is the net weight in kilograms of the products subject to the product fee.

Environmental product fee rate

The products subject to the product fee and the relevant product fee rates are presented in the following table:

Description	Rate of product fee
Batteries	HUF 57/kg
Packaging materials	HUF 19-1900/kg
Other mineral oil products	HUF 114/kg
Electric, electronic equipment	HUF 57-304/kg
Tyres	HUF 57/kg
Advertisement paper	HUF 85/kg
Other plastic products	HUF 1900/kg
Other chemical products	HUF 11-57/kg
Office paper	HUF 19/kg

Subject to certain conditions, taxpayers issuing only moderate quantity (agricultural producers and the party releasing the products subject to product fee for domestic circulation, the party using the products for own purposes or the party acquiring the products for stock as vehicle components or accessories) may opt for lump sum tax payment.

Reporting obligation

Activities subject to product fee shall be reported to the Tax Authority ("NAV") within 15 days of the commencement thereof on the electronic form provided for this purpose. Furthermore, any changes affecting the product fee liability shall also be reported to NAV within 15 days of the occurrence of such change.

Recording obligation

The law requires entities subject to product fee to keep accurate records. The minimum mandatory data content of such records shall include: description, tariff heading, Csk or KT code, quantity, product fee liability, origin (foreign or domestic), the day on which the product fee liability is incurred and paid.

Further data may need to be included in the records in the case of assumption, refunds or other special cases.

Filing and payment deadlines

Taxpayers liable to pay the environmental product fee are liable to file a return form quarterly by the 20th day of the month following the quarter under review on the electronic form provided for this purpose.

Taxpayers liable to pay the environmental product fee are liable to assess, file and pay the product fee for the fourth quarter of the year under review by 20 December of the current year. The extent of this shall be 80 percent of one-third of the product fee paid in respect of the first three quarters of the current year.

Invoice endorsement obligation

The taxpayer liable to pay the environmental product fee shall disclose the product fee on the invoice in cases where the product fee is assumed, reclaimed or paid as a lump sum tax.

3.3.4 Customs duty

Customs duty is a tax payable in respect of goods crossing national borders classified into various categories based on its direction (import, export and transit duty), its effect (financial or administrative duty), its temporal scope (permanent and temporary duty) and various other functions. The European Union has created a customs union, this way eliminating duties payable on the borders of EU Member States and enacted a standard EU import duty regime levied on products imported from non-EU countries. The aim of the EU import duty regime is, on the one hand, to generate budget revenues and, on the other hand, to fulfill certain foreign trade policy functions.

Hungarian customs regulations are fully harmonised with the Community customs rules.

Entities obliged to pay customs duties

The entity liable to pay the customs debt is the customs debtor. The customs debtor may be the declarant or, in the case of indirect customs representation, the client (in which name the customs declaration is made).

Duty base

The customs value is the basis for the customs duty and the import VAT. Determining the customs value is an extremely complicated process, due to the fact that there are a number of factors that influence the customs value. The customs value is the value of products imported to the territory of the Community as determined at the border of the Community. There are various methods to determine this.

The customs value is primarily determined through the transaction value method as follows. Beside the application of the transaction value method, the transaction value of the product itself (the invoice amount), the parity (the geographical location where transport costs are transferred from the seller to the buyer) and the adjustment factors (items to be added to or deducted from the customs value) are also required in order to determine the customs value.

In applying the transaction value method, the following items (among others) shall be added to the price actually paid for the imported goods: the transport and insurance costs of the imported goods incurred until the place of entry into the Community customs territory as well as any loading and handling costs associated with the transport.

Under the transaction value method, the following items (among others) cannot be computed into the customs value: transportation costs of the goods after their entry into the Community customs territory, import duties and any other charges incurred due to the sale of the goods in the Community.

In the event that the transaction value method cannot be applied for determining the customs value, it can be determined by means of one of the following methods:

- based on the value of equivalent goods,
- based on the value of similar goods,
- based on the unit price of equivalent or similar goods,
- based on the calculated value,
- based on a free method.

Please note that it is not allowed to deviate from the above order.

Duty rate

The amount of the customs debt shall be determined in accordance with the rules of duty assessment in force at the time when the customs debt is incurred. The duty base and the duty rate must be known in order to determine the customs debt.

The duty rate is determined on the basis of the Combined Nomenclature. The classification system of the Combined Nomenclature classifies products groups on the basis of a strict natural order and allocates them to tariff headings. Using those tariff headings, it is possible to determine the amount of the duty payable on the importation of the given goods. However, it is possible to apply preferential duty rates to different countries of origin.

Duty exemptions

A customs duty exemption procedure means that, subject to certain conditions, release of the goods for free circulation can take place at a preferential or 0 percent duty rate.

Please find some of the typical titles for exemption from customs duty:

- duty exemption of return goods,
- duty exemption of product samples returned from abroad,
- duty exemption of spare parts imported to repair a means of transport registered abroad and damaged

during its domestic stay,

- duty exemption of replacement goods or parts,
- duty exemption of new residents (personal property, chattels),
- duty exemption of persons moving to the territory of the Community to get married (chattels, wedding gifts),
- duty exemption of inheritance,
- duty exemption of consignments of small value.

Please note that the application of the above duty exemptions is subject to certain strict conditions provided for in Council Regulation (EC) No. 1186/2009 setting up a Community system of reliefs from customs duty.

Deadline for payment of the customs duty

Payment of the customs debt can be either immediate or deferred.

In the case of immediate payment, the customs debt shall be paid within 10 days of the notification of the customs debt so that the imported goods can be released from customs control and made available to the importer.

There are three methods of deferred duty payment:

- the debtor pays the customs debt separately in respect of each customs debt item, within 30 days of the notification thereof,
- in the case of a consolidation period of one week, the debtor pays the customs debt by Friday of the fourth week following the week of consolidation,
- in the case of a consolidation period of one month, the debtor pays the customs debt by the 16th day of the month following the calendar month.

Deferred duty payment is subject to a licence that can be requested from NAV KAVIG.

3.4 Employment-related public dues

In Hungary, as in other EU countries, Directive no. 883/2004/EC and Regulation no. 987/2009 on the execution of the directive is in effect, which regulates the social security status of migrant employees.

As a general rule, employees are insured in the state where they work. An exception to this rule is short-term assignment (STA), when the employee may remain insured in the country of origin for a period of maximum two years according to the main rule.

The insurance does not cover employees employed in the territory of Hungary by an unregistered foreign employer who are the citizens of a third country and qualify as non-residents, provided that work is performed under a secondment, assignment or temporary agency work arrangement, provided that the duration thereof does not exceed two years.

Hungary has signed social-political or social security treaties with a few countries to define insurance obligations and avoid double payment of contributions. These countries include certain successor states of the former Soviet Union (Russia) in respect of the agreement entered into with the former, Serbia, Croatia, Bosnia-Herzegovina, Montenegro, the Republic of Korea, Canada, Quebec, Moldova, Japan, Mongolia, Australia and India. The treaties currently in force are listed in Section 2 of the Annex.

The provisions regarding the above social security contribution shall also apply to the social contribution tax replacing the social security contribution paid by the employer earlier.

3.4.1 Pension insurance, health insurance and labour market contributions payable by the employee/insured

Persons liable to pay the contribution

The individual that qualifies as the insured. The insured is an individual that personally performs work in an employment relationship or under an agency or contractual relationship for a consideration exceeding a certain monthly income. Natural person owners of any enterprise and private entrepreneurs also qualify as insureds.

Contribution base

The contribution base is the amount received from the employer and taken into account for the assessment of the personal income tax advance. For entrepreneurs, a specific percentage of the minimum wage from time to time.

Contribution rate

Pension insurance contribution: 10 percent.

Health insurance and labour market contribution: 8.5 percent

Contribution credit

15 percent of the family tax credit not considered in personal income tax may also be deducted from personal health insurance and pension contribution (family contribution credit). The tax credit must be applied first from the personal health insurance contribution deductible from the gross salary. If any unused tax credit remains, it may be deducted from personal pension contribution.

Tax filing and payment deadlines

The payer (employer) must file the return on the contributions and pay the tax by the 12th day of the month following the relevant month simultaneously with the personal income tax advance deducted.

