This report provides helpful information on the current business environment in Hungary. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.

Global Banking Service

Report on Republic of Hungary

Contents

RBC Royal Bank®

Important to Know

Official language

- Hungarian

Currency

- Hungarian forint (HUF)

Bank holidays

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Source: www.goodbusinessday.com.

Types of Business Structure

Under Hungarian law, there are several business structures available. Some require a minimum amount of share capital to be paid up before the business can be established. A financial institution must hold the paid share capital in a restricted account until the business is legally established.

Public company limited by shares

Nyrt (*nyilvánosan működő részvénytársaság*). This is a company whose shareholders' liability is restricted to the amount of their investment. Its shares are tradable on a public stock market. This requires a minimum share capital of HUF 20 million.

Private company limited by shares

Zrt (*zártkörűen működő részvénytársaság*). This is a company whose shareholders' liability is restricted to the amount of their investment. Shares are registered to their owners and are not publicly tradable. This requires a minimum share capital of HUF 5 million.

Limited liability company

Kft (*korlátolt felelősségű társaság*). This is a company that operates as a legal entity separate from its owners and shareholders. Participants own a percentage of its capital. A participant's liability is limited to their financial contribution. Shares are not tradable on a public stock market. The minimum share capital required is HUF 500,000.

General partnership

Kkt (*közkereseti társaság*). In a general partnership, all partners have full and joint liability. This requires no minimum share capital. A Kkt must have at least two members.

Limited partnership

Bt (*betéti társaság*). In a limited partnership, some partners enjoy limited liability (silent partners), although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability. This requires no minimum share capital.

Sole proprietorship

Ec (*egyéni cég*). This is a business owned and operated by one individual. No legal distinction exists between the business and its owner.

Cooperatives

A cooperative is a registered legal entity that is owned and controlled by its members, who have equal voting rights.

Other organizational types

Hungarian companies are entitled to form unlimited liability European Economic Interest Groupings (EEIGs) with companies based in other European Union (EU)* member states. An EEIG performs particular activities on behalf of its member owners. It is also permitted to perform these activities with entities outside the EU. An EEIG has unlimited liability.

*The EU is an economic and political union of 27 countries (including all members of its forerunner, the European Community, as well as other countries in Central and Eastern Europe), 16 of which use the euro as a common currency.

A *Societas Europaea* (SE) is a European public limited company, which can be established in any European Economic Area (EEA)* member state. It must maintain its registered office and head office in the same country, and it is subject to the company law in that country.

*EEA countries include those of the EU and three of the four European Free Trade Association (EFTA) member countries (Iceland, Liechtenstein and Norway).

Branches and representative offices

Non-Hungarian companies are entitled to establish a branch or a representative office in Hungary. A branch's activities are subject to Hungarian company law, although it is considered part of the company's head office and therefore not a separate legal entity. It requires no minimum share capital. To open a branch, a company must file a number of documents, including head office accounts. While branches are permitted to make sales, representative offices may not sell directly in Hungary.

Opening and Operating Bank Accounts

Residency

To be considered resident, a company must be incorporated in and have a registered office in Hungary.

Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (HUF) accounts outside Hungary and foreign currency accounts both within and outside Hungary.

Non-residents are permitted to hold local currency and foreign currency accounts.

All local currency accounts are fully convertible into foreign currency.

Anti-money laundering and counter-terrorist financing rules

- Account opening procedures require formal identification of the customer.
- Customers are required to provide a written statement to a financial institution stating whether they are acting in their own name or on behalf of a beneficial owner. If they are acting for a beneficial owner, the statement must include the beneficial owner's details.

- All credit and financial institutions in the broadest sense have to identify customers for all occasional or related transactions equal to or exceeding HUF 3.6 million.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at August 2010.

Special purpose accounts required by local regulation

None.

Value-added tax (VAT) on banking services

In Hungary, financial services are exempt from VAT.

Payment and Collection Instruments

Electronic funds transfers are the most common payment instrument for both domestic and cross-border payments in the EEA. They can be initiated using Internet and other electronic banking facilities. Non-urgent credit transfers are the primary payment method used to make payroll payments, with a number of enterprises using third-party payroll agencies. They are also the most common method of payment for business-to-business (B2B) transactions. Card payments are commonly used for consumer transactions, with debit cards much more popular than credit cards. Preauthorized direct debits are used primarily by utility and insurance companies to collect domestic payments. Cheque use is insignificant.

