Profile——Hungary

Ⅰ. Jurisdiction Background

As a member of the European Union (“EU”), Hungary boasts of stable political environment, comprehensive legal system, open financial market, and favorable investment environment, which makes it quite attractive to foreign investors around the world. Serving as a strong manufacturing base and logistics hub in Europe, Hungary's pillar industries include automotive and parts, biotechnology, electronics, pharmaceuticals, information technology, renewable energy, and logistics. The advantages of Hungary's investment environment can be summarized as follows:

◆ Prominent Geographic Advantage

Located at the heart of Europe, centered around Budapest, Hungary can cover a market of 250 million people within a 1000-kilometer radius, and also has access to the EU market with a population of 500 million. Moreover, Hungary is one of the hubs of the European transportation network, with good infrastructure, developed logistics, and communication networks. Hungary has established several overseas economic and trade cooperation zones, including the China-Europe Trade and Logistics Cooperation Zone, which has been assessed and confirmed by the Ministry of Commerce and the Ministry of Finance of China.

◆ Cost-Effective Labor Force

According to statistics released by the Hungarian Investment Promotion Agency, a national investment promotion organization governed by the Ministry of Foreign Affairs and Trade of Hungary, the domestic labor cost per unit of GDP is the lowest in the Central and Eastern Europe region, with an average wage about one-third lower than that of Western European countries. About two-thirds of Hungary's working population have received secondary education, technical training, or vocational education, and there is an abundance of talent with higher education. In addition, labor laws favorable for employees, a high level of English proficiency, and longer annual working hours also make Hungary's labor force more competitive.

◆ Preferential Investment Policies

Hungary provides a very welcoming environment for foreign investors. Hungary's investment incentive policies cover a wide range, including employment, training, and other special subsidies.

Depending on different investment projects, the main forms of subsidies include cash subsidies, tax incentives, and loans of low-interest, with cash subsidies supported by the Hungarian government or EU funds. Hungary's subsidy policies are consistent with EU laws.

Hungary is divided into five subsidy areas according to the country's regional development situation, and the total discount value of various subsidies provided by the government accounts for the percentage of the discount value of the current investment eligible cost of the beneficiary (i.e., the amount of investment that can be subsidized according to EU law after deduction), and the eligibility of subsidy is related to the area where it is located:

Table 1: Corresponding Subsidy Percentages for Hungarian Subsidy Areas

Region	Percentage
Western Transdanubia Region	30%
Central Transdanubia Region	50%
Southern Transdanubia Region, Southern Great Plain, North Hungary, Northern Great Plain Region	60%
Central Hungary Region (except for some cities with a subsidy cap of 20% or 35%) & Budapest Area	0%

Ⅱ. Organizational Structure

In Hungary, the state tax authority is the National Tax and Customs Administration ("NTCA") and local municipalities have jurisdiction over local taxes (e.g., local business tax, building tax, land tax, etc.).

1. Organization of the NTCA

The NTCA acts as a centralized budgetary institution performing state administration and armed law enforcement functions, governed by the minister designated by the Government in the scope of its original legislative capacity.

The NTCA performs its functions through its central and territorial bodies. The upper level of the two-tier centralized office is held by the Central Management and the lower level consists of the county (Budapest) tax and customs directorates dealing directly with citizens and enterprises.

The central bodies of NTCA are the Central Management and the Directorate General for Criminal Affairs.

Appeals against first instance decisions of the regional bodies as defined by a government decree are processed by the Appeals Directorate. Otherwise, with the exception of the regional bodies carrying out criminal investigations under the Directorate General for Criminal Affairs, the Central Management is the supervisory body of regional bodies headed by the Commissioner of NTCA who is supervised by the Minister of Finance.

2. Organization of local municipality tax authorities

The Fundamental Law of Hungary states that local self-governments are established in Hungary to manage local public affairs and exercise local public authority. The basic task of local governments is to ensure the continuous provision of local public services, and to this end it is important that they have sustainable budgets. Local taxes are one of the tools for local governments to manage their own finances. The Fundamental Law stipulates that local authorities decide on the type and level of local taxes within the framework of the law.

The mayor is responsible for the management of the municipality, together with the body of representatives (local assembly). He/she defines the tasks of the office, prepares and implements decisions. He/she organises the work of the municipality.
The Board of Representatives has a wide range of responsibilities. It is also responsible for regulating local government affairs (making regulations), determining the types and rates of local taxes, and exercising the rights of the owner of municipal property.