3.4.2 Public dues payable by the employer

Social contribution tax

Taxpayers

Each payer (employer) that pays income from independent and non-independent activities to a resident natural person in a social security relationship that gives rise to a tax liability, based on which the taxpayer assesses and pays the social contribution tax payable by it and it assesses, deducts and pays the contributions payable by the individual.

Tax base

The amount taken into account for the assessment of the personal income tax advance. If there is no such income, the contribution base is the base salary specified in the employment contract or, in the case of a service contract, the fee defined in the contract. If the work is performed under an employment contract governed by foreign law, the tax base is the monthly amount of the contractual fee.

Tax rate

The tax payable by the employer is 22 percent.

Tax benefits

The employer can reduce the tax liability in several ways. The tax benefits are typically designed to promote the employment of disadvantaged workers or the creation of jobs in underprivileged areas as well as the employment of workers that create high added value. In addition, further tax

benefits may be available, among others, for the employment of workers in unskilled jobs, disadvantaged workers, persons eligible for social benefits received during child-raising and researchers.

Tax filing and payment deadlines

The payer (employer) must file the return on the contributions and pay the tax by the 12th day of the month following the relevant month simultaneously with the personal income tax advance deducted.

Vocational contribution

Taxpayers

Companies and private entrepreneurs domiciled in Hungary, foreign entities with a permanent establishment or branch office in Hungary, provided that they are engaged in business activities in Hungary.

Tax base

By the main rule, the tax base of the vocational contribution is the same as that of the social contribution tax.

Tax rate

The rate of vocational contribution is 1.5 percent of the tax base.

The vocational contribution obligation may be fulfilled by the organization of practical training or by the payment of the contribution amount. The method of fulfilling the obligation is chosen by the persons having vocational contribution obligation. In case of organising practical training the gross payment liability may be reduced based on the basic norms specified in the budget act of the given year (HUF 453 thousand/person/year in 2017).

Tax benefits

If the amount of the decreasing items exceeds the amount of the contribution payable, the difference shall be refunded to the taxpayer.

Where workers meeting certain specific criteria are employed, the vocational contribution base may be reduced by the amount of the gross wages in the first two years of employment but no more than HUF 100 thousand per month per worker.

Tax filing and payment deadlines

Taxpayers liable to pay this contribution are required to make an advance payment for the first 11 months of the given year. The advance payment must be declared and paid on a monthly basis by the 12th day of the month following the month under review. The difference between the advance payment and the annual net payment liability must be paid by 12 January of the year following the year under review, and the surplus payment may be reclaimed from this date, too.

Rehabilitation contribution

Taxpayers

The employer is obliged to pay rehabilitation contribution to promote the employment rehabilitation of disadvantaged workers.

Tax base

If the headcount at the entity exceeds 25 and the number of disadvantaged workers employed by the entity does not reach 5 percent of the total headcount, the entity is obliged to pay rehabilitation contribution.

Tax rate

The amount of the rehabilitation contribution is nine times the minimum base wage payable to full time employees as of the first day of the current year/person/year. This amount is HUF 1,147,500/person/year. This amount is to be multiplied by the headcount missing from the five percent mandatory employment level determined from the entity's average statistical headcount rounded to the first decimal place to arrive at the annual rehabilitation contribution due.

Tax filing and payment deadlines

The employer shall assess, declare and pay the rehabilitation contribution liability to the tax authority.

3.5 Municipal taxes

Municipalities may levy municipal and local taxes in their area of jurisdiction. Local taxes include the local business tax, building tax, land tax, communal tax of individuals and tourist tax.

3.5.1 Town tax

Town tax means any tax provided that it is not imposed on a tax object to which a public burden defined by law already relates, including local taxes.

Taxpayers

Taxpayers can only be natural persons.

Tax base, tax rate, filing and payment deadline

Not regulated by law, each municipality can decide for itself.

3.5.2 Local business tax

Local business tax is the most widely spread and used local tax. Any permanent or temporary business activity performed at the area of jurisdiction of the given municipality.

Taxpayers, tax base

Local business tax is payable by all entrepreneurs whose registered office or branch office is located within the jurisdiction of the municipality (permanent) or that perform temporary business activities in access of 30 days within the jurisdiction of the municipality.

The tax base is net sales revenue, less the cost of goods sold and mediated services, the value of subcontractor performance, the direct cost of research and experimental development and material cost.

Tax rate

The maximum tax rate is 2 percent of the tax base. Municipalities may deviate from this or may even decide not to levy local business tax at all.

In the case of temporary business activities the tax rate is HUF 5 000 per calendar day.

Tax exemption, tax credit

The company is entitled to reduce the tax base, if the average statistical headcount calculated on the basis of the months of operation in the current year shows an increase on the previous year. The amount of the tax credit is HUF 1 million/ each additional employee. This exemption may be applied in the return for the tax year.

Regulated real estate investment companies, their pre-companies and special purpose vehicles are exempt from this tax type.

Purchasing and sales cooperatives are also exempt from local business tax.

In addition to the above, the municipality may adopt a resolution about tax exemption or tax credit for any entity, provided that the tax base of the entity concerned does not exceed HUF 2.5 million.

Tax filing and payment deadlines

The advance on the local business tax is payable twice a year: by 15 March and 15 September. Any entrepreneur whose generated revenue exceeds HUF 100 million for the previous year is required to top-up the amount of tax paid to the expected tax liability for the relevant year and also file a tax return.

The local business tax return has to be filed and paid by 31 May of the year following the relevant year. Local business tax in respect of temporary activities shall be paid by the 15th day of the month following the date of cessation of the activity at the latest. The tax return may be filed either with the municipal or with the state tax authority.

3.5.3 Building tax

The tax applies to buildings for both residential and non-residential purposes and all of their rooms, irrespective of their intended purpose and utilization.

Taxpayers

The owner of the building.

Tax rate

- maximum HUF 1 852.1/m², or
- maximum 3.6 percent of the adjusted market value.

Deadline for payment

The annual building tax is due in two instalments: by 15th March and 15th September.

3.5.4 Land tax

Taxpayers

The registered owner of the lot as of 1st January.

Tax rate

- maximum HUF 336,7/m², or
- 3 percent of the adjusted market value.

Deadline for payment

The annual land tax is due in two instalments: by 15th March and 15th September.

3.5.5 Communal tax of individuals

Taxpayers

The private person owning a structure or land or holding the right of lease of a flat that is not in the ownership of a private person on the first day of the year.

Tax rate

- Maximum HUF 28 624.3 per structure, land or flat lease right.

Deadline for payment

The tax is payable annually in two instalments until 15th March and 15th September.

3.5.6 Tourist tax

Taxpayers

Any private individual who spends at least one tourist night within the jurisdiction of the municipality and is not a permanent resident.

Tax rate

- maximum HUF 505.1/person per tourist night or
- maximum 4 percent of the accommodation fee

Tax filing and payment deadlines

The tourist tax is to be collected by the host. The deadline for payment of the tourist tax is the 15th day of the month following the month of collection.

3.6 Special taxes

Special taxes include the tax types levied on specific industries/sectors (income tax of energy utilities, levies on financial organisations and credit institutions, credit

institution contribution, energy tax, public utility tax, telecommunication tax, advertisement tax, public health product tax, mining fee).

These taxes are only levied on enterprises active in the given sector of the economy.

3.6.1 Financial transaction duty

The aim of the financial transaction duty is to enhance the involvement of financial sector entities in the process of ensuring the coverage for common costs to society. The financial transaction duty extends to retail and corporate banking and postal transactions, among others, transfer orders, collection orders, bankcard purchases, the cashing of cheques, cash payments, cash transfers as well as loan repayments, exchange activities and the charging of bank fees and commissions.

Entities obliged to pay the duty, duty base

The duty applies to payment service providers, financial institutions providing credits and loans that do not qualify as payment service providers, credit institutions licensed for exchange activities and special intermediaries authorized to mediate exchange services having their seat or a branch office in Hungary. The duty is always payable by the service provider.

By the main rule, the base of the duty is the amount by which the payment service provider debits the account of the paying party, while in the case of cash transfers, the amount indicated in the transfer order that is paid by the client in cash. No duty liability is incurred in certain specific cases, including cash pooling operations, provided that the accounts of the members are managed by the same payment service provider.

