

DOING BUSINESS

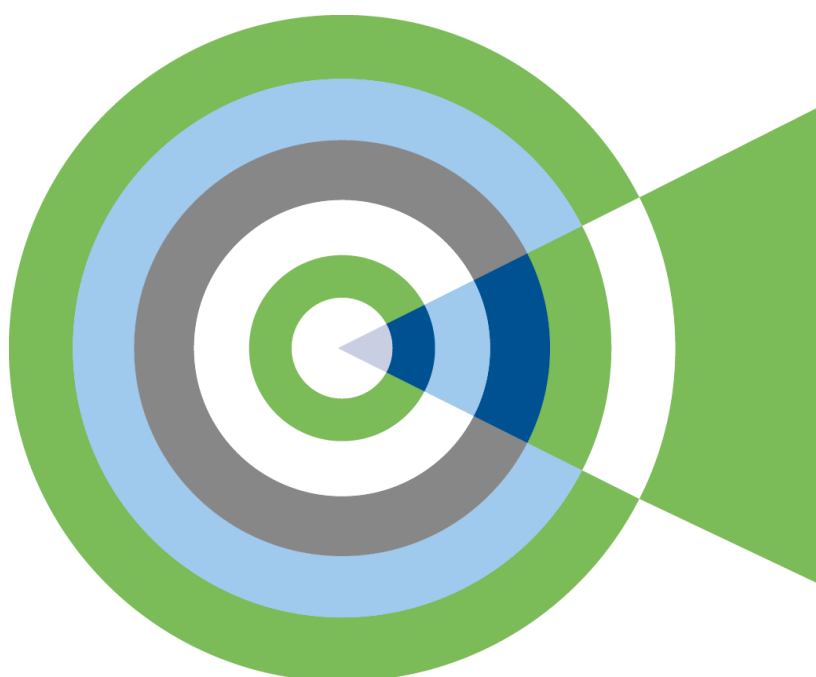
IN HUNGARY



The network
for doing
business

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1 – INTRODUCTION

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in around 90 countries throughout the world.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Hungary has been provided by the office of UHY representatives:

BERGMANN ACCOUNTING & AUDITING

186 Váci út
Budapest, H-1138
Hungary

Phone +36 1 238 9000 /9050
Website www.bergmann.hu
Email bergmann@bergmann.hu

You are welcome to contact Péter Bergmann (peter.bergmann@bergmann.hu) for any inquiries you may have.

A detailed firm profile for UHY's representation in Hungary can be found in section 8.

Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at March 2015.

We look forward to helping you do business in Hungary.

2 – BUSINESS ENVIRONMENT

THE HUNGARIAN ECONOMY

Hungary has a moderately developed agro-industrial economy that is very sensitive to international economic factors.

Scarcity of fossil fuels and minerals means that Hungary relies heavily on the import of raw materials.

Two-thirds of the Hungarian Gross Domestic Product (GDP) has generated from the services sector, including the areas of financial-, real-estate-, economic- and public services. The manufacturing in industry generates approximately one-fourth of the GDP. The agriculture and the construction only amount 4-5 percent of the Hungarian GDP.

The GDP growth in Hungary has slowed down in the last few years, because nowadays the economic factors are very poor in most developing European countries. The total GDP growth was 3.3% in 2014.

NATIONAL CURRENCY, INFLATION AND CENTRAL BANK INTEREST RATES

After the period of the Hungarian market economy transformation in 1989, it was characterised by high inflation.

At the end of the decade inflation, it slowed down to under 10%. In 2001 during the period of the previous monetary system of gradual devaluation has later changed to a floating exchange rate system, where the Hungarian Forint (HUF) exchange rate could fluctuate in a relatively wide margin of plus/minus 15 % around central parity. At the same time total foreign currency liberalization was achieved and the Hungarian Central Bank started using the monetary system of inflation targeting. In 2008 the central parity system was abolished and the exchange rate of the Hungarian Forint was free to fluctuate in any directions without any limits. The Central Bank will however intervene if these fluctuations endanger them to achieve their inflation goals.

As a result of these arrangements and a favourable international economic environment, inflation has decreased to 3.9% at the end of 2006. In 2007 the inflation increased again to 8%, and decreased back to 0,2% by 2014.

The exchange rate was 314,89 HUF/EUR on 31st December 2014. By following the market processes, the Central Bank interest rate was 3% in 2013, which decreased to 1% in 2014.

In the election 2010 the former opposition party, FIDESZ took 2/3 of the seats in the House of Parliament, which was not precedent in the political history of Hungary since the communist era. The newly elected Parliament appointed Viktor Orbán to form his cabinet. In the election 2014 the FIDESZ took again 2/3 of the seats. In the last mid-term election in 2015 the majority has ceased.

The new government claimed to had 'inherited' the country in a bad economic state from the Socialists (who were in power between 2002 and 2010) and set up several new programs to revive the economy. There were several new taxes and also they extended the validity of some of the existing taxes which were introduced for a temporary period only.

The main sectors - that were taxed on the top of the 'everyday' taxes - were banking, energy, telecom and retail. Though several taxes have been introduced, the word 'austerity' has not been used by government officials. Rather these programs called as actions based on unorthodox economics.

Hungary, as a member state of the European Union may seek to adopt the common European currency, the Euro. Earlier in 2011, Prime Minister Orbán Viktor was anticipating that Hungary would join the eurozone by 2020. To achieve this, first of all Hungary would need to fulfil the Maastricht criteria as this country was a subject of an excessive deficit procedure.

Despite the programs of the new government, the economy of Hungary slowed down in 2011. Hungary has seen a shift in terms of foreign investments, like in lower-value textile, food industry, and investment in vehicle production, renewable energy systems, high-end tourism and information technology.

Hungary's low employment rate still remains a key structural handicap to achieving higher living standards. The government has introduced measures in early retirement, disability and old age pensions.

