



**LAVECO LTD.**<sup>®</sup>

Legal Solutions since 1991

# HUNGARIAN COMPANIES



Member of  
**itpa**  
International Tax Planning  
Association



# CONTENTS

1. Why Hungary?.....	4
2. Advantages and disadvantages .....	5
3. What form of company should be chosen? .....	6
4. Limited Liability Company.....	6
5. Company address, provision of real office space .....	8
6. LLC directors and their responsibility.....	9
7. Nominee directors.....	10
8. LLC owners .....	10
9. Company Bank account.....	11
10. Taxes.....	12
11. VAT .....	15
12. Financial statements .....	16
13. Audit.....	16
14. Tax resident status of the company. Substance .....	17
15. Company registration process.....	17
16. Is it necessary to come to Hungary to register a company? .....	19
17. Company incorporation documents.....	20
18. Communication with the director.....	22
19. Communication with the accountant.....	23
20. Legal support.....	24
21. Additional services.....	24
22. Company liquidation .....	24
23. Government institutions a Hungarian company has to deal with in the course of its activities.....	25
24. Why LAVECO?.....	26

# 1. WHY HUNGARY?

Nowadays, working with offshore companies is becoming increasingly difficult and sometimes impossible, and as a result it is now necessary to choose between various jurisdictions which offer relatively low tax rates. One such country is Hungary.

Hungary offers the **LOWEST RATE** of corporation tax in the EU - 9%.

In addition, the tax on dividends (both received by and paid by the company) is 0%. The exception to this is dividends received from companies registered in low-tax countries, i.e. offshore jurisdictions, in which case the dividend tax is 9%.

Such preferential tax rates make Hungary a unique country for the registration of companies within the EU. An additional «bonus» is that Hungary does not sound “offshore” and is accepted without question as a partner by any company in the world.



## 2. ADVANTAGES AND DISADVANTAGES

### ADVANTAGES OF HUNGARY

- A. low income tax - 9%;**
- B. tax on dividends - 0% The exception to this is dividends received from companies registered in low-tax countries, i.e. offshore jurisdictions, in which case the dividend tax is 9%.**
- C. tax rebates on income from certain types of intellectual property;**
- D. possibility to open a current bank account in Hungary (company + bank account in one country) relatively quickly, even if the owners and directors of the company are non-residents;**
- E. automatic receipt of Hungarian and European VAT numbers;**
- F. full EU membership;**
- G. a wide network of treaties for the avoidance of double taxation;**
- H. the company is considered tax resident in Hungary through registration, regardless of the place of management.**

### DISADVANTAGES

- A. the existence of a municipal tax (0% to 2% on profit);**
- B. high level of VAT - 27%;**
- C. high level of social contributions to employees (23%);**
- D. the company's initial capital must be paid up.**

### 3. WHAT FORM OF COMPANY SHOULD BE CHOSEN?

There are several forms of company in Hungary, with the most common being the LLC (Kft.), JSC (Rt.) and partnership (Bt.).

Usually, the most suitable in terms of costs of formation and maintenance, management and optimisation of liability is the LLC.

Of course, the staff at LAVECO can also provide information on other company forms on request.

### 4. LIMITED LIABILITY COMPANY

The Limited Liability Company is the most common form of company. The liability of its owners is limited to the amount of the company's authorised capital.

When the company is created, the owners sign the Memorandum and Articles of Association of the company and appoint a managing director. Once a year, it is necessary to hold a meeting of shareholders.

Unlike in Common Law countries, where companies are registered with the widest range of activities, in Hungary it is necessary to indicate accurately the planned activities of the company, with each activity having its own code number. It is possible to form a company authorised to perform several activities, while in practice only doing some of them. It is also possible to add new activities at any time, by making the appropriate amendments to the company's Memorandum of Association.

## - THE MINIMUM AUTHORISED CAPITAL OF AN LLC -

The minimum authorised capital of an LLC is 3 000 000 HUF (approximately 10 000 EUR). The company's authorised capital must be paid into the bank, even before the submission of the constituent documents to the Court of Registration.

