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A COMPLETE GUIDE TO
**DOING BUSINESS
IN HUNGARY**
FREE E-BOOK

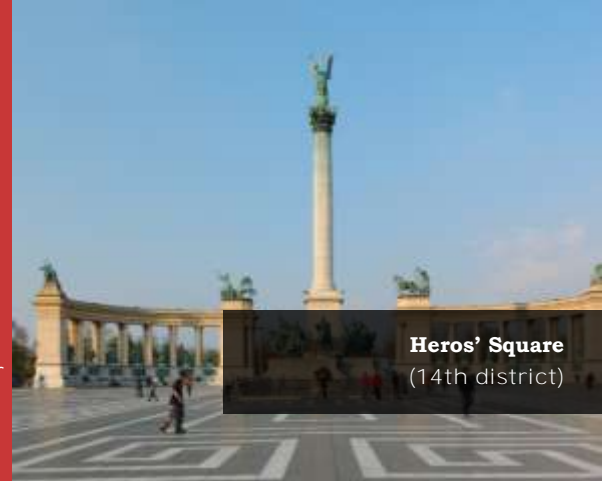
#BUSINESS STARTUP, #TAXATION,
#SOCIAL INSURANCE

INTRODUCTION

About Hungary

Hungary is a republic situated in Central-Europe and is an EU member country since 2004.

Area:	93.030 sqkm
Population:	9.845k (2015)
Form of government:	Republic (democracy)
Capital city:	Budapest
GDP:	120.7 billion USD (2015)
Climate:	Continental, moderate



Heros' Square
(14th district)



The famous Chainbridge



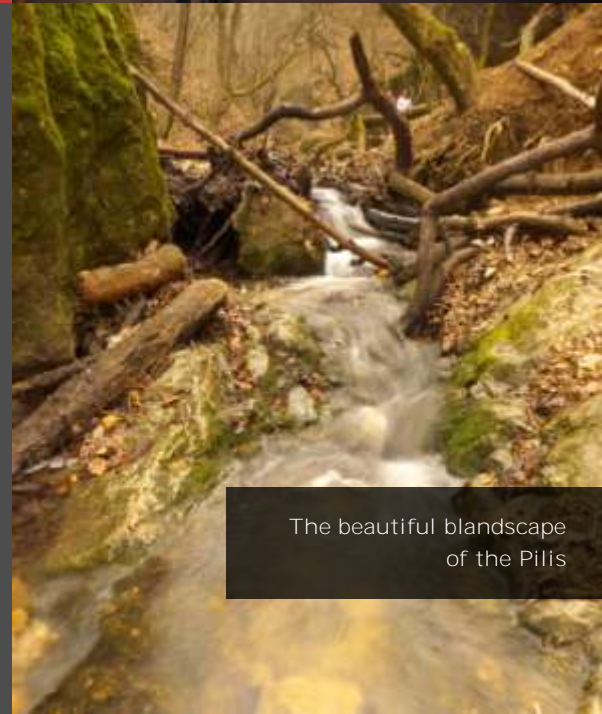
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Founder and owner of Whispering Tree Business Consultancy Office

Education: Economist, Master of Business Administration, Registered Certified Accountant

Experience: Working from 2002, managing own enterprises from 2007. Years of experience are spent on accounting, corporate law, taxation and business consultancy.

Regularly posts articles and edits eBooks about business topics.



The beautiful landscape of the Piliis



BUSINESS STARTUP IN HUNGARY

LEGAL FORM OF HUNGARIAN ENTERPRISES

There are three major types of businesses in Hungary:

- Private enterprise and private company
- Company
- Branch office

Private enterprise and private company are non-legal persons. Legally, those are considered natural persons.

A company is a legal person.

A branch office may be established by a foreign parent company and is considered a non-legal person. Branch office, legally, may not be separated from its parent company: its transactions are part of the business activity of the parent company.

DIFFERENCE BETWEEN A LEGAL AND A NON-LEGAL PERSON

Legal persons may have rights and obligation under their own name, while non-legal persons cannot. There must be always a legal or a natural person behind a non-legal person. E.g. a private enterprise legally is the same person as the individual who established it.

COMPARISON OF HUNGARIAN BUSINESSES

The following properties should be taken into account in the comparison of the legal formats of Hungarian enterprises:

- Legal or non-legal person: as described above
- Registration process: whether a lawyer and court registration is needed or not
- Minimal capital: what is the minimum amount that should be paid as registered capital
- Number of owners: how many owners the company may have
- Financial liability: is there a limited or unlimited financial liability behind the enterprise
- Taxation system: what taxation methods the business may apply

The table below is a short summary of the comparison of the Hungarian business formats.

