Act LXXXI of 1996 on Corporate Tax and Dividend Tax

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In the Republic of Hungary, income or revenue resulted from entrepreneurial activity, shall fall under corporate and dividend tax. The rules of corporate and dividend tax are put down in the Act LXXXI of 1996.
If a valid international agreement entered into by the Republic of Hungary should contain different provisions, the rules contained in the international agreement shall be authoritative.

A) CORPORATE TAX

1.) Persons Subject to Corporate Tax

- Domestic persons: The tax liability of taxpayers with domestic domicile shall apply to both their income from Hungary and from abroad (full tax liability).

Of domestic persons the following are deemed taxpayers with domestic domicile:

- business associations and professional associations;
- co-operatives, with the exception of housing co-operatives,
- state enterprises, trusts, other state economic organs, companies of certain legal entities, a subsidiaries,
- lawyer's offices, patent attorney's offices, incorporated working groups of private perso forestry associations,
- organizations of Employees' Stock Ownership Program,
- non-profit companies, water management associations,
- foundations, public foundations, social organizations, public bodies, churches, housing operatives, and voluntary mutual insurance funds,
- venture capital funds.

- Foreign persons: The tax liability of taxpayers with foreign domicile shall apply to their income that originates in Hungary as the place of gainful activity or is taxable in the Republic of Hungary by virtue of international agreement or reciprocity (limited tax liability).

Foreign persons shall be taxpayers with foreign domicile, if

- they carry out business operations at their place of business established in Hungary, tha „foreign entrepreneurs", or
- they receive any income that is regarded as originating from Hungary, but not from a resid business establishment, that is „foreign organizations".

2.) Corporate Tax Liability

- Taxpayers shall have a corporate tax liability on their income pursuant to the provisions of this Act.

- The corporate tax liability of a domestic taxpayer shall commence on the date when the deed of association is signed and notarised as a public document, if permitted to commence operations before the company is registered in the Register of Companies. In other cases tax liability shall commence when considered established according to the legal regulation governing its foundation.
- The tax liability of a taxpayer shall be terminated on the date when considered dissolved according to the legal regulation governing its dissolution, or on the day immediately following the day when removed from the scope of the Corporate Tax Act for any reason.
- The corporate tax liability of a foreign entrepreneur shall commence on the date when his branch office is registered in the Register of Companies, and shall be terminated on the date when the branch office is cancelled from the Register of Companies. The tax liability of a foreign entrepreneur shall be terminated on the day preceding the date when a liquidation proceeding is initiated against such foreign entrepreneur in Hungary, or abroad if it involves his Hungarian branch office as well.
- If a foreign entrepreneur is engaged in business operations in Hungary by way of business establishment that has not been registered by the Court of Registration, his tax liability shall commence on the date of issuing the first legal statement which brings the place of business into existence. It is terminated on the date when the foreign entrepreneur is dissolved or when issuing

the legal statement resulting in the dissolution of the business establishment (including the case when the activities are continued in a branch office).

- Corporate tax returns shall be prepared in the Hungarian language, and calculated in Hungarian Forints (HUF). Taxpayers preparing reports and keeping books in convertible foreign exchange shall convert the corporate tax return figures into HUF on the basis of the official exchange rate of the National Bank of Hungary quoted on the last day of the tax year.

3.) Determining the Corporate Tax Base

Corporate Tax Base shall be established upon pre-tax profit for resident taxpayers and foreign enterprises.

- For resident taxpayers and foreign enterprises, pre-tax profit, adjusted by
  - tax base decrement factors
  - tax base increment factors

  in accordance with
  - special rules related to the adjustment of corporate tax base
  - correction of prices applied among affiliated companies
  - exclusion of double taxation

  shall represent the corporate tax base.
- The pre-tax profit or loss for resident taxpayers and foreign enterprises, if not required to file an annual report on the tax year before the deadline prescribed for filing the tax return for the same year, shall be assessed based on the closing accounting statement.

