

# Country Guide

## Hungary

Prepared by

Nagy és Trócsányi



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# DOING BUSINESS IN HUNGARY



# NAGY & TRÓCSÁNYI

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## THE COUNTRY AT A GLANCE

### Geography

Since the Fundamental Law of Hungary (Constitution) (*Alaptörvény*) entered into force on 1 January 2012, Hungary's official name in Hungarian is "*Magyarország*" ("Hungary"). Hungary is situated in Central Europe, in the Carpathian Basin with a land surface of 93 030 square kilometers (35,919 square miles). The neighboring countries are Slovakia to the north, Ukraine to the northeast, Romania to the east, Croatia and Serbia to the south and Austria and Slovenia to the west. Hungary is in the Central European Time Zone (CET). The climate of the country is moderate.

### People

Hungary has a population of 9.71 million people, 1.75 million of whom live in Budapest, the capital of Hungary.

Although the majority of the population consider themselves Christian (27,5% are Roman Catholic, 12,47% are Protestant), there are no religious influences or prohibitions on the way business is conducted.

Hungarian is the only official language, but many people speak either English or German as a second language. These two foreign languages are widely spoken in business, legal, tourist related and academic fields. Some French is also spoken, mainly in western Hungary.

### Transportation

Hungary is connected to all seven of its neighboring countries by road and rail. The length of the motorway network (including highways and local roads) reaches 210,000 kilometers and the railway network is approximately 8,000 kilometers long.

Volánbusz runs regular bus transport services to about 18 different counties. The railway system is also well developed: "*Magyar Államvasutak*" ("MÁV") has express rail services (the InterCity network) that run as far as Kyiv and Zurich.

As a destination of most international airlines, Budapest has one airport. Besides that there are four other international airports, one of them is close to Lake Balaton (Sármellék Airport); one is located in Debrecen, the 2nd largest city in Hungary, one is in Győr-Pér, and last but not least one in Pécs-Pogány. The civil aircraft registration country code prefix is "HA".

There are four metro lines in the capital connecting the most frequented places of the city. Besides these several tram, bus and trolley bus lines are provided to reach almost any part of the city.

### Communications

The International Country Calling Code is 36. Although the pandemic left its mark on global production and supply chain system which have a significant impact in the Central European region, Hungary has a well-developed telecom infrastructure. The adoption of 5G and upgrade of 1Gb/s service makes it easy to access high speed internet nearly anywhere in the country. Hungary has a high mobile

penetration rate and highest fixed broadband penetration rate in Eastern Europe alongside an effective infrastructure-based competition, with a fiber-optic cable connection with all neighboring countries and an extensive cable network and expanding fiber sector.

Internet cafes are still operated in larger towns, however free Wi-Fi access is generally available on several public places. In June 2020 the Hungarian Government published the draft of the National Digitalization Strategy 2021-2030, which sets the main goals planned to be fulfilled during the concerned period, e.g. the proportion of households covered by a gigabit network shall reach 95% by 2030 and the 5G coverage shall reach 67% by 2025.

### **Public Services**

Public services (water, electricity and gas) are both publicly and privately owned in Hungary. The ownership ratio of the state has increased in the last couple of years; thus, the state is more involved in the provision of public services.



## GENERAL CONSIDERATION

### 1. Investment policies

The attraction of the quite favorable Hungarian investment climate lies mainly in the following factors:

- favorable geographical location in the European Union;
- bridge towards Southeast Europe and the Balkan states;
- EU standard infrastructure;
- modern market economy;
- political and financial stability;
- highly skilled and talented workforce;
- favorable investment incentive system
- low operational costs (corporate tax rate: 9%, local business tax rate: max. 2%).

In order to encourage investments, the Hungarian Government founded the Hungarian Investment Promotion Agency ("*Nemzeti Befektetési Ügynökség*", in short "**HIPA**", <https://hipa.hu/main>), an agency responsible for facilitating domestic as well as foreign investments. HIPA informs foreign investors on tender possibilities and state subsidies. State subsidies include tax benefits, direct financial subventions and many other methods for increasing the profitability of the investment.

Until 2015 the rate of inflation has decreased continuously, in 1999 it was still around 10% but in 2005 it was only about 3.6%, and it last reported at -0,2% in January of 2014. However, the rate of inflation started to increase again after 2015. Inflation in Hungary was recently the highest in the European Union (25,7% in January of 2023), however, the rate of inflation started to decrease again, accordingly it was 12,2% in September of 2023. According to the estimate of the Hungarian Central Statistical Office, it continues to decrease the inflation in Hungary.

The *expansion of the Hungarian GDP* was around twice that of the EU average, from 1999 to 2006, consecutively: 4.2%, 5.2%, 3.8%, 3.5%, 2.9%, 4.7%, 4.1%, 3.9%. The global recession has had a severe effect on the Hungarian economy. In 2007 the expansion rate fell back to 0.1%, and while it increased slightly in 2008 to 0.9%, the year 2009 saw an economic decline in Hungary, with the GDP rate decreasing by 6.8%. From then on, the performance of the Hungarian economy has been fluctuating, the expansion rate was 3,7% in 2014, however it started slowly decreasing after that, as the GDP rate decreased to 2,9% in 2015 and 2% in 2016. After these years, a growth could be experienced again, as the GDP rate was 4% in 2017 and 4,9% both in 2018 and 2019. With regard to the global crises effected by the COVID-19 pandemic, the GDP rate decreased to -4,2% in the third quarter of 2020, then increased to 6,2%. In the third quarter of 2022 the GDP rate was 4,3%.

The *corporate tax rate* is 9%, one of the lowest in Europe. The corporate tax is generally calculated by multiplying the positive tax base by the tax rate. Other than these there are additional tax incentives related to investments. A couple of them are subject to certain employment-encouraging conditions. The unemployment data show a rate of 4% in August 2023. In 2022, Hungary's GDP at current prices amounted to HUF 66 387 billion. In per capita terms, the amount of GDP was EUR17,436. In 2022 the average exchange rate based on the monthly exchange rates published by the Hungarian National Bank is € 1 = HUF 391,33.

In general, the size of the Hungarian market is rather moderate, but many companies have their Central European headquarters in Budapest.

Foreign direct investments have been operating in the sectors with a need for cheap and unskilled labor. Nowadays, however, there is a clearly perceptible tendency to move towards the skilled sector, such as that of information technology or car manufacturing. However, the provisions applicable to foreign direct investments have become stricter since 2019, as certain foreign investors shall obtain the acknowledgement of the competent minister in order to acquire ownership in a business association seated in Hungary.

## 2. Diplomatic relations

Hungary has established diplomatic relations with almost all the countries in the world and nearly every country is represented in Budapest, either with an embassy or a consulate.

The list of embassies and consulates is available on the following website:

<https://konzuliszolgalat.kormany.hu/kulkepviseletek-magyarorszagon>

On December 21, 2007 Hungary became full-member of the Schengen Area. (The members of the Schengen Area are 27 states of the EU, as well as Norway, Iceland, Switzerland and Liechtenstein.) The most important change by virtue of the full membership of Hungary is that the visas and residence permits issued by other Schengen countries are valid in Hungary and the visas and residence permits issued by Hungary are valid in the other Schengen countries. The citizens of the European Economic Area (EEA) can enter Hungary without a visa, and they are allowed to stay without a residence permit for up to and including 90 days. Should they wish to extend their stay they are obliged to apply for a so-called European Economic Area (EEA) residence permit. (For more information on visas and residence permits, see below, IMMIGRATION REQUIREMENTS).

Citizens of the following European Economic Area (EEA) member countries can enter Hungary with a valid identity card: Austria, Belgium, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Finland, France, Germany, Greece, Italy, Liechtenstein, Lithuania, Luxembourg, Malta, The Netherlands, Poland, Romania, Portugal, Spain, Slovakia, and Slovenia

Foreigners planning to visit Hungary for a period not longer than 90 days with a purpose other than that of employment or earning income shall check the list of agreements on abolishment of visa requirements first.

The list of the agreements is available on the following website:

<http://www.konzuliszolgalat.kormany.hu/en>.

Foreigners planning to visit Hungary for a period longer than 90 days or with the purpose of employment or earning income must apply for a visa. For travel information, especially the requirements of a visa, please contact:

Konzuli Szolgálat (Consular Services)  
Address: H-1027 Budapest, Nagy Imre tér 4.

Phone: +36 (1) 458 1000  
Fax: +36 (1) 201 7323  
E-mail: [konz@mfa.gov.hu](mailto:konz@mfa.gov.hu)  
Web: <https://konzinfo.mfa.gov.hu/en>.

### 3. Government

#### 3.1 Election system

The Fundamental Law of Hungary (Constitution) includes the active and passive right to vote among the fundamental rights. The parliamentary elections are held every four years in April or in May. The municipal elections were held every four years, however, since October 2014 the terms have extended to five years. The last parliamentary election was held on April 3, 2022. In the Hungarian parliamentary system (unlike France) the prime minister has the real executive power and the power of the President of the Republic of Hungary is nearly ceremonial.

As a result of a constitutional amendment which reduced the former number of the representatives, the current number of Members of Parliament is 199, with a further maximum of 13 members representing national and ethnic minorities. Until 2010 the number of Members of Parliament was 386 but this number was limited by the above-mentioned amendment. According to the current rules the Members of Parliament are elected by popular vote with a system of proportional and direct representation to serve a four-year term. During the next parliamentary election in 2022, Members of Parliament can obtain a seat in one of two ways:

- **candidates are voted for** and the candidate who obtains the most votes become the Member of Parliament;
- **parties are voted for** and they obtain seats according to the percentage of votes.

If a party does not reach the electoral threshold limit (at present 5% of all the votes cast), it loses all the votes it obtained. The advantage of this system is that small political parties are not allowed to get into the Parliament.

The next parliamentary elections will be held on the spring of 2026. Due to the changes in the election system the main participants will be Viktor Orbán's ruling FIDESZ party and the unified opposition which consist of many parties from the Hungarian political life. The date of the next municipal election is set to June 9 2024.

#### 3.2 Judicial system

The ordinary jurisdiction is exercised on four levels:

- **107 local and - in the capital - 6 district courts (113 court in total)** are functioning as courts of first instance with general jurisdiction ("District Court");
- **20 County Courts and - in the capital - the Metropolitan Court** functioning as courts of first and second instance ("Country Court"),
- **5 Regional Courts (of appeal)** are only appellate courts ("Regional Court");
- **Curia of Hungary**, which is the highest court with double jurisdiction: judgment and harmonization of the judicial practice.

There are certain cases where District Courts cannot proceed and only a County Court have first instance jurisdiction. These cases are of paramount importance because a large amount (at least HUF 30 million) is the subject of a civil lawsuit, a special case (such as a press rectification lawsuit), or a very serious crime (e.g., homicide, espionage, treason, terrorist acts, etc.) weave. Procedural laws (the Code of Civil Procedure, the Act on General Public Administration Procedures, and the Code of Criminal Procedure) define the scope of these matters. There are councils, groups and criminal, civil, economic, and - in eight Country Courts - administrative colleges.

Labor and administrative disputes were being judged by the Public Administration and Labor Courts, however these ceased to operate as of 31 March 2020. After this date, public administration disputes are adjudicated by 8 County Courts with regional jurisdiction and the Curia of Hungary proceeds both as appellate court and as a court of judicial review. Labor disputes are adjudicated by the competent County Courts and Regional Courts shall proceed as appellate courts in these disputes.

The independence of the judges is supported by Constitutional guarantees. Pursuant to the Fundamental Law of Hungary (Constitution) judges are independent and subordinate only to law. Judges must not be members of political parties and must not engage in political activities. They can only be removed on the grounds of and in accordance with the procedures specified by law.

In Hungary everyone is equal before the court. Everyone has the right to legal proceedings if any accusations are brought against him. Rights and duties are judged in a fair, public trial by an independent and impartial court established by law.

Legal disputes have to be judged by a reasonable deadline, which is determined by the specifics of the proceeding.

Arbitration is the alternative method of dispute resolution. The arbitration regime has changed significantly with the introduction of the Act LX of 2017 - on Arbitration which is based on the UNCITRAL Model Law<sup>1</sup>. Currently three arbitration courts are operating in Hungary:

- The Permanent Arbitration Court attached to the Hungarian Chamber of Commerce and Industry (“Permanent Commercial Arbitration Court”);
- Sports Arbitration Court under the provisions of Act on Sports and
- Arbitration Court for agricultural disputes which is attached to the Hungarian Chamber of Agriculture.

The Permanent Commercial Arbitration Court attached to the Hungarian Chamber of Commerce and Industry has general jurisdiction in Hungary and arbitration proceedings might be applied in various proceedings based on the parties’ arbitration court contract with the exceptions defined in the Act on Arbitration, e.g., in the case of legal disputes arising from consumer contracts or in disputes falling under the scope of the Act CL of 2016 - on General Public Administration Procedures as well as in particular procedures (e.g. guardianship and matrimonial actions, etc) defined by Act CXXX of 2016 on the Code of Civil Procedure.

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<sup>1</sup> UNCITRAL Model Law on International Commercial Arbitration (1985), with amendments as adopted in 2006. The Model Law is designed to assist States in reforming and modernizing their laws on arbitral procedure so as to take into account the particular features and needs of international commercial arbitration.

The resolution of foreign courts and foreign arbitration tribunals can be executed on the basis of law, international conventions or reciprocity.

### 3.3 Legislative system

In the hierarchy of legislation there are 5 stages: (1) the Fundamental Law of Hungary (Constitution), (2) Acts, (3) Government decrees and decrees adopted by the Governor of the Hungarian National Bank or the head of an autonomous regulatory agency, (4) Prime Ministerial Decrees and Ministerial Decrees, (5) municipal regulations.

Moreover, Act shall also mean the decrees issued by the National Defense Council during a state of national crisis or by the President of the Republic of Hungary in a state of emergency.

The new constitution of Hungary called Fundamental Law of Hungary (Constitution) entered into force on 1 January 2012, which includes rather symbolic than substantive changes. Acts can only be enacted by the Parliament. The Fundamental Law of Hungary (Constitution) specifies various exclusive legislative subjects - in general, the regulations pertaining to fundamental rights and duties can only be determined in acts with the provision not to restrict the basic meaning and contents of fundamental rights. There are many important acts, which can only be amended by a majority of two-thirds of the votes of the Members of the Parliament.

## 4. Environmental considerations

Under Hungarian law, a National Environmental Protection Programme must be developed every six years and forms part of the National Nature Conservation Master Plan. In December of 2022 the Hungarian Parliament adopted the 5<sup>th</sup> National Environmental Protection Programme.

The 5<sup>th</sup> National Environmental Protection Programme covered the period 2021-2026 listed three strategic goals:

- Improving the environmental conditions for quality of life and human health.
- Protection and sustainable use of natural values and resources.
- Improving the conservation of natural resources and resource efficiency, greening the economy.

In October of 2018 the Hungarian Parliament adopted the 2<sup>nd</sup> National Climate Change Strategy for the period of 2018-2030 with an outlook to the period until 2050.

The budget for the new Environment and Energy Efficiency Operational Programme (“KEHOP”) for the current budgetary period until 2020 is HUF 31.3 billion, but the decrease in funding is purely illusory as several other operational programs also include environmental items. Based on the currently available data, HUF 1,093 billion has been paid until 6 February 2021 in order the finance projects falling under the scope of KEHOP.

The Environmental and Energy Efficiency Operational Program Plus (KEHOP Plusz) provides support to eliminate problems caused by the effects of climate change, such as flood and inland water problems, droughts, and excessive use of our resources.

Based on and supplementing the environmental operational program of the previous period, KEHOP, KEHOP Plusz was expanded with many new features, taking into account the newly arising environmental problems, the changing regulatory environment and the growing greening efforts.

KEHOP Plusz covers the second of the policy goals defined by the European Union - Greener Europe - through five priorities. Its aim is to reduce environmental pollution and overuse of our resources, to protect biological diversity and to prioritize sustainability.

A comprehensive strategy for the preservation and sustainable utilization of Hungary's biological diversity is approved by the Government and published on August 8, 2023. The 3<sup>rd</sup> National Biodiversity Strategy for the preservation of biological diversity until 2030 reflects to the EU commitments formulated in the biodiversity strategy until 2030.

## INVESTMENT INCENTIVES

### 1. Governmental and regional incentives

Governmental and regional incentives are available in a very wide range. The main types of cash incentives related to investments are focused on implementing the investment (e.g. purchasing assets, construction work, etc.), creating new jobs and training employees.