Business type	Legal or non-legal person	Registration process	Minimal capital	Number of owners	Financial liability	Taxation system
Private enterprise	Natural person	Electronic registration, no lawyer and court is needed	N/A	1	Unlimited	Private income tax (SZJA) Small taxpayers' tax (KATA) Small enterprise tax (KIVA)
Private company	Natural person	Electronic registration, no lawyer and court is needed	N/A	1	Unlimited or limited	Private income tax (SZJA) Small taxpayers' tax (KATA) Small enterprise tax (KIVA)
Business partnership (Kkt. and Bt.)	Legal person	Lawyer and court registration is need	N/A	min. 2.	Unlimited for at least 1 owner, limited the others. In case of Kkt.: unlimited for everyone	Corporate income tax (TAO) Small taxpayers' tax (KATA) Small enterprise tax (KIVA)
Limited company (Kft.)	Legal person	Lawyer and court registration is need	3.000.000 HUF	min. 1	Limited for all the owners	Corporate income tax (TAO) Small enterprise tax (KIVA)
Private limited company (Zrt.)	Legal person	Lawyer and court registration is need	5.000.000 HUF	min. 1	Limited for all the owners	Corporate income tax (TAO) Small enterprise tax (KIVA)
Public limited company (Nyrt.)	Legal person	Lawyer and court registration is need	20.000.000 HUF	Public shares should be issued	Limited for all the owners	Corporate income tax (TAO)
Branch office	Non-legal person	Lawyer and court registration is need	N/A	Ownership is not applicable	Parent company is liable	Corporate income tax (TAO)

DOCUMENTS NEEDED FOR HUNGARIAN COMPANY REGISTRATION

Documents needed by private persons:

- Valid passport
- Proof of Hungarian temporary or permanent address (Hungarian address card) OR proof of address in home country (e.g. bank statement, address card or the like). A private enterprise requires a valid Hungarian address card.
- Hungarian personal tax number (free of charge, application may be done once the client is in Hungary)
- Hungarian social security number for the general manager(s) and employee(s) of the company. A private entrepreneur requires a local social security number.

Documents needed by legal-persons or companies:

- Copy of company register or other proof of incorporation with an apostille that certifies the validity of the document
- Official Hungarian translation of the above mentioned document
- Valid passport
- Proof of Hungarian temporary or permanent address (Hungarian address card) OR proof of address in home country (e.g. bank statement, address card or the like)
- Hungarian personal tax number (free of charge, application may be done once the client is in Hungary)



Banknotes of Hungarian Forint

SETTING UP A HUNGARIAN COMPANY BY AUTHORIZATION

It is possible to set up a Hungarian company by authorization (i.e. our company will sign on the behalf of our client), however, an apostilled authorization (power of attorney) is required during the procedure. In addition, general manager(s) should make several declarations which may be done only personally. In practice, this means that general manager(s) should have all their declarations apostilled.

WHAT IS AN APOSTILLE AND WHERE YOU CAN OBTAIN ONE?

Apostille is an internationally accepted proof issued by a certified lawyer of public notary or by the Hungarian Embassy. It testifies the validity of the documents that are signed. It is officially required for some documents by the Hungarian Court.

OPENING BANK ACCOUNTS

One may open several private and/or corporate bank accounts. The general practice is that there is no initial deposit needed. Credit cards are not popular in Hungary, rather debit cards are used. A debit card may be obtained at the time of the bank account opening, although, it usually takes two weeks to be prepared.



TAXATION AND SOCIAL INSURANCE IN HUNGARY

The following section is an overview of the Hungarian taxation system for newcomers. Hungarian taxes may be classified in four major groups:

- Income taxes
- Value added tax
- Social security taxes
- Other taxes

INCOME TAXES

Personal income tax (Személyi jövedelemadó SZJA)

Personal income tax may be applied to earnings generated by private persons in Hungary. The rate of this tax is fixed 15% (in 2017).

The basis of the personal tax is the earnings that are realized during the tax year (i.e. calendar year by default).

Earnings = Incomes - Expenses accepted by personal income tax law

To what earnings the personal income tax may be applied?