It is possible to establish a company without physically paying the authorised capital into the bank, but in this case the director of the company must sign a written statement confirming that the amount of the capital is at his disposal and has been paid into the company's cash desk. However, in this case the amount of the company's authorised capital becomes accountable, and it is reflected in the company's accounts.

The company's authorised capital can be used for the everyday running of the company.

## 5. COMPANY ADDRESS, PROVISION OF REAL OFFICE SPACE

**1** Each Hungarian company must be registered with a valid Hungarian address. A company's registered address can not be a P.O box.

**2** The company is registered by the relevant branch of the Court of Registration, according to the location of its registered address, and will remain under that branch in the future. If, for example, a company has its registered address in Debrecen (a city in the north east of Hungary), the registration will be done through the Debrecen branch of the Court of Registration. If the company then decides to operate in Budapest, it will need to register a local office in Budapest.

**3** After registration, all official letters to the company from the tax authorities, banks, etc. will be sent to its registered address. Thus, when registering a company, it is very important to determine how correspondence will be passed on to the directors and owners of the company.

**4** LAVECO can provide companies registered in Hungary with an address in our own office complex. If necessary, we can also provide real office space for doing business in our Co-working office (sharing office space and infrastructure with several companies). Also, companies can be provided with dedicated telephone and fax lines, as well as e-mail addresses registered on a Hungarian server

## 6. LLC DIRECTORS AND THEIR RESPONSIBILITY

**A limited liability company must have at least one director, even if the company does not conduct any activity.**

**The number of directors is not limited.**

**The directors of Hungarian companies are not obliged to be citizens or residents of Hungary, and there are no restrictions on their nationality or place of residence.**

**The director of a Hungarian company can be both a physical person and a Hungarian legal entity. Under certain, extreme conditions, it can be possible for a foreign company to be the director, though this makes the opening of bank accounts and everyday running of the company all but impossible. We strongly recommend that the director of the company be a private individual.**

**It is not obligatory to pay a salary to the director.**

**The director is responsible for everything that happens in the company, and it is impossible to reduce or transfer this responsibility. In certain cases, the director may be criminally liable for the company's misconduct.**

## 7. NOMINEE DIRECTORS

Hungarian law does not recognize such a category as a nominee director. If it turns out that the company was managed by others and that the director was just a "puppet", then both the company and the director could face prosecution.

In this regard, nominee directors do not exist in Hungary. The director should have full information on all events taking place in the company. Also, the director should have the right to dispose over the company's bank account and receive bank statements. However, it is possible to establish joint signature rights for the director and the representatives of the client (for more details see the "Company's bank account" section).

LAVECO can provide local director services for Hungarian companies, but the directors will not issue general powers of attorney to conduct business. It is only possible to provide special powers of attorney for specific transactions (holding negotiations, signing contracts, opening subsidiaries, etc.), but not for the opening and operating of bank accounts for the company. The company's financial statements must be signed by the director.

## 8. LLC OWNERS

The owners of a Hungarian LLC may be both physical and legal persons of any nationality, and it is not necessary to have Hungarian resident status.

The minimum number of owners is 1.

Hungarian banks do not look favourably on multi-level corporate structures, so it is advisable to create a company with an individual owner, open an account for it, and then change the owner from a physical person to a legal entity at a later date. In this case, the bank account will be opened, and the identification process of the new owner will not affect the company's activity in any way.

## 9. COMPANY'S BANK ACCOUNT

A Hungarian company must have at least one bank account in Hungary, which must be opened personally by the director within 15 days of the company's official registration.

The number and location of bank accounts opened by a company are not limited. Hungarian companies can have any number of bank accounts in Hungary and abroad.

Accounts can be maintained in different currencies, including the ruble, and there is no mandatory conversion to forints.