2011 FINANCIAL CRISIS

After the crisis in 2008-2009, Hungary was hit again in 2011. The country's population and businesses primarily have foreign currency based loans (CHF, EUR, JPY) and thus are heavily exposed to currency rate fluctuations.

In 2011, all-time's highest rate entered in Forint against the Euro making many families and companies bankrupt.

In the middle of the year 2013, Hungary paid back the total loan to the IMF (International Monetary Fund). With this, Hungary repaid approximately 11.6 billion dollars, which was taken as a loan in 2008 and 2009.

As a result of the measures taken, the excessive deficit procedure was abrogated by the Council.

TABLE 1

Economic statistics

	2009	2010	2011	2012	2013	2014
Population average (000s)	10,031	10,014	9,986	9,908	9,879	9,849
Total area (km ²)	93,030	93,030	93,030	93,030	93,030	93,030
GDP at current prices (HUF billion)	25,623	26,748	27,635	28,048	29,114	31,890
GDP index (previous year = 100.0)	93.2	101.3	101.6	98.3	101.05	103.6
Central Bank interest rate (at end of period)	6.25%	5.75%	7%	5.75%	3,0%	2,1%
Consumer Price Index	104.2	104.9	103.9	105.7	101,7	99,8

(previous year = 100.0)						
Exchange rate (HUF/EUR at the end of period)	270.84	278.75	311.13	291.29	296.91	314.98
Exchange rate (annual average HUF/EUR)	280.58	275.41	279.21	289.42	296.91	308.66
Unemployment rate	10.0%	11.2%	10.9%	11.0%	10.2%	7.1%

3 – FOREIGN INVESTMENT

Hungarian law offers a wide variety of tax and non-tax incentives in relation to capital investment.

Tax incentives are largely restricted to manufacturing entities and are dependent on the size and/or location of the investment project. Non-tax incentives take the form of grants, interest-free loans or interest subsidies, and are given on a case-by-case basis following a specific and detailed application.

The fundamental incentive lies in the tax system itself, where a corporate tax rate of only 10% applies to business profits (above HUF 500 million, the tax rate is 19%). Profits that are retained or 'ploughed back' by the shareholder into the same or another business are subject to no further taxation, regardless of the type of activity, the size of activity or the size of the business. However, profits distributed as dividends are subject to further taxation, with the exception of dividends paid to domestic corporate shareholders. Dividends paid to individual shareholders are subject to dividend tax at a rate of 16% and social security contributions are applicable as well, with a cap of HUF 450,000. Dividends paid to foreign companies are not subject to a dividend withholding tax, regardless of the tax residence of the holding company.

REGIONAL DEVELOPMENT

Regional development is regulated under the Act on Regional Development and Land Use Planning of 1996, which also provides the general rules on funding.

Funds are allocated to qualifying activities under the Act, which constitutes the major blueprint for central subsidisation, augmented by various allowances provided to businesses and funds for the development of the economy, employment and infrastructure.

Subsidies are available for resident legal entities (regardless of their domestic or foreign ownership), unincorporated organizations and natural persons with a domestic domicile. Subsidisation may take the form of grants, both repayable and non-repayable, or interest subsidies for development loans.

Each application must relate to a single subsidisation objective. Qualifying objectives are determined by government decree and include, for example, investment projects for creating new jobs and development projects for seeking new market opportunities or changing the product structure.

Regional funds include municipally regulated funds for developing local infrastructure, as well as funds and tax allowances granted by local government. Other funds include regional development aid and loans.

ENVIRONMENTAL PROTECTION

The Environmental Protection Fund provides incentives for creating an environmentally friendly economy, preventing or cleaning up environmental damage, preserving natural resources and areas, promoting the use of the best available technologies and pursuing environmental research.

This fund is a priority element within the state budget and qualifying activities are allocated subsidies under the Act. Applicable tender procedures, together with the relevant terms and conditions, are published by the Ministry of Environmental Protection.

Local governments have the power to establish local environmental protection funds. Allocations from these funds are determined on an annual basis, when the local government issues its decree on its budget and adopts the annual closing accounts.

LOCAL SUPPORT

Local authorities at the “megye” (county) and town or district level are also often able and willing to provide assistance, particularly for new projects or those likely to revitalise failing enterprises.

Although cash grants are very rarely available at this level, valuable assistance can often be given in other ways. Such assistance includes the provision of cheap land (in some cases even free of charge), help and assistance with finding and training employees, and introductions to other reliable local businesses as future suppliers or customers.

Many local authorities have established formal programs to encourage investment and have set up ‘industrial parks’ for new businesses.

Investors in these industrial parks typically received appropriate premises with full infrastructure backup services, thus enabling their management to concentrate (during the start-up phase) on marketing and other business-focussed matters. While the nature and extent of local authority support varies according to place and circumstances, early contact with the local authorities is recommended for all projects of potential significance to a local community.

4 – SETTING UP A BUSINESS

COMPANY LEGISLATION

The harmonisation of Hungarian commercial and company law with the EU legal system has been fully achieved.

Act IV of 2006 regulates the formation of companies, whilst Act V of 2006 on publicly available company information, company court procedures and solvent liquidation governs the steps involved in founding companies.

On 15 March 2014, the new Civil Code entered into force which now contains company legislation too. Members of companies formed under Act IV of 2006 are obliged to redraft the deed of foundation until 15 March 2016, however, if at any time before the deadline expires, the deed of foundation needs to be changed (name change, for example), provisions of the new Civil Code must be applied.

COMPANIES

TYPES OF BUSINESS ENTITY

The following five types of business entity are available under the Companies Act:

- Company limited by shares (*Részvénytársaság – Rt.*)
- Limited liability company (*Korlátolt felelősségű társaság – Kft.*)
- General partnership (*Közkereseti társaság – Kkt.*)
- Limited partnership (*Betéti társaság – Bt.*)
- Trade Association (*Egyesülés*).

Each of these entities can be 100% foreign-owned or foreign-controlled.

