



Chandrawat
& Partners



DOING BUSINESS IN HUNGARY

A comprehensive guide on Hungary

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OVERVIEW

Hungary, officially known as the Republic of Hungary, is a landlocked country located in Central Europe, which makes the country optimal for manufacturing, services, and logistics. Hungary is the ideal base for investors who are planning cross-border business developments. Foreign capital is attracted mainly by the highly skilled and highly educated labour force, particularly in the engineering, information technology ("IT"), pharmaceutical, economics, mathematics, physics, and professional services sectors. Around two-thirds of the workforce in Hungary have a secondary, technical, or vocational education.

Hungary has a well-developed and industrialized market economy. Key sectors include automotive manufacturing, electronics, pharmaceuticals, information technology, agriculture, and tourism. The country has attracted significant Foreign Direct Investment ("FDI"), mainly from Western European countries. The Hungarian currency is the Forint ("HUF").

Hungary has been a member of the European Union ("EU") since 2004. EU membership has brought numerous benefits, including access to the single market, funding opportunities, and adherence to EU regulations and standards.

ECONOMIC OVERVIEW

Hungary has a well-established market economy, making it an attractive destination for foreign investment. The country has undergone significant economic reforms since the fall of communism, transitioning to a market-based system. Hungary's central location in Europe provides businesses with access to a vast market. The country serves as a gateway to both Western and Eastern European markets, offering opportunities for trade and expansion.

Hungary has a highly skilled and educated workforce. The country boasts a strong emphasis on science, technology, engineering, and mathematics ("STEM") education. Hungarian employees are known for their technical expertise and language skills, making them valuable assets for international businesses. Hungary offers a cost-effective business environment compared to many Western European countries. Operating costs, including labor, office space, and utilities, are relatively lower, providing cost advantages for businesses seeking to establish operations or outsource services.

The Hungarian government provides various investment incentives to attract foreign direct investment. These incentives include grants, tax allowances, subsidized loans, and support for research and development projects. Specific sectors, such as manufacturing, renewable energy, and innovation, often receive targeted incentives. The Hungarian government has implemented reforms to enhance the business climate and attract foreign investment. Streamlined administrative procedures, reduced bureaucracy, and simplified regulations contribute to a more business-friendly environment.

Key sectors

The significant key sectors for doing business in Hungary are as follows:

- **Information Technology (“IT”) and software development:** Hungary's IT sector has experienced significant growth in recent years. Budapest, in particular, has emerged as a regional hub for technology startups and innovation. The government has introduced measures to support the development of the IT sector, making it an attractive destination for businesses in this field.
- **Electronics and electrical engineering:** Hungary has a strong presence in the electronics and electrical engineering sectors. The country is a hub for electronics manufacturing, including consumer electronics, telecommunications equipment, and electronic components.
- **Renewable energy:** Hungary is increasingly focusing on renewable energy sources, particularly wind and solar power. The government has implemented supportive policies and incentives to encourage investment in the renewable energy sector. There are opportunities for project development, equipment manufacturing, and energy services in this growing industry.
- **Financial Services:** Hungary has a well-developed financial sector, with a strong presence of domestic and international banks, insurance companies, and investment firms. Budapest serves as a regional financial hub, providing a wide range of financial services, including banking, insurance, asset management, and fintech.

FOREIGN DIRECT INVESTMENT POLICY

Hungary has currently two separate FDI regimes in force. These are:

- General FDI Regime, which was introduced on January 1, 2019, to implement the EU regulation,
- The New FDI Regime has been adopted in connection with the COVID-19 pandemic. Compared to the General FDI Regime, the New FDI Regime covers a wider number of sectors and activities. It, however, also contains significant exceptions (such as the exception for indirect transactions), which are commonly used in practice to avoid the need for FDI screening.