The notary is the administrative head of the mayor's office and is responsible to the mayor and to the local assembly.

The organization of the tax offices are determined freely by the local municipalities. The structure and size of the local tax offices greatly depends on the size of the municipality. The Budapest municipality tax office for instance has departments for audit and administration, registration, enforcement and liquidation.

In tax procedures where the local municipality tax authority carries out the audit and the administrative procedure as the first instance tax authority, county (Budapest) government offices serve as the second instance tax authorities dealing with appeals, requests for supervisory measures and other appellate requests.

◆ The responsibilities of the tax administration authority

The NTCA is responsible for the assessment, collection, record keeping, enforcement, refunds, disbursement and audit with regards to payments which are partly or totally due to the central budget, pension insurance fund and extra-budgetary funds; subsidies paid from the central budget or from extra-budgetary funds, tax refunds or tax repayment and mandatory payments falling within the scope of the Act on the Implementation of Union Customs Law. The NTCA is also responsible for registration, administration and cooperation work in connection with the aforementioned main responsibilities.

The local tax authorities are responsible for the assessment, collection, record keeping, enforcement, refunds, disbursement and audit with regards to local taxes, such as the local business tax, land tax and building tax.

Ⅲ. Current Tax System

The main sources of revenue in Hungary are taxessuch as corporate income tax (“CIT”), value-added tax (“VAT”), personal income tax (“PIT”), as well as Customs Duties, and social security contributions (also known as "social insurance"). To cope with the financial crisis, since 2010, Hungary has imposed special taxes, also known as crisis taxes, on enterprises of energy, finance, retail, telecommunications, and other specified sectors. In addition, Hungary also levies excise taxes, public health product taxes, environmental protection product taxes, energy taxes, cultural taxes, and other taxes on specific industries and products.

Ⅳ. Overview of tax preferential policies

◆ Tax credits and tax incentives CIT

Foreign taxes paid on foreign-source income may be credited against Hungarian tax. Foreign dividend withholding tax may be credited for Hungarian tax purposes if the dividend or the undistributed profit is subject to tax in Hungary.

Apart from R&D triple deduction (deduction is capped at HUF 50 million) and corporate tax credit under certain conditions, tax incentives in Hungary also includes: tax allowance for investments of special purposes (i.e., energy saving), tax allowance for investments in registered start-up companies, allowances to promote labor mobility, film tax credit, sports tax credit, culture tax credit, growth tax credit and etc.

The tax credit may reduce the company's CIT liability by up to 80%. In general, the credit may be used within a 12-year period after the investment is put into operation, but it must be used by the 16th year after the declaration for the credit was filed.

◆ Tax incentives for Individual Income Tax

In Hungary, tax residents can enjoy certain tax benefits based on their personal situation, such as child support and serious illness.

The most important tax benefit is the family support deduction. This deduction is applicable even if there is only one dependent in the family, and there is no income limit. This deduction can reduce the tax base.

◆ Tax incentives for VAT

Examples of exempt (without input VAT credit) supplies of goods and services:
(1) Financial services, e.g., insurance and sale of securities
(2) Public postal services
(3) Approved educational services
(4) Lease of property
(5) Sale or lease of land (with certain exceptions)
(6) Human medical and dental care
(7) Folk arts and crafts

◆ Tax incentives for customs duties

No direct incentives are in place. However, pursuant to EU customs rules and the recent court practice, there are certain options and tools for optimizing the customs duty amount paid by the importer such as:
A. Applying preferential duty rates: Certain goods released for free circulation at the time of importation may be given preferential tariff treatment on the basis of their

origin (Free Trade Agreements of the EU) or end-use.
B. Duty suspensions/tariff quotas: Tariff quotas and duty suspensions allow companies to import products for a limited period, without having to pay normal customs duties.
C. Selecting the sufficient customs procedure: Selecting the sufficient customs procedure has a significant influence on the economic competitiveness of a company as some of the procedures can generate cash flow efficiencies and/or substantial savings.
D. Using free zones/free warehouses: Free zones/free warehouses are special areas within the customs territory of the EU. Goods placed within these areas are free of import duties, VAT and other import charges.
E. Applying customs duty reliefs: Customs Duty Relief Regulation details the various categories of goods and under what conditions they are eligible to be granted relief from import and export duties.
F. Deferment payment of the customs duty: Under the UCC (The Union Customs Code), the deferment allows persons subject to import duty to pay the duties and the related import VAT after the normal 10-day deadline.
G. Import VAT reliefs: There are certain options which eliminate the financing requirement of the import VAT.