Duty rate

By the main rule, the duty rate is 0.3 percent of the duty base but no more than HUF 6,000 per transaction. Cash payment transactions are subject to a higher, 0.6 percent duty rate and there is no cap on the duty payable.

Duty allowance

The law provides for an allowance applicable by payment service providers that manage to increase their client base (including, in particular, the loan portfolio) significantly, in excess of 20 percent by the end of 2017 compared to the end of 2015. The rate of the allowance is 0.6 percent of the client base increase, however its amount may not exceed

80 percent of the transaction duty payable in the given tax year or HUF 300 million. Payment service providers shall determine the actual rate of increase of their client base after the tax year.

Filing and payment deadlines

The taxpayers having financial transaction duty payment obligation have to declare and pay duty until the 20th of the month following the performance date.

3.6.2 Public health product fee

The public health product fee was introduced to reduce the consumption of foodstuffs that are not useful from a public health perspective and to promote a healthy diet as well as to improve the financing of health care services, in particular programs aimed at the improvement of public health.

Taxpayers, tax base

Persons or organizations who/that sell products subject to the product fee in Hungary for the first time or acquire and use the same as raw materials or components for the manufacturing of self-produced goods sold in Hungary must pay public health product fee: soft drinks, energy drinks, pre-packed sugared products, salted snacks, food flavouring, flavoured beer, alcoholic refreshments, jam and alcoholic beverages.

The tax base is the quantity of taxable products sold or purchased by the taxpayer expressed in kilograms or litres. The weight of packaging shall not be taken into account for the purpose of determining the tax base.

Tax rate

The tax rate differs between products

Product	Tax rate
Syrup	HUF 200/litre
Soft drinks	HUF 7/litre
Energy drink	HUF 250 or 40/litre
Sugared cocoa-powder	HUF 70/kilogram
Other pre-packed sugared products	HUF 130/kilogram
Salty snacks	HUF 250/kilogram
Food flavouring	HUF 250/kilogram

Flavoured beer, alcoholic refreshments	HUF 20/litre
Jam	HUF 500/kilogram
Alcoholic beverages	HUF 20-900/litre according to progressive brackets defined based on the percentage of alcohol by volume

Exemptions

A taxpayer selling taxable products shall be exempt from the product fee if it sells less than 50 kilograms or 50 litres of the taxable products in the current year.

No tax is payable on the pre-packed sugar product containing at least 20 percent honey if its sugar content is not higher than 40 percent.

Taxpayers that are exempt from value added tax and taxpayers subject to value added tax that are not obliged to file tax returns shall be exempt from the product fee liability.

In addition, exemptions related to quantity, sales and procurements may relate to the product fee payment obligation.

Tax filing and payment deadlines

The taxable person must file returns in the frequency of value added tax return filing applicable to such person (monthly, quarterly, annually) until the deadline prescribed for value added tax return filing, i.e. the 20th of the month following the current month.

Taxpayers that are not subject to value added tax shall comply with the filing obligation by the 25th day of the second month of the year following the tax year.

3.6.3 Income tax of energy suppliers (Robin Hood tax)

The income tax of energy suppliers was introduced to reduce and eliminate the competitive disadvantage of retail consumers and to make energy consumption more efficient and this way to reduce the costs of energy consumption.

Taxpayers, tax base

Energy suppliers, public service providers and the Hungarian permanent establishments of foreign entities are subject to the income tax of energy suppliers.

The tax base is the adjusted pre-tax profit.

Tax rate

The tax rate is 31 percent of the tax base.

Tax credit

Taxpayers entitled to apply the development tax credit and/or the tax credit for investments serving energy efficiency purposes may apply a tax credit up to 50 percent of the calculated tax.

Tax filing and payment deadlines

The filing and payment obligation of the income tax of energy suppliers shall be met until 31 May.

Taxpayers are the entities that are obliged to pay tax advance. The income tax advance is payable in equal instalments monthly or quarterly depending on whether the tax payable for the previous year exceeded the relevant statutory limit or not. The tax advance must be topped up to the expected total amount of tax payable in the tax year. The relating tax return must be filed and the tax advance top-up must be paid until the 20th of the last month of the current year.

3.6.4 Telecommunication tax

The aim of the legislator with the telecommunication tax is to enhance the involvement of telecommunication sector entities in the process of ensuring the coverage for common costs to society.

Taxpayers, tax base

The telecommunication tax (telephone or SMS tax) is levied on telecommunication services. The tax is payable by natural persons, legal persons or other organizations providing telecommunication services in Hungary.

The tax base is the time of calls initiated from the call numbers and the number of text messages sent.

Tax rate

The tax rate is HUF 2 per minute for each initiated call in the case of individual subscribers and HUF 3 per minute in the case of non-individual subscribers and HUF 2 per SMS and MMS message in the case of individual and HUF 3 per message in the case of non-individual subscribers. There is

however a cap on the tax imposed, which is HUF 700 monthly per call number for individuals and HUF 5 000 monthly for non-individuals.

Tax filing and payment deadlines

The service provider has to declare and pay the tax until the 20th of the second month following the call or message sending using the form prescribed for this purpose .

3.6.5 Advertisement tax

The Hungarian advertisement tax is one of the most recent tax laws. In the spirit of the proportionate contribution to public revenues, the publication or commissioning of advertisements in media services, in media published or distributed in Hungary, on outdoor advertising spaces, properties, vehicles, printed materials or on the internet in Hungarian or on a Hungarian language website is taxable in Hungary.

Taxpayers

Taxpayers are the media content providers and news publishers that qualify as the publishers of the advertisement as well as persons using the designated device for advertising purposes or publishing the advertisement on the internet.

The taxable person is subject to the tax liability irrespective of his residence. Foreign enterprises not registered in Hungary are required to request a tax number from the Hungarian tax authority. If the foreign entity fails to comply with this or any other obligation associated with the advertisement tax, it may be subject to an increased penalty in deviation from the general rules.

Subject to certain specific exceptions, the publisher of the advertisement is required to make a statement to the party commissioning the advertisement about his advertisement tax liability. Should he fail to do so, the party commissioning the advertisement will be obliged to pay the advertisement tax.

Tax base

The base of the tax payable by the publishers of advertisements is the adjusted net sales revenue derived in the tax year from the taxable activity. Advertisement for own purposes means where the publisher of and the party commissioning the given advertisement is the same entity. As of 2017 advertisement for own purposes is free of tax.

For the party commissioning the publication of the advertisement, the tax base is the monthly advertising spending.

Tax rate

The advertisement tax rate payable by the publisher of the advertisement:

- 0 percent on the part of the tax base not exceeding HUF 100 million,
- 7.5 percent on the part of the tax base exceeding HUF 100 million.

The advertisement tax rate payable by the party commissioning the advertisement is 5 percent of the monthly advertising spending in excess of HUF 2.5 million.

Tax filing and payment deadlines

The advertisement tax must be declared and paid annually by the publisher of advertisement until the last day of the fifth month of the following tax year. The taxpayers having tax advance payment obligations must pay tax advance twice a year and also have top-up obligation to be fulfilled by the 20th of the last month of the tax year.

The publisher of advertisements must provide its client with a declaration on the invoice issued on advertisement publication at the latest unless the publisher is released from the obligation of issuing a declaration. In the absence of a mandatory declaration, the advertisement tax will be payable by the company ordering the publication of the advertisement. The ordering party must declare and pay the tax on its advertisement spending exceeding HUF 2.5 million monthly until the 20th of the month following the given month. If the tax is payable by the ordering party, a standard tax rate of 5 percent applies.

The ordering party is released from the tax obligation if it requested the issuing of a declaration from the advertisement publisher but the publisher failed to provide a declaration despite this request and the ordering party informs the tax authority of this.

3.6.6 Special tax of financial organizations, distributors, investment funds and credit institutions

The aim of the special levy imposed on a broad range of financial organisations (commonly known as "bank tax") is to enhance the involvement of financial sector entities in the process of ensuring the coverage for common costs to society.

