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A COMPLETE GUIDE TO

DOING BUSINESS IN HUNGARY

2018

EVERYTHING YOU NEED TO KNOW

A FREE E-BOOK

#BUSINESS STARTUP, #TAXATION,
#SOCIAL INSURANCE, #ACCOUNTING

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1 INTRODUCTION

1.1 About Hungary

Hungary is republic situated in Central-Europe. It 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
Last election held:	2018
Next elections:	2022
Leading political party	FIDESZ
Prime minister:	Viktor Orbán
President of State:	János Áder
Official currency	Hungarian forint (HUF)
Measurement system:	Metric
Time zone:	UTC +1

2 STARTING AN ENTERPRISE IN HUNGARY

2.1 Legal form of Hungarian enterprises

There are three major types of businesses in Hungary:

1. **Private enterprise and private company**
2. **Company**
3. **Branch office**

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

Every **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.

2.2 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.

2.3 About Hungarian private enterprise

2.3.1 Basics

Legal or non-legal person	Non-legal person
Minimum share capital	There is no capital for a private enterprise
Way of establishment	Electronically through customer gate
Possible taxation method of profit	Personal income tax, KATA, KIVA
Minimum number of owners	N/A
Financial liability of the owner	Unlimited
Maximum income, number of employees	Not limited

2.3.2 Who can start a private enterprise?

Private enterprise may be formed by:

- Hungarian citizens
- EU citizens

- Non-EU citizens if they have a permanent residence permit or a residence permit with the following reasons: studying, gainful activity, unifying family.

2.4 About Hungarian Business Partnerships (KKT and BT.)

2.4.1 Basics

Legal or non-legal person	Legal person
Minimum share capital	No minimal capital
Way of establishment	Electronically through a lawyer or public notary
Possible taxation method of profit	Corporate income tax, KATA, KIVA
Minimum number of owners	2
Financial liability of the owner	Kkt: unlimited for every owner Bt-s: unlimited for at least 1 owner
Maximum income, number of employees	Not limited

2.4.2 Who can form a Hungarian Business Partnership?

Almost anybody which means: local, EU and non-EU citizens and local or foreign registered legal persons.

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2.5 About Hungarian Limited Liability Company (KFT.)

2.5.1 Basics

Legal or non-legal person	Legal person
Minimum share capital	3.000.000.-HUF
Way of establishment	Electronically through a lawyer or public notary
Possible taxation method of profit	Corporate income tax, KIVA
Minimum number of owners	1
Financial liability of the owner	Limited
Maximum income, number of employees	Not limited

2.5.2 Who can form a Hungarian Limited Liability Company?

Almost anybody which means: local, EU and non-EU citizens and local or foreign registered legal persons.

2.6 Comparison of legal forms 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

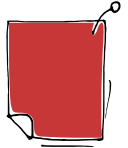
The table below is a short summary of the comparison of the Hungarian business formats.

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)

2.7 Documents needed for Hungarian company registration

Documents needed by **private persons** (i.e. owner of the Hungarian company will be a private person or more 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 personally in Hungary or by proxy)
- 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** (i.e. the owner of the Hungarian business will be a foreign company or other legal person):

- 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 of the representative of the legal person
- 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 personally in Hungary or by proxy)

2.8 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 = PoA) is required during the procedure. The authorization will be prepared and handled by us.

What you will need to do is to get the PoA signed and **apostilled**.

2.9 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.

2.10 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.

Please note, that Hungarian businesses need to open at least one domestic Hungarian forint bank account.

Companies may have foreign currency domestic and foreign bank accounts also. The domestic account are automatically reported to the authorities by the banks. Foreign ones should be reported to the authorities manually.

