



HUNGARIAN INVESTMENT AND TRADE DEVELOPMENT AGENCY

General Information Material for Investors

– TAXATION –

January 2005

TAXATION - SUMMARY

Central taxes:	Local taxes:
1. Corporate income tax	1. Building tax
2. Dividend tax	2. Land tax
3. VAT	3. Communal tax
4. Personal income tax	4. Local business tax
5. Others	

Central Taxes

1. CORPORATE INCOME TAX

- **Rate of corporate tax:** 16% in general, and tax payable may be reduced by the different tax incentives. – *Act LXXXI of 1996 on Corporate Tax and Dividend Tax, 19§ (1)*
- **(Major) tax deductible items:**
 - Companies may reduce their taxable base by maximum 50% of local business tax if they do not have any public dues at the end of the year. – *Act LXXXI of 1996 on Corporate Tax and Dividend Tax, 7§ (1)x*
 - A monthly sum of HUF 11,400 (cca. EUR 46) – the 20% of the minimal wages – per trainee may be deducted from the taxable base for trainee employees. – *Act LXXXI of 1996 on Corporate Tax and Dividend Tax, 7§ (1)i*
 - R&D costs or depreciation of activated/accounted R&D may be 100% deducted from corporate tax base. – *Act LXXXI of 1996 on Corporate Tax and Dividend Tax, 7§ (1)t*
 - A company operating on the premises of a higher education institute or the Hungarian Academy of Sciences may deduct 300% - maximum HUF 50 million (cca. EUR 202 thousand) – of direct expenses related to research

and development activities from the taxable base. – *Act LXXXI of 1996 on Corporate Tax and Dividend Tax, 7§ (17)*

- **Losses carried forward:** When a company has generated loss in a tax year, it can deduct the amount of this loss from the pre-tax profit in the following years based on its own decision, so practically it means that losses can be carried forward for an unlimited period of time. – *Act LXXXI of 1996 on Corporate Tax and Dividend Tax, 17§ (1)* For losses generated in the subsequent fourth tax year and the following years following the occurrence of tax liability (practically in the fifth and following years), companies need to obtain a permit from the tax authority in order to be able to carry forward these losses, if a) sales revenues do not reach 50% of the combined value of costs and expenditures, or b) taxpayer had registered losses in the previous two tax years. – *Act LXXXI of 1996 on Corporate Tax and Dividend Tax, 7§ (8)*
- **Depreciation:** Depreciation should be proportioned if the asset in question has not been in the possession of the taxpayer in the full calendar year. Some of the main depreciation rates are: – *Act LXXXI of 1996 on Corporate Tax and Dividend Tax, Annex 2.*
 - Buildings*
 - of long life structure (concrete, iron-concrete, steel): 2%,
 - of medium life structure (light steel and other metal structures): 3%,
 - of short life structure (wood, temporary brick): 6%
 - Industrial halls:* 2%
 - Machinery and equipment:* 33% and 14,5% are the general rates, 20% for vehicles
- **Tax-free development reserve:** 25% of the pre-tax profit (maximum HUF 500 million) can be reserved for future developments. This means that the company can put aside 25% of the pre-tax profit for maximum 4 years, and if this money is used for development purposes within that time frame, no tax should be paid after that amount. – *Act LXXXI of 1996 on Corporate Tax and Dividend Tax, 7§ (1)f)*

2. DIVIDEND TAX

- The standard **dividend tax rate** is 20%. – *Act LXXXI of 1996 on Corporate Tax and Dividend Tax, 27§ (1)*
- The standard **rate is subject to adjustments** in accordance with the provisions of the applicable international treaty on the avoidance of double taxation. Hungary has signed treaties on the avoidance of double taxation with the following countries: Albania, Australia, Austria, Belgium, Brazil, Bulgaria, Cyprus, Czech Republic, Denmark, South Africa, Egypt, Finland, France, Philippines, Greece, The Netherlands, Croatia, India, Indonesia, Ireland, Israel, Japan, Serbia and Montenegro, Canada, Kazakhstan, China, Korea, Kuwait, Poland, Luxemburg, Macedonia, Malaysia, Morocco, Malta, Moldova, Mongolia, Great Britain, Germany, Norway, Italy, Russia, Pakistan, Portugal, Romania, Spain, Switzerland, Sweden, Singapore, Slovakia, Thailand, Turkey, Tunisia, Ukraine, Uruguay, USA and Vietnam.
- From the EU accession (1st May 2004) between EU-member state companies **dividend is not taxable** if the domestic company that is paying the dividend has had at least 20% share in the previous two years continuously in the foreign company that is receiving the dividend. When at the time of paying the dividend the 2 years of continuous ownership cannot be proved, dividend payer will need to deduct the withholding tax, except if a third party provides a

collateral that tax will be paid later. Collateral is valid only if the relevant tax authority of the paying country approves it.