Generally, incentives as a whole are regulated by certain Government and Ministerial Decrees [for example, Decree of the Minister of Economy and Transport No. 19/2004 (II.27), Decree of the Minister of Economy and Transport No. 6/2008 (III.7.), Government Decree No. 210/2014 (VIII.27.)]. According to these decrees, incentives can only be issued within a financial aid program or as an individual incentive.

According to these decrees, incentives that qualify as incentives under Subsection (1)-(3) of Article 107 of the Treaty on the Functioning of the European Union shall qualify as incentives under these decrees.

These decrees provide that the form of the incentives are as follows: any refundable or non-refundable financial assets, interest free credit, credit with discounted interest, incentive provided to the payment of interests, surety given with favorable conditions, state guarantee, state capital injection, tax incentives, tax base incentives, discounted leasing, services provided free of charge or with favorable conditions, service of real estates, waiver of receivables, assumption of debt and lease with discounted conditions.

The most significant incentives and their concise summary are listed below.

#### 1.1 Hungarian Investment Promotion Agency

The above referred Hungarian Investment Promotion Agency (HIPA) was established by the Government to promote the international business activities of Hungarian small and medium-sized enterprises and to encourage foreign businesses to invest in Hungary. HIPA is a non-profit business company under the ownership rights of the Minister of Foreign Affairs and Trade, which is exclusively owned by the Hungarian State.

The activities of the HIPA are regulated by the Government Decree No. 201/2019 (VIII. 15.). The activities of the HIPA are controlled by the Ministry of Foreign Affairs and Trade. HIPA performs its objectives and tasks by organizing events (collective presence on specialized exhibitions, business meetings, trainings, among others), offering personal and tailored consultations, and publishing various documents.

HIPA's activities involve extensive domestic and international cooperation with various ministries, professional associations, and professional chambers. Job creation is a distinguished priority for its investment promotion activities.

HIPA participates in the preparation of background studies and analyses necessary for the development of middle and long-term foreign trade strategies. It also develops the company, supplier, industrial park, and other data base modules for business development and investment promotion purposes, and maintains the various databases.

HIPA also coordinates a network of diplomats specializing in foreign trade operating at 63 representations in 50 countries, and cooperates with various contracted partners.

## **2. Subsidies**

There are a number of Government initiative to improve investment in Hungary ranging from employee training to researching new technologies.

### **2.1 Investment Subsidy**

The Hungarian Government provides a negotiation-based “VIP” subsidy opportunity for investments greater than EUR 10 million with a certain number of newly created jobs, depending on the purpose and location of the investment. If the investment is between EUR 10 and 25 million, the Hungarian authorities will investigate the possibility of subsidizing the project from available EU Funds.

The main areas that attract support are investments in manufacturing (greenfield, brownfield or capacity extension), shared service centers, research and development, and tourism projects. In order to be eligible for the subsidy, 50-100 new jobs have to be created by the investor in the case of manufacturing investments, depending on the region where the investment takes place. In the case of large investments of more than EUR 50 million, 100-200 new jobs have to be created, depending on the place of the investment.

In the case of research and development related investments at least 10 new jobs have to be created in connection with the research and development activity. Subsidy applications can be submitted to HIPA in either Hungarian or English. The terms and conditions of the VIP subsidy are determined in the negotiation procedure between the investor and the Hungarian authorities.

### **2.2 Training Subsidy**

The Hungarian Government also offers what is known as the VIP subsidy opportunity for training employees for new positions. The subsidy is available to investors creating at least 50 new jobs. The maximum amount of the training subsidy for creating 50 to 500 new jobs is EUR 1 and 2 million for creating more than 500 new jobs. It is provided for both general and special training. The maximum aid intensity is 60% in the case of general training and 25% for targeted training. The aid intensity can be increased further in the case of small- and medium-sized enterprises and for training of disabled or disadvantaged workers. The training subsidy is not a regional incentive; thus, it can be granted on top of the maximum regional aid intensity.

### **2.3 Job Creation Subsidy**

The Hungarian Government provides a job creation subsidy for those investments entitled to VIP investment subsidies and that create at least 250 new jobs in disadvantaged or least-developed micro-regions. The maximum available subsidy is EUR 3 million, depending on the location and the number of new employees.



## 2.4 Vocational Training Facility Subsidy granted by individual decision

A subsidy opportunity is available for establishing vocational training facilities and the development of the equipment for practical training. In order to be eligible for the subsidy, the number of vocational school students with training agreements has to be increased by at least 50 compared to the average number of trainees in the three school years prior to the submission of the subsidy request.

According to Article 336(1) of Government Decree No. 12/2020 (II.7.) the maximum subsidy amount is EUR 10,000 per student, and the total subsidy received cannot exceed EUR 2,5 million per beneficiary.

## 2.5 Cash Subsidies from Research and Technology Innovation Funds

Subsidy opportunities are available from the Hungarian national budget, primarily aimed at R&D activities involving a broad cooperation of companies, universities and research institutions. The subsidies are available through a tendering process.

## 2.6 Non-refundable Cash Subsidies from EU funds

A wide range of tender opportunities are available from EU Funds, for which investments of less than EUR 10 million can also qualify. The conditions for the EU tender application, the timing, and the total amount of the subsidy available vary from tender to tender. The tenders reflect the importance given to supporting R&D activities, the creation of new workplaces, environmental investments, and technological investments (with preference given to small and medium sized enterprises).

In accordance with Commission Regulation (EU) No. 240/2014, the Government conducts a wide-ranging social dialogue on Hungary's EU development plan for 2021-2027. Cash subsidies from EU Funds for 2011-2013 are available through the New Széchenyi Plan ("*Új Széchenyi Terv*" in Hungarian).

After the wide-ranging social dialogue On Hungary's EU development plan for 2021-2027 the Széchenyi Plan Plus ("*Széchenyi Terv Plusz*" in Hungarian) has been established. Through the new plan for the period for 2021-2027, the total cohesion budget is more than EUR 26135.7 million, including domestic co-financing. The total amount of funding available to beneficiaries is HUF 9.487 billion (<https://www.palyazat.gov.hu/programok/szechenyi-terv-plusz>).

## 3. Export financing and export insurance

According to Act XLII of 1994 on the Hungarian Export-Import Bank ("**Eximbank**") and on the Hungarian Export Credit Insurance Company ("**Mehib**") the purpose of these institutions is the support of Hungarian products and services and the interest of Hungary with regard to export activities. The shareholder rights with respect to Eximbank and Mehib are exercised by the Minister of Foreign Affairs.

The state-owned Eximbank and MEHIB perform the tasks of Hungary's export credit agency, which are regulated by the legislative frameworks of the OECD and the EU, with the basic objective of facilitating the sale of Hungarian goods and services in foreign markets. The Bank and the Insurer, which operate within an integrated framework, carry out their duties with a shared organization and corporate identity, under the name of EXIM.

### 3.1 Eximbank

Eximbank is a solely state-owned company limited by shares. Except as mentioned in the introduction Eximbank is meant to support Hungarian products and services in export and import matters. Furthermore, Eximbank supports Hungarian investments abroad. Thus, Eximbank provides financial and investment services such as granting credit and loans or providing surety bonds, bank guarantees and credit reporting services.

Eximbank's activities are related to export and import transactions, investments for export purposes, investments of business organization based in Hungary that improve international competitiveness, to current assets, international aid transactions, foreign investments of Hungarian investors and foreign investments carried out in Hungary.

### 3.2 Mehib

Mehib is a solely state-owned company limited by shares. Mehib insures mainly non-marketable<sup>2</sup> risks arising out of export and provides information related to crediting, suretyship and financial losses.

The activities of Mehib are mainly related to the export of Hungarian products and services. Mehib's services cover the provision of insurance of risks to exporter's short, medium and long-term supplier loans, foreign investments, customer loans from banks and receivables factored by credit institutions.

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<sup>2</sup> Non-marketable risks shall have the meaning of any risk that cannot be insured or reinsured on the insurance market.

## BANKING/FINANCIAL FACILITIES

### 1. Structure of the banking system

Hungary has a two-level banking system. The first level is the Central Bank of Hungary which, being the central bank, defines and implements the monetary policy consistent with the protection of the value of the national currency and has the exclusive right to issue banknotes and coins. The Central Bank of Hungary is also responsible for the supervision of the financial markets and has consumer protection competencies with regard to the financial system. The commercial banks are on the second level of the banking system. Commercial banks may maintain bank accounts for individuals and business entities, accept deposits from and extend credit to them, and may provide other financial services and auxiliary financial services as well.

### 2. Financial institutions

In Hungary credit institutions and financial enterprises shall be construed as financial institutions. Credit institutions may be banks, specialized credit institutions or credit institutions incorporated as private limited companies or set up as cooperatives. A credit institution set up as a cooperative society may operate in the form of a savings and loan, or credit union. Financial enterprises are (i) financial institutions licensed to perform one or more financial service with the exception of certain activities, (ii) financial holding companies, and (iii) clearing houses for credit institutions. All financial institutions are subject to the supervision of the Central Bank of Hungary.

### 3. The investor's bank account

Investors may operate businesses in Hungary in several forms. Any foreign entity may establish a branch office or commercial representative office in Hungary. It is also possible to establish a registered Hungarian business association or to become a shareholder/quotaholder in existing Hungarian business entities. According to the legal regulations business associations (including branch offices and representative offices of foreign companies) are obliged to keep all their monetary assets in a bank account, with the exception of currency kept on hand for cash transactions, execute their financial transactions through such bank account, and enter into a bank account contract for this purpose.

### 4. Requirements for opening a bank account

Banks may open a bank account (in Hungarian: "*pénzforgalmi számla*") for persons subject to the general statutory requirements of opening a bank account set out in Act LXXXV of 2009 on the Pursuit of the Business of Payment Services under the following conditions:

- for duly registered business entities, if they produce a document that was issued by the registration authority within 30 days to date in evidence of such registration, and if they disclose their tax number and statistical code;
- for business associations, whose registration is in progress, if they produce an official copy of their articles of association to the bank, and if they produce a copy of the certificate issued by the Court of Firms upon submission of the application for registration if opening a bank account is not mandatory in connection with the registration requirement at the time of submission of the application;

Other conditions may also be required by the banks providing payment services.

## 5. Restrictions on the investor's use of the account

A bank is only allowed to debit a bank account without or in contradiction with the instruction of the account holder to discharge an executable court or administrative ruling that involves the payment of money, or to satisfy a bill presented to a credit institution designated upon its maturity by the drawee of the bill, and in other cases specified by legal regulation. The banks may provide specific rules on the usage of the bank accounts opened at their offices.

## 6. Stock market

The Budapest Stock Exchange Ltd. (“**BSE**”) is the official trading platform for publicly emitted securities. BSE offers investors a broad range of products; alongside equities and debt securities, which are traditionally the most popular products, the range also includes investment funds and structured products, as well as international equities. Its derivatives market encompasses not only futures and options trading, but also a foreign currency market. The Budapest Commodities Exchange also exists, but is basically inactive as of today.

## INVESTMENT OF FOREIGNERS IN HUNGARY (FREE MOVEMENT OF SERVICES)

According to Section 3 (1) of Act of XXIV of 1988 on the Investments of Foreigners in Hungary foreign nationals shall have the right of establishment in the territory of Hungary for the pursuit of an economic activity on own account, on a regular basis under economic exposure with a view to making a profit in the following forms of business operations: **a)** in a self-employed capacity on own account, in the form of private entrepreneurship or sole proprietorship in accordance with specific other legislation **b)** by way of a branch or commercial representation in accordance with specific other legislation **c)** by way of resident business association, grouping or cooperative society in which the foreign national holds a share.

Pursuant to Section 3 (2), if the foreign national did not hire any employee for the said activities in Hungary, including the assignment or hiring-out of an employee or agent employed in a foreign country to perform work in Hungary:

- the activities of lecturers and research activities at a school or institute of higher education,
- artistic performances,
- professional sports activities,
- activities limited to the supply of goods and services the foreign national has acquired in a foreign country and exported to Hungary, provided it is accomplished in his absence with the use of a commercial card issued abroad by the foreign national in question,
- management of real estate or natural resources in return for consideration, the transfer, sale and contribution in kind of any rights in immovables or in natural resources in return for consideration.

Since Hungary's accession to the European Union, businesses established in the European Economic Area can provide cross-border services without having to be established in Hungary in view of the principle of free movement of services.

## EXCHANGE CONTROLS (FREE MOVEMENT OF CAPITAL)

According to Act XCIII of 2001 on the Termination of Foreign Exchange Restrictions a company qualifies as *national*, if it has its seat in Hungary except for free zone companies and national unions. Offshore companies and a Hungarian branch office of a company with its seat abroad also qualify as national. The following entities qualify as *non-resident*: (i) a company with its seat abroad, (ii) a non-resident branch office of a resident company, (iii) a commercial representation of a non-resident company, (iv) free zone company, (v) Hungarian branch of a foreign company if the branch was established in a free zone or if it operates there.

By virtue of its accession to the European Union, Hungary was required to lift all restrictions relative to direct or indirect investments, except interim measures in respect of the acquisition of secondary residence and of agricultural land, provided by the Accession Treaty. Since 2001, foreign exchange controls have been almost completely abandoned. Repatriation of profit is not restricted; neither is its convertibility. The rate of exchange is freely determined by the authorized exchangers.

According to EU framework, especially to the Article 3 of Regulation 2018/1672 of the European Parliament and of the Council of 23 October 2018, carriers who carry cash of a value of EUR 10 000 or more shall declare that cash to the competent authorities of the Member State through which they are entering or leaving the Union and make it available to them for control. The obligation to declare cash shall not be deemed to be fulfilled if the information provided is incorrect or incomplete or if the cash is not made available for control. In the declaration, the carrier has to make a statement which consists the following:

- the carrier, including full name, contact details, including address, date and place of birth, nationality and identification document number;
- the owner of the cash, including the full name, contact details, including address, date and place of birth, nationality and identification document number, where the owner is a natural person, or the full name, contact details, including address, registration number and, where available, value added tax (VAT) identification number, where the owner is a legal person;
- where available, the intended recipient of the cash, including the full name, contact details, including address, date and place of birth, nationality and identification document number, where the intended recipient is a natural person, or the full name, contact details, including address, registration number and, where available, VAT identification number, where the intended recipient is a legal person;
- the nature and the amount or value of the cash;
- the economic provenance of the cash
- the intended use of the cash;
- the transport route; and
- the means of transport.

Moreover, according to Article 4, where unaccompanied cash of a value of EUR 10 000 or more is entering or leaving the Union, the competent authorities of the Member State through which the cash is entering or leaving the Union may require the sender or the recipient of the cash, or a representative thereof, as the case may be, to make a disclosure declaration within a deadline of 30 days. The competent authorities may detain the cash until the sender or the recipient, or a representative thereof,

makes the disclosure declaration. The obligation to disclose unaccompanied cash shall not be deemed to be fulfilled where the declaration is not made before the deadline expires, the information provided is incorrect or incomplete, or the cash is not made available for control.

The disclosure declaration shall provide details about the following:

- the declarant, including full name, contact details, including address, date and place of birth, nationality and identification document number;
- the owner of the cash, including the full name, contact details, including address, date and place of birth, nationality and identification document number, where the owner is a natural person, or full name, contact details, including address, registration number and, where available, the VAT identification number, where the owner is a legal person;
- the sender of the cash, including the full name, contact details, including address, date and place of birth, nationality and identification document number, where the sender is a natural person, or the full name, contact details, including address, registration number and where available, VAT identification number, where the sender is a legal person;
- the recipient or intended recipient of the cash, including the full name, contact details, including address, date and place of birth, nationality and identification document number, where the recipient or intended recipient is a natural person, or the full name, contact details, including address, registration number and, where available, VAT identification number, where the recipient or intended recipient is a legal person;
- the nature and the amount or value of the cash;
- the economic provenance of the cash; and
- the intended use of the cash.

## BUSINESS ENTITIES

### 1. In general

Anyone may establish a business organization under Hungarian law: Hungarian and foreign natural persons, as well as Hungarian and foreign legal entities or organizations without legal personality. There are no restrictions regarding the number of nationals to participate, or on the nationality of CEOs, directors, supervisory board members, etc. Moreover, it is possible for a business organization registered in Hungary to be founded exclusively by foreign persons. There is only one “restriction” for foreign persons who take part in a Hungarian business organization, namely if the foreign person does not have a residence in Hungary, a delivery agent shall be designated.

The state may participate in a business organization without any restrictions through its (legally or organizationally) distinct units with the capacity to establish business organizations set forth by law.

The rules of the business organizations are laid down in many of acts, such as Act XLV of 2004 on European Company Limited by Shares, Act XLIX of 2003 on European Economic Interest Grouping, Act X of 2006 on Cooperatives, Act LXIX of 2006 on European Cooperative Societies, Act CXXXII of 1997 on Hungarian Branch Offices and Commercial Representative Offices of Foreign Registered Companies, but the basics of the regulation have involved in the Act V of 2013, the current Hungarian Civil Code.