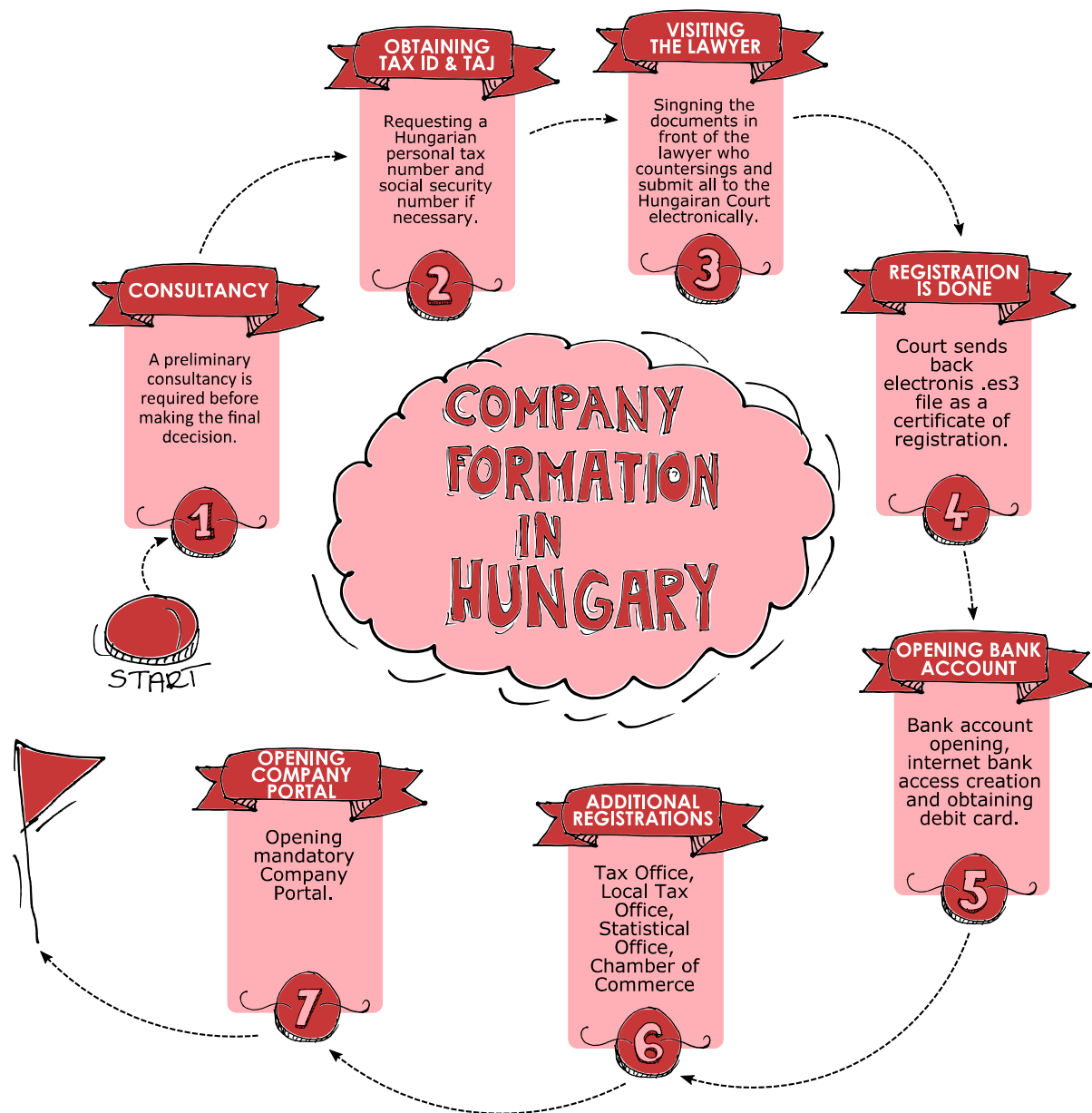
Bank accounts may be opened personally by the general manager or by proxy (power of authorization).

2.11 Opening electronic company portal

From 2018, electronic company portal is mandatory to open and maintain. The state will use this to communicate with the company.

We will open this for you in order to comply with the regulations.