Ⅴ. Tax Collection and Administration

◆ Tax registration

Taxpayers shall fulfil their obligation to register with the tax authority prior to the commencement of pursuing their business activities in the territory of Hungary. As the tax number generated upon registration also serves as a VAT identification number, no separate registration is necessary in respect of VAT.

◆ Tax audit

1. Tax assessment
Under the self-assessment system, taxpayers are expected to voluntarily comply with the rules of the tax legislation. In order to encourage voluntary compliance, a self-revision procedure is available to taxpayers. If a taxpayer realizes that it has made a mistake in the assessment or failed to assess a tax, it may revise his tax return and correct the tax base and the amount of tax due. A taxpayer is not entitled to make a self-revision if a tax audit by the tax authorities have commenced. Self-revisions should be submitted generally on the same form that is used to submit “normal” tax returns.

2. Tax procedures
State (e.g., CIT, PIT, VAT, innovation contribution) and local taxes (e.g., local business tax and building tax) are audited separately.

Specific procedures include Tax Audit, Administrative procedure, Court procedure and Supervisory measure.

◆ Legal Responsibility

1. Tax penalty

If the taxpayer has a tax shortage or it applies for subsidies or tax refunds it is not eligible for, a penalty of 50% of the underpaid tax is levied. The penalty may be levied of up to 200% of tax shortage if the shortage stems from concealing revenues as well as from falsifying or destroying records. It is usually levied together with the late-payment interest.

2. Default penalty

Default penalties apply for non-compliance with procedural obligations. Generally, the tax authority can levy a default penalty up to HUF 200,000 with regards to the procedural non-compliance of natural persons and a default penalty up to HUF 500,000 regarding the procedural non-compliance of entities.

3. Late payment interest

Interest for the late payment of tax is charged at the prime rate of the Hungarian National Bank plus 5%. It is charged from the date on which the tax should have been paid until the date on which it was actually paid. On the tax shortage assessed by the tax authorities during a tax audit, late-payment interest can be charged for a maximum period of 3 years.

Interest for late payment of taxes is not deductible.

Ⅵ. Taxpayer Services

Tax service channels: the tax service channels of Hungary tax authority mainly include the territorial bodies, the NTCA official website and mobile application, etc.

Through the NTCA’s official website, taxpayers can finish the tax registration, tax returns submission, tax payment, and the issuance and management of electronic invoices. In addition, there is a mobile application "Online Számlázó", which allows companies to issue electronic invoices for free via smartphones, significantly simplifying the invoice issuance process.

Besides online channels, Hungary also provides traditional offline tax services. Taxpayers can go to the territorial bodies for tax consultation and related tax matters. In some cases, banks and other financial institutions and post offices also provide tax-related services, such as the payment of certain types of taxes, withholding taxes, and processing tax-related bank transactions.

Ⅶ. Tax Legislation Process

In Hungary, taxes can only be levied on the basis of laws that have been adopted by the Parliament or on the basis of other legislative instruments prescribed by acts approved by the Parliament, signed by the president and published in the Official Gazette.

The Law on the State Fiscal Procedure stipulates that for certain changes to a tax law to take effect, the change should be published 45 days earlier than it enters into force. Nevertheless, non-compliance with this rule is not always just cause for the annulment of the provision by the Constitutional Court.

The tax authorities also issue guidelines and sometimes publish their responses to questions from specific taxpayers. These guidelines have no formal binding force and do not prevent the tax authorities from changing their mind on the issue, even with retroactive effect, but offer protection against penalties and provide a certain level of comfort on the interpretation of the legislation in question.

The Hungarian tax jurisdiction adopts the principle of nationality. Since its tax system is coordinated with EU tax regulations, Hungary's tax laws are complex, with various tax types and frequent changes in tax rates.

In 2011, a food chain inspection tax was introduced on stores selling daily consumer goods to support the administrative costs of food chain inspections. In 2014, a special tax on the advertising industry was introduced, which has been suspended now. In 2014, an annual special tax was levied on credit institutions. In the context of the economic and financial crisis, Hungary has eased public fiscal pressure by repeatedly levying special taxes on specific industries that are able to bear tax obligations beyond the general tax obligations. For example, in response to the financial crisis, special taxes were levied on the turnover of companies in industries such as retail, telecommunications and energy from 2010 to 2013; in 2010-2011, special taxes were levied on the financial industry; in 2020, in response to the impact of the COVID-19 pandemic on the economy and the labor market, Hungary began to levy special taxes on credit institutions and the retail industry.