The Act V of 2006 on Public Company Information, Company Registration and Winding-up Proceedings (“Company Registration Act”) is the most important piece of legislation (after the Civil Code which regulates business entities. It lays down an appropriate legal framework to facilitate - with a view to approximation with the company law of the European Union - the foundation and registration of companies and for providing full public access, directly or by way of electronic means, to information from registers of official company records with a view to entrepreneurs' constitutional rights, assurance of economic transactions, and the protection of creditors' interests or other public interests.

Under the scope of this act the investor may have liability to its partners, other investors and third parties, as well as to other members of the business association According to Act XLIX of 1991 on Bankruptcy Proceedings and Liquidation Proceedings controlling members may have unlimited and full liability in case of liquidation procedures, if the assets do not cover the debts of the business association due to continuously making unfavorable business decisions from the standpoint of the debtor business association.

### 2. The legislative reform of legal entities

Part of a governmental reform the parliament on the summer of 2021 a new legislation on the registration/register of legal entities. The new Act XCII of 2021 on the single register of legal entities and on registration proceeding will replace two main codes, the Company Registration Act and Act CLXXXI of 2011, and it will also amend several other pieces of legislation. It will take effect from January 1, 2026 onwards and will apply to all types of legal entities from companies to civil organizations, investment funds and even law firms.



The new act aims to create a comprehensive registry covering all legal entities under Hungarian law. It also lays down the rules of registration proceedings which are going to be applied for all legal entities in the future. In general, the new rules aim to speed up the procedures by allowing bigger role for automatic procedural actions through a new automatic system. However, many of the important details such as the complete list of documents that will need to be attached to submissions are yet to be published. The most important new elements of this Act that might be important to business are the following:

The electronic submission of requests for registering new entities or changes in the registered data continues but the decision will be made by the use of an automatic digital system, this software will decide the submission without manual human interference of the court. Within a short period of five working days from the date of registration, the decision made by the automatic system may be reviewed by a human decision-maker in order to correct the occasional mistakes.

If the conditions for automatic registration are met (based on the results of the automatic review and the declaration of the legal representative), the decision should be reached within one hour from the submission.

If the conditions are not met (or in the case of some specific entities such as foundations), a human decision-maker (practically a judge) will review the request within ten (or in the case of civil organizations twenty-five) working days.

Another change is the introduction of a sequencing rule. As a general rule, each registration application of the organization is registered in timely order, as long as the pending motion for registration of corporate changes has not been finally considered, the subsequent change registration application will not be reviewed. Therefore, while the first application is reviewed by the court and the actual administrative deadline is extended due to a possible remedying deficiency, the data of the later application will not be entered in the register by automatic entry by law.

The new law explicitly stipulates that at the registration of a legal entity at least one executive officer with the right of representation is required. The new law no longer distinguishes between business premise and branch in terms of domestic operations – in Hungary, the organizations may establish business premises while for foreign activities the registration of branches will be required.

There will be some changes regarding important deadlines. These includes a shortened period of fifteen days (currently thirty days) to submit a request for registration of corporate changes and a broadened fifteen days (currently eight days) to resubmit the complete application for registration if the original request was rejected. The registered entities will have thirty days (instead of sixty) to register the personal changes before the said person can turn to the court for correction.

The new act will also allow the courts to initiate judicial oversight proceeding *ex officio* based on the signal of the IT system. New types of judicial oversight proceedings aim to protect the rights of minorities and creditors, to take action against a company name which is in violation of law, to take action against the lack of official contacts according to the E-Administration Act and to take action against the failure to publish a report pursuant to the Accounting Act. Alongside these the new law will include a new type of litigation for the registration of a new member or new curator of the board of trustees of the foundation.

### 3. Business organization forms according to the Civil Code (Act V of 2013)

#### 3.1 Business associations

Business associations constitute a specific group of the business organizations. They are separate entities – legal persons –, with distinct assets, and established for the pursuit of business operations. The contributions provided by the members/shareholders (together “members”) constitute the property of the business association. The business associations must be registered at the Court of Firms. However, the business associations exist as of the date of the registration, they may operate as a pre-company from the day of signing the articles of association.

Under the Civil Code (Part 3 of Book 3), the following forms of business associations exist:

##### General (unlimited) partnership (“Kkt”)

The partners have joint, several and unlimited liability for the obligations of the company not covered by the assets of the company. There is no requirement for minimum subscribed capital.

##### Limited partnership (“Bt”)

The company must have at least one member with limited (limited partner) and one member with unlimited liability (general partner) for the obligations of the company. The general partner has joint, several and unlimited liability for the obligations of the company not covered by the assets of the company, the limited partner has liability limited to his contribution to the capital of the company. There is no requirement for minimum subscribed capital.

##### Limited liability company (“Kft”)

The liability of the members towards the company is limited to their capital contributions. The members are (with certain specific exceptions) not liable for the obligations of the company. The articles of associations may set forth the obligation of accessory contribution and/or additional payment. The minimal subscribed capital is HUF 3,000,000. The capital contributions may be provided in cash or in the form of other asset contribution (in-kind)(such as real estate).

##### Private company limited by shares (“Zrt”)

There are two forms of the company limited by shares: private company limited by shares and public company limited by shares. The main difference is that the shares of the public company are listed in the stock exchange.

The shareholders are not liable for the obligations of the company. The shareholders’ liability towards the company, as in case of the limited liability companies, covers merely their capital contributions. The minimum subscribed capital is HUF 5,000,000. The capital contributions may be provided in cash or in kind.

It is to be noted that only the capital contributions to the company (shares) limited by shares may be embodied in securities.

#### Public company limited by shares (“Nyrt”)

The shareholders are not liable for the obligations of the company. The shareholders liability towards the company, just like in case of the limited liability companies, covers merely their capital contributions. The subscribed amount of capital must be at least HUF 20,000,000. The capital contributions may be provided in cash or in kind.

It is to be noted that only the capital contributions of the company limited by shares may be embodied in securities.

### **3.2 Other business organizations**

#### Cooperative (“Szövetkezet”)

Cooperatives are not business associations per se. It is nowadays a rarely used form (mainly used in the agricultural sector), governed by the Civil Code (Part 4 of Book 3), but Act X of 2006 on Cooperatives also lays down some particular rules (for example on specific kind of cooperatives). A cooperative is a legal person established with a capital made up of the members’ contributions; it operates under the principle of open membership and variable capital, with the objective of lending assistance to its members so as to satisfy their economic and societal needs, where the obligation of its members toward the cooperative covers the provision of capital contribution and their personal involvement as provided for in its statutes. Members shall not bear liability for the obligations of the cooperative. The cooperatives shall be registered at the Court of Firms.

#### Grouping (“Egyesülés”)

A grouping is a cooperative association with legal personality, founded by its members in order to improve the efficiency of their financial management, to coordinate their economic activities, and to represent their professional interests. The purpose of a grouping is not to make profits for itself; its members shall bear unlimited, joint and several liability for debts exceeding the grouping’s assets. grouping may also pursue other service and joint economic activities (economic auxiliary activities) in support of its coordination duties.

#### Foundations (“Alapítvány”)

Foundations are legal persons set up to pursue the long-term objective defined in the charter document. The founder shall define in the charter document the funds made available to the foundation and the organizational structure of the foundation. They are governed by the Civil Code and Act CLXXV of 2011 on Civil Organizations. A foundation may not be formed with the objective of performing economic activities. Foundations are authorized to perform economic activities only if they are directly connected to the achievement of the foundation’s goals. A foundation may not be a partner with unlimited liability in another legal entity, may not set up another foundation, and may not join another foundation. The founder shall provide the funds required for the foundation’s purpose as provided for in the charter document. Financial benefits may be provided from the foundation’s assets, consistent with

the foundation's objectives, to persons designated as beneficiaries in the charter document, or in the absence of such instruction, by the appropriate foundation organ. The foundations are registered at the competent County Court.

#### **4. European business associations**

##### **4.1 Act on European Economic Interest Grouping (Act XLIX of 2003)**

The European Economic Interest Grouping (EEIG) is a legal person regulated by Act XLIX of 2003 and Council Regulation (EEC) No. 2137/85 of 25 July 1985. According to the latter, the purpose of an EEIG is to facilitate or develop the economic activities of its members and to improve or increase the results of those activities; its purpose is not to make profit for itself. Its activity is related to the economic activities of its members and must not be more than ancillary to those activities. If the obligations of the grouping are not covered by its assets, the liability of the members is unlimited, joint and several.

##### **4.2 Act on European Company Limited by Shares (Act XLV of 2004)**

The European Company Limited by Shares (SE) is a legal person regulated by Act XLV of 2004 and Council Regulation (EC) No 2157/2001. According to the latter, the capital of SE is divided into shares. No shareholder is liable for more than the amount he has been subscribed. The subscribed capital shall not be less than EUR 120,000. There are four ways of forming an SE: merger, formation of a holding company, formation of a joint subsidiary, or conversion of a public limited company previously formed under national law. Formation by merger is available only to public limited companies from different member states. Formation of an SE holding company is available to public and private limited companies with their registered offices in different member states, or having subsidiaries or branches in member states other than that of their registered office. Formation of a joint subsidiary is available under the same circumstances to any legal entities governed by public or private law (excluding nonprofit organizations). A public limited-liability company may be transformed into an SE if for at least two years it has had a subsidiary company governed by the law of another member state.

##### **4.3 Act on European Cooperative Societies (Act LXIX of 2006)**

The purpose of the Act on Cooperative Societies is to enable national cooperatives to form European Cooperative Societies (SE), which operate in accordance with the provisions of European Council Regulation (EC) No. 1435/2003. SEs may be established to fulfill the needs of their members and to improve their economic and social activities. They are legal persons, and shall be registered at the Court of Firms. The subscribed capital shall not be less than EUR 30,000.

#### **5. Other forms**

##### **5.1 Sole proprietorship**

Act CXV of 2009 on Private Entrepreneurs and Sole Proprietorships governs the taking up and pursuit, and the suspension and termination of the activities of private entrepreneurs, as well as the setting up, pursuit and termination of the activities of sole proprietorships in Hungary, and the rights and obligations of their principals or members.

In the territory of Hungary, a natural person may carry out a business-like economic activity - carried out regularly, for the purpose of gaining profit and wealth, while assuming his own economic risk - as an individual entrepreneur within the framework of establishment in accordance with the Act on the General Rules for Starting and Continuing Service Activities.

## 5.2 Non-profit companies

The foundation, activity and termination of non-profit companies are governed by the Company Registration Act, the relevant sections of the Civil Code and Act CLXXV of 2011 on Civil Organizations. Any business association may be a nonprofit company, if its articles of association contains that the profit of the company may not be distributed among the members (shareholders) rather it shall be retained by the company. These legal persons shall be registered at the Court of Firms under a name containing the “nonprofit” word.

## 5.3 Branch Offices and Commercial Representative Offices

According to Act CXXXII of 1997 on Hungarian Branch Offices and Commercial Representative Offices of Foreign Companies a foreign investor has the possibility to establish a branch office or a commercial representative office in Hungary.

### Branch office

The foreign entrepreneurs may conduct their business in Hungary by founding a company or by participation in a Hungarian company or by opening a branch office in the country.

The branch office must be registered by the Court of Firms, as must all other types of companies in Hungary (see above). (The Civil Code, came into effect on March 15, 2014, did not bring any changes concerning the above.) Accordingly, the branch office is the Hungarian registered part of a foreign undertaking (i.e., separate organisation unit of a foreign business association), that operates in Hungary with economic independence but without legal personality.

Through their branch offices, foreign business associations are entitled to carry out business activities in Hungary and are represented towards the authorities and third parties by their branch offices. The branch office has full legal capacity, it acquires rights to the benefit of and assumes liabilities for the foreign enterprise under its own company name. Specifically, this means that it can gain assets, enter into contracts, can start litigation and litigation can be started against it.

In general, a branch office shall not act as a representative or agent of the foreign undertaking or of other branches of the foreign undertaking; however, the financial branch set up by a foreign company established in any EEA Member State is an exception.

There is no requirement for minimum subscribed capital, however, the foreign undertaking must continuously provide the assets necessary for the operation of the branch and the settlement of debts.

### Commercial representative office

Foreign companies may also establish permanent, direct commercial representative offices in Hungary, which must be registered by the Court of Firms as well. A commercial representative office is an unincorporated organizational unit of a foreign company not involved in entrepreneurial activities, established upon its entry into the Company Register.

A commercial representative office is registered in Hungary as part of a foreign undertaking, without legal personality and without any capacity to act in its own name.

It may represent the foreign undertaking; carry out preparatory and auxiliary activity for the benefit of the foreign undertaking. It acts in the name and on behalf of the foreign parent company, mediates contracts in the name of the foreign company, participates in preparation and conclusion of contracts, provides information to clients and partners and performs other related client service activities.

The commercial representative office may conclude contracts necessary to its operation, but only in the name of the foreign undertaking. The mere existence of a commercial representative office does not render the parent company subject to Hungarian corporate taxation.

## 6. Legal framework for cross-border merger of companies in the EU

In spite of the landmark cases of the CJEU and the fact that the need to address the legal issues arising from the cross-border transfer of a company's registered office within the EU has been on and off the European agenda for more than a decade, the EU has still not adopted the 14th Company Law Directive or any other harmonized legislative instrument specifically dealing with the cross-border transfer of the registered office of companies.

Therefore, although Articles 49 and 54 of the Treaty on the Functioning of the European Union (TFEU) guarantee freedom of establishment of all companies and firms, cross-border mobility of companies still remains incomplete.

Nevertheless, the current legal framework of the EU (and the related Hungarian legislation) provides for some indirect mechanisms for cross-border mobility within the EU without the need for the company to be wound up in its home Member State:

### 6.1 Transferring the registered office of supranational company forms in the EU

Companies operating in the EU in supranational forms (SEs, SCEs, EEIGs) may relocate their registered office from one Member State to the other in accordance with the procedure laid down in the relevant regulations of the EU<sup>3</sup> and the supplementing provisions of the national laws of the respective Member States.

In Hungary, Section 29(6) and Section 54(4)-(5) of the Company Registration Act provides for procedural rules concerning the change of the registered office of supranational companies (either from another Member State to Hungary or from Hungary to another Member State).

### 6.2 Cross-border merger of limited liability companies

Initially, cross-border mergers of limited liability companies within the EU were regulated by Directive 2005/56/EC<sup>4</sup> ("10th Company Law Directive"). However, as of July 19, 2017, Directive (EU) 2017/1132<sup>5</sup> ("Directive 1") repealing the 10th Company Law Directive continued to include provisions on cross-border mergers (along with general provisions on the establishment and functioning of limited liability companies and provisions on cross-border divisions of limited liability companies).

The EU provisions on cross-border mergers specified in the 10th Company Law Directive have been incorporated into Hungarian national law by Act CXL of 2007 on Cross-Border Mergers of Limited Liability Companies

<sup>3</sup> In case of SEs: Article 8 of Council Regulation (EC) No 2157/2001 of 8 October 2001 on the Statute for a European company (SE)

In case of SCEs: Article 7 of Council Regulation (EC) No 1435/2003 of 22 July 2003 on the Statute for a European Cooperative Society (SCE)

In case of EEIGs: Articles 13-14 of Council Regulation (EEC) No 2137/85 of 25 July 1985 on the European Economic Interest Grouping (EEIG)

<sup>4</sup> Directive 2005/56/EC of the European Parliament and of the Council of 26 October 2005 on cross-border mergers of limited liability companies

<sup>5</sup> Directive (EU) 2017/1132 of the European Parliament and of the Council of 14 June 2017 relating to certain aspects of company law

Based on the Cross-Border Merger Act, a limited liability company of another EU Member State may merge into an existing Hungarian limited liability company.

In addition to the general rules of cross-border mergers, effective from June 23, 2017, an amendment to the Cross-Border Merger Act introduced a new procedure that enables companies from other EU Member States to move their registered offices to Hungary. This procedure is a simplified, faster version of a cross-border merger that allows companies from elsewhere in the EU to move their registered offices to Hungary in a process that enables them to merge into an empty company founded in Hungary for the direct purposes of the merger.

It is important to note that pursuant to the Cross-Border Merger Act, cross-border mergers (either simplified or not) may only involve limited liability companies (i.e., private limited-liability companies, public limited companies, SEs and, subject to some exceptions, cooperatives).

The Act CXXIV of 2021 on Cross-Border Conversions, Mergers, Divisions of Limited Liability Companies and Other Amendments for the Purpose of Approximation ('Cross-Border Operation Act') repealed the Act CXL of 2007 as of September 1, 2022.