Special tax of financial organizations, distributors and investment funds

Taxpayers, tax base

The financial organisations affected by the special tax are banks, specialised credit institutions, financial enterprises, investment enterprises, the stock exchange, investment fund managers, venture capital fund managers.

In addition, special tax is payable by the distributor on the foreign collective investment securities distributed by it and managed on security accounts in Hungary and by the investment fund manager on the investment units of the investment funds registered in Hungary that are managed by the investment fund manager.

The financial organisations' special tax base is the modified balance sheet total, adjusted sales revenues calculated from specific financial statements data of the financial organisation.

For distributors and investment funds, the special tax base is the value in HUF of the investment instruments and investment units specified in the act, calculated in accordance with the act.

Tax rate

The special tax rate differs from entity to entity. For credit institutions, it is 0.15 percent on the part of the tax base not exceeding HUF 50 billion and 0.21 percent above that amount.

For other financial organisations, it is 5.6 percent and 6.5 percent of the tax base, respectively.

For distributors and investments funds, the special tax rate is 0.05 percent of the tax base.

Tax filing and payment deadline

The method of assessing the tax (the tax base and the tax rate) is different for the various taxpayers.

Financial organisations are required to calculate the special tax by 10th March 2017, declare it on a separate form as per the due date and pay it in four equal parts by the 10th day of the last month of the quarter.

Distributors and investment fund managers must assess, declare and pay the special tax quarterly, applying one-fourth of the annual tax rate, until the 20th of the month following the given quarter.

Special tax of credit institutions

Taxpayers, tax base, tax rate

In addition to the special tax of financial organisations, credit institutions are also obliged to pay a special tax, assessed using a 30 percent tax rate, imposed exclusively on credit institutions. The amount paid as special tax of financial organizations has to be taken into account when assessing the tax payable.

3.6.7 Public utility tax

Public utility tax is charged on the owners of public utility lines. Public utility lines include, among others, water supply, natural gas, heat and electricity supply and telecommunication service lines located in public areas or sections of land not qualifying as public area.

Taxpayers

The owner or, for public utility lines owned by the state or the municipality, the operator of the public utility line as of the first day of the calendar year.

Tax base

The track length of the utility line expressed in metres.

Tax rate

HUF 125 for each meter of the track length of the utility line.

The owners of telecommunication lines shall pay the tax amount in progressive brackets.

Tax exemption

For public utility lines constructed along a new track, the tax liability is no longer incurred on the first day of the year following commissioning, but rather on the first day of the sixth year after the line is actually put into service, i.e. no tax is payable in respect of new lines for 5 years after construction.

Tax filing and payment deadlines

Public utility tax returns have to be filed annually until 20th March of each calendar year. The tax payable in a given year is paid in two instalments until 20th March and 20th September.

3.6.8 Mining fee

Mineral resources and geothermal energy, at their natural place of occurrence, are in state property. Mineral raw materials exploited by a mining entrepreneur shall become the property of the mining entrepreneur through exploitation, while the geothermal energy exploited for the purposes of generation of energy shall become the property of the mining entrepreneur through utilization.

On exploited mineral raw materials and geothermal energy the state shall be entitled to a share, a mining fee.

Entities liable to pay mining fee

The mining fee is payable by the mining entrepreneur, the holder of a concession to mine mineral materials, the holder of a concession to exploit mineral materials issued by an authority other than the mining supervision as well as entities authorised to exploit geothermal energy.

Mining fee base

The mineral raw materials and geothermal energy exploited by or, for underground coal gasification, the mineral raw materials utilised by the entity subject to a mining fee liability.

Mining fee rate

The tax rate is a designated percentage of the value generated by the quantity of the exploited, utilised or consumed mineral raw material or the value of the exploited geothermal energy.

Tax filing and payment deadlines

The mining fee is to be determined by self-assessment. The mining fee return is to be filed even if no mining fee payment liability is incurred in the current period. For mineral oil, natural gas and carbon dioxide gas, the return is to be filed monthly, by the 20th day of the month following the current month, while for all other mineral raw materials and exploited geothermal energy, the return is to be filed quarterly, by the 20th day of the month following the current quarter with the Mining Fee Collection Department of the Hungarian Office for Mining and Geology and the amount of the mining fee shall be paid simultaneously to the dedicated account of the central budget.

3.7 Other taxes and duties

3.7.1 Healthcare contribution (EHO)

In Hungary, with a view to financing healthcare services, healthcare contributions are to be paid on certain taxable incomes not subject to social security contributions, which do not constitute the tax base of the social contribution tax. The persons liable to pay EHO and the rates thereof vary based on the source of income.

Taxpayers, tax base

Healthcare contribution is payable by entities that provide income to resident private individuals that is not subject to a social security contribution. If the income in respect of which healthcare contribution is payable is from a source other than a payer or if the payer is not required to assess the tax regarding such income, the healthcare contribution shall be paid by the resident private individual to whom the income was paid.

EHO is payable on certain capital gains and property letting fees received by the private individual. Such EHO is payable by the private individual.

The EHO base is the income realised by the private individual. If the private individual realises income in-kind and the EHO can not be deducted, the EHO base shall be 1.19 times the income.

Tax rate

The rate of healthcare contribution varies depending on the source of the income.

The following are subject to 22 percent EHO:

- in case of income within a combined tax base, the income taken into consideration for the tax base that is not subject to social security contribution and social contribution tax;
- the amount added to the tax base of certain contributions not qualifying as fringe benefits;
- the amount of income from interest rate discounts added to the tax base.

The following are subject to 14 percent EHO:

- the amount of fringe benefits provided by the employer, added to the tax base;
- income derived from entities acquired in the tax year;
- income derived from securities lending, dividend and exchange gain;
- the total of income exceeding HUF 1 million derived from the letting of property;
- income received by a non-resident performing artist for activities performed in Hungary.

The maximum annual amount of the mandatory 14 percent healthcare contribution is HUF 450 thousand (which may be reduced if certain circumstances exist).

Tax filing and payment deadlines

The payer is required to deduct the healthcare contribution from any amounts paid to the private individual. As a general rule, the tax return is to be filed and the tax paid on a monthly basis, by the 12th day of the month following the relevant month. Where the income is not derived from a payer, the private individual is required to pay the EHO on a quarterly basis but only declare it in the annual income tax return.

3.7.2 Vehicle tax

A vehicle tax liability is incurred upon the entry into service of motor vehicles. The aim of the vehicle tax is to ensure more proportionate contribution to public costs associated with motorisation, to increase the revenues of municipalities and to expand the funding necessary for the maintenance and development of the public road network.

Taxpayers

The operator or owner of motor vehicles included in the register of vehicles.

Tax rate

The tax rate depends on the year of manufacture and the power of passenger cars and it varies based on the weight of lorries and buses. The tax varies between HUF 140 and 345 per kilowatt for passenger cars.

For buses and caravans, the tax is assessed on the basis of the kerb weight in the registry, for semi-trailers, twice the kerb weight plus a specific part of the maximum towable mass and for goods vehicles, the kerb weight plus 50 percent of the payload for each 100 kilogram unit or part thereof and is levied at a rate of either HUF 850 or HUF 1 380.

Tax exemption

No vehicle tax is payable in respect of environment-friendly cars.

Tax filing and payment deadlines

The annual car tax is due in two instalments: by 15 March and 15 September of the relevant year.

3.7.3 Company car tax

The tax is payable by the owner of the passenger car or, in the case of financial lease, the lessee registered by the authorities.

Taxpayers

The tax is payable by the owner of the passenger car or, in the case of financial lease or long-term lease, the lessee registered by the authorities.

Tax rate

Depending on the power and emission class of the passenger car, it is between HUF 7 700 and HUF 44 thousand per month. In order to avoid double taxation, the motor vehicle tax assessed may be deducted from the company car tax.

Tax exemption

No company car tax is payable in respect of environment-friendly cars.

Tax filing and payment deadlines

The tax return must be filed and the tax paid quarterly by the 20th day of the month following the relevant quarter.

3.7.4 Registration tax

Registration tax is payable on cars, caravans and motorcycles upon the first registration thereof in Hungary as well as upon the letting of passenger cars owned by a vehicle fleet operator to a resident person.