COMPANY LIMITED BY SHARES

A company limited by shares (Rt.) is a similar corporate form to the German AG and is the most strictly regulated of all the company. Depending on how they are established, Rt.s are either public (Nyrt.) or private companies (Zrt.), the difference being that a public company has at least some publicly issued shares. Initial public offerings and the publication and alteration of prospectuses are subject to the approval of the Hungarian Financial Supervisory Agency. The Companies Act allows Rt.s to have only one shareholder.

The Rt. must be used by all companies that are engaged in banking, auxiliary financial services, insurance or investment activities. Specific legislation pertaining to such companies contains further regulations.

An Rt. may issue shares in a printed or dematerialised form. However, from 1 January 2002, only dematerialised shares may be offered publicly. Except for certain statutory exceptions, an Rt. may issue both registered and bearer shares. Additionally, an Rt.'s statutes may allow for the issuance of several different categories of shares, including ordinary shares, preference shares, interest-bearing shares and employees' shares. There are detailed rules governing the issuance of these types of shares.

By default, an Rt. must have a management board, composed of at least 3 members, though in case of private companies a general director may exercise the rights of the management board. In case of public companies a supervisory board must be elected but it

is also possible to elect a board of directors (5 members at least) which will exercise the rights of the management and the supervisory board.

The minimum share capital for a private Rt. is HUF 5 million (20 million for public Rt's), which may consist of both cash contributions and contributions in kind. In-kind contributions may amount up to 70% of the total share capital.

LIMITED LIABILITY COMPANY

A limited liability company (Kft.) is similar to the German GmbH and is the most popular type of company for foreign investors. The Kft. is most suitable for cases where the number of members is relatively small and where all the members intend to participate to some degree in the company's affairs. It is also possible to have a one-member Kft.

One or more elected managing directors will be responsible for the management and representation of the company vis-à-vis third parties. Additionally, a supervisory board of at least three but no more than 15 members may be appointed.

The registered capital of a Kft may not be less than HUF 3,000,000 (change from 500,000) and it may consist of both cash contributions and contributions in kind. Companies already registered have been given two years to comply (15 March 2016) but if changes are made to the company before the two years are over, the registered capital have to be raised.

PARTNERSHIPS (KKT. / BT.)

The partnerships listed in the Companies Act are general partnerships (Kkt.) and limited partnerships (Bt.).

Partners in a general partnership are jointly and severally liable for their business activities. Each partner is entitled to manage the company in accordance with the company's statutes. If the partner is a legal entity, then the managing director or directors of the legal entity assumes management and representation responsibility over the partnership.

The Companies Act does not limit the number of partners in a partnership provided there are least two. There is also no requirement that partners should be natural persons. Natural persons can only carry unlimited liability in one partnership at a time.

There are no maximum or minimum limits for capital contributions. Profits and losses are generally divided in proportion to the capital contributions, unless otherwise stated in the partnership statutes. However, a partner cannot be totally excluded from either the profit or the losses of the partnership.

Limited partnerships are governed by the same rules as a Kkt., unless the Companies Act provides otherwise. A limited partnership must have at least one unlimited and one limited partner. Only unlimited partners and, if applicable, limited partners whose name is included in the company name, may assume managerial responsibility and represent the partnership in its dealings with third parties.

TRADE ASSOCIATION

The rules applicable to trade associations are contained in the Companies Act and the Civil Code. This type of company currently plays a minor role in the Hungarian economy.

The trade association (Egyesülés) is a collaboration of two or more members for a specific purpose, such as industry advertising or maintenance of common training facilities. It is a not-for-profit organisation and is modelled on the EU European Economic Interest Grouping. The members of a trade association have joint and several liability for the company's debts that are in excess of its assets.

BRANCH AND REPRESENTATIVE OFFICES

Foreign companies wishing to conduct business in Hungary may now establish a branch, which is an economically independent organisational unit that has no independent legal status. In order to do so, however, they must be based in a country that is party to a bilateral or international treaty (for instance, an EU country or a member of the Organisation for Economic Co-operation and Development - OECD) that allows the establishment of such an entity in Hungary. A branch may conduct the full range of business activities, such as trading, manufacturing or the rendering of services.

Foreign companies are also allowed to establish representative offices that do not carry out business activities and are engaged only in activities of an auxiliary or supplementary nature, such as the mediation and preparation of contracts.

Both branches and representative offices must be entered into a Hungarian company register. Unlike companies, which can operate as pre-companies, branches and representative office cannot commence operations until their registration has been finalised.

PRIVATE ENTREPRENEUR

In 2011, the private entrepreneur concept of the EU was adopted into Hungarian legislation, and now private persons may have both limited and unlimited liability (previously only unlimited liability was possible). Private entrepreneurs opting for limited liability become subject to the Act on Accounting and have to prepare their annual accounts in the same manner as companies.

5 – LABOUR

The supply of labour depends on the monetary compensation employers give for work.

Higher wages make more people to enter the labour market, although companies often consider promoting their best workers for upper-level jobs rather than hiring new employees. International promotion motivates workers to perform well and at the same time reduces the costs of recruiting.

In 2014 the employment activity rate (of the total labour force available) in Hungary was around 62,6% and the unemployment rate was around 7.1%.

THE LABOUR CODE

The most important act governing employment in Hungary is contained in the Labour Code, which was introduced in 1992 and completely rewritten in 2012. After 1 January 2014, on the basis of the parties' agreement, a third of additional leave of age can be taken out by the end of the following year.

It prohibits disadvantageous discrimination against employees on a number of grounds which includes sex, religion and any factors unrelated to employment. Discrimination in relation to promotion is specially prohibited and promotions must be based solely on the grounds of seniority, occupational ability, experience and performance.

With a few exceptions, the Labour Code covers all Hungarian and foreign employees who work in Hungary in the employment of a Hungarian or a foreign company. A work permit is required for foreign employees and they are subject to special security rules.

Collective agreements and employment agreements are null and void if they do not comply with the Act. Employers and the employees can agree to apply different rules from those contained in the Labour Code provided they are more beneficial for the employee.