### 6.3 Cross-border conversion of limited liability companies

As of January 1, 2020, a new EU directive came into force in the EU. Directive (EU) 2019/2121<sup>6</sup> ("Directive 2") amended Directive 1 by adding harmonized provisions on the cross-border conversion of limited liability companies.

According to the provisions of Directive 2, in case of a cross-border conversion, a company is converted to a legal form of the Member State of destination, transferring at least its registered office to the Member State of destination and at the same time retaining its legal personality (i.e., without having to be dissolved in the original country). Therefore, in essence, a company will be able to have its registered office transferred to another Member State, while being converted to an arrangement of the relevant legislation of the Member State of destination.

The EU provisions on cross-border conversion specified in the Directive 2 have been incorporated into Hungarian national law by Cross-Border Operation Act.

Pursuant to the Cross-Border Operation Act, *cross-border conversion* shall mean an operation whereby a company, without being dissolved without succession, while retaining its legal personality, converts the legal form under which it is registered in the Companies Registry into a legal form of the destination Member State, a limited liability company and transfers at least its registered office to the destination Member State.

According to the Cross-Border Operation Act, *cross-border merger* shall mean the mergers of companies formed in accordance with the law of a Member State of the European Union and having their registered office provided for in the instrument of constitution, central administration or principal place of business within the European Union, provided at least two of them are governed by the laws of different Member States. And *cross-border division* shall mean the division of a company or companies formed in accordance with the law of a Member State of the European Union and having their

<sup>6</sup> Directive (EU) 2019/2121 of the European Parliament and of the Council of 27 November 2019 amending Directive (EU) 2017/1132 as regards cross-border conversions, mergers and divisions



registered office provided for in the instrument of constitution, central administration or principal place of business within the European Union, provided at least two of them are governed by the laws of different Member States, including the predecessor and successor companies.

*Limited liability company* shall mean a company of either of the legal forms listed in Annex II to Directive 1 relating to certain aspects of company law, if formed in accordance with the law of a Member State of the European Union and having their registered office, central administration or principal place of business within the European Union. (In Hungary: *Limited liability company ("Kft") and company limited by shares ("Zrt." or "Nyrt.")*)

Cross-Border Operation Act stipulates the preparation of the conversion of companies established in Hungary, inter alia, making two decisions, drawing up draft terms of conversion, preparing report for members and employees, disclosure, definite decision making on cross-border conversion, issuance of the certificate.

In the event that the Cross-Border Operations Act does not regulate differently from the provisions of the Civil Code and/or the Company Registration Act, general rules for legal entities and the special rules for limited liability companies and public limited companies of the Civil Code must also be applied.

## **7. Legal provisions for cross-border merger of EU companies in Hungary**

### **7.1 Relevant provisions of the Company Registration Act**

In Hungary, the Company Registration Act provides for rules as to the registered office of companies in general and the procedure concerning the change of such registered office within the territory of Hungary (as well as in a cross-border manner in case of SEs, SCEs, EEIGs).

The registered office of a company functions as the company's headquarters. The registered office also functions as the company's mailing address, where all business and official documents are received, filed, safeguarded and archived, and where the obligations set out in specific other legislation for corporate headquarters are satisfied. Corporate headquarters are to be marked by a company sign.

The instrument of constitution of a company may prescribe that the registered office shall also function as the company's main office of central business administration, where the decision-making apparatus is located. If a company's registered office and main office of central business administration are not the same, the office of central business administration shall be indicated in the instrument of constitution and in the companies register. For the purposes of registration, the head offices of any Hungarian branch of a foreign company, commercial representative offices of foreigners in Hungary, and any Hungarian branch of a European Economic Interest Grouping shall also be considered registered offices.

The real estate property used for the company's registered office, permanent establishment or branch must be owned outright by the company, or that the company is legally entitled to use, including if provided by corporate headquarters services.

The companies registered in the Company Register according to the Company Registration Act may principally engage in activities in any Member State of the European Union, or may relocate to any Member State of the European Union as the primary place of activity. Unless otherwise provided in specific other legislation, such corporate decision shall not entail the amendment of company records relating to the registered office.

## **7.2 Relevant provisions of the PIL Act**

The Act XXVIII of 2017 on Private International Law (“PIL Act”) sets forth a number of rules as to the law applicable to legal persons:

The personal law of a legal entity is the law of the State, in the territory of which the legal entity was registered. If a legal entity was registered according to the laws of two or more States, or no registration is required according to the law of the State where the registered office shown in the instrument of constitution is located, its personal law shall be the law of the State where the registered office shown in the instrument of constitution is located.

## INVESTMENT RESTRICTIONS

Generally speaking, the same acts apply for the Hungarian and foreign companies, but legislation such as

- Act LXXVI of 2009 on general rules on taking up and pursuit of service activities
- Act XXIV of 1988 on the Investments of Foreigners in Hungary.
- Act LVII of 2018 on the control of foreign investments violating the security interests of Hungary, and
- Government Decree no. 561/2022. (XII. 23.) on the dissenting application of certain provisions necessary for the economic protection of Hungarian companies during the state of emergency set forth special rules concerning the business activities of foreign companies and/or branch offices.

### 1. Restrictions

There are a number of restrictions which must be taken into consideration when establishing or transferring a business to Hungary. These are mainly connected to acquiring a property and paying the registration fees but in specific cases can include other necessities such as an approval from the competent authority or from the competent minister.

According to Act LVII of 2018 on the control of foreign investments violating the security interests of Hungary it is necessary to obtain the acceptance of the competent minister prior the acquisition if a foreign investor directly or indirectly acquires more than 25% (in the case of a public limited company, 10%) or acquires a dominant position according to the Civil Code.

Pursuant to Government Decree no. 561/2022. (XII. 23.) on the differing application of certain provisions required for the economic protection of Hungarian companies during a state of emergency, it is also necessary to obtain the acceptance of the competent minister prior the acquisition if a foreign investor acquires a certain percentage of ownership in a strategic company or the right of usufruct on a Hungarian strategic company's shares or quotas or in case of the transfer of the infrastructure, equipment and assets necessary for the pursuit of the activity belonging to the sectors specified as sectors of strategic importance, or the transfer of the right to use or operate such infrastructure, equipment or assets or the pledge of such assets if the right of operation is acquired by a foreign investor or acquired by a legal person or entity, in which the foreign investor has, directly or indirectly, a majority influence under the Civil Code.

#### 1.1 Real estate

There are strict rules governing the acquisition of Hungarian real estate by foreign persons.

In accordance with Act CXXII of 2013, as of May 1, 2014 agricultural lands and lands under forest management, as a general rule, may not be acquired by foreign individuals and legal persons (whether domestic or foreign). Only specific legal person may acquire land under specific circumstances (e.g., recognized churches as a gift or heritage). However, the law prefers "land cultivators": citizens of Hungary or EU member states who have relevant professional qualification (meet the definition of "farmer" of the Act) or experience in Hungary exceeding 3 years. Those Hungarian or member state citizens who do not qualify as land cultivators may only acquire land in the aggregated size of 1 hectare

(if the seller is not a close relative to the buyer). Even land cultivators may only have lands in the aggregated size of 300 hectares. Land purchase agreements are subject to the approval of the competent authority. Moreover, there are also rules on the use of lands, although not as restrictive.

According to Act LXXVIII of 1993 and Government Decree No. 251/2014 (X.2.), real properties, other than agricultural lands and lands under forest management, may only be acquired by foreign individuals or legal persons upon the approval of the competent authority. The approval must be granted to all foreign individuals, if it is not against public interest or municipal interest and the applicant plans to settle in Hungary as an independent entrepreneur and it is directly related to the activity they want to settle for and the identity of the foreign natural person can be established and the intent to transfer the ownership of the real estate property can be verified.

According to the Government Decree No. 251/2014 (X. 2.) all other forms of acquisition of real estate are subject to an authorization procedure carried out by the competent authorities. An application provided for the acquisition of ownership of a real property by a foreign person shall be submitted to the Budapest and county government agency of jurisdiction by reference to the location of the real property in question. The administrative time limit in procedures for the acquisition of real estate by foreigners shall be forty-five days.

Special restrictions may be applicable to certain types of contracts, which concern the foreign contracts as well as Hungarians. The parties of a contract containing foreign element are free to choose the law applicable for the contract, there are however certain restrictions, especially if consumers or employees are concerned.

In case a foreign investor fulfils the requirements above and acquires the real estate the change in ownership must be registered in the Land Registry. Act CXLI of 1997 on Real Estate Registration contains the subject matter and contents of the real estate register, but this system will be changed by Act C of 2021 on Real Estate Registration which will introduce numerous changes to the existing system and is expected to enter into force on October 1, 2024.

## **1.2 Money transfer**

There are no restrictions concerning the currency repatriation or other operations regarding currency. In accordance with the principle of free movement of capital, one may freely exercise an authority over his money. Notwithstanding, statistical and money-laundering preventive data-services may have to be provided in case of a money transfer.

## **1.3 Management of business entities**

Legal persons and natural persons of legal age with full legal capacity can be directors of a business vehicle (or members of the board of directors). A legal person must designate a natural person who will discharge its duties in its name and on its behalf.

There are no nationality or residency requirements for directorship. However, a director who does not have a Hungarian address must appoint a delivery agent who must be registered with the Court of Firms

A person cannot be a director if he or she has been:

- Sentenced to imprisonment by a final judgment.
- Prohibited from being a director or prohibited from practicing the profession in which the legal entity is engaged.
- Prohibited from holding an executive office.

A person can be disqualified from being a director by the Court of Firms in any of the following cases (provided that the enforcement procedure against that person was unsuccessful):

- They are liable for any claims that remain unsatisfied in liquidation proceedings and they failed to fulfil their payment obligations prescribed by the final court order.
- They failed to comply with their liability obligations for the company's debts (as a member).
- They failed to pay a financial penalty imposed by the Court of Firms.
- They failed to prove beyond doubt that all reasonable steps have been taken to effectively end the company's unlawful conduct, to put an end to the company's act of negligence, and failed to fully comply with their obligation to provide information and make a statement at the request of a court in the course of judicial oversight proceedings or involuntary de-registration procedure and the Court of Firms concluded the involuntary de-registration procedure of the company.

A company director cannot:

- Acquire shares in the company (except in the case of a public limited company, "Nyrt") or be a director of a business association that is engaged in the same economic activity as the company.
- Conclude contracts related to the main activity of the company in its own name.

#### 1.4 Financial Reporting

The managing directors of a company that keeps double-entry books must deposit electronically the company's financial reports (that is, the annual account or simplified annual account and the certified independent auditor's report) with the company information service within five months following the balance sheet date of the relevant fiscal year. Similar rules apply to the Hungarian branches of foreign companies.

If the company's shares are distributed on a regulated market of any EEA member state, the annual account or the consolidated annual account must be deposited within four months of the balance sheet date.

All companies keeping double-entry books (including branches of foreign companies) must publish:

- Their annual accounts or simplified annual accounts.
- In the case of statutory audits of accounting documents, the independent auditor's report containing an audit certificate or a qualified audit certificate.

- The resolution deciding how to use the taxed income (decision about the dividends).

The reports submitted are public and can be downloaded from: <http://e-beszamolo.im.gov.hu/oldal/kezdolap>.

## 1.5 Trading Disclosure

Hungarian companies must comply with the following disclosure and publication requirements:

- The company's name must be displayed at the company's registered seat.
- The name of the company must contain the name of the company form, or at least its abbreviation (that is, "Kft" for limited liability companies).
- Limited liability companies and Private companies limited by shares must provide the following information on all printed official correspondence (including e-mails) and on their websites:
  - name of the competent Court of Firms;
  - company's name;
  - company's registered seat;
  - company's registration number; and
  - reference to the liquidation or dissolution of the company.

Public companies limited by shares are subject to additional disclosure and publication requirements.

## 1.6 Foreign Direct Investment (FDI)

Foreign direct investment (FDI) is a category of cross-border investment that reflects the objective of obtaining a lasting interest by an investor in one economy in an enterprise resident in another economy. Direct investments include the initial acquisitions of equity capital furthermore it has the purpose of having control or to obtain the right to operate the legal entities, it means an active management role beside the ownership.

### Restriction of foreign investment in Hungary

The general legal framework of the regulation regarding the restriction of foreign investments is established by Regulation (EU) 2019/452 of the European Parliament and of the Council of 19 March 2019. The Regulation establishes a framework for the screening of foreign direct investments into the Union. The Regulation provides for the EU level rules of the screening mechanisms of foreign investments.

Several national laws regulate this field such as (i) Act LVII of 2018 on the control of foreign investments violating the security interests of Hungary, and (ii) Government Decree No. 246/2018 (XII.17.) on the implementation of Act LVII of 2018 on the control of foreign investments violating the security interests of Hungary (the "**Standard Rules**"). With regard to the armed conflict taking place in the territory of Ukraine, a new set of restrictive rules were implemented in 2022. These rules are set forth by Government Decree no. 561/2022 (XII. 23.) on the dissenting application of certain provisions necessary for the economic protection of Hungarian companies during the state of emergency (the "**Emergency Rules**").

Foreign investor is:

- (i) a citizen of a state outside of the European Union, the European Economic Area and the Swiss Confederation or a legal person or other entity incorporated in that state;
- (ii) a legal person incorporated in the European Union, the European Economic Area or the Swiss Confederation, but one of its foreign owners has majority influence under the Hungarian Civil Code.

In addition to the above, pursuant to Government Decree no. 561/2022 (XII. 23.), in case of certain transactions a legal person or other entity incorporated in another Member State of the European Union, in another Member State of the European Economic Area or the Swiss Confederation or a citizen of another Member State of the European Union, or another Member State of the European Economic Area or the Swiss Confederation also qualifies as a foreign investor.

The following acts of a foreign investor fall under restrictions under the Standard Rules:

- (i) If the foreign investor seeks to have ownership directly or indirectly over 25% (10 % in the case of a public limited company) or dominant influence under the rules of the Hungarian Civil Code over a company operating in the fields of restricted activities (activities falling under the scope of eg., the manufacture of arms and ammunition and the manufacture of military equipment subject to authorization; services covered by the Electricity Act),
- (ii) If the foreign investor seeks to obtain the right to use or operate the infrastructures, equipment and devices indispensable for the pursuit of the restricted activities ("**Operational Rights**").

The following acts of a foreign investor fall under restrictions under the Emergency Rules, if foreign investor would like to engage in

- (i) the acquisition of a Hungarian strategic company;
- (ii) the increase of capital in a Hungarian strategic company;
- (iii) the transformation, merger or de-merger of a Hungarian strategic company;
- (iv) the issuance of certain types of bonds by a Hungarian strategic company;
- (v) the establishment of a right of usufruct on a Hungarian strategic company's shares or quotas;
- (vi) the transfer of the infrastructure, equipment and assets necessary for the pursuit of the activity belonging to the sectors specified as sectors of strategic importance, or the transfer of the right to use or operate such infrastructure, equipment or assets or the pledge of such assets (hereinafter together: the right of operation), if the right of operation is acquired by a foreign investor or acquired by a legal person or entity, in which the foreign investor has, directly or indirectly, a majority influence under the Civil Code.

The fields of restricted activities under the Standard Rules are:

- (i) the manufacture of arms and ammunition and the manufacture of military equipment subject to authorization;
- (ii) producing a dual-use (military/civilian) product defined in Annex I to Council Regulation 428/2009/EC of 5 May 2009 establishing a Community control system for the export, transfer, brokerage and transit of dual-use items.

- (iii) the production of means of intelligence as defined in the Government Decree No. 13/2011. (II. 22.) on the Licensing of Military Technology and Detailed Rules for the Certification of Undertakings,
- (iv) the provision of financial services as defined in the Law on Credit Institutions and Financial Enterprises and the operation of a payment system as ancillary financial services;
- (v) services covered by the Electricity Act;
- (vi) services covered by the Natural Gas Supply Act;
- (vii) services covered by the Water Services Act;
- (viii) services covered by the Electronic Communications Act;
- (ix) development or operation of electronic information systems subject to the Law on Electronic Information Security of State and Local Government Bodies;
- (x) services covered by the Act on Insurance.

Under the Emergency Rules, a strategic company is:

- (i) a limited liability company, a private limited company, a publicly operating joint stock company or a higher education institution as a legal person domiciled in Hungary,
- (ii) whose main activity or other activity belongs to the sector of strategic importance specified in Annex 1 of Government Decree no. 561/2022 (XII. 23.),

in particular, to the energy, transportation, communications sectors or to the sectors listed in points (a)-(e) of Article 4(1) of the Regulation.