All banking services are available for Hungarian companies, including opening letters of credit, loans, etc., depending on the policy of each individual bank.

Internet banking is available in Hungarian and English. Internet banking works either using a digipass or by SMS, depending on the bank.

Most Hungarian banks have operators who speak various languages, including English and Russian.

Where the bank account is managed jointly by the director and the representative of the client, payment orders are signed by both parties and sent by fax. When using online banking, the bank makes a payment once it has been confirmed by the codes of both signatories.

To open a bank account, the persons operating it must visit the bank in person.

Banks provide corporate Visa and MAESTRO debit and credit cards.



## 10. TAXES - TAXATION OF ACTIVE INCOME

### INCOME TAX

Hungarian companies must register with the tax authorities immediately after registration, and automatically receive a tax number.

Corporation tax in Hungary is 9% on profit, which is a single rate, applicable irrespective of the size of the company's turnover or profit.

In addition, in Hungary there is also a municipal tax ranging from 0% to 2% of profits, depending on the location of the company's business activity. In poorly developed provinces, there may be no municipal tax, but the company must be registered, have an office and actually operate in the province. In Budapest and other major cities, the municipal tax is 2%. The municipal tax is paid annually.

When a company is formed, the director makes a forecast of the expected profit, and an advanced payment of the profit tax is payable quarterly, based on this forecast. If such payments are not made, the company will be fined, as a result of which the profit tax will be 10%, instead of the usual 9%.

## 10. TAXES - TAXATION OF PASSIVE INCOME

### TAX ON DIVIDENDS

The tax on dividends in Hungary is 0% both on dividends received by a Hungarian company from its subsidiaries and on dividends paid by the Hungarian company to its owners. The exception is dividends received from companies registered in low-tax countries, i.e., in offshore jurisdictions. In such cases, the dividend tax is 9%. The absence of taxes on dividends, along with the low rate of corporation tax, make Hungarian companies a unique tool for creating holding structures.

The dividends received by the Hungarian company are not included in the tax base, so when transferring them to the owners of the Hungarian company in the future, no profit tax is paid.

### INTELLECTUAL PROPERTY TAX

Hungarian tax legislation provides privileges for certain types of intellectual property, such as copyrights, patents, etc. In general, it can be said that intellectual property is taxed from 4.5% to 9%.

## 10. TAXES - TAXATION OF PASSIVE INCOME

### TAXATION OF CAPITAL GAINS

The tax on capital gains can be 0% under the following conditions:

- the share of property in the object being sold must be at least 10%;
- the seller must have owned the property being sold for at least one year;
- within 75 days after the sale of the property the transaction must be declared to the Hungarian tax office.

In other cases, the capital gains tax is 9%.

### TAXATION OF OTHER TYPES OF PASSIVE INCOME (INCOME FROM DEPOSITS, ETC.)

The tax on other types of passive income of a Hungarian company is 9%.

## 11. VAT

Hungarian companies register for VAT, and receive their VAT number immediately after they have been incorporated. The European VAT number can be obtained immediately after the receipt of the Hungarian VAT number; there are no special conditions for obtaining it, which makes the Hungarian company particularly attractive, since in most European countries the receipt of the VAT number is a very slow and bureaucratic process, involving the implementation of a number of conditions.

The rate of VAT in Hungary is 27%.

There are certain types of activities for which VAT is not paid, for example, the sale of certain educational services, software, etc., but before starting such activities, it is necessary to consult with the accountant, since certain conditions must be met in order to obtain exemption from VAT.

VAT reporting is submitted monthly, regardless of whether or not the company conducted any activities.

In the case of new companies, VAT can be refunded, but only once the amount refundable has reached at least 1 million HUF. The first VAT refund will be paid within 3 months of the filing of the application. Subsequent refunds are paid monthly, irrespective of the amount due.



## 12. FINANCIAL STATEMENTS

Hungarian companies must maintain accounting records. In order to do this, it is necessary to use the services of a qualified and licensed local accountant.