- From the EU accession (1st May 2004) – if dividend is taxable – paying company will have to **deduct withholding tax** from that part of the dividend as well, which the dividend receiver foreign company reinvests into the paying domestic company.

3. VALUE ADDED TAX (VAT)

- **Rates of VAT:** General rate is 25%, preferential rate is 15% and the formerly exemptional rate increased to 5%. – *Act LXXIV of 1992 on VAT, 28§ (1)-(3)*
- **Rental of business property:** Rental of business property (or other property excluding residential properties and land) and utilization of such properties in other ways fall under tax exemption.

4. PERSONAL INCOME TAX

- **Progressive tax rates** on the aggregated personal income are: – *Act CXVII on Personal Income Tax, 30§*

Taxable base (income in HUF)	Rate
0 - 1,500,000 (cca. EUR 6,000)	18%
1,500,001 - Over	38%

- **Tax refund:** New supplementary tax refund is available equalling to HUF 1,260 (cca. EUR 5) per month in order to ensure the tax exemption of the minimal wage. This tax refund is available up to the amount of HUF 1.302,400 (cca. EUR 5,250). – *Act CXVII on Personal Income Tax, 33§ (4)*

- **Representation costs, business gifts**

Representation costs are tax free up to HUF 10,000,000 (cca. EUR 40,300) per year provided that these do not exceed 0.5% of the company income.

- **Other provisions**

- Meal contribution: HUF 8,000 (cca. EUR 32) per employee per month, or in case of cold food it is HUF 4,000 (cca. EUR 16) per employee per month.
- Gifts granted maximum three times in a year to employees are tax exempt up to the amount of HUF 5,700 (cca. EUR 23).

5. OTHERS

From 1st January 2004 there is a new kind of tax introduced, the so-called **Ecology Tax**. This tax should be paid by those who “use” the environment, i.e. discharge polluting material to the air, water or ground.

Air loading fee should be paid when discharging SO₂, nitrogene-oxids, CO or non-toxic solid materials. Tax is defined by kilograms: HUF 50 (EUR 0.20)/kg for SO₂, HUF 120 (EUR 0.48)/kg for NOs, HUF 15 (EUR 0.06)/kg for CO and HUF 30 (EUR 0.12)/kg for non toxic solid materials. In 2004 only 40% of the fee should be paid, which will gradually increase to 100% by 2008.

Water loading fee should be paid when discharging water loading materials, payable tax is in the range of HUF 90,000-220,000 (EUR 363-887)/kg, multiplied by area sensitivity index (0.7-1.4) and mud allocation index (0.8-1.3). In 2004 only 30% of the fee should be paid, which will gradually increase to 100% by 2008.

Ground loading fee is HUF 120 (EUR 0.48)/m³ and should be paid after used and wastewater. Tax should be multiplied by area sensitivity index (1.0-5.0) and component burden index (showing the concentration of polluting materials, 0.0025-100). In 2004 only 20% of the fee should be paid, which will gradually increase to 100% by 2009, and year 2004 tax should be paid only from July.

Local Taxes

*(Statutory base: Act C of 1990, levied by local municipalities,
modified by the Act Cl. of 2004)*

Please note that not all of the below taxes are applicable in each settlement. It is subject to the local municipality's decision which taxes are actually levied.

1. BUILDING TAX

- To be paid after the floor space of buildings
- Maximum HUF 942 (cca. EUR 3.8)/m²/year or
- Maximum 3% of the adjusted market value of the building (as determined by local government)

2. LAND TAX

- To be paid after un-built land
- Maximum HUF 209 (cca. EUR 0.84)/m²/year

3. COMMUNAL TAX

- Maximum HUF 2,094 (cca. EUR 8.4)/employee/year

4. LOCAL BUSINESS TAX

- Tax base is the net sales revenues of products sold or services provided (i.e. sales – material costs or intermediary service costs). From 2004 tax base is further decreased by interest received after invested financial assets and 50% of other received interests or interest-type incomes.
- Maximum rate is 2% of net sales

TAX-RELATED INCENTIVE:

DEVELOPMENT TAX BENEFIT

(Statutory bases: Government Decree No. 275/2003 and 85/2004, Act LXXXI of 1996 on Corporate Tax and Dividend Tax, C (2002) 315 2002/C 70/40 EU Directive)

- **Rate of tax benefit:** maximum the intensity ratio defined in EU regulation less all other direct subsidies.