Recent updates

The most recent legislative development concerning the Hungarian FDI system is that the Hungarian legislator has adopted an emergency Government Decree, which slightly extended the scope of the notifiable transactions under the New FDI regime. Another material development is that the final date of the interim extension to the General FDI Regime's scope remains to be effective until June 1, 2023, at the date of this summary.

In the case of both regimes, the foreign investor shall make the FDI notification to the competent minister. However, the foreign investor definitions of the regimes differ.

ADVANTAGES OF DOING BUSINESS

Doing business in Hungary offers several advantages that make it an attractive destination for foreign investors. Some key advantages of doing business in Hungary:

- **Strong market economy:** Hungary has a developed and industrialized market economy. It offers a stable economic environment with sound macroeconomic policies, low inflation rates, and a favorable business climate. The country has undergone significant economic reforms and has a strong industrial base, making it an attractive market for various sectors.
- **Favorable tax system:** Hungary has implemented a competitive tax system to attract businesses and encourage investment. This favorable tax rate contributes to cost savings and increased profitability for businesses.
- **Investment incentives:** The Hungarian government offers various investment incentives to attract foreign direct investment. These incentives include grants, tax benefits, subsidized loans, and support for research and development projects.
- **Strong industrial base:** Hungary has a diverse and competitive industrial sector. Key industries include automotive manufacturing, electronics, information technology, pharmaceuticals, food processing, and renewable energy. .

TYPES OF BUSINESS ENTITIES

Hungary offers several types of companies that can be established based on the needs and preferences of investors. The most common types of companies in Hungary are:

- **Limited liability company (“Kft.”):** The limited liability company is the most popular and widely used company type in Hungary. It is denoted by "Kft." after the company name. A Kft. provides limited liability protection to its shareholders, meaning their personal assets are separate from the company's liabilities. The minimum share capital requirement for a Kft. is HUF 3 million (approximately EUR 10,000). There is a mandatory requirement for at least one director and one shareholder.
- **Joint stock company (“Nyrt.”):** Joint stock companies are suitable for larger businesses or those planning to go public. They are denoted by "Nyrt." after the company name. A Nyrt. allows for the issuance of shares to shareholders, and the liability of shareholders is limited to their capital contribution. The minimum share capital requirement for a Nyrt. is HUF 20 million (approximately EUR 66,000).
- **Branch office:** Foreign companies can establish a branch office in Hungary to conduct business activities. A branch office is not a separate legal entity but rather an extension of the foreign company. The branch office can engage in commercial activities in Hungary but it is subject to the regulations of the parent company's home country.


- **Representative office:** A representative office serves as a liaison office for a foreign company in Hungary. Its primary purpose is to engage in market research, promotional activities, and gathering information. Representative offices are not allowed to engage in commercial activities or generate revenue.
- **Sole proprietorship (“Egyéni Vállalkozó”):** Sole proprietorship allows an individual to conduct business under their own name. It is suitable for small-scale businesses and freelancers. There is no legal distinction between the individual and the business, so the owner has unlimited liability for the company's debts.
- **General partnership (“Bt.”):** A general partnership is a company formed by two or more individuals or legal entities. The partners have joint and several liability for the partnership's debts and obligations. A general partnership is denoted by "Bt." after the company name.
- **Limited partnership (“Kkt.”):** A limited partnership is a type of partnership that consists of one or more general partners and one or more limited partners. The general partners have unlimited liability, while the limited partners' liability is limited to their capital contribution. A limited partnership is denoted by "Kkt." after the company name.



ELIGIBILITY CRITERIA FOR COMPANY REGISTRATION

The minimum eligibility criteria for company registration are as follows:

- **Legal capacity:** The company's founders or shareholders must have legal capacity, meaning they must be individuals or legal entities capable of entering into legal agreements. This typically includes being of legal age and having no legal restrictions that would prevent them from participating in business activities.
- **Registered office:** The company must have a registered office address in Hungary. This is the official address where legal documents and correspondence will be sent. The registered office must be a physical address and cannot be a post office box.
- **Shareholders:** The minimum number of shareholders required depends on the type of company being registered. For a limited liability company (Kft.), there must be at least one shareholder. For a joint stock company (Nyrt.), there must be at least three shareholders.
- **Directors or managing directors:** The company must have at least one director or managing director. Directors must be individuals while managing directors can be either individuals or legal entities. The director or managing director is responsible for the day-to-day management of the company.