2.12 Formation of a Hungarian company: step-by-step guide



2.13 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)	

Description	Check
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, personal tax ID registration, bank account opening, mandatory registrations and company portal opening (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)	

3 TAXATION IN HUNGARY

3.1 General overview

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

3.2 Income taxes

3.2.1 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 2018)**.

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)

3.2.2 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.

3.2.3 Small taxpayers' tax (KATA) – a wonderful tax!

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 2018). 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.

3.2.4 Small enterprise tax (Kisvállalati adó - KIVA)

KIVA is a simplified taxation system 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.

3.2.5 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

3.2.6 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.

3.3 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

Please refer to section named Social Security in Hungary

3.4 Other taxes

3.4.1 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.

3.4.2 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.

3.4.3 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.

3.4.4 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.

3.4.5 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.

3.4.6 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.

3.5 Summary of the major taxes, rates and corresponding deadlines in Hungary

Tax name	Tax subject (Who pays it?)	Tax rate	Tax form nr. and frequency of report	Due date
Corporate income tax	Companies	9%	29 – Yearly	31 st May
Small taxpayers tax (KATA)	Bt and Private enterprises	50.000.- HUF/month	KATA – Yearly	25 th February
Value added tax (VAT)	Every business, sometimes private persons also	27%	65,A60 – Monthly, quarterly or yearly	20 th day after month or quarter
Personal income tax (SZJA)	Private persons	15%	53 – Yearly	20 th May
Local turnover tax (HIPA)	Every business	Depends on the settlement, average is 2%	HIPA – Yearly	31 st May
Chamber of commerce contribution	Every business	5.000.- HUF/year	Yearly, no form required	31 st March
Dividend tax	Private persons if they withdraw dividend from a company	15% + 14% = 29%	53 – Yearly	25 th February
Private enterprise tax	Private enterprises	15%	53 – Yearly	25 th February
Private enterprise dividend tax	Private enterprises	15% + 14% = 29%	53 – Yearly	25 th February

Tax name	Tax subject (Who pays it?)	Tax rate	Tax form nr. and frequency of report	Due date
Excise duty on properties bought	Everybody	4%	B4000 – Occasionally	-
Excise duty on car purchased	Everybody	Depends on engine volume		-
Social security	Every employer	See section social security. It included several taxes	08	12 th day after each month

4 SOCIAL SECURITY IN HUNGARY

4.1 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** if carried out as employee)
- **Assignment contract** if the regular fee exceeds 30% of minimal wage
- If any of the **private person** owners of a company acts also as a **general manager**
- **Self employed entrepreneur** – if not carried out under work contract or as general manager
- **Private entrepreneur** - if not under KATA system
- Health insurance based on **mutual agreement** with the Hungarian Health Institute (OEP)

4.2 Minimal salary (2018)

In Hungary, the system of minimal salary is introduced. This **is the basis of the social security taxes** and the minimal salary that employers have to pay for their employees.

Minimal wage is determined and revised every year by the government. It depends on the level of education and it is always calculated for 40 hours/week of employment.

Level of education	Minimal wage (40 workhours/week)
Primary school or below	138.000 HUF
Secondary school or above	180.500 HUF

4.3 Taxes attached to social insurance and employment (2018)

Tax	Percentage	Base	Who pays it?
Social contribution tax	19,5%	Salary but not less than the minimal salary	Employer
Training contribution	1,5%		
Taxes paid on salary	21%		
Retirement fund	10%	Salary but not less than the minimal salary	Employee
Health fund	7%		
Unemployment fund	1,5%		
Personal income tax	15%	Effective payment	
Taxes deducted from salary	33,5%		
TOTAL	54,5%		

When someone **DOES NOT** have to pay public insurance?