## 2. Process of registration

### 2.1 Registration fee and publication fee

The company is established by the act of the Court of Firms. All companies and sole trader businesses must register at the competent Court of Firms for the company's registered office. Applications for registering or amending details must be submitted electronically via a legal representative. The Court of Firms electronically records documents relating to the company and provides an electronic certificate of registration as well as confirmation of any changes made (The registration shall be published in the Company Gazette (in Hungarian: "Cégközlöny")). The duties which should be paid on the registration of companies are the following:

- HUF 600,000 for European public limited-liability companies;
- HUF 100,000 for private limited companies and for other legal persons not qualifying as an European public limited-liability company or a private limited company;
- HUF 50,000 for the Hungarian branches of foreign-registered companies;
- HUF 50,000 for direct commercial representations of foreign companies.

The duty payable for the registration of companies under simplified proceedings shall be 50,000 forints for private limited companies.

Fees of the procedure of licensing the issuance of shares according to the fee regulation of KELER Zrt. (that is the sole central securities depository and a specialized bank in Hungary, founded in 1993):

- price of ISIN code (mandatory code of securities) paper format: HUF 19,500



- price of ISIN code (mandatory code of securities) electronic: HUF 9,500

In the procedure of company registration legal representation is obligatory.

## **2.2. Miscellaneous charges**

Other charges may arise during the creation of a business organization: price of the official translation of company documents, fee of the notary public, correspondence etc. The amendments in the documents or changes in the data of a business association must be reported to and filed with the Court of Firms. Such amendment procedure is subject to certain fees as well.

## **2.3 Time to complete the registration**

The length of the registration procedure depends on the type of procedure. The registration is done via a general electronic procedure or a simplified electronic procedure.

Rendering a decision in the general electronic procedure may last up to 15 business days in case of business associations from the time of filing the documents and the request for registration with the Court of Firms provided that the Court of Firms does not require further documents or procedures when these deadlines may be extended. An additional 1-2 weeks shall be calculated for the preparation works (preparing and signing documents, opening a bank account, paying the registered capital etc.)

In the simplified electronic procedure, the Court of Firms shall adopt a decision on the registration of a company within 1 business day after the tax authority generated a tax number for the company. In a simplified registration procedure, the company must prepare its articles of association or its deed of foundation in a standard contract form. The 1-2 weeks preparation time shall also be calculated in this case. In this procedure there is no possibility for additional filing. If the registration request has any formal or material problems the Court of Firms will reject the request.

## **2.4. Online founded company**

The amendment of the Company Registration Act, effective as of August 1, 2022, introduces the concept of a company founded online in order to define companies according to the rules of Directive 2019/1151 (EU) of the European Parliament and of the Council of 20 June 2019 (Digital Directive). The rules of online incorporation apply to a limited liability company founded by a citizen of the European Union or a legal person or organization registered in the European Union, and to a branch established in Hungary by a company registered in the European Union.

It is important to emphasize that the term online means adopting the wording of the Digital Directive and means that all operations are carried out electronically, without personal presence. In the case of the establishment of a contract with a company model - and by natural persons - the Digital Directive requires a registration deadline of five working days; however, Hungarian law already provides for the establishment of a contract model with a registration deadline of one working day.

The Digital Directive defines the requirements that must appear in the regulations of the member states. Among these, the elements indicated in the directive preceding the commercial court stage: identification of the parties, determination of their legal capacity, use of trust services, determination of

the role of the participating persons (legal representatives). In the case of a limited liability company, it is also possible to use contract templates, and the electronic possibility of paying the capital required for the establishment of the company and confirming the payment.

### 3. Operational and activity licenses

At the time of incorporation, the company must state its main activity and the areas of activity from which it derives income. The range of activities that can be marked is centrally defined, the so-called TEÁOR (Unified Sectoral Classification System of Activities) is included.

The fact that a company is registered in the Companies Register, or that an entrepreneur completes the registration required, or receives its operational license, does not necessarily mean that it may pursue unrestricted business activities. It is a basic condition for legal operation that a company obtains the different licenses necessary for its activities.

Many manufacturing and service (industrial) activities may be pursued on the basis of a simple report, while numerous activities require a premises license.<sup>7</sup>

Some commercial activities may be pursued on the basis of an operational license<sup>8</sup>. A company can only start activities subject to an official license after obtaining the operational license, which must be submitted to the Court of Firms. The license number and validity period must be entered in the Company Register. An operational license is required, e.g., for operating animal shelters and animal boarding houses, etc.

A number of activities require an activity license prescribed by sector specific legislation<sup>9</sup>.

Certain economic activities can only be carried out in a specific corporate form, such as e.g. some banking and financial institution activities can only be carried out in the form of a joint stock company.

There are also activities subject to qualification requirements, the performance of which requires professional knowledge. In practice, this means that one of the members, employees, or an agent of the company must have the necessary qualifications.

If there is a registration obligation for the given activity, the company may not start its activity until the given activity is registered, e.g. travel organization.

## 4. Environmental regulations

### 4.1 Environmental law

<sup>7</sup> Gov. Decree No. 57/2013. (II. 27.) on certain production and certain service provider activities that can be carried out based on the establishment permit or the notification of the establishment of the establishment, as well as on the procedure for obtaining the establishment permit and the rules for the notification

<sup>8</sup> Gov. Decree No. 210/2009. (IX. 29.) on the Conditions for Conducting Trading Activities

<sup>9</sup> E.g. mining, paper production, battery production, hazardous waste management, etc.

The same environmental acts and regulations have to be applied for the Hungarian and the foreign companies' business activity in Hungary.

Act LIII of 1995 on the General Rules of Environment Protection ("Environmental Act") contains the main principles on protection of environment, including protection of land, water, air nature and the built environment. There are separate regulations on protection of land, forests, fishing, building construction, water management, air pollution, waste management, etc., establishing quality standards and detailed rules of protection.

Due to Hungary's accession to the European Union, Hungary has had to harmonize its environmental law with the EU environmental laws.

In general, anyone violating the rules of environmental protection may be subject to a fine, other administrative sanctions, civil damages. Persons causing such harm are obliged to stop endangering or polluting the environment and shall cease to damage the environment, accept responsibility for the damages caused, and restore the state of the environment to its state prior to the activity.

In case of activity endangering or polluting the environment, the authority or court may restrict the performance of the activity or may suspend or ban it until the conditions it has established are dealt with.

Even if a plant is operated in accordance with environmental regulations (i.e., under valid environmental license, in accordance with rules and standards set up in decrees, etc.), as a party causing contamination it may be liable for it based on the Civil Code.

#### **4.2. Environmental licenses, environmental statement and impact assessment**

The Environmental Act and Government Decree No. 314/2005. (XII.25.) on the environmental impact assessment and the integrated environmental permit procedure provide a system in order to identify the required permit to obtain for certain activities. According to such law in order to conduct business operations (such as operating a plant) one may be subject to the following environmental permits:

- environmental permit
- IPPC (Integrated Pollution Prevention and Control) permit
- environmental operational permit
- specific authority permits in a given area of environmental protection (such as Water Operation, Noise or Air Quality Permits).

Those activities, which have effect on the environment, can be carried out only with different kinds of permissions or licenses. The process of obtaining the permissions/licenses is regulated by the Environmental Act and separate laws (governmental and ministerial decrees).

Under the scope of the Environmental Act, "use of the environment" is an activity involving the utilization or loading of the environment or a component thereof that is subject to an official license.

Any use of the environment may be commenced or continued after receipt of an (i) environmental protection license or (ii) standardized environmental use permit or (iii) environmental operational permit or (iv) consolidated environmental use permit, or (v) a decision issued either by the environmental

protection authority or other authority typically relying on the position of a specialized authority or in the case of activities with minor impact on the environment based on the resolution closing the preliminary assessment procedure after the definitive date of the resolution terminating said procedure issued by the environmental protection authority.

Prior to commencing activities with significant impacts on the environment, an environmental impact assessment has to be carried out.

Government Decree No. 314/2005 (XII.25.) on Environmental Impact Assessment defines activities with significant impacts on the environment and provides the detailed rules of environmental impact assessment.

The impact assessment shall consist of, in some cases - a preparatory and a detailed assessment phase. The applicant shall present the findings of the phases of impact assessment in a preliminary environmental statement and in a detailed environmental impact statement.

The applicant shall notify the competent environmental protection inspectorate of its intent to start an activity. A preliminary environmental statement shall be attached to the application.

On the basis of the application and the preliminary environmental statement, the inspectorate (i) determines whether significant environmental effects may result from the implementation of planned activity and based on the result of its determination it specifies the content elements of the consolidated environmental use permit or specifies the further permit required for the commencement of the activity; (ii) if the preliminary assessment documentation contained several versions, the inspectorate indicates the version or versions for which the establishment is considered possible under appropriate conditions; (iii) if a ground excluding the authorization of the activity arose, specifies this ground and establishes that no authorization can be issued or prescribes the termination of the ground for refusal (iv) prescribes the contents of the impact assessment documentation with respect to the provisions applicable to Natura 2000 areas.

According to the aforementioned rules, procedures to obtain permits, including environmental impact assessment, may entail significant consulting costs.

For certain businesses (such as operating a plant or a manufactory) with environmental protection awareness it might be useful to acquire an Environmental Product Declaration (EPD). This document is based on a standard (such as EN 15804) and can provide a significant advantage on the market because it provides proof for the business acquired it that it is in compliance with certain environmental declarations and legislations detailed in the standard. Although we note that to have an Environmental Product Declaration is not obligatory.

## 5. Cross-border Provision of Services in Hungary

The most important pieces of legislation for cross-border provision of services in Hungary are the following:

- Act LXXVI of 2009 on the General Rules of the Commencement and Performance of Service Activities

- Chapter X of Act C of 2001 on the Recognition of Foreign Certificates and Degrees
- Government Decree No. 33/2008 (II.21.) on Designating the Authorities Acting in Matters Falling Under the Act on the Recognition of Foreign Certificates and Degrees, and on the Classification of Services Subject to a Declaration Obligation

Further sector specific rules of the given service activity may also apply depending on the provided services.

Under Hungarian laws, cross-border provision of a service means a service activity in the territory of Hungary without establishing premises, on a temporary or occasional basis, thus the service provider does not establish a permanent economic presence.

Act LXXVI of 2009 on the general rules of the commencement and performance of service activities in the general rules for access to and exercise of a service activity contains the framework regulations for the activities of service providers based in Hungary or in the European Economic Area (EEA). The principal rule is the freedom to provide cross-border services, which means that a service provider having premises in another Member State of the European Economic Area and legally pursuing the service activity there, does not need to obtain a license, to register the commencement of the service activity or to have any certificate, official certificate or card to provide cross-border services in Hungary.

A service provider who is entitled to the freedom of service provision may not be limited in cross-border provision of services in the territory of Hungary as a principal rule, and the obligatory requirements relating to the commencement and pursuance of service activities set out in the relevant laws ((such as Act CCXXXVII of 2013 which contains the regulations for Credit Institutions and Financial Enterprises) shall not apply to these service providers. Therefore, the Hungarian regulation is in compliance with the EU regulations regarding cross-border service providing governed by Regulation (EU) 2018/302 of the European Parliament and of the Council of 28 February 2018 on addressing unjustified geo-blocking and other forms of discrimination based on customers' nationality, place of residence or place of establishment within the internal market and amending Regulations (EC) No 2006/2004 and (EU) 2017/2394 and Directive 2009/22/EC.

However, there are some rules which shall apply to the service provider in case of cross-border provision of services in the territory of Hungary. These rules are the following:

1. requirements for the protection of public order and public safety, and requirements in the interest of national security and national defense, and further requirements for public health or environmental reasons set out in special laws or government decrees,
2. requirements set out in Act C of 2011 on the Recognition of Foreign Certificates and Degrees in respect of the freedom to provide cross-border services, and other requirements of laws, according to which a given activity may only be pursued by persons qualified to pursue certain regulated professional activities,
3. the statutory provisions on the protection of personal data and the disclosure of data of public interest,
4. in civil, family and labor legal relationships the provisions relating to the conclusion, validity and legal force of contracts, and provisions relating to responsibilities for contract and tort damages, and further provisions relating to jurisdiction and the applicable law,

5. provisions of law relating to the parties' entitlement to legal counsel, and relating to compulsory legal counsel in proceedings at court or compulsory appointment of a notary public,
6. establishment, existence or enforcement of intellectual property rights,
7. requirements relating to the entrance of foreign citizens and to their staying in Hungary
8. requirements set out in EU legislation on the coordination and implementation of social security systems
9. the relevant rules applicable pursuant to the Act of the Labor Code, if an employee is employed by a foreign employer on the territory of Hungary on the basis of delegation, assignment or labor force exchange, and
10. statutory provisions in connection with inland public road traffic of vehicles owned by foreign citizens.

Furthermore, in laws or government decrees the legislature may, in respect to specific service activities, prescribe an obligation for registration and an obligation of preliminary supervision (authorization) as an exception from the principal rule that is the freedom to provide cross-border services. The sectoral rules of the given service activity define which service activities are subject to registration and preliminary authorization.

The obligation for registration does not represent any restriction in respect to the commencement of service provision, as the service provider is entitled to commence the service provision, however, it must be announced to the competent authority (the competent authorities are determined in each case by the sectoral rules). Registration for an activity as cross-border provision of services shall be valid for five calendar years from the date of registration, unless the service provider has indicated a shorter period in the application. After expiry the registration must be renewed. This does not involve any changes concerning the type of the activity.

During the validity of the registration, the service provider may perform the given service activity on an occasional basis. The purpose of this provision is that the service provider shall not need to register in each case, if they want to provide cross-border services on an occasional basis only. On the basis of the registration, the authorities can supervise that the activity is actually performed as a cross-border activity and can determine whether the other requirements are properly observed.

In certain cases, the legislature prescribes an obligation for authorization in respect to the cross-border service provision. In this case the activity may only be commenced after obtaining the authorization. An authorization procedure is prescribed as a prerequisite in cases where it is justified by the protection of public order and public safety, as well as public health or environmental requirements.

Cross-border provision of services is regulated by other regulations in cases where the activity is qualified as a regulated profession. (A regulated profession is an activity which is subject to prescribed qualifications.) In the case of regulated professions, these professions are subject to preliminary registration and preliminary authorization. The list of such professions, are listed in the Annexes to Government Decree No. 33/2008 (II. 21.) on Designating the Authorities Acting in Matters Falling Under Act C of 2001 on the Recognition of Foreign Certificates and Degrees, and on the Classification of Services Subject to a Declaration Obligation.

## OPERATIONS OF A BUSINESS

### 1. Advertising

Restrictions on advertising are mainly governed by Act XLVIII of 2008 on Basic Requirements and Certain Restrictions of Commercial Advertising Activity, Act CLXXXV of 2010 on Media Services and Mass Communication and Act LVII of 1996 on the Prohibition of Unfair Trading and Unfair Competition ("Competition Act"). Advertising is prohibited from being published if it infringes personal rights or encourages violence, or if it encourages any conduct that is likely to jeopardize personal or public safety. No advertisement may be disseminated if it encourages any conduct that is likely to jeopardize the natural or man-made environment. Advertising targeted at children may not be published if it may harm their physical, intellectual or moral development or directly encourages them to motivate adults to purchase goods. It is prohibited to make advertisements available to persons under the age of eighteen years, such that depicts sexuality for arbitrary reasons, or that promotes or displays deviation from one's own identity based on sex assigned to them at birth, gender reassignment, or homosexuality. The advertisement of certain goods is restricted, for example pornographic goods, certain pharmaceuticals, tobacco products and certain alcoholic beverages. Special laws are applicable for advertising of the following products: biocide products, stocks, cosmetics, vehicles, funeral services and dangerous mixtures. Advertising any kind of weapon or other means posing extreme threat to public safety is prohibited. It is forbidden to publish misleading advertisements and restrictions are available for publishing comparative advertisements, and the dissemination of subliminal advertising is prohibited.

### 2. Attorneys

In certain procedures, such as company registration proceedings and proceedings before the Land Registry legal representation is mandatory. Legal practice is regulated by the Act LXXVIII of 2017 on the professional activities of attorneys. Being a member of a local bar association is required to engage in legal practice. A member of the bar association must be a citizen of any State that is a party to the Agreement on the European Economic Area. Legal representation is also mandatory in litigation in certain cases before District Courts, County Courts, Regional Courts (of appeal) and the Curia of Hungary.

A local counsel can be easily found in the national registry of attorneys on the Internet operated by the Hungarian Bar Association (<https://magyarugyvedikamara.hu/html/nyilvanos-kereso/>).

An attorney is entitled to a fee and compensation for expenses in return for the legal services. The attorney's fee is freely decided by agreement between the attorney and the client.