Payment Instrument Use (domestic)

Payment instrument	Transactions (million)		% change 2008/2007	Traffic (value) (HUF billion)		% change 2008/2007
	2007	2008		2007	2008	
Cheques	Neg*	Neg*	N/A	Neg*	Neg*	N/A
Credit transfers	568.4	569.5	0.2	387,249.3	401,182.4	3.6
Direct debits	78.3	67.7	– 13.5	1,104.3	565.2	– 48.8
Debit cards	114.5	142.7	24.6	948.1	1,137.1	19.9
Credit cards	20.3	23.7	16.3	207.4	236.5	14.0
Other**	1.1	13.2	1,212.3	1,337.6	1,820.0	36.1
Total	**782.6**	**816.7**	**4.4**	**390,846.7**	**404,941.2**	**3.6**

*Neg = negligible **Includes bills of exchange, letters of credit, bank drafts and collection orders. Source: ECB Payment Statistics, December 2009.

Single Euro Payment Area (SEPA)

SEPA payment instruments allow enterprises to make and receive EUR-denominated credit transfers, direct debits and debit card payments from a single bank account, to and from other parties located anywhere within the EEA and Switzerland. The use of International Bank Account Numbers (IBANs) and Bank Identifier Codes (BICs) is compulsory for transfers denominated in EUR between bank accounts in the EU.

International Payments

International payments, including foreign currency payments and payments to and from parties located outside the EEA, are processed through same-bank networks, through multibank alliances or by using traditional correspondent banking techniques.

Payment Processing Times

Transactions processed (HUF-denominated)	Value dating rules	Cut-off time(s) in local Central European Time (CET)
High-value and urgent domestic transfers	Real-time settlement, immediate finality	16:00 CET
Non-urgent, low-value domestic consumer payments	Payments are settled on a next-day basis	22:00 CET (for settlement at 07:00 CET the next morning) 02:00 CET (for settlement at 11:00 CET)
Non-urgent intra-EEA credit transfers and direct debits denominated in EUR	Settlement either same-day or next-day	Bulk credit transfers with a maximum value of EUR 50,000 = 22:00 CET for next-day settlement Individual credit transfers = 14:30 CET for same-day settlement SEPA credit transfers = 13:00 CET for same-day settlement or 01:00 CET for overnight settlement SEPA consumer direct debits = 11:00 CET for same-day settlement SEPA B2B direct debits = 12:00 CET for same-day settlement

Central Bank Reporting

The National Bank of Hungary (NBH) requires all payments between residents and non-residents to be reported within ten days of the end of the reporting period. The NBH sets the reporting period according to the volume of reportable transactions performed by each entity. Entities with the most transactions must report monthly; other entities report quarterly or annually.

Exchange Arrangements and Controls

Hungary applies few currency exchange controls. There are some restrictions on foreign investment in certain sectors.

Cash and Liquidity Management

Hungary is an increasingly attractive location from which to manage cash and liquidity. The abolition of exchange controls has made it easier to manage cash on a cross-border basis, although central bank reporting requirements and percentage-based lifting fees apply.

Physical Cash Concentration

Physical cash concentration is available from most large Hungarian and international banks. Accounts held in the name of different legal entities may participate in the same cash concentration structure, as long as the entities share the same beneficial owners or are under the same effective control. Resident and non-resident companies can participate in the same cash concentration structure, although lifting fees apply.

Pools can be denominated in local currency (HUF) and some foreign currencies. A number of banks offer cross-border physical cash concentration.

Notional Cash Pooling

Notional cash pooling is available from most large Hungarian and international banks. Resident and non-resident companies can participate in the same notional cash pooling structure. A number of leading banks offer cross-border notional cash pooling. Cross-currency notional pooling is also available, but only for accounts held by the same legal entity.

Short-term Investment

Bank instruments

Interest-bearing current accounts are generally available. Banks offer time deposits in a range of currencies for terms from one week to over a year, although these are often subject to minimum investment requirements. Banks also issue certificates of deposit (CDs), usually for terms ranging from one month to over a year.

Non-bank instruments

Some Hungarian companies issue domestic commercial paper (CP), although investors have access to the wider euro commercial paper (ECP) market as well. In both cases, the maximum maturity of the paper is one year.

The Hungarian government's Debt Management Agency issues Treasury bills for maturities of three, six and 12 months.

Hungarian companies have access to European-based money market funds.

Short-term Borrowing

Bank

Overdrafts, bank lines of credit and bank loans are usually all available in Hungary to both resident and non-resident companies. Banks will usually charge a margin over BUBOR (Budapest Interbank Offered Rate) for HUF-denominated facilities and over Euribor (the Euro Interbank Offered Rate) for EUR-denominated facilities. Other commitment and arrangement fees will also be charged.

Non-bank

Larger companies issue CP both into the domestic and the ECP market. CP can be issued for periods of up to one year, depending on borrowing requirements and investor appetite.

Trade bills may be discounted. Factoring is available on an undisclosed basis, usually with recourse.