CONTRACTS OF EMPLOYMENT

An employer and an employee must enter into an employment contract, regardless of the anticipated duration of the employment.

The contract must contain the employee's salary, job description and specific place of work. At least one day before the contract is due to be signed, the employer must send a settlement to the tax administration which contains the new employee's personal details.

After the employment contract is signed, the employer must provide the employee with a written description of his or her most important rights and obligations.

FRINGE BENEFITS AND PAID VACATIONS

Companies use meal and holiday vouchers, free health insurance and other allowances as a means providing additional income to employees in a tax optimal way. These fringe benefits have become taxable over the years and are subject to social security.

Employees are entitled a minimum annual vacation of 20 to 30, depending on their age. Single parents and employees who play the larger role in raising the children are entitled to receive supplementary holidays. Employers have a right to determine when employees can

take their vacation and only a fourth of the holiday allocation is at the disposal of the employee. Accruing holidays for next year are allowed only under strict conditions.

TERMINATION OF EMPLOYMENT

Employment may be terminated by mutual agreement and by ordinary or extraordinary termination. If the employee's contract is for a definite duration, then the employer may dismiss the employee before the contract expires and pay the wages for the remainder of the term (but not more than one year's wages). Another special feature of fixed-term employment arrangements is that they cannot be terminated with ordinary termination. Other than ordinary termination initiated by the employee, employees cannot be dismissed without sufficient justification. This justification must state clearly why the employment is terminated.

The option of extraordinary termination may be exercised if the other party wilfully or by gross negligence, violates an employment obligation substantially, or acts in a way that renders the continuation of the employment impossible. The reasons for ordinary termination are related to the employee's work or to the employer's operations.

Special rules apply to layoffs where a number of employees are dismissed. The Labour Code lists situations where employers may not terminate the employment (sick leave, etc.).

For ordinary termination, extraordinary termination by the employee and the dissolution of the company without a legal successor, the employee is entitled to a paid notice period and severance pay. Where the employee does not make a claim for the restoration of the employment relationship, then he/she has the right to sue for damages equalling to between 2 and 12 months' wages, in addition to the wages unpaid since the dismissal.

When the employer and the employee terminate employment by mutual agreement, they are free to decide the relevant terms. Such agreements are practically impossible to challenge successfully in court.

SOCIAL SECURITY

The act which governs the social security system was introduced in 1997 and it is called Social Security Cover. It contains the regulations of health care, unemployment and retirement. Employers have to make various monthly and yearly employment-related settlements which contain all of the contributions.

See Table 2 on the following page for the contributions.

TABLE 2
2015 contributions

	EMPLOYER	EMPLOYEE
Social security (in case employee it includes labour market contribution)	27%	18.5%
Training contribution	1.5%	-
Total	28.5%	18.5%

Foreign people employed in Hungary by a foreign employer are entitled to social security cover provided there is a social security agreement between the two countries. However, special agreements may be signed in order to ensure social security cover for foreign workers and their family members.

In Hungary there is a card called European Health Care Insurance Card which entitles the holder to medical services in EU countries and certain other countries such as Turkey or Switzerland.

6 – TAXATION

TAX AUTHORITIES

Most of the taxes, with tax rates of the same validity across the entire country are assessed in accordance with laws enacted by Parliament.

Similarly, the determination of taxable income and the basis of assessment are also defined by tax law.

The collection of taxes is the task of the tax authorities which operate under centrally organised common rules and procedures. One of the most significant exceptions is the act on local taxes. This act empowers the local municipalities to levy five different types of local taxes. The maximum tax rates are determined by the act. The municipalities levy and share income from the revenues of vehicle taxes, and to a certain extent they are also able to amend them. In practice, the local municipalities do not always levy the maximum tax rates set by the act. Moreover, several municipalities do not levy local taxes of any kind at all. Consideration of local business tax plays a significant role in finding a satisfactory location for a business venture in Hungary. Local taxes are deductible for Hungarian corporate income tax purposes.

The Hungarian tax authorities are the Hungarian customs office and the local city council levying local taxes, as well as the tax office. The Hungarian customs office has rules of taxation differ from the rules of taxation under the Hungarian tax office and local city councils levying local taxes. These are detailed below.

TAX REPORTS AND TAX LIABILITIES

The majority of taxes in Hungary are reported and paid on a self-assessment basis.

This means that taxpayers must report and pay their tax liabilities by the due dates instead of paying taxes as levied by the tax authorities. Taxpayers must submit their corporate income tax reports by 31 May of year following the tax year in question, and pay their liability to the tax office. This is the due date not only for the submission of the corporate tax reports, but also for annual financial statements (based upon the closing date of 31 December of the previous year) which serve as the basis of the tax reports.

If a taxpayer opts for a financial year that differs from the calendar year, the taxpayer is to submit its corporate tax report to the tax authorities and pay its liability to the tax office not later than the 150th calendar day following the last day of its chosen financial year. The data of the tax report submitted should be based on the data of the annual financial statement. Advances for corporate income tax are also to be paid monthly by 20th of the given month, as reported by the taxpayer as 1/12 of the tax reported on the latest corporate income tax report.

However, if the reported corporate income tax liability for the previous year did not exceed HUF 5 million, advances are due quarterly. Advances are to be determined according to the tax liability reported for the previous year. Advances paid should be increased to 100% of the actual corporate income tax liability by 20 December of the tax year in question if the sales revenue of the taxpayer exceeded HUF 100 million in the previous year. If a taxpayer chooses a financial year that differs from the calendar year, the taxpayer is to complement its corporate income tax advances to 100% the due amount expected by the 20th day of

the last month of its financial year. In case where a tax report submitted on the 31 May does not indicate the settlement of a minimum 90% of the actual tax liability by the 20th of December of the previous year, a default penalty is levied on the taxpayer up to 20% on the difference (the difference between the 90% actual tax liability and the sums paid by 20 December). This default penalty is not deductible for corporate income tax purposes.