### 3. Bookkeeping requirements

Act C of 2000 on Accounting is the basic legal source of bookkeeping. Every economic entity in Hungary has to keep local books of accounts in Hungarian language and in the form the relevant acts and decrees provide. Persons providing bookkeeping services in compliance with the provisions of Act C of 2000 on Accounting shall be entered into the respective registry according to the provisions of Government Decree no. 93/2002. (V.5.) on the registration of the providers of bookkeeping services.

#### 4. Business ethics/Codes

The Hungarian Chamber of Commerce and Industry has several business ethics and other codes for the different activities. Economic operators whose registration in the Company Register is mandatory shall - within fifteen working days after being admitted to the Company Register apply for registration in the regional chamber of economy of competence. The applications of private entrepreneurs for that purpose shall be submitted at the time of notification of taking up the pursuit of private entrepreneurial activities. Certain associations of business activities constituted their own codes of ethics, for instance the Ethics Code of Building Companies Against Corruption, the Codes of the Hotel Association of Hungary, Hungarian Marketing Associations, etc. These codes constitute Ethics Committees that call the violators of the rules to account.

#### 5. Consumer protection laws'

Act CLV of 1997 on Consumer Protection (Consumer Protection Act') is the framework of consumer protection, which was amended by Act XLII of 2008 as part of harmonization of Directive 29/2005/EC (Unfair Commercial Practices Directive) but several other acts and laws regulate this field, such as the Civil Code, Government Decree No. 45/2014. (II.26.), Government Decree No. 151/2003. (IX.22), the Competition Act and other laws regulating certain fields such as food law. In 2020 the Consumer Protection Act and other related laws were amended by Act CXXXVI of 2020 with regard to the New Deal for Consumers package of proposals of the European Union presented in 2018. Directive (EU) 2019/771 on certain aspects of contracts for the sale of goods has been transposed into our legal system by Government Decree No. 373/2021 (VI.30.), entered into force on the first day of January 2022. The provisions of Government Decree No. 45/2014. (II.26.) on the detailed rules of contracts between the consumer and the business were also amended by Government Decree no. 712/2020. (XII.30.). These amendments entered into force on May 28, 2022 and inter alia they provide the definitions of goods and digital services and also prescribe a detailed notification obligation on the businesses before the conclusion of agreements.

As a general rule, business-to-consumer contracts are governed by the law of the country where the consumer has his habitual residence. The mandatory rules of such law shall apply in place of the selected law if the chosen law would deprive the consumer from the protection afforded to him by the law of his habitual residence.

#### 6. Construction

Act LXXVIII of 1997 on the Formation and Protection of the Built Environment is the framework of construction, several other acts and law regulates this filed such as Government Decree No. 253/1997. (XII. 20) on the National Town Planning and Building Requirements; Government Decree No. 266/2013 (VII. 11.) on construction and construction-related professional practice activities, Act XXXIV of 2013 on the organization involved in the settlement of certain disputes related to the design and construction of buildings, and on the amendment of certain laws related to the prevention of construction chain debts and late payments. On October 5, 2023, the draft law on Hungarian architecture was released for public consultation by the competent ministry. If the act is adopted, it will take effect in several installments between 2024 and 2027 and it is expected to repeal Act LXXVIII of 1997 on the Formation and Protection of the Built Environment. According to its official general reasoning, the aim of the act is to create a transparent and unified regulation instead of the currently fragmented regulatory system.



An application for building permit is required before construction. A building authority permit is required for the formation of lots and for the construction, remodeling, expansion, renovation, rehabilitation, improvement, demolition, relocation and occupancy or modification of the original function of a structure or a section thereof or group of buildings.

The building authority generally has twenty-five days from the filing the application to bring its decision, but in certain cases, the applicable administrative time limit might be 35 or 50 days. When the construction is finished, another permit is required for the occupancy of the structure. The general requirements with regard to buildings constructed are to ensure the safe and appropriate use of the neighboring buildings, to ensure the possibility for public vehicles to reach the building (e.g., ambulance cars), to ensure the special requirements and interest of the protection of the environment; in case of public buildings to ensure that handicapped persons are able to reach the building safely. For the purpose of construction, building material can be traded, used or built in only if a certification of adequacy with the relevant laws is possessed.

Specific rules apply for among others, reconstructing historical buildings or monuments, construction of telecommunication buildings, road construction, building dangerous or nuclear construction, etc. In these cases, an additional permit is required from the relevant authority.

Special provisions apply to the authorization of building commercial units exceeding an area of 400 square meters.

## 7. Price controls

The main regulators of prices are the market and economic competition. Direct government intervention on prices is only justified where the provisions of the Law on the Prohibition of Unfair Market Conduct are not sufficient to prevent harmful restrictions of competition and abuses of economic dominance. Act LXXXVII of 1990 on Price Control is the framework law of regulating price policy in Hungary. The act contains certain products and services, for instance pharmaceuticals and public utilities that are regulated by price limit, price quotation or price margin. In accordance with EU legislation, so called common organizations of specific agricultural product markets have rights to interfere in certain agricultural product markets.

Since the autumn of 2021, the Government introduced a price stop in case of certain goods and products. The application period of this price stop has been extended a number of times and remained effective until July 31, 2023. However, pursuant to Government Decree no. 162/2023. (V. 5.) on measures necessary to reduce wartime food price inflation, vendors are obliged to introduce a price reduction on certain products (eg. poultry, cheese, sugar, etc.).

## 8. Product registration

In general, trading a product does not need to be registered if it complies with the relevant legal regulation and standards, however, there are some goods such as drugs, hazardous materials, weapons, cosmetics, etc., that must be registered in case of their trade. In the field of consumer protection mostly the Commercial Quality Monitoring Institute, which belongs to the TÜV SÜD Group

since 2005 (ÉMI-TÜV SÜD Kft.) is the institution that, upon assignment, monitors certain goods before the market release.

## TERMINATION OF A BUSINESS

### 1. General

The general form of doing business is a business association registered at the Court of Firms.

According to the new Civil Code and the Company Registration Act the business association shall terminate without succession if:

- it was established for a fixed duration, and such period of time expires;
- it was subject to termination upon a certain condition, when this condition is met;
- declared terminated by its members or founders; or
- terminated by a body so authorized;
- declared terminated by the Court of Firms on the grounds set out in the Company Registration Act

provided in all cases that the legal person is cancelled from the registry following completion of the appropriate procedure for the settlement of the legal persons financial affairs.

Following dissolution of the legal person without succession, its assets remaining after settlement of all debts shall be allocated to the legal person's members, or to the person exercising founders' rights in the case of non-membership legal persons in the same percentage as the capital contribution they or their predecessors provided to the legal person.

The members and founders of a legal person dissolved without succession shall be held liable up to their respective shares for the debts of the dissolved legal person outstanding.

The business association shall terminate with succession in the case of conversion, merger and demerger ("transformation").

The termination with legal succession is regulated by the Third Book of the new Civil Code under Chapter XIII, and XXI and by Act CLXXVI of 2013 on the Transformation, Merger and Division of Legal Entities. The termination of the business association can be either through Bankruptcy Proceeding (in Hungarian: "Csődeljárás") or Liquidation Proceeding (in Hungarian: "Felszámolás") governed by the Act XLIX of 1991 on Bankruptcy Proceedings and Liquidation Proceedings (hereinafter: 'Bankruptcy Act'), or through Voluntary Dissolution (in Hungarian: "Végelszámolás") governed by the Company Registration Act. (There are special rules relating to insurance companies, investment funds etc.)

#### 1.1. Voluntary dissolution

According to the Company Registration Act the dissolution is a voluntary proceeding based on the decision of the owners (exceptionally the Court of Firms can initiate the process). Dissolution means the proceeding initiated by the business association that is not insolvent aimed to satisfy its creditors upon its winding up and termination of its corporate existence.

The duration of termination can change from case to case. Some important deadlines are regulated by law. The supreme body of the company shall fix its decision to terminate the company's corporate existence without succession and to go into dissolution in a resolution. It shall lay down in its resolution the time of the opening of dissolution proceedings and shall appoint a receiver, and shall provide for the

future of legal entities in which the company maintains a financial interest, as well as the foundations and non-governmental organizations in which it participates.

The receiver shall notify the competent Court of Firms concerning the opening of dissolution proceedings in the form of a motion for registration of changes, that must contain the date of the resolution for ordering dissolution, the time of the opening of dissolution proceedings, the name (corporate name), home address (registered office), tax identification number, date of birth and mother's maiden name of the receiver; if the receiver is not a natural person, the registration number and the name, address, date of birth and mother's maiden name of the natural person appointed, the termination of the relationship of the former executive officer(s) and the abbreviated name of the company with the with an indication of being under dissolution. The Court of Firms orders the publication of the decision in the Company Gazette.

The company's creditors shall notify their claims to the receiver within forty days following the date of publication of the dissolution notice.

The receiver shall submit the list of claims to the competent Court of Firms within another fifteen days for the purpose of having it archived among the company's public documents. The receiver shall inform the creditors about the classification of their claims within forty-five days following the deadline prescribed for creditors to submit their claims.

Dissolution shall be completed within three years following the time of the opening of dissolution proceedings. If a request for the cancellation of the company from the records is not submitted within three years, the company shall be subject to forced cancellation procedure.

The interests of the employees are secured during the dissolution process. Within a period of thirty days following the time of the opening of dissolution proceedings the company's former executive officer shall forthwith notify the employees, and the trade unions and the workers' councils (shop stewards) specified in the Labor Code regarding the opening of voluntary dissolution proceedings. According to the Hungarian Labor Code the employment relation is terminated by the dissolution. The Labor Code contains the financial consequences of the termination.

## **1.2 Bankruptcy proceeding**

Bankruptcy proceeding is the proceeding when the debtor petitions for moratorium to the Court in order to receive a deferral of payment and to settle its financial situation by virtue of a composition agreement concluded with its creditors.

If the Court did not immediately refuse the debtor's request for the opening of bankruptcy proceedings, it shall adopt a ruling within one working day to publish the request and the debtor's immediate, temporary deferral of payment in the Cégközlöny (which will be uploaded daily on the Company Gazette website at 0:00). The debtor is entitled to the temporary payment deferral from the time of publication.

After ordering the temporary moratorium, the judge must examine the submitted, complete application within no more than five working days to see if it meets the conditions written in the Bankruptcy Act and then issue an order accordingly. If the application meets the above conditions, the court will make a

decision on ordering bankruptcy proceedings, appoint a property inspector, and order immediate publication in the Company Gazette.

The moratorium lasts until midnight on the second working day following the 180th day after publication, unless the court issues an order to extend the payment grace period and also arranges for its publication in the Company Gazette,

During the moratorium the debtor aims to reach a composition agreement with his creditors. If the debtor and its creditors concluded an agreement and the Court approves it, the Court declares the bankruptcy proceedings concluded. If the parties cannot reach an agreement, or does not conform according to the provisions of the Act on Bankruptcy Proceedings and Liquidation Proceedings the Court shall dismiss the bankruptcy proceedings and shall consequently declare the debtor insolvent ex officio in the liquidation proceedings, and shall order the liquidation of the debtor.

### 1.3 Liquidation

Liquidation means the proceeding aimed at providing satisfaction to the creditors of an insolvent debtor upon its dissolution and termination of its corporate existence. The court orders the liquidation of the debtor ex officio, upon request by the debtor, or the receiver or upon receipt of notice from the Court of Firms, if the Court of Firms has ordered the liquidation of the company, upon receipt of notice from a criminal court

### 1.4 Ex Officio Cancellation Procedures

The compulsory/forced cancellation procedure is ordered by the company court:

- if the company is declared dissolved,
- if the company has not completed the liquidation within three years, or
- there was a reason for the termination of the company without a legal successor, and a liquidation procedure there is no place for it to be conducted.

The Court of Registry shall ex officio cancel a company from the records:

- based on a final ruling sent by way of electronic means by the court conducting the liquidation proceedings concerning the winding up of the company,
- during the forced cancellation procedure, if the Court of Firms determines that after the initiation of the forced cancellation procedure
  - no one notified claims against the company to the Court of Firms and
  - no one informed the Court of Firms regarding the company's assets.

Procedures for the termination of companies whose registered office is unknown:

If the competent Court of Firms gains knowledge that the company can no longer be found at its registered office, business premises or branch, or that its authorized representatives cannot be located or their address is considered unknown or its delivery agent is unknown the Court of Firms shall initiate the procedure for termination and directly look for the members of the company registered in the Company Register or, if necessary the Court of Firms shall publish a notice in the Company Gazette to advise the company's members (shareholders) to take the measures necessary for lawful operations within sixty days. In order to restore lawful operations of the company, the members shall be entitled to convene the supreme body of the company.

If lawful operation has not been restored the Court of Firms shall launch the termination proceedings and shall publish in lieu of service of process, a ruling, which shall include a request for any person who has any information concerning the company's address, its operation (including if there is a lawsuit in progress against the company) or the whereabouts of the company's representative to convey such information to the Court of Firms within thirty days from the date of publication.

If no useful information is received concerning the company's address, the Court of Firms shall terminate the procedure and shall declare the company as terminated.

Procedures for the termination of companies whose tax numbers were cancelled:

If the National Tax and Customs Administration (in Hungarian: "*Nemzeti Adó és Vámhivatal*", hereinafter: the tax authority) notifies the Court of Firms by electronic measures that the company's tax number was cancelled and such decision is final, the Court of Firms shall declare the company as terminated, within twenty days subsequent to the receipt of the tax authority's notification.

## 2. Government intervention

Generally, the termination of business can be carried out without governmental approval or intervention. There are some sectors (e.g., bank sector, insurance companies etc.) where it is necessary to get special permissions from the authorities.

## 3. Investor's particular form

If the foreign company establishes a branch office or a commercial representation office in Hungary there are certain rules that must be followed in case of termination. The decision relating to termination must be sent to the Court of Firms. The following requirements must be fulfilled: (i) the foreign company has no public debts in Hungary concerning the branch office or its commercial representative office; (ii) the branch office or the commercial representative office has to publish an announcement about the termination; (iii) there are no procedures in progress before the Courts or other authorities against the foreign company concerning its branch office or commercial representative office; (iv) there is no insolvency procedure against the foreign company or its branch office.

Cancellation of a branch office from the records by request shall not be contingent upon the conditions (i)-(iii) described above if the country where the foreign company is seated is party to an international agreement with Hungary on court jurisdiction, the execution of court decisions and the collection of public debts in civil and commercial matters or if these matters are regulated under EU legislation. The branch office shall nevertheless be required to publish an announcement in the Company Gazette concerning its dissolution with an invitation to its creditors to notify the branch office regarding any claims they may have within thirty days; the branch office shall, furthermore, provide information on the options available to creditors to enforce their unsatisfied claims.

In the event that the foreign company is dissolved without legal successor, removal of the branch office shall also be requested from the Court of Firms. The above-mentioned provisions shall be applied in this case as well.



## LABOR LEGISLATION, RELATION AND SUPPLY

### 1. Employer/Employee relations

The legal basis of Hungarian labor law is Act I of 2012 on the Labor Code. The Labor Code regulates all labor relations. However, for public employees, public officials and government officials' special regulations are applicable (Act XXXIII of 1992 on the Legal Status of Public Employees, Act CXCIX of 2011 on Public Officials and Act CXXV of 2018 on Government Administration) and the Labor Code is only a subsidiary law regarding public employees and officials. The Hungarian law also recognizes a simplified form of employment used generally by seasonal workers which regulated in Act LXXV of 2010 on simplified employment. There are other laws regulating labor relations such as laws regulating strikes, unemployment, labor safety and hygiene, supervision of labor, etc. Government- and ministerial decrees are also applied in the regulation of labor relations. These laws either regulate specific issues or implement a higher level of regulation. Collective agreements are also significant sources of labor regulation.

Employers must ensure that the employees acquire the proper knowledge for the performance of work. This includes the training and instruction of the employees. Employers shall provide adequate training for employees to obtain theoretical and practical knowledge regarding occupational safety and health, and to be able to apply such during their employment, along with the necessary rules, instructions and information upon beginning work, changing workplace or position, as well as upon changes in occupational safety and health standards, having a work instrument converted, or a new work instrument introduced, introduction of a new technological process.

### 2. Employment regulations

Investors may employ nationals or foreign workers with permission to work in Hungary and in possession of an appropriate visa. In 2023, according to the Government Decree No. 573/2022. (XII.23.), the statutorily regulated "minimum wage" per month, in case of time-based pay is gross HUF 232,000 (cca. EUR 600), while the "guaranteed wage minimum" for those who employed in a position which requires a secondary school diploma or advanced vocational training, or higher is 296,000 (cca. EUR 766). The general working time of full-time employment is eight hours a day.