4.) Tax Base Decrement Factors

The following may be deducted from the pre-tax profit:

- from the deferred losses of previous years, an amount of the taxpayer's choice, with due consideration of the provisions.
- for taxpayers keeping double-entry books, the amount shown as income as a result of using the provisions for forward liabilities and for forward expenses
- the provisions created during the tax year for environmental protection obligations, or for reforestation obligations
- the amount of extraordinary depreciation written down in the tax year
- the amounts of depreciation claimed for the tax year, furthermore, when intangible assets and tangible assets are retired from the books or transferred to the current assets account for any reason,
- 50 per cent of the income from transactions made on a recognised (regulated) market recorded in excess of claimed costs in the case of business associations and co-operatives
- the amount of profit reserve that is transferred into tied-up provisions during the tax year and shown as tied up on the last day of the tax year, but which exceeds neither 25 per cent of the pre-tax profit earned during the tax year nor HUF 500 million in a tax year
- income received or due from dividends and shares during the tax year, with the exception of the income received or due as dividends and shares from a controlled foreign company (taxable income)
- the income of members (shareholders, partners) recorded for the tax year that is in excess of the value of shares that are retired (whether in full or in part) from the books, including the liabilities shown under shareholder contributions for pre-companies
- the amount of capital gain claimed during the tax year as earned on shares transferred under a preferential exchange of shares by a member (shareholder) of an acquired company, if the taxpayer wishes to enjoy this allowance; if the taxpayer chooses to avail himself of this allowance, he shall keep separate records of all shares acquired as part of the preferential exchange of shares
- for taxpayers participating in apprentice training in the school system, 6,000 HUF monthly for each month, or fraction thereof, for each apprentice
- the social security contribution, in addition to claiming the contribution as expense, paid for the apprentices, who have successfully passed the vocational examination, if employed uninterruptedly on a continuous basis, as well as for previously unemployed persons for the duration of their employment, but for not more than 12 months
- 50 per cent of the interest and similar income received (due) from affiliated companies in connection with interests and similar charges paid (payable) to affiliated companies and recorded

in excess of the costs claimed for the tax year in the case of business associations, co-operatives and foreign entrepreneurs
- the amount used for purchasing a work of fine art, acknowledged as having artistic value in accordance with an artistic expert opinion issued by an artistic organisation authorised thereunto by law, but not to exceed more than 1 per cent of the value of all investments in the tax year
- the income shown for the tax year under support or aid received without any obligation of repayment, or under liquid assets taken over definitively and assets received without consideration, furthermore, the income recorded during the tax year in the amount of debts assumed and in the amount of cancelled liabilities
- the part of income claimed when retiring a partnership share or own stock that has been repurchased, that is in excess of the prime cost of such repurchased partnership share or own stock
- from the prime cost of a receivable, the part (not to exceed the amount written off as loss in value or a bad debt in the tax year or in any other previous tax years) that can be substantiated as irrecoverable in line with the provisions
- the portion of loss in value claimed during the tax year
- the sums shown under conversion difference when switching from HUF to foreign currency, from foreign currency to HUF, or from one foreign currency to another, and deducted from the profit reserve, in the tax year following the date when the conversion took place
- the direct costs of basic research, applied research and experimental development incurred in the tax year, not to exceed the amount claimed as depreciation
- the amount shown under income for the tax year or that is added to the capitalised value of own performance, as determined in the course of a tax audit or internal audit
- for taxpayers employing workers who are at least 50 per cent disabled, the monthly wage paid to each incapacitated worker, or maximum half of the prevailing mandatory minimum wage , provided the annual average number of staff employed does not exceed 20 persons in the tax year
- any donation
- in respect of micro- and small enterprises, the payments on account claimed for the tax year in connection with new acquisitions of land and buildings , brood stock; new acquisitions of tangible assets such as plant, machinery and vehicles, if such payments are made for the purpose of putting these assets into service; the costs of remodelling, expanding and converting real properties, in order to increase their market value; as well as the cost value of intellectual assets entered into the books under intangible assets during the tax year.

5.) Tax Base Increment Factors

The following shall increase pre-tax profit:
- for taxpayers keeping double-entry books, the costs recorded for the tax year on account of provisions and other funds of the like allocated for forward liabilities and forward expenses
- the amounts of ordinary depreciation (including lump-sum depreciation) and extraordinary depreciation, furthermore, when intangible assets and tangible assets are retired from the books or transferred to the current assets account for any reason,
- amounts claimed as costs or expenditures, and deducted from the pre-tax profit, including the depreciation allowances of tangible assets and intangible assets, which are not related to the business operations or the gainful activity
- a fine established in a legally binding judgement, furthermore, the amount of liabilities claimed as expenditures, arising from the legal ramifications stipulated in the Act on the Rules of Taxation and the acts on social insurance, except when related to internal audit
- the amount of loss in value recorded during the tax year on receivables, and the sum deducted from the pre-tax profit during the preceding tax year
- the bad debts deducted during the tax year (exclusive of the receivables arising from financial and investment services at credit institutions and investment services at investment companies), and the debts cancelled during the tax year, if such debts are not considered irrecoverable
- the interests - shown under expenses or recorded as part of the prime cost of an asset during the tax year - on the receivables (with the exception of receivables due from financial institutions) in an amount prorated to the portion of such receivables that exceed three times the equity capital
- 50 per cent of the interest and similar charges paid (payable) to affiliated companies in connection with interests and similar income received (due) from affiliated companies and recorded in excess of the income claimed for the tax year in the case of business associations, co-operatives and foreign entrepreneurs