Refunds in cases of eventual excess payments are paid only after 31 May, but the tax office does not pay interest to the taxpayers in case of excess payments. In the course of the given financial year, the reduction in advances can be requested prior to their due date if it can be supported that the expected tax liability will be covered by the already paid and the reduced advances.

As a general rule, taxpayers should report VAT quarterly. If the net VAT liability reported for the previous year exceeds HUF 1 million, the taxpayer must file monthly reports. Taxpayers, whose total VAT in absolute value does not exceed HUF 250,000, have to report annually. It is also possible for the taxpayer switch to a more frequent reporting on a basis of a licence requested from the tax office.

The due date for both VAT reporting and paying, if the taxpayer has a net VAT payer position, is the 20th day of month following the reporting period, and February 15th of the following year for annual reports.

Taxes on all other kinds of business transactions or withholding taxes should be paid by a day set by law of the month following the transaction date. In cases of taxpayers have opted for a financial year that differs from the calendar year, in addition to corporate income tax, the tax withheld from dividends, tourism taxes, local communal tax and local business tax fall in the same calendar period as the financial year. This means that the obligations of reporting and of tax-paying liabilities of these forms of taxes and contributions will be different in the cases of a taxpayer operating in a financial year that differs from the calendar year. All other forms of tax liabilities, such as VAT, personal income tax, payroll contributions etc. fall under clauses of the law where the standard calendar year applies.

SPECIFIC TAXES

VALUE-ADDED TAX (VAT)

VAT (general sales tax or ÁFA in Hungarian) is by far the most significant indirect tax for most companies. A business must register for VAT if it performs income-earning, economic activities in Hungary in a business-like manner or on a regular basis.

The standard VAT rate is 27% for goods and services, but certain items such as books, newspapers and medical supplies, district heating, audio book, some live music services attract a reduced rate of 5%. Certain dairy and bakery products and hotel services are taxed at 18%. Postal and banking services, stock exchange trades, gambling services and certain other items are exempt. Exports are zero-rated.

The rules of the subsequent amendment on the tax liability are changing as well, the effect of the modification basically must be declared at the accounting for change / vouchering (when issuing a credit note) and you don't have to conduct self-control back to the original completion date.

The sale of books, certain medical and meat products is taxed at 5% of tax rate is applicable.

In case of construction-assembly and other construction services, the rules of the reverse taxation require not only an approval by the construction authority, but in tied cases also needs to be applying for these authorities' acknowledgement process.

The taxation of the "periodic settlement" transactions fundamentally changes from 1 July 2015 for tax advisory and bookkeeping services and 1 January 2016 for all other transactions (entering into force postponed from 1 July 2014). In these cases the delivery (and the tax payments) dates change to the last day of the relevant period from the payment period.

EXCISE TAX

Excise goods, including petroleum and tobacco products, beer, wine, champagne and other alcoholic products, are subject to a percentile or fixed amount tax. In the case of percentile rates, tax is assessed based on the price of the goods, while in the case of fixed amount taxes, the tax is calculated based on the quantity of the excisable goods. Tax rates are progressively approaching EU levels and in terms of excise taxes, the Hungarian system is already quite similar to the internal EU regime.

Taxes are single phase and are levied on the manufacturer, wholesaler or importer. Neither is levied on export sales. Accordingly, there are only a small number of businesses that pay excise tax, although these taxes are of considerable importance to the state budget.

Record keeping and reporting requirements are extensive.

The trade of the lubricating oils may be performed by the excise license; in addition there is also an obligation of prior notification to transport these products.

The rules of selling supplies for home-made cigarettes have tightened.

The new law amendments make a possibility to check mails by physical or chemical procedures.

MOTOR VEHICLE TAX

Motor vehicle tax is paid by the owners or operators of most motor vehicles. This tax is levied on vehicles according to the power of engine. It does not equate to a significant business burden, except for transport companies. Company car tax is also payable and to avoid double taxation, motor vehicle tax is deductible from company car tax.

The vehicles, which are not listed yet (and have purchased abroad), but wants to get in the domestic registration is subjected for levy.

TAXATION OF INDIVIDUALS

TERRITORIALITY AND RESIDENCE

Individuals who are considered to be "tax residents" in Hungary are taxed on their worldwide income; "non-tax residents" are taxed on their Hungarian-source income only.

Under domestic law, individuals are tax-resident in Hungary if they have Hungarian citizenship (unless they also have citizenship of another state and do not maintain a permanent home or a usual place of abode in Hungary). Furthermore, individuals are tax resident in Hungary if they maintain a permanent home only in Hungary. Tax residence is reviewed in each tax year (which is concurrent with the calendar year).

If an individual does not have a permanent home in any country or has a permanent home in Hungary and elsewhere as well, the residency will be determined on the basis of his/her centre of vital interest (i.e. the country with which he/she has the closest family or business ties). If this cannot be established, residency will be determined on the basis of his/her usual place of residence (i.e. if his/her stay within the country is for at least 183 days in the calendar year).

TAX RATES

Tax laws make distinctions between different classes of income because different rules apply to the assessment of taxable income. Some classes are aggregated and taxed at progressive rates, while others are taxed separately at linear (flat) rates.

Categories of aggregated income are as follows:

- -Income from independent business activities (eg income of artists and persons working under contracts of assignment)
- -Income from dependent activities (eg employment income, remuneration of elected officials)
- -Other income (eg cancelled and assumed debts, interest income from non-treaty countries, etc.).

Company with domestic real estate gets its own capital contribution, regardless of its main activity, in each cases falls within the property transfer tax liability.

The definition of the corporate tax and the tax law have been merged at the companies who have their own real estate. The only considered company, whose value of real estate asset represents more than 75% from the other assets, and it is not financial receivable.

From 2011 onwards, the PIT (personal income tax) rate is 16% regardless of the source of income (though some exemptions may apply).

The 14% "Health Contribution" cost after the real estate rental income of more than HUF 1,000,000 can't be enforced, so the tax burden from the rental income will rise.