- Having a certified insurance in **another EU country** for any reasons (not applicable, if the persons is applying for Hungarian residency, since that will require Hungarian social security and will terminate any other insurances)
- 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 if 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** (in this case, health service contribution should be paid which is a fixed and low fee)

4.4 How much social insurance an entrepreneur has to pay in Hungary? (2018)

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	19,5%	155.250	30.274	138.000	28.050	180.500	35.198
Training contribution	1,5%	138.000	2.070	138.000	1.913	180.500	2.708
Taxes paid on salary	21%	-	32.344	-	29.963	-	37.906
Retirement fund	10%	138.000	13.800	138.000	12.750	180.500	18.050
Health fund	7%	207.000	14.490	138.000	8.925	180.500	12.635
Unemployment fund	1,5%	207.000	3.105	138.000	1.913	180.500	2.708
Personal income tax	15%	138.000	20.700	138.000	19.125	180.500	27.075
Taxes deducted from salary	33,5%	-	52.095	-	42.713	-	60.468
TOTAL	54,5%	-	84.439	-	72.676	-	98.374

4.5 Benefits from social security

There are some benefits that the employer may deduct from social security tax.

Examples are: employees under the age 25 or above the age 55; mothers on maturity leave, public employment; employment of disabled persons; employment of people with low education; employment of permanently unemployed people.

5 ACCOUNTING IN HUNGARY



From accounting perspective, one may distinguish 2 major groups:

- Private enterprises
- Companies

5.1 Common regulations

Both private enterprises and companies should keep the same records about VAT (ÁFA) if they did not choose to apply the VAT-free system.

Payroll and taxes attached requires every business to apply the same regulations.

5.2 Private enterprises

Private enterprises are not subject to accounting law, while companies are.

Private enterprises maintain their records according to the personal income tax regulations. If private enterprise is under the KATA system, it should only keep its outgoing invoices and submit 1 tax declaration in each year.

Private enterprises use the single entry bookkeeping method.

5.3 Companies

Companies fall under the regulations of accounting law. They should prepare yearly financial statements and corporate income tax returns.

If a business partnership (Bt.) applies the KATA rules, it should not prepare financial statements.

Limited companies (Kft.) in Hungary should always post their financial statements. This is done electronically.

Companies apply the double entry bookkeeping method.

5.4 Financial audit

External financial audit is mandatory in Hungary, if the yearly turnover of the **company** exceeds **300 million HUF** in two oncoming years.

Private enterprises are not obliged to perform an external financial audit.

6 FAQ

Q: How much does it cost to establish a company in Hungary

A: We offer **discounted packages** for company registration, official seat, taxation, accounting and residency permit. Please check out our website for our latest prices at www.whisperingtree.hu/EN

Q: How long does it take to open a company?

A: If all the documents are prepared, usually it will take from 2 days up to 2 week, depending on the Hungarian Court. Please note that for non-Hungarians, it will take a little bit longer.

Q: Shall I come to Hungary or can I establish my business from abroad?

A: The Hungarian Court and banks accept a properly apostilled authorization. So, the presence of the Client is not mandatory.

Q: Shall I deposit the minimum registered capital to a bank account?

A: Not at all. The declaration of the general manager is needed only that states the receipt of the capital as petty cash.

Q: Does a Hungarian business mean automatic residency?

A: No. Residency should be obtained separately but based on the company and the business activity.

Q: Is there a minimum deposit before opening a Hungarian bank account?

A: In Hungary, no minimum deposit is needed to open any bank account. However, it is advisable to deposit some money to cover the maintenance costs of the account.

Q: How can I avoid minimum social security tax?

A: If you are an **EU citizen** and you have social security in another EU member country, all you have to prove is that fact (form E101). If you are coming from a **non-EU country**, the person of the general manager and the owner should be separated.

Q: I am coming from a EU country. Can I establish a private enterprise?

A: Yes, you can without restrictions.

Q: I am coming from a non-EU country. Can I establish a private enterprise?

A: First, you will need a residency permit with the following reasons: studying, unifying family, gainful activity.

Q: I am studying here. Can I open a private enterprise or a company?

A: Yes. You can establish both independently from your citizenship.

7 CONTACT

If you have any further questions, please feel free to contact us.

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