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- **Share capital:** The company must meet the minimum share capital requirements based on its type. For a limited liability company (Kft.), the minimum share capital is HUF 3 million (approximately EUR 10,000). For a joint stock company (Nyrt.), the minimum share capital is HUF 20 million (approximately EUR 66,000). The share capital must be fully paid before the company registration process.
 - **Articles of Association:** The company must have articles of association or bylaws that outline the rules and regulations governing its operation. The articles of association must comply with Hungarian law and include specific information such as the company's name, registered office, business activities, share capital, and management structure.
 - **Trade name and registration:** The company must choose a unique trade name that is not already in use by another registered company. The proposed trade name must comply with the regulations set by the Hungarian Company Information and Electronic Company Registration Service (Cégközlöny és Cégnylvántartás Elektronikus Szolgáltatása - CEGKER). The trade name will be officially registered during the company registration process.
 - **Tax registration:** After the company registration, it is necessary to register for tax purposes. This includes obtaining a tax identification number ("TIN") and registering for value-added tax ("VAT") if applicable.

HOW TO SET UP A BUSINESS?

The primary law for Hungarian companies is Business Associations (Companies Act). The main types of business associations under the Companies Act are identical to those regulated in EU countries. The procedures for founding, implementing changes in data, and winding up Hungarian associations are primarily governed by Public company information, Company registration, and Winding-up proceedings (Company Procedures Act).

STEP 1

- Preparation of corporate documents by a Hungarian attorney-at-law.
- Founders of the company must sign the company's constitutive document, which, together with some other documents must be countersigned by a Hungarian attorney).
- Time to complete : minimum one day.
- Costs : Attorney fees range widely.

STEP 2

- Opening of a bank account
- Time to complete : one day.
- Costs : depending on the bank.

STEP 3

Registering the company at the Hungarian Court of Registry and obtaining a tax identification number.

The company is established by the act of the court of registration. All companies and sole trader businesses must register at the competent court of registration for the company's registered office. Applications for registering or amending details must be submitted electronically via a legal representative. The court of registration electronically records documents relating to the company and provides an electronic certificate of registration as well as confirmation of any changes made.

Costs, and registration fees:

- for limited partnerships: HUF 50,000 (cca : EUR 172);
- for limited liability companies and for private companies limited by shares: HUF 100,000 (cca : EUR 335); and
- for public companies limited by shares: HUF 600,000 (cca: EUR 2,069).

Simplified registration procedure:

- for limited liability companies and for private companies limited by shares HUF 50,000 (cca. EUR 172); and
- for limited partnerships: HUF 25,000 (cca. EUR 86) Publication fees: uniformly HUF 5,000 (cca. EUR 17). In the case of the simplified registration procedure, publication is free of charge.



Required documents:

- Instrument of the constitution on a standard form;
- Declaration to the Tax Authority to get the company a tax number;
- Authorizations of the legal representative (the counsel), or the certification of the right for representation;
- Certificate of payment of administration fees and a fee of the disclosure;
- List of members;
- Declaration of the Chief Executive Officer (“CEO”) not to be subject to forbidding according to Gt. 23. Certificate of the payment service provider for depositing the contribution in cash, as indicated in the instrument of the constitution or the official declaration of the CEO for giving a free run of the pledged contribution in cash; and
- Declaration of the CEO for giving a free run of contribution in-kind as well as the assessment declaration of the members concerning the contribution in-kind.