- the loss in value or capital loss shown under expenses for the tax year in connection with the shares in a controlled foreign company, and the part of expenses resulting from the retirement of such shares for any reason, that is in excess of the income accounted
- the book value of any grant and aid received and liquid assets transferred definitively and assets provided without consideration during the tax year, the value added tax not paid by the buyer, the debts assumed by the taxpayer and deducted from the pre-tax profit for the tax year, the direct cost of services rendered without consideration during the tax year

6.) Tax Base of Foreign Entrepreneurs

- The foreign enterprise shall calculate its corporate tax base together for all its domestic business establishments (exclusive of branch offices), and separately for each of its Hungarian branch offices according to the rules of the Establishment of Corporate Tax Base. The sales revenues, income, costs and expenses of a business establishment shall be recorded as if it were a separate entity, independent from the foreign company.
- The pre-tax profit of the foreign company determined for its domestic business establishment
    a. shall be reduced by a portion of its operating costs and expenses and overhead (with the exception of taxes payable abroad) charged to its main office and any business establishment during the tax year as commensurate for the Hungarian business establishments, whereby this ratio shall not be more than the ratio between the total of all sales revenues and income reported by the business establishment and the total of all sales revenues and income of the foreign company;
    b. shall be increased by operating costs and expenses and overhead of the business establishment charged to its pre-tax profit or loss;
    c. shall be increased by 5 per cent of the revenues and income that was earned through but not recorded for the business establishment.
- If the amount calculated according to the previous two Subsections is lower than 12 per cent of the total of all costs and expenses accounted during the tax year, the latter shall be considered the corporate tax base.

7.) Tax Base of Foreign Organizations

- The tax base of foreign organizations shall consist of the following considerations received under the following titles and regarded as originating from Hungary as the place of gainful activity:
    a. interest (including the commission charged on securities lending)
    b. fees for performances, artistic or sports activities, or demonstrations (exhibitions) carried out in Hungary,
    c. royalties.
- The following shall not be included:
    a. interest paid by the State of Hungary, government agencies and organizations, or the National Bank of Hungary,
    b. interest paid by a credit institution on deposits,
    c. late charges,
    d. as regards the interest or royalty paid by a domestic person, a foreign enterprise through its domestic business establishment, or a foreign private individual through his resident permanent establishment to his (its) affiliated enterprise on the basis of a contract concluded or in connection with a security issued after 31 December 2000, the portion of such interest or royalty that is in excess of standard market rates or royalty.
- Revenues received in foreign currencies shall be converted to HUF at the official exchange rate of the National Bank of Hungary in effect on the date of financial settlement.

8.) Corporate Tax Rate

- The corporate tax shall be 18 per cent of the positive tax base.
- For taxable persons operating abroad, the corporate tax shall be 3 per cent of the positive tax base.

9.) Tax Exemption

The following parties shall be exempt from paying tax:

- foundations, public foundations, civic organizations, and public corporations not qualifying as non-profit companies or priority non-profit companies, as well as housing co-operatives, if the revenues realised from their business operations, are not more than HUF 10 million, and do not exceed 10 per cent of total revenues realised in the tax year,
- non-profit companies and water management associations, for the portion of the tax base that represents revenue realised from preferential activities
- voluntary mutual insurance funds, provided that the revenues of such funds generated from auxiliary business operations do not exceed 20 per cent of total revenues,
- the venture capital companies and venture capital funds if registered in the register of venture capital companies on the last day of the tax year, for the year when registered and for the following six years, or, if the application for registration was submitted after 15 days of the date of being established, for six years following the year of registration.

10.) Tax Incentives Related to Investments

- Taxpayers with registered offices or business establishments registered with the Court of Registration and/or with local authorities in socially and economically underdeveloped regions, may claim the whole amount of the tax as investment tax allowance in respect of a project for manufacturing products commenced in the region after 31 December 1996, and operated there after starting up, of a value of at least 3 billion HUF, for a period of 10 tax years following the year in which the project was started

d. only in such tax years during which the annual average number of staff employed by the taxpayer exceeds by at least 100 persons the average number of staff employed in the tax year preceding commencement of the investment project

e. if their registered office or business establishment is in a county, and said taxpayers commence and put into operation an investment project in such county, in which the rate of unemployment was higher than 15 per cent on the date of survey in the month of December in either of the two years preceding the commencement of the investment project.