The financial report is filed annually, while VAT reports must be submitted monthly. However, after 2-3 years of activity, companies may switch to quarterly VAT reporting.

Financial reports are signed by the director and the accountant.

Financial reports are required, even if the company did not conduct any activities during the financial year. In Hungary, the category of dormant company does not exist.

Questions about the documents required for accounting, and in what form, are discussed in the chapter "Communication with the accountant".

## 13. AUDIT

Auditing of Hungarian companies is only necessary in cases where one of the following two conditions apply:

- The company's annual turnover exceeds 300 million HUF (approx. 970,000 EUR) for two consecutive years
- The number of employees exceeds 50 people.

## 14. TAX RESIDENCE CONDITIONS OF THE COMPANY. SUBSTANCE.

Hungary follows the territorial principle of tax residency. Thus, Hungarian companies are considered to be tax resident in Hungary on the basis that they are registered in Hungary, irrespective of the place of management.

A certificate of tax residency can be obtained from the tax office at any time.

Even if a company has non-resident directors and is managed from outside Hungary, this will not in any way affect its resident status, and it will still be considered tax resident in Hungary.

## 15. COMPANY REGISTRATION PROCEDURE

▼ In accordance with the law, the foundation documents can only be prepared and filed with the Court of Registration by a qualified, local lawyer.

▼ Generally, the company's founding documents must be signed by the owners and directors in the presence of a local lawyer. It is possible to have them signed without appearing before the Hungarian lawyer in person, but in this case they must be signed in the presence of a notary public, and then apostilled

▼ Once the founding documents of the company have been signed, a temporary bank account can be opened for the company, and the initial authorised capital is paid in to it.

## - COMPANY REGISTRATION PROCEDURE -

If the director decides not to pay the amount of the company's authorized capital in to the bank account, he signs a statement confirming that the money is at his disposal in the company's cash desk. In this case, the preliminary bank account is not opened, but the amount of the authorized capital becomes accountable and must appear in the company's accounting records.

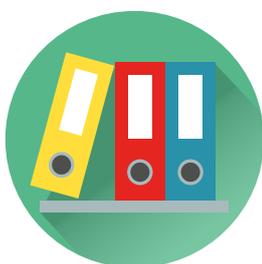
The company documents are then submitted to the Court of Registration electronically by the lawyer.

Company registration takes an average of 1-2 weeks, depending on the workload of the Court of Registration.

After registration, the company must then register with the tax authority, and receives a tax number and VAT number (Hungarian and, if necessary, European).

Within 15 days of registration, the director of the company must open a permanent bank account for the company in Hungary.

As soon as it has been registered, the company must also conclude an agreement with a qualified local accountant, who will provide the company with accounting support, and ensure the transmission of company correspondence.



## 16. IS IT NECESSARY TO COME TO HUNGARY TO REGISTER A COMPANY?

To register a Hungarian company one or two visits to Hungary will be necessary.



1. Generally, the company's founding documents must be signed by the owners and directors in the presence of a local lawyer. It is possible to have them signed without appearing before the Hungarian lawyer in person, but in this case they must be signed in the presence of a notary public, and then apostilled. At this stage, therefore, it is not strictly necessary to come in person, however, it is worth bearing in mind that the certification and apostillation of documents can be rather expensive. It is worth doing some calculations and deciding whether a visit to Hungary is worth it instead of having to have all the documents certified.

The number of documents to be signed by the owners is small, so it may be worth having their signatures certified and apostilled to save a visit to Hungary. The director, on the other hand, needs to sign a lot of documents, so it would be better for the director to visit Hungary at this stage, especially as it is also necessary to pay up the authorised capital of the company.

If the company is established with a director provided by LAVECO, and the director alone will control the bank account, then it is not necessary for the client to come to Hungary



2. The second visit (or the first one, if the documents were legalised at the place of residence of directors and owners) is necessary for the opening of the company's bank account. Again, in the case of directors provided by LAVECO, who will have sole control of the company bank account, a personal visit by the client is not required.