STEP 4

- Registration with the Hungarian tax authority, municipality, chamber of commerce, and the Central Administration of National Pension Insurance.
- A representative of the company or an authorized tax expert can perform the administration required for the registration.
- Time to complete : one day.
- Costs : free of charge.

STEP 5

- Data provision on employees to the tax authority
- Once the person has registered at the Client Gateway, employers are obliged to submit electronically on the Government Portal the data stipulated by law relating to their employees, on the form drawn up for this purpose, for the competent State tax authority of first instance, by no later than the first day of the legal insurance relationship prior to commencement of employment.

TAXATION

- Corporate tax

The tax rate is 9% of the positive amount of the tax base. Business associations need to submit their Companies Income Tax ("CIT") returns by May 31st following the tax year. For taxpayers with a different tax year, the filing deadline is the last day of the fifth month following their business year.

- Personal Income tax

In Hungary, flat-rate personal income tax applies as 15%. For resident taxpayers, the tax base is their whole income, while in the case of non-resident taxpayers, it represents their locally taxable income.

- VAT

The VAT general tax rate in Hungary is 27%. Nonetheless, there are two reduced VAT rates in use: 5% and 18%. VAT returns are required to be submitted monthly, quarterly, or yearly. The deadline for filing the return is the 20th day of the month following the given period.



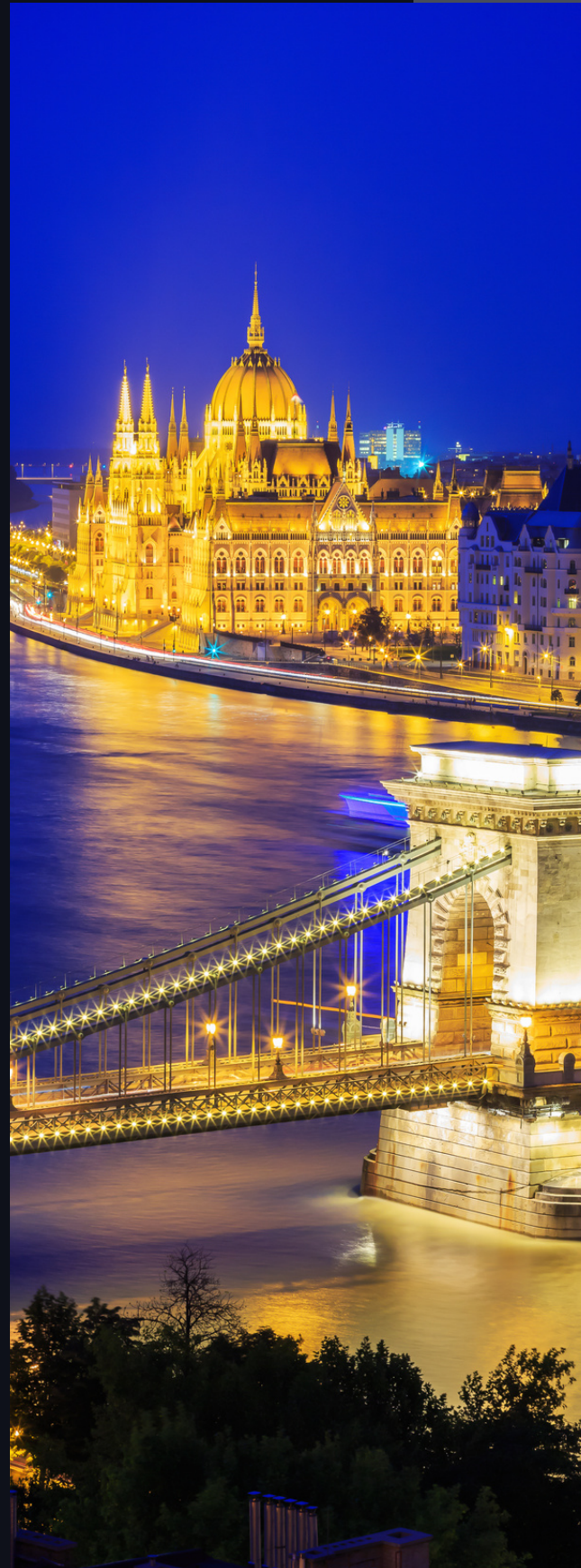
ACCOUNTING STANDARDS

Tax Year

The fiscal year begins on 1 January and ends on 31 December of the same year.