- Wages, salary
- Regular commissions
- Profit generated by private enterprise
- Earnings generated by selling properties (land, building) or other possessions (car, furniture etc.)
- Dividends, interest
- Capital earnings (exchange rate gains)

Corporate income tax (Társasági adó - TAO)

Corporate income tax may be applied to companies that not decided to use special taxation systems like KATA or KIVA.

The rough calculation of corporate income tax basis is the following:

Taxable profit = Earnings before taxes +/- Corporate income tax modifiers

The rate of the corporate income tax is 9%.

There is a so-called minimum tax basis. It should be applied after the first tax year of the company. The essence of this system is that if the actual tax basis does not reach a certain level, 2% of all the incomes should be considered as minimum tax basis.

Small taxpayers' tax (KATA)

May be applied by private enterprises, private companies and business partnerships (Kkt., Bt.). It is a fixed fee in every month. It includes all the income taxes, the social security taxes plus the dividend tax.

The fixed tax is only 50.000.-HUF/month. The rest may be used for private spending. The limit for this tax is 12.000.000.-HUF yearly income (in 2017). Above the limit, 40% additional tax should be based on the difference.

It is a very popular and convenient taxation form. For private enterprises and small companies, this might be the best choice.

Small enterprise tax (Kisvállalati adó - KIVA)

KIVA is a simplified taxation system that may be applied by several businesses (please refer to enterprise legal format section). The basic rate is 16%, however, the calculation of the basis is quite sophisticated. It includes the income tax and the social security contribution tax. It may carry benefits for some of the enterprises compared to the corporate income tax system.

Local turnover tax (Helyi iparűzési adó)

Local turnover tax should be paid to the local government where the enterprise has its seat address or operates a business property. If several local areas are affected, the local turnover tax should be split.

The actual rate of the local turnover tax is determined by the local governments. The maximum rate is that may be applied is 2%.

Basis of the local turnover tax = Revenue – Costs of materials – Costs of goods sold – Cost of services sold

VALUE ADDED TAX (ÁLTALÁNOS FORGALMI ADÓ - ÁFA)

Value added tax works very similar to other countries. Basically, it should be paid on local consumption. There are three VAT rates in Hungary: 27%, 18% and 5%.

The essence of the system is that VAT paid on purchases may be deducted from the VAT that should be paid on sales. The difference should be paid to the government.

The system is complicated and contains strict regulations, especially the rules applied to invoicing.

Under 8 million forint of yearly turnover, the enterprise may choose a VAT free status. This means that the business should not pay and deduct VAT. In addition, VAT returns should not be posted.

Cash accounting VAT method may also be applied upon choice under 125 million forint of yearly turnover. Cash accounting means that the VAT should be paid and deducted when the value of the invoice is actually paid. This system may be beneficial if the buyers pay later.

There are three VAT declaration frequencies in Hungary. Reclaim limits are also connected to VAT frequencies:

- Monthly – 1 million forint
- Quarterly – 250 million forint
- Yearly – no reclaim limit

EU tax number should be registered if the business plan to manage EU transactions (i.e. buying and selling from and to other EU countries). EU transactions should be reported to the government.

SOCIAL SECURITY TAXES

Hungary introduced the public social security system. That means every insured resident should pay a certain amount of contribution. In return, he will be part of the government social insurance system. What is included in public social security in Hungary?

- Retirement
- Healthcare and health benefits
- Unemployment benefit



The HQ of Tax Office (NAV)

Please refer to section named Social Security in Hungary

OTHER TAXES

Business car tax

Business car tax is paid on the personal cars owned by the company or on private owned personal cars, if the company accounts any costs. Business car tax should not be paid on lorries and trucks and on other non-personal vehicles.

Business car tax only depends on the performance and environmental class of the car. The higher the performance of the car is and the less emission the car has, the lower the tax is.

Local car tax

Local car tax is determined by and should be paid to the local government. It depends on the performance and age of the car.

Tourist tax

Tourist tax should be paid to the local government by those who carry out short-term accommodation businesses activities (e.g. booking.com, rnb.com). It is either a fixed amount and based on the nights that are spent by the tourists or a certain percentage of the overall accommodation fee.

Business phone and representation tax

If a company books phone costs, there is tax that should be paid on the costs. 20% of the gross telephone spending should be considered as private spending and is taxed by the state. The taxation is done through the personal income tax system.

The same is true for representation and business gift expenses: those items are taxed through the personal income tax system.