Based on employment-related provisions or an agreement between the parties, the working time of such full-time employment may be increased to not more than twelve hours daily for (i) employees on stand-by, or (ii) employees who are close relatives of the employer or the owner.

Employees are entitled to annual leave comprised of basic and extra annual leave, for each calendar year spent in employment. The amount of basic annual leave shall be twenty business days per year. This amount increases up to thirty days according to the employee's age. Special provisions apply, and therefore extra annual leave days are available, among others, to employees under the age of eighteen, employees assuming the greater role in raising a child, single parents and disabled employees. Annual leave shall be scheduled by the employer upon hearing the employee. With the exception of the first three months of the employment relationship, employers shall allocate seven working days during the annual leave in a given year in not more than two parts, at the time requested by the employee. The employee shall notify the employer of such request at least fifteen days in advance.



Employees are entitled to 15 days of sick leave per calendar year for the time during which the employee is incapacitated to work due to illness, not including accidents at work and occupational diseases as specified by social insurance provisions. Employees are paid 70 per cent of the absentee pay for the duration of sick leave.<sup>11</sup>

### 3. Hiring and firing requirements

The employer is not obliged to employ a minimum number of employees or a minimum number of nationals. Moreover, there are no rules on holding certain positions in the company for nationals. The Labor Code includes the basic rules of hiring an employee. The labor relation is based on a written contract and any kind of discrimination is prohibited.<sup>12</sup> An employment relationship is deemed established by entering into an employment contract. There are mandatory elements of an employment contract, the parties must specify the employee's personal base wage and job function. The term of the employment relationship shall be considered to be concluded for an indefinite duration unless otherwise agreed in the contract. The workplace of the employee shall be considered to be the place where work is normally carried out unless otherwise agreed in the contract. In the absence of an agreement to the contrary, all employment relations are concluded on general principle for full-time daily employment.

Within 8 days of the beginning of the employment, the employer is obliged to inform the employee about the most relevant rules applicable to the job function and the workplace generally.

The employment agreement concluded for an indefinite period of time may be terminated by dismissal, extraordinary dismissal, mutual agreement and prompt termination during the probation period stipulated.

Unless otherwise agreed, the employment agreement is for an indefinite period of time. The employment agreement concluded for a definite period of time may be terminated only by extraordinary dismissal, mutual agreement and prompt termination during the probation period stipulated.

#### 3.1 Ordinary dismissal

Both the employer and the employee may terminate the employment relationship established for an indefinite period of time by notice. Employers must justify their dismissals. In case of dispute the employer must prove that the reason for the dismissal was clear, real and causable. Prior to dismissal, an opportunity shall be given to the employee for defense against the complaints raised against him, unless such act cannot be expected of the employer in view of all circumstances. In case of ordinary dismissal, the employee is entitled to severance pay. During a specific period (e.g., pregnancy) the employers shall not terminate an employment relationship by ordinary dismissal. As a general rule, in case of termination of an employment relationship by ordinary dismissal the notice period is 30 days. As a special rule, however, if the employment relationship is terminated by ordinary dismissal of the *employer*, the 30-day notice period shall be extended, up to a maximum of additional 60 days after twenty years of service. Special provisions apply for group dismissals, where the Labor Code gives significant role to the employees' representatives and labor exchange offices.

<sup>11</sup> For more details see the Labor Code and Act LXXXIII of 1997 on the benefits provided by the mandatory health insurance system.

<sup>12</sup> For more details see Act CXXV of 2003 on Equal Treatment and the Promotion of Equal Opportunity.

### **3.2 Extraordinary dismissal**

Both the employer and employee may terminate the employment relationship by extraordinary dismissal (prompt notice) in the event that the other party willfully or by gross negligence commits a grave violation of any substantive obligations arising from the employment relationship, or otherwise engages in conduct rendering further existence of the employment relationship impossible.

The right of extraordinary dismissal shall be exercised within a period of fifteen days of gaining knowledge of the grounds thereof, but not more than within one year calculated from the occurrence of such grounds.

### **3.3 Mutual agreement**

The employer and the employee may mutually agree to terminate the employment relationship. This of course has to be done in written form.

### **3.4 Prompt termination during the probation period**

The employer and the employee may stipulate a probation period of not more than 3 months in the employment agreement. During this period of time both the employer and the employee may promptly terminate the employment relationship without justification. The employee can request justification if, according to the employee's point of view, the reason of the termination was protected circumstances (e.g. paternity or paternal leave, unpaid leave for taking care of child).

All the above-mentioned types of termination are valid only in writing.

Upon termination of the employment relationship the employee must vacate his position as ordered and settle accounts with the employer (following the notice period in case of ordinary dismissal). The employer must sufficiently provide for the conditions of job transfer and accounting, the wage must be paid to the employee, and s/he must be supplied with the statements and certificates prescribed by legal regulations. At the employee's request, upon termination of his/her employment, or within a year thereof, the employer must provide work evaluation.

## **4. Labor availability**

In Hungary, most of the employees are highly qualified and skilled in every sphere of the labor market. The unemployment rate is around 4per cent.

## **5. Labor permits**

Unless otherwise stipulated by treaty, foreign nationals wishing to enter Hungary for the purpose of employment subject to authorization by law, or some other gainful activity, must have an extended stay visa for admission. By request of a foreign national staying in Hungary with a valid extended stay visa, the regional immigration authority Directorate-General for Aliens Policing) has competence to issue a residence permit to extend the period of stay. As mentioned above, foreign individuals need either a valid stay visa or a residence permit to stay and work in Hungary.

According to the general rule all employment of foreign nationals in Hungary shall be subject to a permit.

## 5.1 Work permits

Types of work permits: (i) individual work permit, (ii) collective work permit, and (iii) individual work permit within a collective permit.

The number of work permits issued to foreign nationals for employment in Hungary at any given time may not exceed the average monthly number of workers requested by employers as reported during the previous year.

The Minister for National Economy shall publish the maximum number of works permits to be issued to foreign nationals calculated in the Official Hungarian Gazette (*“Magyar Közlöny”*) by February 1 of each year.

Individual work permits shall be issued under the following conditions: (i) the employer has a valid workforce requisition on file for the position for which the foreign national is to be hired before the application for work permit is submitted, (ii) prior to filing the workforce requisition no Hungarian worker was available for the position in question who satisfied the employment conditions prescribed by legal regulation or required by the employer, (iii) the foreign national satisfies these employment conditions.

No work permit is required, for example:

- if so prescribed by international agreement;
- for the director of a branch or representative office of a foreign-registered business association, as defined by international agreement;
- for the staff of diplomatic or consular missions of foreign states, or the branches or offices thereof, if delegated by the state which it represents, for employment at the mission or other body, or for the employment of the close relatives of the staff of a diplomatic or consular mission of any foreign state, subject to reciprocity between the states concerned;
- for the staff of international inter-governmental organizations operating in the territory of Hungary under international agreement, and international organizations operating in the territory of Hungary and recognized as such by the public authorities of Hungary (“international organization”) if working for the international organization, including their close relatives;
- for persons delegated by states which are parties to the agreement for setting up an international organization or a common organ not recognized as an international organization (“delegates”) if working for the international organization or the common organ, including the close relatives of such delegates subject to reciprocity between the states which are parties to the agreement;
- for carrying out work that involves commissioning, warranty repair, maintenance or guarantee service activities performed on the basis of a private contract with a business entity established in a third country, if it does not exceed fifteen working days within a thirty-day period at any given time;
- for work performed by an employer established in a state that is a party to the Agreement on the European Economic Area within the framework of cross-border services by way of posting,

temporary assignment to a Hungarian employer for the purpose of fulfilment of a private contract;

- for work performed by a temporary agency worker within the framework of temporary agency work for a Hungarian employer under placement by a temporary-work agency established in a state that is a party to the Agreement on the European Economic Area;
- for the chief executives and supervisory board members of business associations with foreign participation;
- for a foreign national winning a tender for post-doctorate related employment, or the János Bolyai Research Scholarship for work performed as part of the tender or the scholarship program;
- for the employment of a third-country national studying at a foreign institution of higher education as part of an apprentice training program arranged by an international student organization;
- for foreign nationals pursuing full-time studies at vocational schools, secondary schools, basic art schools or institutions of higher education located in the territory of Hungary, for performing work under the term of such legal relationship;
- education activities in primary, secondary and tertiary educational institutions in a foreign language, if performed - as verified by the minister in charge of education - under an international education program signed by the competent ministers of the States affected;
- for the activities of natural persons in the service of an ecclesiastical legal entity of a listed church (ecclesiastical personnel) within the framework of a special ecclesiastical service relationship, under contract of employment or other similar relationship;
- for persons applying for refugee or asylum status, or for subsidiary protection, and for persons granted authorization to stay, for working in Hungary or inside the premises of the reception center, respectively;
- for activities in the field of education, science or art for not more than ten working days per calendar year;
- for activities carried out based on the legal relationship of the third-country national with a public interest asset management foundation performing a public duty, or for activities carried out based on legal relationship with higher education institution, if his stay in Hungary in connection with the employment legal relationship does not exceed 30 days
- for researchers for work carried out within the framework of an international agreement between Hungary and another State, provided that this is verified by a certificate issued by the *Magyar Tudományos Akadémia* (Hungarian Academy of Sciences);
- for the employment of third-country nationals attending practical training courses within the framework of the Comenius, Erasmus, Leonardo da Vinci and Grundtvig programs;
- for the employment of the widow of a Hungarian national, if they lived together in Hungary for at least one year before the spouse's death;
- for researchers for the purposes of carrying out research in Hungary under a hosting agreement concluded with a research organization accredited according to the Government Decree on the Accreditation of Research Organizations Hosting Researchers Who Are Third-country Nationals, and on Hosting Agreements;
- for professional athletes involved in sports activities, and for trainers for their activities to prepare the said professional athletes for sports activities;
- for the employment of the close relatives of the military personnel of Member States which are parties to the Convention between the Parties to the North Atlantic Treaty on the Status of their

Forces, signed in London on 19 June 1951 (“NATO-SOFA Agreement”) and promulgated by Act CXVII of 1999, stationed in the territory of Hungary and of the civilian staff described under Paragraph a) and b) of Point 1 of Article I of the NATO-SOFA Agreement;

- for the family member of a sponsor provided for in Section 19 of the Act II of 2007 on the Admission and Right of Residence of Third-Country Nationals, holding a residence permit issued for the purpose of family reunification and legally residing in Hungary for at least one year, provided that the sponsor can be employed without a work permit; and
- for the family member of a person who has been granted refugee or subsidiary protection status, or to the parent of an unaccompanied minor recognized as a refugee, or to his/her guardian in the absence thereof, provided that he/she holds a valid residence permit for the purpose of family reunification;
- for the employment of a third-country national within the framework of public benefit employment, if eligible under Paragraph b) of Subsection (4) of Section 1 of Act CVI of 2011 on Public Benefit Employment and on the Amendment of Regulations Relating to Public Benefit Employment and Other Acts.
- citizen and resident with certain professional qualifications<sup>10</sup> (e.g., engineer, construction worker, assembler) of a non-EU member neighboring country
- an intra-corporate transferee third-country national with valid permit issued by the competent authority of a Member State and is employed in Hungary by a Hungarian host organization belonging to an undertaking or group of undertakings specified in the previously mentioned Member State and employment in Hungary does not exceed 90 days in any 180-day period
- in case of border commuter requesting residence permit
- for temporary employment relationship between citizens of countries specified by Hungarian Government and qualified temporary work agencies,
- for the family member (minor children, parents of minor children, spouse) of the Hungarian citizen

The exemption described above does not apply for any work performed by a foreign national in excess of the limits to which the exemption pertains. The requirements for exemption are to be evidenced by the applicant employer.

Special rules applicable to foreign nationals planning to work through temporary employment offered by qualified temporary work agencies or planning to work to priority employee (an employer with a valid strategic partnership agreement with the Government, an employer that implements an investment of major importance from the point of view of the national economy, the employer that has a partnership agreement within the framework of the Priority Exporter Partnership Program).<sup>11</sup>

There are special rules applicable to collective work permits and individual work permits within the collective permit<sup>13</sup>.

<sup>10</sup> Determined by the announcement of the Minister of Finance issued in the Official Notice No. 2018/61 and 2019/20

<sup>11</sup> Determined by Act L of 2023 on temporary workers

<sup>13</sup> Government Decree No. 445/2013 (XI. 28.) on the Authorization of the Employment of Third-country Nationals in Hungary by a Procedure Other Than a Single Application Procedure, on Cases of Exemptions from the Authorization Requirement, on the Involvement of the Employment Centers of County (Budapest) Government Agencies in Single Application Procedures in the Capacity of Specialist

Foreign citizens working in Hungary need to request (i) a Social Insurance Identification Number (“*TAJ-szám*” in Hungarian) from the competent body of the National Health Insurance Fund Administration (only by possessing a certificate to this effect does the foreign citizen become entitled to health care), and additionally (ii) a tax identification number from the tax authority.

## 5.2 Rules for EEA citizens

No permission, only notification is required for the citizens of the European Economic Area to enter into an employment relationship in Hungary.

Citizens of EEA Member States qualify as “persons entitled to the right of free movement and residency”.

The employer is obliged to notify the labor center competent, based on the place of work, about the employment of a person entitled to the right of free movement and residency.

The notification shall contain the number of people employed, their age, qualification, citizenship, the HSCO<sup>12</sup> (“*FEOR*” in Hungarian) number of the position, the form of the employment relationship, in case of relatives the “relative” status, the statistical core number of the employer and data whether the employment relation just started or ceased, all in a way that the employees cannot be identified based on the above information.

The labor center verifies if the notification is complete and keeps the records of the data provided.

The employer is obliged to keep the documentation and the verification about starting and ceasing the employment relationship -the subject of the notification- for 3 years after the employment relation terminated. In case of checks the employer is obliged to produce the aforementioned documentation.

The completion of the notification obligation and/or its verification is not a prerequisite to the initiation of the employment relationship and/or to the start of the activity based upon that.

## 6. Data provision on employees to the tax authority

Once they have registered at the Client Gateway, employers are obliged to submit electronically on the Government Portal the data stipulated by law relating to their employees, on the form drawn up for this purpose, for the competent tax authority of first instance, by no later than the first day of the legal insurance relationship prior to commencement of employment.

## 7. Safety Standards

The Fundamental Law of Hungary (Constitution) lays down the foundations of the fundamental rights with regard to health. Everyone living in the territory of Hungary has the right to the highest possible

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Authority, on the Notification of the Employment of Third-country Nationals Who can be Employed Without a Work Permit, and on Wage Compensation

<sup>12</sup> Hungarian Central Statistical Office publication No.7/2010. (IV. 23.) on the Hungarian Standard Classification of Occupations (FEOR in Hungarian)

level of physical and mental health. Hungary implements these rights, among others, through institutions of labor safety and health care.

Labor health and safety regulations cover all kinds of labor relations. It means that these rules apply to public employment and public official relations as well as to service relations etc. The protection of health and safety should not depend on the type of the labor relation. Rules regarding health and safety set up only a general framework. In reality, the employer's instructions and acts put these rules into a specific form.

The basic source of the protection of labor health and safety is Act XCIII of 1993 on Labor Safety. Decrees of the Minister of the Prime Minister's Office regulate certain fields of safety issues, whilst decrees of the Minister of Human Resources regulate the field of labor health in detail. Ministerial rules and standards are also significant sources of labor health and safety regulation.<sup>134</sup>

## 8. Unions

The fundamental rights of employees to trade union representation are based on the Fundamental Law of Hungary (Constitution) and on the Labor Code. These rights include, among others, the right to set up an organization at the workplace, the right to representation, the right to information and consultation, the right to collective bargaining, freedom of association and the right to strike. Trade unions collectively represent these rights of the employees, these organizations' primary function is the enhancement and protection of the employees' interests related to their employment relationship.

The government shall discuss issues of national significance pertaining to labor relations and employment relationships with the organizations of employees and employers through the National Economic and Social Council. State authorities, local governments and employers should cooperate with trade unions as well.

The employer has no obligation to organize unions, but a workers' council is to be elected at all employers or at all of the employers' independent operational facilities (divisions) with more than fifty employees.

## 9. Protection of whistleblowers

According to the Article XXV of the Fundamental Law of Hungary, everyone shall have the right to submit - either individually or jointly with others - a written request, complaint or proposal to any organ exercising executive powers.