Accounting Standards

The Hungarian accounting system is based on the Hungarian Accounting Act, which incorporates Hungarian Accounting Standards. As a member of the EU, Hungary's law is in accordance with the European Commission (EC), which requires the application of International Financial Reporting Standards ("IFRS") in the preparation of consolidated financial statements of listed companies. Hungarian accounting standards are supplemented by government decrees based on special requirements for banks, insurance companies, stockbrokers, investment funds, pension funds, and various nonprofit institutions. As of 1 January 2018, all listed companies and financial institutions are obliged to prepare non-consolidated financial statements according to IFRS.



Accounting Regulation Body:
Hungarian Chamber of Auditors

Accounting Reports

As there is a distinction between long and short-term debts, the balance sheet is divided into accounts with liabilities composed of constant capital and those indicating debts. The profit and loss account gives priority to global production data and cost classification can be adjusted to highlight either nature or function.





EMPLOYMENT AND LABOUR LAWS

Hungarian legislation follows both European legislation and international trends in the field of labour law while showing characteristics inherent in national regulation.

Employment relations in Hungary are governed by the Labour Code and other labour law legislation, collective bargaining agreements, and individual employment contracts. In the context of labour disputes in Hungary, courts generally protect employees' rights by interpreting the provisions of the Labour Code, collective bargaining agreements, and employment contracts often in favor of the employees.

Fixed term employment

The period of fixed-term employment in Hungary shall be determined according to the calendar or by other appropriate means. The duration of a fixed-term employment relationship may not exceed five years, including the duration of an extended relationship and that of another fixed-term employment relationship concluded within six months of the termination of the previous fixed-term employment relationship.

Indefinite period (permanent employment)

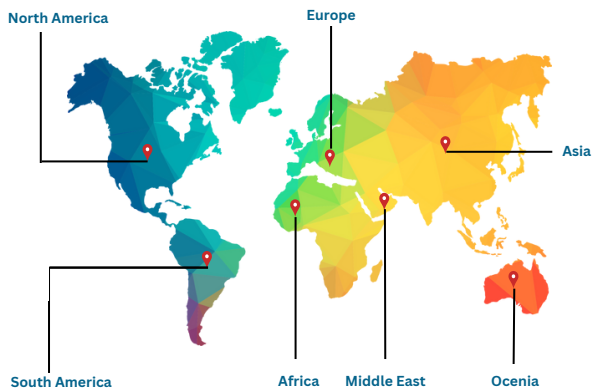
In the absence of an agreement to the contrary, an employment relation is established for an indefinite period of time.

Termination of employment

HOW WE CAN HELP?

- Our team of experts is adept at conducting extensive market research, aiding enterprises in comprehending their intended audience, prevalent industry trends, and potential competitors.
- Our proficient specialists can establish well-defined objectives, delineate feasible measures, and pinpoint prospects for both development and enlargement.
- Our team possesses the ability to perform evaluations of risks, pinpointing potential threats and vulnerabilities within a business. Subsequently, they can propose strategies for risk mitigation to safeguard against unfavorable occurrences.
- Our experts proffer guidance regarding the most suitable legal structure for a venture, be it a corporation, partnership, limited liability company ("LLC"), or sole proprietorship. They expound upon the tax ramifications of each choice, while also helping in selecting the optimal option based on objectives and circumstances.
- Our team is competent in delving into and recognizing any necessary licenses, permissions, or registrations requisite within the client's particular sector or industry. The business aids in the application process and ensures the organization's adherence to all legal prerequisites.

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