Taxation

Corporate Taxation

- Resident companies are subject to taxation on their worldwide income. Domestic and foreign dividends received by resident companies are exempt from corporate tax unless the dividend comes from a controlled foreign company. Non-resident companies are taxed on all income derived through activities in Hungary.
- The general corporate income tax rate is 19%.
- However, if the company fulfils the requirements set forth in the Corporate Income Tax (CIT) Act, the applicable corporate income tax rate might be 10% of the positive tax base up to HUF 50 million (approximately EUR 188,000) and 19% for the part above HUF 50 million (approximately EUR 188,000).
- Solidarity tax (4%) was abolished on January 1, 2010.
- Companies that suffer a loss or have a relatively small profit in a given tax year have to pay a minimum amount of tax. This means that corporate income tax (19%) will be paid on a minimum tax base that is 2% of the net sales reduced by the cost of goods sold and the revenue attributable to any foreign permanent establishment (PE).
- By making a declaration as to the reasons for the loss, it is possible to avoid payment of the minimum tax. However, in this case, the authorities are likely to conduct a separate review.
- Tax incentives exist to encourage companies to invest in Hungarian businesses. A developmental tax allowance is available to companies investing above certain thresholds in Hungary, if their investment is in line with the purpose

defined in the government's decree and other conditions are met. This allowance can be up to 80% of the corporate tax liability as reduced by other tax benefits.

- Seventy-five percent of interest income from abroad is exempt from corporate income tax.
- Various research and development incentives (extra tax base deductions) are available.

Financial instruments

- There are no specific tax rules relating to financial instruments.

Interest and financing costs

- Interest expense is not deductible in Hungary unless it is incurred for business purposes.

Foreign exchange

- Foreign exchange (FX) effects are taxed as part of the accounting profit. However, under certain circumstances, taxation of non-realized FX gains may be postponed until their realization. Financial statements may be prepared in the currency chosen by the company (foreign functional currency can only be applied if certain conditions are met). However, tax returns have to be prepared in HUF 1,000s. Where the company keeps its books in a currency other than HUF, the exchange rate of the Hungarian National Bank effective on the last day of the given year should be applied for the conversion.

Assets provided free of charge

- Expenses accounted for in respect of free transactions (e.g. transferring assets, cash or service for free) are considered as non-business related expenses (and thus are not deductible) if:
  - the assets or cash are provided to an entity resident in a country that has no double tax treaty with Hungary;
  - the assets or cash are provided to a controlled foreign company (CFC); or
  - the taxpayer transferring the assets or cash does not have a declaration from the beneficiary stating that its accounting result will not be negative (even when calculated without including the above income) and the beneficiary can demonstrate this with its financial statements.
- Since May 15, 2010, if assets or cash are transferred to a foreign entity, any expenses accounted for due to such transactions will not be deductible for corporate income tax purposes.

Advance Tax Ruling Availability

- Advance tax rulings are available in Hungary for future transactions (transactions concluded following the submission of the application or transaction that is being continuously executed at the time of the application).
- The request has to be submitted to the Hungarian Ministry of Finance and has to be signed by a tax advisor or a lawyer. The application is subject to a statutory fee equal to 1% of the value of the transaction, but with a minimum of HUF 1 million (approximately EUR 3,800) and a maximum of HUF 8 million (approximately EUR 30,188). If the application pertains to a specific type of contract or contract package, the fee is HUF 10 million (approximately EUR 37,700).
- The advance tax ruling cannot be applied to determine the arm's length price in related-party transactions; however, advance pricing agreements can be requested from the tax authorities (see below).
- The Ministry of Finance has 60 days to decide on the ruling after the submission of the ruling request, which can be prolonged by another 60 days. If the tax cannot be assessed by the Ministry, the taxpayer is entitled to a refund of 75% of the statutory fee.

Withholding Tax (subject to tax treaties and other exemptions)

- From January 1, 2010, withholding taxes on certain payments (interest, royalties or service fees) to foreign entities have been re-introduced, provided that there is no effective treaty on the avoidance of double taxation between the foreign person's or foreign resident's country of residence and Hungary.
- In order to provide evidence that the foreign person is a resident of a state with which Hungary has an effective double tax treaty, a certificate of residence must be obtained prior to payment.
- Based on the CIT Act for the determination of service fees, Regulation (EC) No. 1893/2006 should be considered. This includes, among others, fees for management, management consulting, advertising, market research, and business agency activities.

- The withholding tax rate payable on the income of the foreign entity will be 30%, to be deducted and paid by the entity making the payment.
- No withholding tax is levied on dividends paid to companies.
- In the case of private individuals, a withholding tax payment obligation may arise even if the recipient is resident in a treaty country.