Taxpayers

The (natural/legal) person in whose name the vehicle is put into service. For imports, it is the importer, for intra-Community purchases, the person liable to pay the VAT and for re-modelling the owner.

Tax rate

The tax amount for passenger cars ranges between HUF 45 thousand and 4 800 thousand depending on the age, emission class and technical properties of the vehicle.

The registration tax payable in respect of hybrid drive cars is HUF 76 thousand.

Tax exemption

Electronically driven and only electronically rechargeable cars are exempt from registration tax.

3.7.5 Insurance tax

Insurance tax is payable by the insurance company providing insurance services if the place of the insurance risk is in Hungary. The provision of CASCO, property and accident insurance qualifies as insurance service.

Taxpayers

The taxpayers are the insurance companies. The Hungarian branches of insurers domiciled in a member state of the European Economic Area or a third country as well as insurers providing cross-border insurance services are also subject to the insurance tax, provided that these foreign insurers provide taxable insurance services in Hungary.

Tax base

The tax base is the insurance premium.

Tax rate

The tax rate is 15 percent of the gross insurance premium for CASCO and 10 percent of the gross insurance premium for property and accident insurance.

If the insurance company's premium income from CASCO and property and accident insurance services did not reach 8 billion forints in the previous year, preferential tax rates are applicable. Insurance tax is to be assessed applying 25 percent of the normal tax rate on the part of the aggregate tax year premium income from CASCO and property and accident insurance not exceeding HUF 100 million and applying 50 percent of the normal tax rate on the part this premium income exceeding HUF 100 million but not exceeding HUF 700 million.

Tax filing and payment deadlines

The insurer shall assess and declare the tax using the state tax authority's dedicated form and shall pay it by the 20th day of the month following the month in which the insurance premium or part thereof is settled.

3.7.6 Duty

In Hungary, duty on property acquisition is payable in the case of inheritance, the granting of gifts and onerous transfers of property, procedural duty is payable in the case of public administration authority and court proceedings and supervision duty is payable for the regulatory supervisory activities performed by the courts of registration.

Duty on onerous transfers of property

The subject matter of the duty

Acquisition of real estate, valuable rights and interest and tangible assets specified by law is subject to property transfer tax. The duty is payable by the party acquiring the property.

The following valuable rights and interests and tangible assets are subject to this duty:

- acquisition of valuable rights and interests related to real estate and the acquisition of assets resulting from the termination of such rights and interests,
- transfer of the right of usufruct for real estate,
- acquisition of tangible assets at public auctions,
- acquisition of the title or valuable right of a motor vehicle or a trailer,
- acquisition of the title or valuable right of a superstructure not qualifying as property and located in a public area,
- acquisition of the right to practice as an independent

physician,

- acquisition of securities by a contract of inheritance,
- acquisition of capital contribution (stocks, business shares, co-operative shares, investor's shares, converted investor's shares) of a business association that owns real estate in Hungary.

The rate of the duty

The regular rate of property transfer tax is 4 percent of the market value of the acquired property or the acquired capital contribution in a business association owning real estate in Hungary if the value is below HUF 1 billion per real estate, and 2 percent on the remaining part but no more than HUF 200 million per real estate.

The tax base of the property transfer tax for residential properties is the market value of the real estate and the tax rate is 4 percent on a standard basis.

When acquiring the title to a motor vehicle, the tax depending on the power of the engine and the age of the vehicle is between 300 HUF/kW and 850 HUF/kW.

Exemption

Among others, the following are exempt from duty obligation:

- the acquisition of ownership of a flat newly constructed by an entrepreneur for sale,
- the acquisition of ownership of (an ownership share in) land suitable for the construction of residential property and the acquisition of property rights established on such property if, within 4 years of the presentation of the relevant contract for the assessment of the duty payable, the party acquiring the property builds a residential property and the useful area of the flat(s) in the constructed building reaches at least 10 percent of the maximum site coverage defined in the town development plan and the party acquiring the property declares its intention to build a residential property until the effective date of the duty payment order at the latest,
- the acquisition of real estate or a contribution in a company owning domestic real estate under a preferential transfer of assets,
- the transfer between related parties of real estate or a contribution in a company owning domestic real estate if the main activity of the party acquiring the property is the leasing, operation or sale and purchase of real estate,

- the acquisition of real estate under a lease-back arrangement,
- the transfer of property in a transaction between lineal relatives and spouses,
- the acquisition of property as a result of the termination of marital community property.

Inheritance and gift duties

The subject matter of the duty

The inheritance and gift duty is a tax on wealth acquired as a result of a person's death or a gift.

Persons liable to pay the duty

The heir and the person receiving the gift.

The rate of the duty

A standard 18 percent rate applies to duty on inheritance and gifts, while a duty of 9 percent is payable on the free-of-charge acquisition of residential property and relating property rights.

Exemption

Inheritance and gifts between lineal kin and spouses and inheritance by the surviving spouse are exempt from this duty.

Procedural duty

The subject matter of the duty

As a general rule, a procedural duty or procedural service fee is payable for administrative procedures while a procedural duty is payable for court procedures.

Persons liable to pay the duty

The person initiating the procedure. The duty is payable for each petition.

Duty base, duty rate

The duty is either assessed as a function of the value of the subject matter of the procedure or as an itemised charge.

3.8 Treaties on the avoidance of double taxation

Hungary has signed treaties with a number of countries on the avoidance of double taxation. See the Appendix (Section 1) for a list of these countries.

3.9 Regulation on transfer pricing

The Hungarian transfer price regulations have been prepared in harmony with OECD Transfer Pricing Guidelines.


Related parties are required to set prices in their contracts that are used in contracts signed with independent parties under the same conditions. If the related parties in their contracts or agreements signed with one another apply a higher or lower counter value than the one that would be used in contracts signed with independent parties under the same condition, the tax base must or may be modified with the difference between the customary market price and the applied counter value. The taxpayer must increase the pre-tax earnings with the difference if due to the difference it has achieved lower pre-tax earnings than what it would have achieved with the application of the customary market price.

If the taxpayer has achieved higher pre-tax earnings than what it would have achieved with the application of the customary market price, it may reduce the tax base with the difference in case certain conditions are fulfilled.

The taxpayer is generally obliged to prepare a transfer pricing documentation on the basis of its contracts and agreements in force with related parties if performance took place under these contracts and agreements in the tax year. No transfer pricing documentation is required from taxpayers who qualify as micro and small businesses.

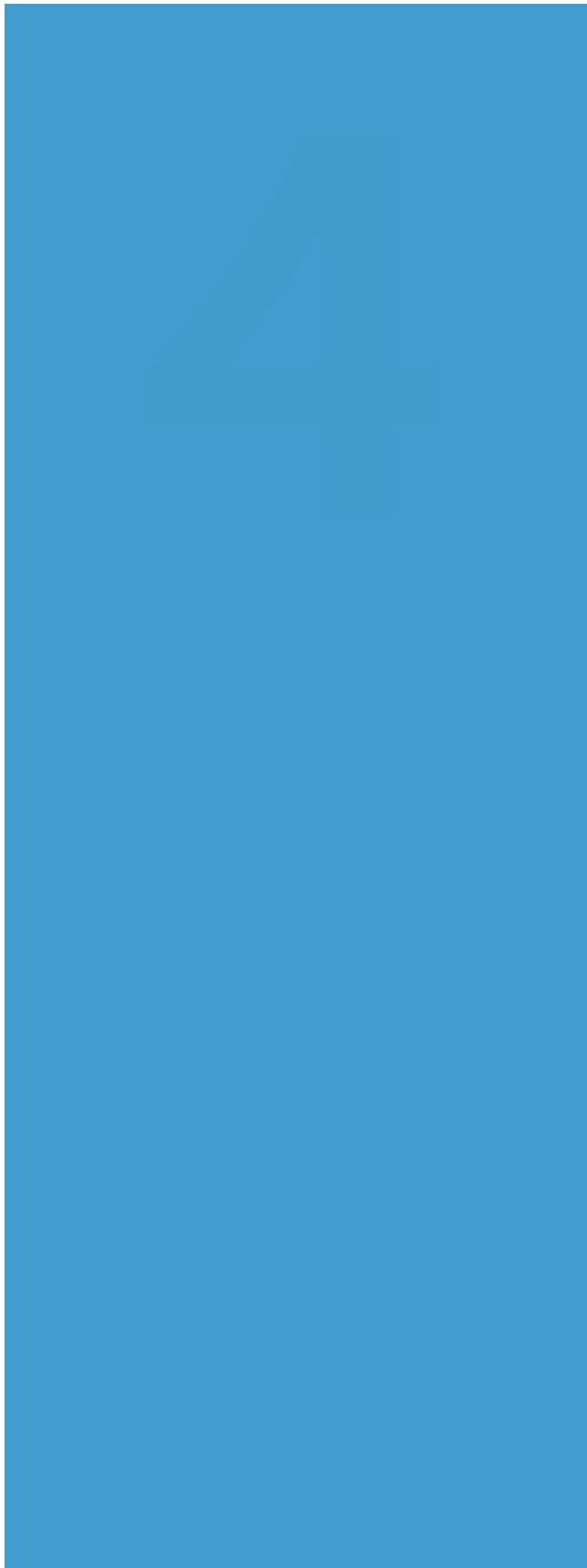
Related parties have no transfer pricing documentation obligation if the value of performances under the contract does not exceed HUF 50 million at the arm's length price exclusive of value added tax. For the purpose of this limit, the value of performances under consolidated contracts must be considered aggregately. No transfer pricing documentation has to be prepared on the recharging to related parties in unchanged amount or value of the consideration of supplies of goods and services provided that the person supplying the service of goods is not a related party of the taxpayer, the party bearing the cost.