INCOME IN FOREIGN CURRENCY

Since residents are taxed on their worldwide income, foreign-source income forms part of the gross income regardless of whether or not it has been remitted to Hungary. For tax purposes, it is translated into HUF at the official (mid) rate of exchange on the 15th day of the month preceding the month of receipt. The same applies to deductible expenses paid in foreign currency, but in such cases the actual exchange rate may be applied. Foreign taxes paid are translated at the year-end rate when computing tax credits.

INCOME FROM EMPLOYMENT

The gross income of employees includes all cash remuneration received in respect of the employment. Employment income is taxable in the year in which it is paid. For benefits in kind, this is the year in which the benefit is made available to the individual. An exception is wages and bonuses paid by a Hungarian employer on or before 15 January in respect of employment carried out in the previous year; such income is taxable in the previous year.

An expatriate employee remunerated under a contract with a foreign employer for work performed in Hungary will be regarded for Hungarian tax purposes as being a person

carrying out 'dependent business activities'. Accordingly, all income received under such a contract is taxable and only certain reimbursed expenses are deductible. Such expenses typically include apartment rent and expenses of business trips. No expense is deductible if the related business documents are not available. Examples of business documents include official invoices and mileage logs.

BENEFITS, ALLOWANCES AND BONUSES

Most benefits are taxed separately at 16%. This tax is paid by the Hungarian employer and is a tax deductible expense for the employer. Individuals are not required to include the benefits that are taxed separately at 16% in their annual tax returns. Health benefit contribution is applicable too, at a rate of 10% or 27%, depending on benefit type.

The increase rate of the minimum wage from 1st of January 2015:

Guaranteed minimum wage in jobs requiring qualifications:	HUF 122,000
Minimum wage in jobs not requiring qualifications:	HUF 105,000

TAXATION OF BUSINESSES

CORPORATE TAX

The most important type of tax imposed on profit from an activity of an enterprise is corporate tax and the corporate income surtax. With the exception of private entrepreneurs and companies qualifying for the simplified entrepreneur tax, all business enterprises are subject to corporate tax.

The obligation to pay the corporate taxes applies to the branch offices of foreign companies in Hungary with some minor differences from the general legal statutes. On this basis, the selection of which type of company to form in Hungary – limited liability company, company limited by shares, limited partnership or co-partnership or branch office – is influenced by the tax circumstances according to the country of the investor and the regulations of the agreement on the avoidance of double taxation, rather than those which derive directly from the Hungarian regulations.

There are a number of non-deductible expenses and non-taxable incomes. Most importantly, dividends received by companies are not taxable (with the exception of dividends received from controlled foreign companies – companies operating in tax havens). However, when these are redistributed to private persons, dividends are subject to tax, as already mentioned. Building provisions and bad debt allowance are by default (and among other expenditures) not deductible.

Hungary has adopted a thin capitalisation rule - if the interest bearing liabilities of a company (excluding loans by banks) exceed three times the equity of the company (the current year's profit and valuation reserve are not part of equity in this respect), interest paid or payable is only partially deductible for corporate tax purposes. This tax base modification is to be made even if the interest charges have been disclosed as part of property or other fixed assets.

The deadline for the official tax announcement of the shares acquires on permanent investment has increased to 75 days, and the tax exemption stayed on the profit comes from the sales over one year.

The tax exemption on the gains on sales has also left on the purchased intangible assets notified within 60 days.

There is a big change for foreign entrepreneurs, that the sale and/or use of a real estate constitutes a permanent establishment, so after this income they must fulfill their tax obligation in Hungary.

TAX RATE AND TOTAL TAX BURDEN

A corporate tax of 10% (until 500 MHUF) or 19% (above 500 MHUF) must be paid on the taxable income. Another 16% dividend tax is charged on the payment of dividends if the payment is made to private individuals.

The dividend payment to individuals is charged with an obligation to pay a 14% health care contribution above income taxes. This contribution has a maximum level of 450,000 HUF in a year.

LOCAL TAXES

All local governments are entitled to levy local taxes on the basis of the Act on Local Taxes, according to its regulations and up to the maximum level stated therein. Of the local taxes, local business tax is usually the most significant cost burden to enterprises.

The base of the local business tax is the net sales revenue decreased by the material cost, purchase value of the goods sold and subcontractors' fees. The tax rate is determined by the local government within the field of competence of which the company carries out its business activities. The tax rate determined by the local government cannot exceed the maximum tax rate, which is set at 2%.

The method of calculating the adjusted net revenue changed radically. Limits have been introduced on the deduction of the cost of goods sold. Up to a sale revenue of HUF 500 million, the full amount is deductible. Over of this income, the total amount of the purchase price and the mediated services of the sold goods can be calculated between 70-85% of the ratio.

From the local business tax of the fiscal year to the municipality by the location or business premises, there is possibility to deduct the 7,5% of the fee proportional to distance on highway, motorway and main road, in the financial year as an expense or cost. (Hereinafter: road toll)

The entrepreneur (starting its business without legal predecessor)'s taxable activities exempt from the payment of the advance tax for the first period of advance payment.