- Taxpayers may claim the entire amount of tax as an investment tax relief for manufacturing projects with a value of at least 10 billion HUF that are started up after 31 December 1996 for a period of 10 years following start-up

a. only in those tax years during which the annual average number of staff employed by the taxpayer exceeds by at least 500 persons the average number of staff employed in the tax year preceding commencement of the investment project

- The tax relief defined in the previous three Subsections may be claimed in respect of the tax on the tax base for the year 2011 for the last time. This tax relief shall not apply to projects commencing subsequent to 31 December 2002.

11.) Tax Allowance for Small and Medium-sized Enterprises

- Taxpayers qualified as small and medium-sized enterprises (exclusive of joint-stock companies issuing bearer shares) shall be eligible for tax allowances for the entire year when the relevant loan contract (or financial leasing contract) is signed regarding the purchase or creation of a tangible asset - financed by a financial institution -, based on the interest on the loan if contracted after 31 December 2000.
    a. the tax allowance for the loan shall be 40 per cent of the interest paid during the tax year,
    b. taxpayer shall be eligible for the tax allowance in the tax year on the last day of which the tangible asset in question is shown in its records; the last year of eligibility shall be the year in which the loan is to be paid off in full as contracted,
    c. the amount of tax allowance shall not exceed HUF 5 million per year.
- The taxpayer shall repay the tax allowance, with penalty added, if the tangible asset to which it pertains
    a. is not put into operation within four years following the year of the loan contract, unless for reasons of damage that occurred as a consequence of unavoidable external reasons,
    b. is sold in the year in which it is placed into operation or in the three following years.

12.) Rules for Claiming Tax Relief

- Taxpayers entitled to 100 per cent tax relief in the tax year in accordance with above Sections may claim such relief up to the extent of their corporate tax.
- Additional tax allowances may be claimed up to 70 per cent of the tax decreased by the tax relief claimed according to the previous Subsection.
- Taxable persons operating abroad, shall not be entitled to any tax relief.
- The tax relief may be used in the form of tax withholding.
- Foreign enterprises shall be entitled to the tax incentives defined in this Act on the basis of improvements in their domestic business establishments, the annual average number of staff, and the sales revenues generated by their Hungarian branch offices.
- If the last year of eligibility for a tax allowance is specified in this Act, it shall be interpreted as the tax year that includes the last day of the year specified.

13.) Tax Payable

The tax payable shall be the corporate tax established pursuant to Section 8 (Corporate Tax Rate), reduced by the tax relief and corporate tax (or corresponding income tax) paid abroad with due consideration of the provisions of the exclusion of double taxation.

14.) Declaration and Payment of Tax Advance

- Taxpayers shall declare the corporate tax advance and indicate the amount applicable to the due period in the tax return for the 12-month period beginning on the first day of the second month after the filing deadline. No tax advance shall be declared for the calendar month or quarter or for the calendar month in the quarter for which the taxpayer has already declared the tax advance.
- The tax advance shall be
    a. the amount of tax payable for the previous year, if the duration of the previous tax year was 12 months,
    b. the amount of tax payable for the previous tax year prorated for 12 months on the basis of the calendar days of operation, in all other cases.
- Tax advances
    a. shall be due monthly in equal instalments, if the previous year's tax amount exceeds HUF 5 million,
    b. shall be due quarterly in equal instalments, if the previous year's tax amount is not more than HUF 5 million.
- Resident taxpayers keeping double-entry books and foreign enterprises shall supplement the tax advance to the amount of the anticipated amount of annual tax payable. This provision shall not apply if the taxpayer's revenues for the previous tax year did not exceed HUF 50 million.