The usual market price is to be determined using one of the following methods:

- 
- comparable uncontrolled price method,
 - resale price method,
 - cost plus method,
 - transactional net margin method,
 - profit split method,
 - based on any other method if the usual market price cannot be determined using the information in items above.

If requested, the Tax Authority defines the usual market price that the associated businesses will be required to use with each other in the future. The cost of the procedure ranges between HUF 500 thousand and HUF 10 million depending on the type of transaction.







ACCOUNTING AND AUDITING

4.1 Information

Accounting and bookkeeping in Hungary are regulated by the Accounting Act and the statutes issued by the Ministry for National Economy. In addition to the Accounting Act, some special rules apply to financial institutions, insurance companies, state budget organisation and municipalities. Hungarian accounting regulations are harmonised with international accounting principles.

The Act applies to all business associations, but does not apply to individual entrepreneurs, civil law partnerships, building communities or Hungarian commercial representations of businesses registered abroad.

4.2 Main accounting rules

Accounting records and the financial report have to be prepared in Hungarian and in accordance with accounting principles.

Business associations are required to prepare a business report on each business year, the form of which depends on the net turnover, the balance sheet total, the number of employees and the limits thereof.

Types of report:

- annual,
- simplified annual,
- consolidated annual,
- simplified.

Businesses have to support their reports with double-entry bookkeeping.

Double-entry bookkeeping requires a structure of the bookkeeping system harmonised with the effective requirements on the chart of accounts.

International enterprise resource planning systems may be used in Hungary but they have to comply with local rules.

Required structure of the chart of accounts

- Account classes 1–4 contain balance sheet accounts, and within this, classes 1–3 for assets accounts and class 4 for liability accounts. These classes of account ensure that the data to prepare the balance sheet are available.
- Account classes 5 and 8–9 contain the data for profit

and loss statement and after-tax profit for the year. Account classes 5–8 contain costs and expenses; class 9 is where sales and other revenues and proceeds from financial transactions are reported.

Certain accounting principles must be observed in the course of the preparation of the financial statements and the keeping of books, including, in particular:

- going concern principle,
- principle of completeness,
- 'true and fair view' principle,
- principle of clarity,
- principle of consistency,
- principle of continuity,
- principle of matching,
- principle of prudence,
- principle of gross accounting,
- principle of item-by-item valuation,
- principle of accruals,
- principle of content over form,
- principle of materiality,
- principle of cost-benefit.

The business organisation is required to store the report on the business year, the business report, all supporting inventories, assessments and general ledger statement, chief account book and any other record fulfilling the requirements of the law in a legible format for a minimum of 8 years.

The records directly or indirectly supporting bookkeeping accounting (including general ledgers, analytic and detailed records) must be stored in a legible form for a minimum of 8 years in a format retrievable on the basis of the bookkeeping comments.

Accounting documents issued in electronic form have to be kept in electronic form in a manner, which ensures that all data of the documents can be retrieved without delay and prevents subsequent manipulation.

Documents may be forwarded for bookkeeping and processing purposes to other locations but have to be presented within 3 workdays if requested by the tax authority.

If the accounting record necessary for the authority's review is only available in a foreign language (other than English, German or French documents) and the facts of taxation may not be clarified otherwise, the taxpayer might be required to present the tax authority with the official translation of the documents in Hungarian.

The general formatting requirement of the accounting record is references to the relevant bookkeeping accounts, the date when they were recorded in the bookkeeping system and proof thereof. The business organisation can meet these requirements also in a way that it physically or logically assigns the data, information and certificates to the original records unambiguously and without the possibility of subsequent modification. Such logical assignment may take place in the form of electronic records.

The business year is the period about which the report has to be prepared. In general cases, the period of the business year is the same as the calendar year.

The business year may differ from the calendar year in the following cases:

- with the exception of credit institutions, financial businesses, insurance companies, the entities involved in the consolidation
- international type institutions of higher education.

The balance sheet date of the business year may only be modified after three business years for which there are accounts or a change in the parent company, subject to the amendment of the Statutes accordingly.

As part of the accounting policy, the following is to be recorded in writing:

- the rules,
- requirements and
- methods.

Characteristic of the entity that determine what the entity considers

- material, significant,
- immaterial, insignificant
- income, cost or expenditure of exceptional amount or frequency

and also defines which selection and qualification options provided under the law to use and under what conditions and why the practice used has to be changed.

The following must be prepared as part of the accounting policy:

- inventory and stocktaking rules for assets and liabilities,
- evaluation regulations for assets and liabilities,
- the internal regulation for calculating net cost,
- the regulation on management of funds.

The accounting policy has to be incorporated in writing within 90 days of the establishment of the business association.

In the case of amendment of laws, the relevant changes have to be incorporated in the accounting policy within 90 days of the entry into force of the amendments.

4.3 Requirements for reports

Business associations are required to prepare a report on every business year in Hungarian. The annual report must give a true and fair view of the holdings of the economic entity and its contents (assets and liabilities), its financial standing and profit or loss.

The form of the report depends on the net turnover, the balance sheet total, the number of employees and the limits thereof.

Types of report:

- annual financial statements,
- simplified annual financial statements,
- consolidated annual financial statements,
- simplified financial statements.

A company using double-entry bookkeeping may prepare a simplified annual report if any two values of the following three limits are not exceeded in two consecutive years on the balance sheet date:

- balance sheet total: HUF 1200 million,
- annual net revenue: HUF 2 400 million,
- average number of employees during the business year: 50.

A consolidated annual report and a consolidated business report are required by any business that qualifies as a parent company in its association with one or more businesses, except if any two values of the following three limits are not exceeded in two consecutive years on the balance sheet date prior to the business year:

- balance sheet total: HUF 6 thousand million,
- annual net revenue: HUF 12 thousand million,
- average number of employees during the business year: 250.

A business qualifies as a parent company if it has a controlling influence on another business either directly or indirectly through a subsidiary because it has one of the following:

- the majority (over 50 percent) vote of the owners (shareholders) on the basis of its proprietary share, or
- owns the majority of the votes on the basis of agreements with other owners (shareholders), or
- as an owner (shareholder) of the company, it is entitled to elect or recall the majority of the executive officers or the members of the supervisory board, or
- regardless of the property share, the proportion of the votes or the right to elect or recall senior officers, it has a decisive control in the company.

In the case of an enterprise preparing its annual report in accordance with the international accounting standards, a member of the chamber of auditors may only be commissioned to perform audit tasks if the auditor or audit firm in question has IFRS qualification.

In this case the enterprise has to make sure that the tasks performed under accounting services are managed and controlled and the annual report and the consolidated report are prepared by a person, who is included in the IFRS section of the register of accounting service providers or who is a member of the chamber of auditors with IFRS qualification.