## 17. COMPANY INCORPORATION DOCUMENTS

The founding documents of the company are prepared in Hungarian and English languages, so in the future you will not have to spend money having them translated.

When registering a company (LLC), the following documents are signed:

- ▶ Questionnaires and forms for customer identification according to the laws on advocacy and on the prevention of money laundering;
- ▶ The company's Memorandum and Articles of Association;
- ▶ The sample of the signature of the director of the company;
- ▶ Instructions on the receipt of correspondence (for directors and owners whose permanent place of residence is in Hungary);
- ▶ Power of Attorney for a lawyer to register and represent the company in the registration process;
- ▶ Statement of the Director confirming that the amount of the authorised capital is at his disposal (in the event that the authorised capital is not paid to the bank account of the company);
- ▶ The director's consent to the appointment;
- ▶ Director's declaration confirming there is nothing which would exclude him from acting as director;
- ▶ List of company owners;
- ▶ A document on the right to use a legal address (in cases where the address is not provided by LAVECO).



### NOTES

in the case of accelerated company establishment, the Memorandum of Association is prepared only in Hungarian (in this case, the Court of Registration does not allow the preparation of a bilingual version). In this case, the client receives a translation of the Memorandum of Association as a separate document.

A document confirming the legal address of the company is also prepared. This is also in Hungarian.

Only the constituent agreement of the company and the sample signature of the director are apostilled, the remaining documents are only notarised.

Once the company has been registered, the director receives the originals of all the documents listed above, with the exception of the questionnaires and forms for customer identification, copies of which can be obtained on request.



## 18. COMMUNICATION WITH THE DIRECTOR

When using the services of a local director provided by LAVECO, the client enters into an administrative service agreement with LAVECO.

Under this agreement, LAVECO employees are responsible for communicating with the director, checking contracts and having them and other accompanying documentation signed by the director (for an additional fee in accordance with the pricelist for director services).

Also, within the framework of the above-mentioned agreement, LAVECO employees ensure the delivery of all correspondence and documentation of the company from the director to the client and vice versa. They also arrange to have all the necessary documents received from the client and director delivered to the accountant.

In the framework of the above-mentioned agreement, LAVECO provides Russian-speaking staff to aid communication with the client and ensure uninterrupted service. However, it should be borne in mind that all company contracts are checked by lawyers for compliance with Hungarian law and security for the company before being signed by the director. The fee for checking contracts is invoiced on an hourly basis and takes from 1 to 3 working days, depending on the length and complexity of the contract.

Company invoices do not need to be signed by the director, but can be signed by any employee of the company. In addition, electronic invoices drawn out in the framework of a special computer program accepted by the Hungarian tax authorities, access to which can be obtained at the request of the client, are also acceptable for accounting purposes.

The fixed annual fee for the director is payable in advance for 1 year. Any additional services provided by the director in the course of the management of the company, such as the signing of documents, are invoiced in accordance with the pricelist for additional director services.

## 19. COMMUNICATION WITH THE ACCOUNTANT

A contract is concluded with the accountant immediately after the registration of the company, as, according to Hungarian legislation, accounting must be maintained continuously during the existence of the company.

The cost of accounting services depends on the number of transactions performed by the company. At the time of concluding the contract with the accountant, an advance payment is made for the first three months of work based on a preliminary estimation of the number of transactions. At the end of the three-month period, a correction is made based on the actual number of transactions recorded.

LAVECO provides the services of qualified local accountants, as well as assistance in communicating with the accountant in the client's language.

Generally, the tax authorities allow copies of documents (contracts, invoices) to be submitted for accounting. However, in the case of large contracts, or at the discretion of officers of the tax authorities, the originals of accompanying documents may also be requested. In this case the company must provide them within 8 working days.

We recommend that clients send the documents to be included in the accounts to the accountant on a regular basis (monthly, quarterly), to avoid any possible disruption or delays in the accounting process.