TABLE 3

Summary of taxes and rates

TAX	APPLICATION	RATE
Corporate Income tax	- Tax rate for tax base under HUF 500 million	10%
• Act 1996/LXXXI	- Tax rate for tax base above HUF 500 million	19%
Tax on dividend paid to private persons	- For dividend, prepayment of dividend	16%
• Act 1995/CXVII	- and health benefit contribution	14% max. HUF

		450,000
Tax on dividend paid to companies	- No tax obligation exists in Hungary if domestic or EU resident company receives dividend	0%
• Act 1996/LXXXI		
EVA (Simplified enterprise tax)	- Tax paid on current year earnings (maximum HUF 30 million)	37%
• Act 2002/XLIII		
Small taxpayers lump sum tax	- In the case of full-time small taxpayer	HUF 50,000/person
• Act 2012/CXLVII	- Full-time small taxpayer can choose higher account of tax	HUF 75,000/person
	- For part-time tax subjects	HUF 25,000/person
	- Revenue above HUF 6 million taxed at 40%	40%
Small enterprises tax	- Paid on adjusted tax base	16%
	It can choose any time during the year.	
Sum of minimum wage from 1 January 2014	- Guaranteed minimum salary is HUF 122,000/month	HUF 105,000/month
Representational, business gift tax	- After the value of the allowance times 1.19, there is 16% income tax and 27% health benefit contribution to be paid.	51.17%
Social security tax	- – Paid on gross wage	27%
• Act 1997/LXXX		
Health benefit contribution	- After fringe benefits	14%
• Act 1998/LXVI	- After specific benefits	27%
	- After income of interest	6%
Employee health insurance and labour market contribution	- Deducted from all employment income, not only income from over 36 hours weekly employment	8.5%
Private pension contribution	- Income from work	10%
Health care contribution	- The uninsured' fix social service contributions	HUF 6,930/month
Employee training	- On tax base of social security	1.5%

contribution	obligations	
<ul style="list-style-type: none"> Act 2003/LXXXVI 		
Rehabilitation contribution	- Companies with over 25 employees have an obligation of quarterly prepayments based on 5% of the number of employees	HUF 964,500/person/year
<ul style="list-style-type: none"> Act 1991/IV 		
Personal income tax		16%
<ul style="list-style-type: none"> Act 1995/CXVII 		
EKHO (Simplified common charge contribution)	- Company rate	20%
<ul style="list-style-type: none"> Act 2005/CXX 	- Private persons deduction rate	15%
	- Deduction rate for private persons receiving pension income and for income exceeding social security ceiling	11.1%
Value added tax		27%, 18%, 5%
<ul style="list-style-type: none"> Act 2007/CXXVII 		
Innovation contribution	- Paid on local business tax base by businesses in medium or large categories	0.3%
<ul style="list-style-type: none"> Act 2003/XC 		
Energy tax	Paid by producers/ importers/ traders of electric energy and coal	
<ul style="list-style-type: none"> Act 2003/LXXXVIII 	- Apart from the carbon	HUF 2,516/ton
	- Electricity	HUF310.50/MWh
	- Natural Gas	HUF 93.50/GJ
'Robin Hood' tax	- Income tax introduced for 2009–2012, then extended to 2011 – 2012 and it is in force in 2015 as well.	31%
<ul style="list-style-type: none"> Act 2008/LXVII 	- To be paid by companies producing or trading fossil fuels, mineral gas or electric energy.	
	- Payable on corrected earnings before tax.	
Credit institutions and financial institutions special tax	- Different for individual taxpayers	
Environment pollution tax	- Paid following air/ water/ soil pollution	
<ul style="list-style-type: none"> Act 2003/LXXXIX, 		

Government Regulation 270/2003 (XII 24)	- Tax obligation most generally applied to air pollution produced by heating furnaces owned by businesses	
Local taxes	- Paid on adjusted net revenue	2%
	• As specified in Act 1990/C	
Communal tax	- The maximum rate of tax specified in each subject or apartment rental	HUF 17.000
Building tax	- Generally applied maximum sum	HUF 1,100/m ² or 3.6% of adjusted market value
Land tax	- Generally applied maximum sum	HUF 200/m ² or 3% of adjusted market value
Tax on utility lines		HUF 125/m
Property acquisition tax	- General rates	2% or 4%
Inheritance, gift duty	- Paid on commercial value with progressively increasing rates depending on type of (family) relationship between parties (with certain exemptions)	18%, 9% or none
Financial transaction tax	- General rate	0.3%
	- Cash withdrawal	0.6%
	- The top limit is 6,000 HUF in both cases	
Legal proceedings duty	- Individually specified sums based on company type	
	• Act 1990/XCIII	
Registration duty for sale of vehicles	Depends on engine specifications	
	Act 1990/XCIII	
Environmental product fee	Paid on packaging materials, rubber, cooling appliances, electric appliances, advertisement materials etc.	
Act 1995/LVI	- Calculated based on classification of	

	product – To be paid by first domestic distributor or consumer company	
Excise duty Act 2003/CXXVII	Paid on specified range of products: mineral oil, alcoholic beverages, beer, wine, champagne & other alcoholic products	
Vehicle tax	Calculated on engine specifications and production year	HUF 140 – 345 /KW
Company car tax	Paid on company vehicles depending on engine power and environmental pollution category	
Registration tax Act 2003/CX	Paid on vehicles put into domestic traffic based on type of vehicle, engine volume and environmental pollution category	
Cultural tax Act 1993/XXIII	Paid on products and services with pornographic content Paid each quarter after net revenue	25%
Public health product tax	Paid on a number of food products and beverages which are not considered part of a healthy diet	
Accident tax	Collected by insurance companies, tax subject is the person with a vehicle liability insurance, capped at HUF 30,295/car/year	30%
Insurance tax	CASCO Asset and accident insurance	15% 10%
Advertising tax	Subjected to the organization/person dealing with advertising publication as well as everyone who publishes advertising, regardless of whether it takes place in personal or business relation.	

7 – ACCOUNTING & REPORTING

All Hungarian companies and other business entities are required to keep proper books of accounts in Hungarian, in accordance with the provisions of the Accounting Act, which follows EU Directives in all significant respects.

The business year (on which a financial statement must be prepared) ends on 31 December, though there are exceptions to this for Hungarian branches of foreign-based companies and Hungarian businesses involved in the consolidation of their foreign parent companies.

All business entities are obliged to apply double-entry bookkeeping (including branches of foreign corporations) and are subject to a statutory annual audit. However, companies with an average turnover of below HUF 200 million and a headcount of fewer than 50 employees (in two full consecutive business years) are by default exempt from the obligation to have their books audited.