Capital Gains Tax

- There are no special rules for the taxation of capital gains and losses. These are included in the normal tax base. The gain or loss is calculated as the difference between the sale price and the net book value of the asset. There is no adjustment for inflation.

Stamp Duty / Transfer Tax

- No stamp duty is levied on loan agreements.
- Acquisition of at least 75% of the shares in a company that owns Hungarian real estate is subject to transfer tax, even if the company that acquires the real estate company is a company registered in a country other than Hungary. For the purposes of the Transfer Tax Act, a company that directly or indirectly (through one or more companies) owns real estate shall also be regarded as a company that owns real estate. The base of the transfer tax is the fair market value of the real estate. From January 1, 2010, the transfer tax for real estate is 4%. However, if the basis of stamp duty exceeds HUF 1 billion, the excess amount is subject to 2% stamp duty and its total amount may not exceed HUF 200 million per real estate.
- The acquisition of property within the framework of a preferential transformation or preferential exchange of shares corresponding to the definition of the Hungarian CIT Act is exempt from transfer tax.
- The free transfer of assets is subject to up to 40% gift tax (up to 21% if a 100% parent-subsidiary relationship exists). Based on the Transfer Tax Act, the acquisition or receipt of movable property (with certain exceptions), including cash, without any consideration by an entity performing economic activity should be exempt from gift tax.
- Contribution in kind of real estate may be free from 4% transfer tax within certain circumstances (the qualified transfer of assets). However, in order for the transaction to be exempt from transfer tax additional conditions laid down in the Transfer Tax Act should also be fulfilled.

Thin Capitalization

- Hungary has domestic thin capitalization rules under which the interest paid on any liability on the basis of which interest is paid (including cash-pool liabilities, but excluding supplier liabilities) in excess of three times the borrower's equity is not tax-deductible. Loans received from credit institutions are not included in borrowings for this purpose.

Transfer Pricing

- Transfer pricing rules apply to transactions between related parties, which must be carried out at arm's length for tax purposes. The taxpayer is legally obliged to prepare Hungarian transfer pricing documentation for any related-party transactions. Transfer pricing rules are extended to the foundation of a company through a contribution in kind, if the member receives a majority interest upon foundation and also to transactions between a foreign entity and its domestic branch or the taxpayer and its foreign branch.
- Transfer pricing documents on the related-party transactions of a given tax year must be prepared by the filing day of the corporate income tax return of the given tax year.
- For determining the arm's length price, the comparable uncontrolled price (CUP), resale price and cost-plus methods are acceptable. Any other methods may be applied if an arm's length price cannot be supported by the methods above.
- Advance pricing agreements are available in Hungary. The request must be submitted to the tax authorities and must be signed by a tax advisor or a lawyer. The application is subject to a statutory fee from HUF 500,000 to HUF 10 million (approximately EUR 2,000 to EUR 38,000). If the fair market value has to be determined, the statutory fee is equal to 1% of the value of the transaction. The resolution shall be for a specific term, with a minimum of three years and a maximum of five years. The validity period may be extended on one occasion for an additional three years. Applications for bilateral and multilateral procedures are also available. After the submission of the request, the tax authorities have 120 days to decide on the advance pricing agreement, which can be prolonged twice by an additional 60 days. If the application is rejected, the taxpayer is entitled to a refund of 75% of the statutory fee.

Sales Taxes / VAT

- VAT is levied on the sale of goods and provision of services performed, or deemed to be performed, in Hungary.
- Financial services are exempt from Hungarian VAT.
- The general VAT rate is 25%. However, a reduced rate of 18% applies to basic food products (milk, dairy products, bread and bakery products), district heating services and to the provision of accommodation services. A reduced rate of 5% applies to certain products, e.g. the supply of several medicines. Exported goods are zero-rated.
- The multi-stage system provides business entities with the right to deduct the VAT incurred on supplies purchased relating to the business activity to the extent that they do not relate to VAT-exempt activities.
- Generally, companies should submit VAT returns quarterly. However, depending on prior years' revenues from the sale of goods and provision of services, some companies may need to submit their VAT returns yearly or monthly.

Financial Transactions / Banking Services Tax

Banker's contribution

- In the case of credit institutions, the difference between the interest revenue which is affected by any interest subsidy and the interest expense should be subject to a banker's contribution at the rate of 5%.

Payroll and Social Security Taxes

- In general, employers are required to contribute, for each employee, a percentage of their gross employment income towards the following funds: pension (24%), health (3%) and training (1.5%).
- Employees are also required to make contributions to the funds for pensions (9.5% capped at an annual income of HUF 7,453,300 or approximately EUR 24,844) and health (7.5%). These contributions are deducted by the employer from the employee's gross employment income.

All tax information supplied by Deloitte Touche Tohmatsu (www.deloitte.com).
Data as at April 30, 2010.

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