Excise duty

Excise duty should be paid on certain products (tobacco, alcohol and petrol) by manufacturers, wholesalers. It is a very complicated and strict tax system which requires the employment of professionals.

Environmental tax

Environmental tax should be paid on packaging materials (paper, iron, glass, plastic) by the wholesaler or the manufacturer of the product. Most of the enterprises may meet this tax as a separate item in the invoice which raises the purchasing price of the packaging material.

SOCIAL SECURITY IN HUNGARY

GENERAL OVERVIEW

Social security system includes the following services:

- Retirement
- Healthcare and health benefits
- Unemployment benefit

In order to have social security in Hungary, a so-called insurance relationship is needed. When is somebody considered as an insured person? The most important and common cases are the followings:

- Employment under work contract (including general manager)
- Assignment contract if the regular fee exceeds 30% of minimal wage
- If any of the owners of a company acts also as a general manager
- The private entrepreneur if not under KATA system
- Health insurance based on mutual agreement



TAXES ATTACHED TO SOCIAL INSURANCE AND EMPLOYMENT

Tax	Percentage	Base	Who pays it?
Social contribution tax	22%	Salary but not less than the minimal wage	Employer
Training contribution	1,5%		
Taxes paid on salary	23,5%	Salary but not less than the minimal wage	Employee
Retirement fund	10%		
Health fund	7%		
Unemployment fund	1,5%		
Personal income tax	15%	Effective payment	
Taxes deducted from salary	33,5%		
TOTAL	57%		

When someone does not have to pay public insurance?

- Having a certified insurance in another EU country for any reasons
- Having a Hungarian work contract with at least 36 workhours a week
- Having another insurance as an entrepreneur where all the minimums are paid
- Having a certified social security in the home country while Hungary and home country have a mutual agreement on social cooperation and that law accepts foreign insurance in Hungary (it is very rare in practice)
- The insured one is a retired person

HOW MUCH SOCIAL INSURANCE AN ENTREPRENEUR HAS TO PAY IN HUNGARY? (2017)

Social insurance depends on the legal relationship between the enterprise and the employed person.

Tax title	Percentage	Self-employment, private entrepreneur, general manager who is owner at the same time		Work Contract with primary school		Work Contract with secondary school or higher degree	
		Minimal tax basis	Tax	Minimal tax basis	Tax	Minimal tax basis	Tax
Social contribution tax	22%	143.438	31.556	127.500	28.050	161.000	35.420
Training contribution	1,5%	127.500	1.9123	127.500	1.913	161.000	2.415
Taxes paid on salary	23,5%	-	33.469	-	29.963	-	37.835
Retirement fund	10%	127.500	12.750	127.500	12.750	161.000	16.100
Health fund	7%	191.250	13.388	127.500	8.925	161.000	11.270
Unemployment fund	1,5%	191.250	2.869	127.500	1.913	161.000	2.415
Personal income tax	15%	127.500	19.125	127.500	19.125	161.000	24.150
Taxes deducted from salary	33,5%	-	48.132	-	42.713	-	53.935
TOTAL	57%	-	81.601	-	72.676	-	91.770

COMPANY STARTUP DOCUMENT CHECKLIST

Description	Check
Documents for private person owner(s) and general manager(s)	
Valid passport OR a valid ID card (EU citizens only)	
Proof of home address (e.g. bank statement, address card – official translation may be required also in some cases)	
T34 form and Hungarian personal tax number certificate (will be obtained in Hungary in person or by authorization in advance of company registration)	
Documents for legal entity owner(s)	
Company register certificate/extract with an apostille	
Official translation of the above document (will be obtained in Hungary)	
Founding documents (countersigned by lawyer OR apostilled and sent to the court)	
Assignment of delivery for each of the owners and general manager who do NOT have a Hungarian address	
Declaration of acceptance of the position of general manager	
Declaration of usage of seat	
Declaration of payment of registered capital	
List of shareholders	
Specimen of signature for general manager(s)	
Founder's resolution	
Articles of incorporation	
Authorization of company registration (if done by that way)	
Internal documents (mandatory but not sent to the court)	
Authorization for opening bank accounts and obtaining debit cards (if necessary)	
Authorization for tax offices (required to post any tax declaration)	
Short description of the case (Chamber of Lawyers' standard)	
Assignment for the lawyer (power of attorney) to register the company	
Identification datasheet (required by Hungarian legislation since anti-terrorism and anti-money-laundering legislations have been introduced)	
Local and international criminal record and ID document validity query (mandatory)	



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