The Accounting Act also requires the audit and publication of the consolidated financial statements of all companies (or other business entities) with at least one subsidiary. A subsidiary is a company (or other business entity) in which the parent company has, directly or indirectly, effective control, though there is an exception with regards to Hungarian intermediary holding subsidiaries of Hungarian parent companies. Furthermore, small parent companies whose total assets, sales revenues and number of employees, combined with those of their subsidiaries, are below certain limits over two consecutive years are not required to prepare consolidated accounts.

ACCOUNTING PRINCIPLES

The Accounting Act also sets out Hungarian accounting principles, the form and content of financial statements, and related matters.

The Act is augmented by government decrees dealing with the special circumstances surrounding banks, insurance companies, stockbrokers, investment funds, pension funds and various not-for-profit institutions.

Financial statements must show a true picture of the capital, financial and earnings positions of the business and of any changes since the previous year reflecting actual circumstances. The accounting principles applied by a business must meet this overall requirement and must also be in accordance with the following fundamental principles for any going concern:

- Completeness (i.e. all transactions and other relevant factors must be included)
- Truth
- Clarity of presentation
- Consistency of accounting principles with those of the prior year
- Agreement of the opening balance sheet with the closing balance sheet of the previous year (i.e. continuity)
- Accrual accounting and matching
- Prudence
- Gross disclosures (i.e. assets and liabilities or income and expenditure should not be netted)
- Individual valuation of assets and liabilities, accruals and deferrals

- Substance over form
- Materiality
- Cost-benefit comparison.

Hungarian financial statements generally follow the historical-cost convention with full allowance for depreciation or other loss in value of assets since their acquisition. Liabilities must generally be taken up at their anticipated repayment values, although there are provisions requiring appropriate accounting for interest or similar costs inherent in higher repayment value but properly chargeable to future periods (e.g. bonds).

Appropriate accruals must be made for expenses as incurred or as their necessity arises. Subsequent events are taken into account insofar as they reveal relevant facts and circumstances that existed prior to the balance sheet date. If their cause and effect both relate to the following year but are sufficient to cast doubt on the relevance of the financial statements to the business position at the time they are issued, they must be fully disclosed.

In addition to cut-off date reporting, interim financial must be prepared when at any time of the year a statement must be made on the current status of the equity of the company. A typical example of this is dividend advance payment, and the Court of Registry may at their own discretion ask for interim financial statements when the shares of companies with tax arrears are transferred.

Financial statements comprise the following:

- Annual report
- Simplified annual report
- Consolidated annual report
- Simplified report.

The form of the financial statement depends on the size of the business with regards to the following factors:

- Total assets (HUF 500 million)
- Sales revenue (HUF 1,000 million)
- Number of employees (50)

Financial statements include the following content:

- Basic financial statements
- Balance sheet and income statement
- Notes to the accounts
- Business report.

8 – UHY REPRESENTATION IN HUNGARY



BERGMANN ACCOUNTING & AUDITING HUNGARY



CONTACT DETAILS

Bergmann Accounting & Auditing
186 Váci út
Budapest
Hungary
Tel: +36 1 238 9050
Fax: +36 1 238 9010
www.bergmann.hu

Year established: 1990
Number of partners: 2
Total staff: 90

CONTACTS

Liaison contact: Péter Bergmann
Position: Partner
Email: peter.bergmann@bergmann.hu

Liaison contact: József Kiss
Email: jozsef.kiss@bergmann.hu

OTHER IN-COUNTRY OFFICE LOCATIONS AND CONTACTS

New branch established in Budapest in September 2013. It is hosting a team of 4, servicing a large group of companies in the area.

Address:
Bergmann Accounting & Auditing
H-1126 Budapest
Böszörményi út 44-46
Hungary

Tel: +36 1 238 9050
Fax: +36 1 238 9010
Email: peter.bergmann@bergmann.hu

BRIEF DESCRIPTION OF FIRM

Bergmann is a family enterprise providing accounting, auditing, tax consulting and other financial services to small and mid-sized companies, the majority Hungarian, but also to affiliates of multinational companies. Our main service sectors are retail and services. We also have many clients from manufacturing and construction industries.

SERVICE AREAS

Accountancy
Auditing
Corporate finance
Tax consultancy
Business consultancy
Payroll services

PRINCIPAL OPERATING SECTORS

Engineering

LANGUAGES

Hungarian, English, German.



The network
for doing
business



CURRENT PRINCIPAL CLIENTS

(Partial list of clients permitting public disclosure. Confidentiality precludes disclosure of all clients in this document.)

Forrás/Arago Group

Prettl Electronics Kft.

JAS Budapest Zrt.

Transenergo Hungary Kft.

Kübler Hungary Kft.

Meffert Hungaria Kft.

OTHER COUNTRIES IN UHY CURRENTLY WORKING WITH, OR HAVE WORKED WITH IN THE PAST

Austria, Cyprus, France, Netherlands, Serbia, Slovakia, Switzerland, UK, US.

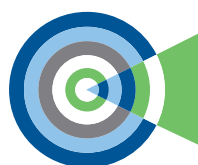
BRIEF HISTORY OF FIRM

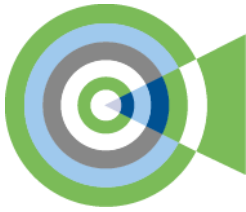
Bergmann Accounting Office was established in 1990 by Erzsébet and Péter Bergmann. In 1994 Erzsébet and Péter received chartered accountant licenses; at this time the company had five employees and was operating from rented premises in Budapest.

In the mid-1990s, Bergmann was renamed Bergmann Auditing and Tax Consulting Ltd. There was a significant increase in the number of international clients, to the extent that separate departments were created in to cater for domestic and international clients. The firm had 24 employees by this time.

By the year 2000, Bergmann had acquired its own premises at 186 Váci út in Budapest and employed 30 staff. In 2002 the firm established a branch in Germany and in 2003 joined UHY. Bergmann is ISO 9001 and TÜV certified.

The firm currently employs a staff of 90, serving nearly 600 companies.





LET US HELP YOU ACHIEVE FURTHER BUSINESS SUCCESS

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