The consolidated report has more detailed data on the balance sheet and profit and loss statement than the annual report. The consolidated annual reports consist of the consolidated balance sheet, the consolidated profit and loss statement and the consolidated annexes. The consolidated annual report has to present a true and fair view of the aggregate assets, financial and income situation of the businesses involved in the consolidation.

No consolidated annual report and consolidated business report are required from a parent company that is a subsidiary of another, superior parent company and its superior parent company prepares its consolidated annual report (and consolidated business report) in accordance with the Accounting Act, Council Directive no. 83/349/EEC of 13 June 1983 and Decree no. 1606/2002/EEC of 19 July 2002 of the European Parliament and the Council. In

this case, however, the consolidated annual report and the consolidated business report of the superior foreign parent company, as well as the relevant auditing report, must be published in Hungarian. The exempt parent company is required to have the above documents published within 60 days of the approval of the consolidated annual report of the superior foreign parent company.

The following entities prepare their financial statements in accordance with IFRS:

- whose securities are traded at a regulated market of any European Economic Area member state,
- credit institutions and other financial enterprises subject to prudential regulations equivalent to those applicable to credit institutions.

The following entities may prepare their financial statements in accordance with IFRS:

- whose direct or indirect parent company prepares its consolidated financial statements in accordance with IFRS,
- insurance companies,
- financial enterprises, payment institutions, electronic money issuers, investment enterprises, the central securities depository, the central counterparty, the stock exchange, employer pension schemes, financial market intermediaries and insurance intermediaries included in the consolidated financial statements prepared in accordance with IFRS based on the parent company's decision as well as funds and fund managers subject to the Act on Collective Investment Trusts and their Managers and on the Amendment of Certain Financial Regulations operating under the supervision of the National Bank of Hungary acting in its capacity as the supervisor of the financial intermediary system,
- entities subject to mandatory audit,
- the Hungarian branches of enterprises registered abroad.

4.4 Publication of the report

Businesses obligated to publish their report can fulfil their obligation by sending the annual report or the simplified annual report together with the decision on the utilisation of the profit/loss after taxation, and the independent auditor's report by businesses obligated to perform auditing, through the Online Reporting and Form Completion System ("OBR")

at the website of the Service of Company Information and Electronic Company Registration of the Ministry of Justice (hereinafter Company Information Service) by the last day of the fifth month following the balance sheet date of the given business year to the Company Information Service.

The parent company must deposit the consolidated annual report together with the independent auditor's report until the last day of the sixth month from the balance sheet date of the consolidated annual report. The electronically compiled report package has to be submitted to the Company Information Service by a person authorised to represent the business already registered at 'Ügyfélkapu', the Hungarian public administration portal. Therefore, one of the authorised representatives of the business association has to request 'Ügyfélkapu' registration at one of the certificate offices or has to issue a power of attorney to one of the following persons already registered with 'Ügyfélkapu':

- legal counsel, attorney at law, law office, Community lawyer,
- tax expert, certified tax expert, tax consultant,
- accountant,
- employee or member of a business association authorised to provide accounting, bookkeeping or tax consulting services or any other organisation.

The person submitting the report package has to certify that the enclosed documents are identical to the approved financial statements prepared on paper and to undertake the obligation to store one copy of each paper-based document for a period of 10 years.

The Company Information Service then sends the submitted electronic form, the enclosed sheet, the profit and loss statement and the annexes to the national tax authority. On the basis of the data in the electronic form received, the national tax authority verifies the publication of the report and the date thereof, and if the authority concludes on the basis of the electronic forms that the business failed to publish the report then the authority shall impose a default fine of up to HUF 500 000 and shall call upon the business to fulfil the missing requirements within a 30 day deadline. Should the business fail to do so upon the first warning, the tax authority shall impose a default fine of up to HUF 1 million and repeatedly call upon the business to publish the report within a 60 day deadline. Once the deadline expires, the

national tax authority shall cancel the company's tax number without suspension and initiate the procedure to declare the business as terminated.

4.5 Auditing obligations

4.5.1 Auditing obligations

The provisions of Act LXXV of 2007 on the Chamber of Hungarian Auditors, the Activities of Auditors, and on the Public Oversight of Auditors shall apply to auditing services and other services providing assurance services. In addition to this legal regulation, the other legal regulations on the operation and reporting obligations of the business associations contain several specific provisions with regard to the auditing activity.

Business associations operating on the basis of double-entry bookkeeping are required to appoint an auditor. In accordance with the Accounting Act, the appointment of an auditor is not mandatory if both of the following conditions are met:

- the annual net sales (calculated for the period of one year) did not exceed HUF 300 million on the average of the two financial years preceding the financial year under review,
- the average number of people employed by the undertaking did not exceed 50 people on the average of the two financial years preceding the financial year under review.

The company is not exempted from the auditing obligation in the business year following the current year if its tax liabilities (as per the Act on the Rules of Taxation) overdue by more than 60 days as of the balance sheet date of the current year exceed HUF 10 million.

In case of companies established without legal predecessor the above limits must be observed based on estimates and based on the results of the first business year or on the annualized results of the first business year.

However, exemption based on the above value limits does not apply to the companies the audit of which is prescribed by law (for example: credit institutions), savings banks, consolidated enterprises, Hungarian branch offices of enterprises having their seat abroad and companies which have diverged from the provisions of the Accounting Act

using the option provided in the Accounting Act in order to ascertain the provision of a true and fair view of their operation.

4.5.2 Auditing Standards

The auditing activity has to be carried out in line with Hungarian legal regulations and in accordance with the Hungarian National Auditing Standards effective since 1 January 2012, approved and issued by the Hungarian Chamber of Auditors in harmony with International Standards on Auditing (ISA).

4.5.3 The person and qualifications of the auditor

Audits may only be conducted in Hungary by individuals who are current members of the Chamber of Auditors. Audits may also be conducted by audit companies and persons having audit license, but even if an audit company is selected the responsible auditor must also be selected and appointed.

The Chamber also determines specific qualifications for the auditors of business associations in certain areas of activities. A special audit license is required for auditing credit institutions, investment service providers, investment and venture capital funds, insurance and pension funding institutions, issuers of securities, budgetary institutions and fund service providers.

In addition to the above, from 15th December 2016, IFRS financial statements may only be compiled by bookkeeping service providers registered for IFRS services and auditors having IFRS qualification and may only be attested by auditors having IFRS qualification.

The auditor's appointment aiming at the performance of audit activities based on the legal regulation may be for a fixed term of maximum five business years if the auditor performs such activity in respect of a business association of public interest. With regard to the same business association of public interest the auditor may not undertake another mandate aiming at the performance of statutory audit activities based on the legal regulation within 2 business years upon the expiration of the mandate.

The aforementioned must be applied to the auditor personally responsible for the performance of audit activities based on the legal regulation if the mandate regarding the performance of the audit activity based on the legal regulation has been concluded with the audit company in respect of a business association of public interest.

4.5.4 External quality control system

In case of business associations of public interest as per the legal regulations the quality control of the auditor performing audit in accordance with the legal regulation is performed by the Authority for Public Oversight of Statutory Auditors as from 1st July 2013. In other cases the quality control committee set up in accordance with the internal regulations of the Chamber of Hungarian Auditors shall exercise control over the activity of the auditors. Pursuant to the legal amendments effective from 1 July 2013, the quality control of the auditors of business associations of public interest as well as certain parts of the compliance control over the Chamber of Auditors will be performed by a new public oversight authority. Thus, dual quality control of audit activities and a dual system of oversight over the Chamber of Auditors are established. The Authority for Public Oversight of Statutory Auditors operates the quality control system in co-operation with the Hungarian Chamber of Auditors and its activity extends to chamber auditors and audit firms. The operation of the Authority for Public Oversight of Statutory Auditors is regulated in a decree issued by the Ministry for National Economy [Decree 28/2013 (VI.29.) of the Minister of National Economy], which prescribes the preparation of an annual work plan based on which the authority performs its audit activities.

4.6 EU Directive No. 8

In 2006, twenty-five EU member states agreed to certain mandatory steps to clarify and strengthen the role of the auditor. On 1 January 2008, a new Act regulating auditing was adopted pursuant to Directive no. 8.