It is possible to consult with the accountants and obtain their opinion on various transactions. The fees for such consultation will be based on an hourly rate.



## 20. LEGAL SUPPORT

LAVECO provides its customers with legal support. On request, and if required, qualified lawyers can provide advice and consultation on the operation of the company, prepare and modify documents, take over the preparation of all documents required by the client, and represent clients in court proceedings. The services of lawyers are charged at an hourly rate.

## 21. ADDITIONAL SERVICES

LAVECO can provide additional services on request (such as, purchase of telephones, assistance during negotiations, consultations, etc.), to ensure the smooth-running of the company. Such services are charged at an hourly rate.

## 22. COMPANY LIQUIDATION

A Hungarian company may be liquidated in accordance with the statutory liquidation procedure.

For a company not performing any activity, the liquidation procedure takes at least 180 days, while in the case of an active company a minimum of 270 days are required. According to the requirements of the law, in order to liquidate a company, it is necessary to use two lawyers authorised to oversee liquidation, as well as an accountant. The terms of the liquidation must also be published in certain defined media, so that any possible creditors can file claims for compensation.

The cost of liquidation of a company is similar to the cost of formation.

## 23. GOVERNMENT INSTITUTIONS

A HUNGARIAN COMPANY HAS TO DEAL WITHIN  
THE COURSE OF ITS ACTIVITIES



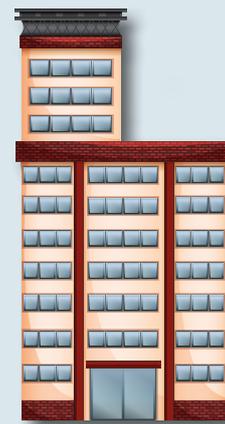
STATE COURT OF REGISTRATION  
(Az illetékes Törvényszék  
Cégbírósága)



STATE TAX AND CUSTOMS  
ADMINISTRATION  
(Nemzeti Adó-és Vámhivatal)



CENTRAL STATISTICS OFFICE  
(Központi Statisztikai Hivatal)



MUNICIPALITY IN THE PLACE OF  
COMPANY REGISTRATION  
(helyi Önkormányzat,  
Polgármesteri Hivatal)

## 24. WHY LAVECO?

- ✓ LAVECO Ltd. was established in 1991, in Hungary, and since then has been registering and administering companies in Hungary and other countries, opening bank accounts and providing supporting services to the companies it has registered. During this time, the company has acquired vast experience in this field and can provide customers with the highest level of professional services
- ✓ The ownership and management of the company has remained unchanged since its initial registration, a clear sign that the company provides correct and professional services.
- ✓ LAVECO is not an intermediary - we register companies ourselves in the countries in which our offices are located.
- ✓ LAVECO provides the services of professional accountants and lawyers, ready to work with clients from different countries.
- ✓ We offer services such as the provision of real office space, visa support and short-stay accommodation for customers.
- ✓ Our staff speak 8 languages, including Russian.
- ✓ Through the services we provide, clients can create complex international corporate structures, which optimise taxation and can be managed extremely conveniently.
- ✓ We have extensive experience working with intermediaries, providing them with competitive price levels and security of cooperation.



http://



**Attention!**

*This general information material is protected under copyright. The written consent and permission of the authors is required for the copying or reproduction of the whole or any part of this general information material by any means, as well as for the utilisation of the contents of this general information material in other publications. The authors assume no responsibility for any typing, setting or printing errors that may occur in the material.*

© LAVECO Marketing Ltd., Belize

Our offices:



+361-456-7200  
hungary@laveco.com



+357-24-636-919  
cyprus@laveco.com



+ 852-2388-8051  
hongkong@laveco.com



+359-2-953-2989  
bulgaria@laveco.com



+248-4-322-261  
seychelles@laveco.com



+971-50-173-4428  
middleeast@laveco.com