B) DIVIDEND TAX

- The dividends received (realised), as defined in the following Subsection, shall be subject to 20 per cent dividend tax.
- Domestic dividend recipients subject to this Act shall be exempt from the dividend tax.
- Payers need not determine, pay and deduct the dividend tax on that portion of the dividend used by the foreign person receiving such dividend for increasing the subscribed capital of an existing domestic business association or co-operative, including the business association and co-operative paying the dividend, or for participating in the establishment of a new business association or co-operative in Hungary, on condition that the payer transfers such portion directly for this purpose on the basis of the order by the foreign dividend recipient. At the same time, the payer shall inform the business association or co-operative that the amount transferred is the income of the foreign dividend recipient qualifying as dividend pursuant to this Act. The amount transferred shall be considered as a sum on which no dividend tax has been paid, unless the party receiving the dividend or the payer provides proof to the contrary.
- The dividend tax payment obligation shall become due according to the following:
    a. at the time the application for company registration is rejected or when the registration procedure is terminated,
    b. at the time of implementing the resolution of the members' meeting, general meeting or that of the founders on the reduction of the subscribed capital or the cancellation of the increase of the subscribed capital of business associations, co-operatives or their successors,

   c. at the time of fulfilling the repayment (reimbursement) claim due to foreign dividend recipients from the business association, co-operative or their successors, on the basis of the termination of their membership (shareholders') relation, in particular, in the case of the dissolution or liquidation of the business association or co-operative, or the acquisition of partnership share or own stock,
   d. otherwise upon the termination of the membership (shareholders') relation, whereby termination with succession may result in a dividend tax payment obligation only if not accompanied by the succession of membership (shareholders') rights.
- Payers shall deduct the dividend tax from that portion of the dividend paid to domestic dividend recipients which was paid in cash, or which is not transferred to the bank account of the domestic dividend recipient, kept with a domestic credit institution.
- The provisions applicable to dividend shall apply to dividend advances, whereby upon the approval of the dividend, the payer shall settle with the tax authorities the difference between the tax paid on dividend advances in excess of the tax on the dividend.
- Within the meaning of the regulations pertaining to dividends, the dividend (irrespective of the form in which it is provided) shall be:
   a. the amount received from the share or proceeds approved and confirmed by the resident person or the foreign enterprise that is engaged in business activities through a branch office;
   b. the amount received or due from the earnings confirmed by the venture capital fund;
   c. the amount withdrawn by the foreign enterprise from its resident business establishment, other than branch offices, from the profit (including the accumulated profits from previous years) remaining after payment of corporate taxes;
   d. upon dissolution without successor, the part from the proposed distribution of assets that is due to the member and in excess of the aggregate amount of the liabilities for which he is responsible according to the proposed distribution of assets and the value of the retired share; this provision shall be duly applied when calculating the income received when the application for registration is rejected, the company registration procedure is terminated, or a branch office is removed from the register of companies;
   e. the part of the equity capital stipulated in the predecessor's statement of holdings that is in excess of the value of the member's (shareholder's, partner's) share when it is retired upon transformation of the resident person;
   f. upon decreasing the subscribed capital of a resident person or a branch office, if done by disinvestment, the part of the value of the acquired shares that is in excess of the value of the retired shares
   g. the amount of debts cancelled or assumed by the resident person, by the resident business establishment of the foreign enterprise, or by the foreign private individual through his resident permanent establishment, also the book value of assets transferred by such persons without consideration, the aid or support provided without any obligation of repayment and of the non-repayable liquid assets, unless based on legal regulation or treaty;
   h. as regards the interest or royalty paid by a domestic person, a foreign enterprise through its domestic business establishment, or a foreign private individual through its resident permanent establishment to his (its) affiliated enterprise on the basis of a contract concluded after 31 December 2000 or in connection with a security issued after that date, the portion of such interest or royalty in excess of standard market rates or royalty.

C) EXCLUSION OF DOUBLE TAXATION

- The pre-tax profit of resident taxpayers and foreign enterprises shall be increased by any tax corresponding to the corporate tax that is paid (or payable) abroad and shown under expenses.
- When establishing the corporate tax, taxpayers with domestic domicile and foreign entrepreneurs shall so adjust the tax base that it contains no income that is subject to taxation abroad, if so prescribed by treaty.
- In cases not mentioned in above Subsection, taxpayers with domestic domicile and foreign entrepreneurs may deduct from the corporate tax, in the form of withholding tax, any tax paid (or payable) abroad that corresponds to the corporate tax. The sum shall be determined separately for each type of income. The tax deducted in connection with any one particular type of income must not exceed the tax amount calculated by the mean tax rate pertaining to that income, and, in the absence of any treaty provision to the contrary, it may not exceed 90 per cent of the tax amount paid (payable) abroad and shown under charges. “Tax rate” shall mean corporate tax

minus tax allowances, divided by the tax base, where the result is to be rounded off to two decimal places.

- The amount of income from abroad shall be determined pursuant to the provisions of this Act. In the course thereof, the costs that are not directly attributable to earning the income abroad, as well as the items increasing and reducing the pre-tax profit shall be allocated in the proportion of the sales revenues and income from abroad to the amount of total sales revenues and income.