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ANNEX

List of countries with which Hungary has a Double Taxation Treaty in place

Country	Applicable from	Dividends (%)	Interests (%)	Royalties (%)
Albania	1 January 1996	5; 10	-	5
Australia	1 January 1993	15	10	10
Austria	1 January 1976	10	-	-
Azerbaijan	1 January 2009	8	8	8
Bachrein	1 January 2016	0; 5	-	-
Belgium	1 January 1985	10	15	-
Belarus	1 January 2005	5; 15	5	5
Bosnia & Herzegovina	1 January 2003	5; 15	10	10
Brazil	1 January 1991	15	10; 15	15; 25
Bulgaria	1 January 1996	10	10	10
Cyprus	1 January 1983	5; 15	10	-
Czech Republic	1 January 1995	5; 15	-	10
Denmark	1 January 2013 (1 January 1980)	0; 15	-	-
South Africa	1 January 1997	5; 15	-	-
Egypt	1 January 1995	15; 20	15	15
Estonia	1 January 2005	5; 15	10	5; 10
United Arab Emirates	1 January 2015	-	-	-
Finland	1 January 1982	5; 15	-	5
France	1 January 1982	5; 15	-	-
Philippines	1 January 1998	5; 20	15	15
Georgia	1 January 2013	0; 5	-	-
Greece	1 January 1986	10; 45	10	10
Netherlands	1 January 1988	5; 15	-	-
Hong Kong	1 January 2011	5; 10	5	5
Croatia	1 January 1999	5; 10	-	-
India	1 January 2006	15	15	18
Indonesia	1 January 1994	15	15	15
Iran	1 January 2017	-	5	5
Ireland	1 January 1997	5; 15	-	-
Iceland	1 January 2007	5; 10	-	10
Israel	1 January 1993	5; 15	-	-
Japan	1 January 1981	10	10	10
Canada	1 January 1995	5; 10; 15	10	10
Qatar	1 January 2013	0; 5	-	-
Kazakhstan	1 January 1997	5; 15	10	10
China	1 January 1995	10	10	10
Republic of Korea	1 January 1991	5; 10	-	-
Kosovo	1 January 2015	5	-	-
Kuwait	1 January 1995	-	-	10
Poland	1 January 1996	10	10	10

Latvia	1 January 2005	5; 10	10	5; 10
Liechtenstein	1 January 2016	0; 10	-	-
Lithuania	1 January 2005	5; 15	10	5; 10
Luxemburg	26 January 2017	0; 10	-	-
Macedonia	1 January 2003	5; 15	-	10
Malaysia	1 January 1993	10	15	15
Malta	1 January 1993	5; 15	10	10
Morocco	1 January 2000	12	10	10
Mexico	1 January 2012	5; 15	10	10
Moldova	1 January 1997	5; 15	10	-
Mongolia	1 January 1999	5; 15	10	5
Montenegro	1 January 2003	5; 15	10	10
UK	1 January 2012	10; 15	-	-
Germany	1 January 2012 (1 January 1980)	5; 15	-	-
Norway	1 January 1982	10	-	-
Italy	1 January 1981	10	-	-
Russia	1 January 1998	10	-	-
Armenia	1 January 2011	5; 10	10	5
Pakistan	1 January 1995	15; 20	15	15
Portugal	1 January 2000	15	10	10
Romania	1 January 1996	5; 15	15	10
San Marino	1 January 2011	0; 5; 15	-	-
Saudi Arabia	1 January 2016	5	-	-
Spain	1 January 1988	5; 15	-	-
Switzerland	1 January 2015 (1 January 1983)	15 (10)	- (10)	- (10)
Sweden	1 January 1983	5; 15	-	-
Serbia	1 January 2003	5; 15	10	10
Singapore	1 January 1999	5; 10	5	5
Slovakia	1 January 1996	5; 15	-	10
Slovenia	1 January 2006	5; 15	5	5
Taipei	1 January 2011	10	10	10
Thailand	1 January 1990	15; 20	10; 25	15
Turkey	1 January 1996	10; 15	10	10
Tunisia	1 January 1998	10; 12	12	12
Turkmenistan	1 January 2017	5; 15	10	10
Ukraine	1 January 1997	5; 15	10	5
Uruguay	1 January 1996	15	15	10; 15
USA	1 January 1980	5; 15	-	-
Uzbekistan	1 January 2009	10	10	10
Vietnam	1 January 1996	10	10	10

List of countries with which Hungary has a Social Security or Social Policy Agreement in place

Ország	Bevezetés dátuma	Típus
Albania	1 July 2016	social security agreement
Australia	1 October 2012	social security agreement
Bosnia–Hercegovina	1 August 2009	social security agreement
India	1 April 2013	social security agreement
Japan	1 January 2014	social security agreement
Canada	1 October 2003	social security agreement
Republic of Korea	1 March 2007	social security agreement
Macedonia	1 September 2015	social security agreement
Moldova	1 November 2014	social security agreement
Mongolia	1 June 2012	social security agreement
Montenegro	1 April 2009	social security agreement
Quebec	1 July 2006	social security agreement
Serbia	1 December 2014	social security agreement
USA	1 September 2016	social security agreement
Yugoslavia	1 July 1958	social policy agreement
Russia	1 July 1963	social policy agreement
Ukraina	1 July 1963	social policy agreement



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RSM Hungary Plc.

Our successes since our foundation in 2001 were achieved through the work of our colleagues who have identified and still identify with the values of the Hungarian owners: excellent expertise, continuous knowledge development, disciplined and diligent work, precision, business integrity, order and systematism. It is these values that helped our company in becoming an acknowledged player of the profession and of business life despite fierce market competition.

Thanks to our common values, and the mutual respect established with our clients and colleagues, our experts are loyal to our company and have long-term career plans with us. In order to maintain our values, we support the professional development of our employees with internal and external trainings and provide state-of-the-art resources for their work.

Knowledge is a means to an end, not a mere accumulation of information. We find it important to transfer the knowledge gathered in our field of competence to help the decision makers of our clients in making the right decisions at the right time for attaining their business goals

Accounting, tax advisory, payroll and HR consulting and relentless innovation combined with the most advanced IT solutions: these are the cornerstones of RSM Hungary Ltd. In addition, our associate audit firm, RSM Audit Hungary Ltd also greatly contributes to our ability to offer a comprehensive service package to support our clients' financial affairs.

About RSM International

The network was formed in 1964, adopting the RSM name on 1 January 1993.

We are the only Hungarian member of the RSM International network. RSM International is the seventh largest network of independent advisory firms in the world. RSM International is present in 120 countries, embracing 800 offices and 41 000 employees worldwide.

For more information about the network, please visit www.rsmi.com.

Szűcs & Partners attorneys-at-law

The law firm leading Szűcs & Partners attorneys-at-law was founded in 2005, after demerger from a well-known international law firm. By founding the Partnership, our purpose was to provide our clients with first-rate advice on legal issues by a team of highly qualified professionals with special expertise and knowledge of international law, if necessary, and to offer reliable services with a personal touch at reasonable fees. Through our customized working practices, we endeavour to create long-term customer relationships built on mutual trust. Although growth is a necessary implication in our development, our primary objective will always be to provide exceptional services.

Based on our extensive professional experience of more than a decade, we have the global insight in the field of economic law required for the understanding of the core problems and determining the right way to their resolution. Our activities include common corporate, civil and contractual law, as well as finances, labour, real property, taxation and competition law. Based on our experiences, we can conduct transactions requiring legal coordination and complex skills at a high level and, beyond Hungarian, also in the English and German languages.

By virtue of specializing we require from our associates and our relentless efforts in a number of areas, we have obtained industry level expertise which we hope will distinguish us from our competitors. Our specialization enables us to grasp issues in a specific area "at one glance" and we can provide guidance in even the most complex of problems through our familiarity with the construing of relevant legislations, coupled by our active involvement in the process of interpreting some of these laws. We specialize primarily in the field of company transformations and acquisitions, as well as the energy industry, in particular oil and gas exploration and production, taxation, banking and leasing transactions, real property, investments and transportation.

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