As a country of relatively low-income tax rate, Hungary has strived to global tax reform on base erosion and profit shifting. The final Hungarian legislation on BEPS 2.0 Pillar Two was published in the Official Gazette on 30 November 2023 and is enacted now. Several changes and fine-tuning were made to the original proposal introduced in October, but the final legislation is in line with OECD Model Rules, Commentary and Administrative Guidance already issued. Hungary will keep its 9% statutory corporate income tax rate in place while introducing a Qualified Domestic Minimum Top-up Tax (2024), Income Inclusion Rule (2024) and Undertaxed Profits Rule (2025). A transitional Country-by-Country Reporting (CbCR) Safe Harbor and QDMTT Safe Harbor will be available. Covered taxes will include not only corporate income tax but also local business tax, innovation contribution and energy suppliers' tax. The legislation also includes a new research and development (R&D) qualifying incentive regime.

Ⅷ. Future Tax Reform Plan

There were no comprehensive tax reform in Hungary in the last 6 years, and it is not likely that there is any significant tax reform in the near future. But based on the undergoing revision of domestic tax system and Hungary's rotating presidency of the Council of the European Union, some potential changes could be predicted.

In 2024, Hungary has simplified some of its tax administration processes, introduced some tax incentives for R&D activities and employment of nationals of non-European Economic Area countries, which indicates Hungary's efforts on supporting technology and labor market development and lowering the tax administration cost. It's likely that these changes will last in the following years. Besides, Hungary will work on the detailed implementation rules for Safe Harbour as committed in the corresponding law.

On 1 July 2024, Hungary has taken over the six-month rotating presidency of the Council of the European Union from Belgium. In the aftermath of the European elections, the relationship between tax policy and Europe's competitiveness will be closely linked, so will Hungary's domestic tax policies. Considering current situations, Hungary's presidency will be shaped by the results of the European elections, and the careful balancing of political and technical work. Hungary will engage with the Commission's proposals from a unique perspective. In its priorities, Hungary stresses the importance of "effectively [advancing] discussions on the taxation files and international issues currently on the agenda, achieving progress which responds to the needs posed by new business models, international cooperation, and fiscal revenues." Tax evasion, legal certainty for taxpayers, and the support of the international engagement of the EU are some of the Hungarian presidency's key priorities. Most importantly, Hungary views taxation as a tool to enhance the competitiveness of European businesses through digitalization, the efficient use of information, and simplification.

Ⅸ. International tax cooperation

Hungary has tax treaties in effect with the following jurisdictions.

Albania	Indonesia	Poland
Andorra	Iran	Portugal
Armenia	Ireland	Qatar
Australia	Israel	Romania
Austria	Italy	Russian Federation
Azerbaijan	Japan	San Marino
Bahrain	Kazakhstan	Saudi Arabia
Belarus	Korea (South)	Serbia (b)
Belgium	Kosovo	Singapore
Bosnia and Hercegovina (a)	Kuwait	Slovak Republic

Brazil	Kyrgyzstan	Slovenia
Bulgaria	Latvia	South Africa
Canada	Liechtenstein	Spain
China	Lithuania	Sweden
Croatia	Luxembourg	Switzerland
Cyprus	Macedonia	Taiwan
Czech Republic	Malaysia	Thailand
Denmark	Malta	Tunisia
Egypt	Mexico	Turkey
Estonia	Moldova	Turkmenistan
Finland	Mongolia	Ukraine
France	Montenegro (b)	United Arab Emirates
Georgia	Morocco	United Kingdom
Germany	Netherlands	~~United States (c)~~
Greece	Norway	Uruguay
Hong Kong SAR	Oman	Uzbekistan
Iceland	Pakistan	Vietnam
India	Philippines	

(a) The 1985 treaty between Hungary and the former Socialist Federal Republic of Yugoslavia is applied with respect to Bosnia and Herzegovina.

(b) The 2001 treaty between Hungary and the former Federal Republic of Yugoslavia is applied with respect to Serbia. In practice, Hungary and Montenegro also apply this treaty, but no formal announcement has been made to confirm this practice.

(c) On 8 July 2022, the U.S. government unilaterally terminated the double tax treaty between Hungary and USA. which will be effective from 1 January 2024.

Hungary is negotiating double tax treaties with Algeria, Argentina, Chile, Colombia, Cuba, Ethiopia, Jordan, Lebanon, Panama and Sri Lanka.

A double tax treaty between Hungary and Iraq has been ratified, however, it is not in force yet.

X. Others

None.