Maximum intensity ratios are:

Defined by regions:

- 35% in Budapest
- 40% in Pest County
- 45% in Western Transdanubia (except 6 less developed small regions in the area)
- 50% in all other regions of Hungary

Defined by size of investment:

- Up to EUR 50 million worth of investment – no further restriction in addition to regional preferences is applicable
- Between EUR 50-100 million worth of investment – 50% of the regionally allowed intensity ratio is applicable
- Over EUR 100 million worth of investment – 34% of the regionally allowed intensity ratio is applicable

Example: *Maximum intensity ratio for an EUR 135 million investment in Budapest (35%):*
 $50 \text{ million} * 35\% + (100 - 50 \text{ million}) * 35\% * 50\% + (135 - 100 \text{ million}) * 35\% * 34\%$

Defined by sectors: Sensitive sectors are described in accordance with EU-regulations, for which further decreased state subsidies or no subsidies at all are granted.

- **(Major) eligibility criteria:**

- Investment amount is HUF 3 billion (cca. EUR 12.1 million) anywhere in Hungary OR HUF 1 billion (cca. EUR 4.03 million) in priority regions of the country or in an area handled by a higher education institution or the Hungarian Academy of Sciences, with the purpose of carrying out basic research, applied research or experimental development – Act LXXXI of 1996 on Corporate Tax and Dividend Tax, 22/B§ (1)a)b)

Investment costs: see separate material on Eligible Investment Costs

AND

- Minimum 30% of the value investment should be new – Act LXXXI of 1996 on Corporate Tax and Dividend Tax, 22/B§ (2)a)

AND

- Maximum 20% of the value of investment can be renewal, except in priority regions of the country – Act LXXXI of 1996 on Corporate Tax and Dividend Tax, 22/B§ (2)b)

AND

- Employment of 100 persons anywhere in Hungary OR 50 person in priority regions of the country for at least five years – Act LXXXI of 1996 on Corporate Tax and Dividend Tax, 22/B§ (6)a)

OR

- Yearly wage costs are 600 times the official minimal wage (HUF 57,000 = cca. EUR 230) anywhere in Hungary OR 300 times the official minimal wage in priority regions of the country for at least five years – *Act LXXXI of 1996 on Corporate Tax and Dividend Tax, 22/B§ (6)b*

OR

- Procure minimum 30% of its supplies from firms qualifying as small- and medium-sized enterprises for at least five years – *Act LXXXI of 1996 on Corporate Tax and Dividend Tax, 22/B§ (6)c*

Definition of SMEs - *Act XCV/1999 on Small and Medium Sized Enterprises*

2. § Small- and medium-sized enterprise is an enterprise, where

- a) total number of employees is less than 250 persons, and
- b) yearly net turnover is maximum 4000 million HUF, or total assets = total liabilities = max. 2700 million HUF, and
- c) meets the requirements set in 3. § (3)

3. § (3) A company is a small- and medium-sized enterprise, if the shares of the State, Local Government or any Third Party – based on capital share or voting right – do not exceed 25%, neither individually, nor altogether.

- o Realising job creating investments, if investment involves the creation of new facilities or expanding existing capacities, and is operated for five years after the start up of investment. – *Act LXXXI of 1996 on Corporate Tax and Dividend Tax, 22/B§ (1)g*

AND

- Minimum 30% of the value investment should be new. – *Act LXXXI of 1996 on Corporate Tax and Dividend Tax, 22/B§ (2)a*

AND

- Maximum 20% of the value of investment can be renewal, except in priority regions of the country. – *Act LXXXI of 1996 on Corporate Tax and Dividend Tax, 22/B§ (2)b*

AND

- Minimum 20% of the number of employees are entrants (*entrant is a natural person who establishes labour relation with a company for the first time within one calendar year after graduating from a full-time secondary school or higher education institution*) in the third year following the first utilisation of the tax benefit and in the subsequent four years. – *Act LXXXI of 1996 on Corporate Tax and Dividend Tax, 22/B§ (10)a*

AND

- Number of employees has increased by 300 persons anywhere in Hungary OR by 150 people in the priority regions of the country in the third year following the first utilisation of the tax benefit and in the subsequent four years, as compared to the tax year preceding the start of investment. – *Act LXXXI of 1996 on Corporate Tax and Dividend Tax, 22/B§ (10)b*

- **Length of tax benefit:** maximum 10 years (from the first year after the activation of the investment plus the subsequent nine years, or – upon request of the taxpayer – from the year of activation of the investment plus the subsequent nine years) – *Act LXXXI of 1996 on Corporate Tax and Dividend Tax, 22/B§ (4)*, or as long as the ceiling of tax benefit as defined by the intensity ratios in Govt. Decree 163/2001 is reached, whichever comes first.

- **Utilisation of tax benefit:** maximum 80% of the payable tax can be tax benefit each year.
- **Application for tax benefit:** application should be submitted at the Ministry of Finance, which will approve and authorize the tax benefit if applicant meets all the requirements meet the criteria of relevant laws described above. Decision is made within 60 days upon receipt of application, or – if completion of documents is asked for – within 60 days upon receipt of the completed application. This deadline can be extended once with further 60 days. If the Ministry of Finance does not reject the application within the deadline, it should be supposed that the application has been approved.