According to the Act XXV of 2023 on Complaints and Public Interest Disclosures, and on the Rules of Whistleblowing Notifications, public bodies and local government bodies shall manage complaints and public interest disclosures pursuant to the Act. Anybody may make a complaint or a public interest

<sup>134</sup> Relevant statutes and laws, for example: Act XLII of 1999 on the Protection of Non-smokers; Decree of the Minister of Health No. 50/1999 (XI. 3.) on the Rules of Labor Activities in front of a Screen; Joint Decree No. 3/2002. (II. 8.) of the Minister of Social and Family affairs and the Minister of Health on the Minimum Labor Safety Requirements at Working Places, etc.

disclosure to the body entitled (orally or in writing) to proceed in matters relating to complaints and public interest disclosures. Public interest disclosures may also be made through a protected electronic system for public interest disclosures. The commissioner for fundamental rights shall ensure that an electronic system for making and recording public interest disclosures is operated.

The Act also regulates the rules and criteria of internal fraud systems which shall be established by employers. These rules only applicable if there is no EU regulation in place which establishes different rules in connection of this topic. These EU regulations are listed in the Annex of the Act.

The internal fraud reporting system may be operated by an unbiased person or organizational unit designated for this purpose by the employer or by an external whistleblower counselor or organization. The Act stipulates who can submit report, the method and process of investigation and data protection, the protection of the whistleblowers.

An employer who employs at least fifty persons under contract for some form of employment shall establish an internal fraud reporting system. Internal fraud reporting system shall be established, regardless of the number of employees by employers engaged in specified activities (activities to which the anti-money laundering regulation is applicable, some activities in oil and natural gas sector, civil aviation, and operating floating installation). Employers can also establish this system voluntarily. Local municipalities, public entities and governmental entities shall also establish internal fraud reporting systems.

## IMMIGRATION REQUIREMENTS

### 1. Immigration requirements / Formalities

Third-country nationals may enter the territory of Hungary and stay for up to 90 days within a period of 180 days from the time of first entry under the conditions set out in Regulation (EU) 2016/399 of the European Parliament and of the Council of 9 March 2016 on a Union Code on the rules governing the movement of persons across borders ("Schengen Borders Code").

Foreign nationals may enter and stay in Hungary **for a period of longer than three months if:**

- they are in possession of a valid travel document;
- they are in possession of:
  - a visa for a validity period of longer than three months,
  - a residence permit,
  - an immigration permit,
  - a permanent residence permit,
  - an interim permanent residence permit,
  - a national permanent residence permit, or
  - an EC permanent residence permit;
- they are in possession of the necessary permits for return or continued travel;



- they justify the purpose of entry and stay;
- they have accommodations or a place of residence in the territory of Hungary;
- they have sufficient means of subsistence and financial resources to cover their accommodation costs for the duration of the intended stay and for the return to their country of origin or transit to a third country;
- they have full healthcare insurance or sufficient financial resources for healthcare services;
- they are not subject to expulsion or exclusion, they are not considered a threat to public policy, public security or public health, or to the national security of Hungary.
- they are not persons for whom an alert has been issued in the SIS for the purposes of refusing entry.

Act II of 2007 on the Entry and Right to Reside of Third-Country Nationals provides certain exceptions.

Various bilateral international agreements allow or facilitate entry and stay visa free for period between 30-120 days depending on the nationality of the person arriving with valid passport.

## **2. Permits granting entry and residence**

### **2.1 Visas**

Visas for a validity period within 180 days period not exceeding 90 days are as follows:

- Visas shall be issued according to Visa Code (810/2009 EC)
- In cases defined by Act II of 2007 visa shall be granted upon the prior consent of the central visa authority.
- Visa can be granted by diplomatic and consular representations of a Schengen State in the name of Hungary

Visas for a validity period of longer than 90 days within 180 days period are as follows:

- “Visa for entitlement to receive a residence permit”, for single entry into the territory of Hungary for the purpose of collecting the residence permit and for stay for a period not to exceed thirty days
- “National visa”, for multiple entries and for stays in the territory of Hungary for a period of longer than 90 days within 180 days period under international agreement.

The validity period for a visa for a validity period of longer than 90 days within 180 days period shall be maximum one year for the “Visa for entitlement to receive a residence permit”, while a maximum five years for the “National visa”.

Visa applications shall be submitted personally at the Hungarian foreign representation competent according to the permanent or customary residence of the foreign national. Documents justifying the purpose of entry and stay shall be attached to the application.

### **2.2 Residence Permit**

Third-country nationals holding a valid residence visa or a valid national visa shall be authorized to remain in the territory of Hungary after the period of residence authorized in the visa in possession of a residence permit expires.

A residence permit is an authorization to reside in the territory of Hungary for usually a limited duration of at least three months and not more than two years. A residence permit may be extended for two additional years.

Reasons of permitting residence includes: seasonal employment (for a duration of 6-12 month), research, job-seeking or entrepreneurship, employment, pursuit of gainful activity, study, traineeship, intra-corporate transfer.

Special, simplified procedural rules apply to the EU Blue Card<sup>14</sup> which can be issued to who seeks residence for the purpose of highly qualified employment. It is valid for from one to four year.

Applications for the issue or renewal of residence permits shall be submitted no later than 15 days prior to the expiration of the authorized period of stay. When applying for a residence permit the applicant shall – at the time of submitting the application – have (i) a valid passport, (ii) a document to substantiate his purpose of entry and stay, (iii) sufficient financial means for living in Hungary, (iv) registered accommodation in Hungary, (v) the conditions for continued travel or for the return trip. Specific documentation required to prove the reason for the residence for all option.

### **2.3 Interim Permanent Settlement Permit**

The third-country nationals holding an EC residence permit certifying long-term residence status granted by any Member State of the European Union under Directive 2003/109/EC on the status of third-country nationals who are long-term residents shall be issued an interim permanent settlement permit if seeking admission into the territory of Hungary for the purpose of gainful employment, with the exception of seasonal employment; for the pursuit of studies or for the purpose of vocational training; or for other justified reasons.

### **2.4 EU permanent settlement permit**

EU permanent settlement permit may be issued to third-country nationals holding residence permit or an interim permanent settlement permit for establishing residence in the territory of Hungary if (i) having lawfully resided in the territory of Hungary continuously for at least the five years before the application was submitted (ii) holding an EU Blue Card and having lawfully resided in the territory of Hungary continuously for at least the two years or in the EU for five years before the application. Exemption of the above the residence permit for purpose of study and seasonal employment.

### **2.5 National Permanent Settlement Permit**

National permanent settlement permits may be issued to third-country nationals holding a residence permit or an interim permanent settlement permit for establishing residence in the territory of Hungary, if (i) having lawfully resided in the territory of Hungary continuously for at least the three years before the

<sup>14</sup> Council Directive 2009/50/EC of 25 May 2009 on the conditions of entry and residence of third-country nationals for the purposes of highly qualified employment

application was submitted; (ii) a family member of dependent direct relatives in the ascending line - other than the spouse - of a third-country national with immigrant or permanent resident status or who has been granted asylum, and living in the same household for at least the year before the application was submitted; (iii) the spouse of a third-country national with immigrant or permanent resident status or who has been granted asylum, provided that the marriage was contracted at least two years before the application was submitted; (iv) the applicant was formerly a Hungarian citizen whose citizenship was terminated or whose ascendant is or was a Hungarian citizen; (v) the applicant holds a residence permit issued in consideration of national economic interests at least six months before the application was submitted; (vi) the applicant holds a residence permit granted at least six months before the application was submitted and there is a national economic interest in his settlement. (vii): the minor child of a third-country national with immigrant or permanent resident status or who has been granted asylum.

## 2.6 Special rules regarding European Economic Area nationals

Foreign nationals holding an authorization for entry or stay issued by the competent authority of any Member State of the European Economic Area shall not be required to obtain further authorization to enter, travel through or stay in Hungary.

European Economic Area nationals shall be admitted without a visa, with a valid passport or valid identity card, and may stay in Hungary for 90 days without any other permit. European Economic Area nationals shall not be subject to visa requirement if wishing to stay over 90 days; they have the right to settle certified by their residence permit.

European Economic Area national students holding a valid certification of the educational institution, and having sufficient financial circumstances and health insurance have the right to settle. There are special rules for foreign European Economic Area nationals if the reason of the settlement is connected to employment purposes.

The right to settle for European Economic Area nationals can only be restricted if so stated in the Accession Treaty, or if the residence endangers the national safety or public safety, or if any illness that can endanger public health was detected before the first issuance of the residence permit, or if the residence permit was issued for a third country national on the grounds of family unification, and within 6 months of the issuance the family is not living together any more, provided that the unification was created only for the purpose of the settlement.

Special rules apply for the civil members and their family members falling under the Convention between the NATO Member States about the legal status of the military forces (London, June 19, 1951).

## IMPORT/EXPORT REGULATIONS

### 1. Hungary's GATT and EU membership

Hungary concluded the Accession Agreement with the GATT on August 10, 1973 [Decree No. 23/1973 (IX.9) of Council of Ministers] Hungary, the EEC and the Member States of the EEC concluded the European Agreement on the partnership established among them (Act I of 1994). Hungary has been an

EU Member State with full power as of May 1, 2004 (“**Accession Day**”). Today Hungary is a party in several international trade agreements, such as the General Agreement on Trade in Services (GATS).

Concerning the clearance of products – since Hungary has signed the European Agreement and is a full-fledged EU Member State since May 1, 2004 – the relevant EU custom rules are in force. The characteristics of a custom union are the use of common external customs tariffs and the abrogation of customs regarding the internal commerce between the member states. The custom rules in the EU are governed by Act CLII of 2017 on the Enforcement of the Community Custom Rules. [Regulation (Eu) No. 952/2013 Of the European Parliament and of The Council of 9 October 2013 laying down the Union Customs Code].

### 1.1 Direct trade in Hungary

Foreign investors can trade directly in Hungary by entering into distribution agreements, franchise agreements or agency contracts.

Under a distribution contract the foreign supplier/investor undertakes to sell specific movable product to the distributor, and the distributor undertakes to purchase the product from the foreign supplier/investor and to sell it in his own name and on his own behalf. The foreign investor/supplier shall have the right to give instructions as to the proper distribution of the product.

Under a franchise agreement the foreign investor/franchisor undertakes to grant rights of use, utilization and exploitation rights relating to assets protected by copyright or industrial property rights, including know-how, and the franchisee undertakes to produce and supply goods and/or services through the use, utilization or exploitation of such assets protected by copyright or industrial property rights, including know-how, and to pay the fee agreed upon. The franchisee shall act in his own name and on his own behalf.

The foreign investor/franchisor shall ensure that the franchisee has ongoing and uninterrupted access to the use, utilization and exploitation rights, as are required for running the franchise, during the full term of the contract. The franchisee shall take measures to protect the know-how placed at his disposal. The foreign investor/franchisor shall have the right to give instructions as regards the production and sale of goods and services, and the protection of the reputation of the network and the goods and services produced and/or sold.

A foreign investor can also appoint an agent who can facilitate the conclusion of contracts with third parties.

By choosing any of the options above, the foreign investors can establish a business presence in Hungary and avoid the administrative and capital requirements for creating a local entity. However, these business models are less adapted to investors seeking to make long-term investments.

These contracts are not subject to any specific regulatory requirements. The general export, import and customs provisions will apply. Overseas companies can also establish a branch in Hungary (see above, *Branch Offices and Commercial Representative Offices* part), which will be subject to Hungarian law. Hungarian branches must be registered at the competent Court of Firms and with the tax authority (<https://nav.gov.hu/en>) to obtain a tax number.

## 2. Export/import

The Member States of the EU use the TARIC system (TARIC = "**TAR**if Intégré de la **Comm**unauté"), which includes the Combined Nomenclature, the applicable tariffs and custom, and the commercial and agricultural measures regarding each tariff. Due to its structure, the TARIC enables the national custom administrations to execute the emerging tasks in a unified way in the EU Member States. In Hungary, we use this web page (<https://kkk.nav.gov.hu/eles/1/taricweb/>) to access to the codes.

### 2.1 Export/import of construction materials

According to the Article 4 (1) of the Regulation (EU) No 305/2011 when a construction product is covered by a harmonized standard or conforms to a European Technical Assessment which has been issued for it, the manufacturer shall draw up a declaration of performance when such a product is placed on the market. The declaration of performance shall express the performance of construction products in relation to the essential characteristics of those products in accordance with the relevant harmonized technical specifications. A copy of the declaration of performance of each product which is made available on the market shall be supplied either in paper form or by electronic means. This declaration proves the performance and essential characteristics of a construction product and as such it is necessary to obtain it in order to make the construction product available on the market and to incorporate it into other construction works, buildings.

Regulation (EU) No 305/2011 also states the CE marking shall be affixed to those construction products for which the manufacturer has drawn up a declaration of performance under EU law. If a declaration of performance has not been drawn up by the manufacturer, the CE marking shall not be affixed. For any construction product covered by a harmonized standard, or for which a European Technical Assessment has been issued, the CE marking proves that the manufacturer takes responsibility that the product is in compliance with all applicable requirements laid down in this Regulation and in other relevant Union harmonization legislation providing for its affixing.

The Government Decree No. 275/2013. (VII. 16.) which regulates – as a supplementary legislation to the Regulation (EU) No 305/2011 – the use and marketing of construction product in harmony with the EU legislation adds two more possible category of documents (aside harmonized standard and European Technical Assessment) which can be the basis of a declaration of performance, these are 1) the National Technical Assessment and 2) non-harmonized European standard, international standard or Hungarian standard in case of certain criterias are met. If the declaration of performance is based upon these two categories it can also be valid and the construction product can be made available on the market and can be incorporated into other construction works, buildings, but only in Hungary. Naturally the CE marking can only be used on such products where the declaration of performance is based upon EU law under Regulation (EU) No 305/2011.

## 2.2 Licensing

The EU licensing rules apply to Hungary. For some special product - however - special Hungarian legislation is also in force, naturally not contradicting any EU regulation: the issuance of certain export and import licenses fall within the competence of the Metropolitan Government Office, according to Government Decree No. 365/2016 (XI.29.).

These special legislations are e.g.,

- Government Decree No. 52/2012 (III.28.) on the Cross-Border or Cross-Customs Commerce of Goods, Services and Valuable Rights. This decree applies for export import and re-export between EU and non-EU countries as well. It provides that the export, import and re-export of goods listed in the Schedules of the Decree is subject to the license granted by the Metropolitan Government Office;
- Government Decree No. 156/2017 (VI. 16.) on the Detailed Rules for the Licensing of Military Technical Activities and the Certification of Enterprises;
- Government Decree No. 13/2011. (II.22.) on the licensing of the international commerce of dual-used items.

## 3. Standards

The latest version of standards can be reached through the European Standardization Organizations (CEN, CENELEC or ETSI) databases. In case of a Hungarian standard or a standard which needs to be implemented into the Hungarian list of standards under EU regulations (these contain the text “MSZ” before the number of the standard) the standard and its detailed description can be found in the database of Hungarian Board for Standardization (<https://ugyintezes.mszt.hu/webaruhaz/szabvany-lista>).

## COMPETITION LAW

### 1. Antitrust Laws

#### 1.1 Cartels, Unfair Competition and unfair Influencing of Consumers' Decisions

The Competition Act contains most of the substantive provisions of the Hungarian competition law, including not only antitrust issues and merger control regulation but also unfair competition and competition-related consumer protection provisions. It prohibits vertical and horizontal agreements and coordinated practices between undertakings which are aimed at the prevention, restriction or distortion of economic competition, or which may display or do display such an effect. Misleading business partners in economic competition is prohibited. This act also contains regulations relating to the Hungarian Competition Authority ("Competition Authority").

Agreements and concerted practices between companies and association of companies that aim to prevent, restrict or distort the economic competition, or that display such an effect, are prohibited. This prohibition shall, in particular, apply to the following:

- fixing the purchase or sales prices and defining other business conditions directly or indirectly;
- restricting or keeping under control manufacturing, distribution, technical development or investment;
- dividing the sources of purchases and restricting the freedom of choosing from among them, as well as excluding a set circle of consumers, business partners from the purchase of certain goods;
- dividing the market, excluding anybody from selling, and/or restricting the choice of sales opportunities;
- preventing anybody from entering the market;
- discriminating against certain partners with respect to transactions of the same character or value, etc.
- gearing the agreement to such undertaking which, with respect to its nature and the regular contractual practice is not in connection with the subject of the contract.

Agreements of minor importance and agreements concluded by related corporations are not subject to prohibition. Corporations qualify as related if the corporation controls another or if they are controlled by the same corporation or are controlled by the same corporations jointly.

An agreement qualifies as of minor importance between competitors if the total joint share of the parties concluding the agreement and of the undertakings that are not unrelated to such parties does not exceed ten percent in the market in question, except if it pertains to directly or indirectly fixing purchase or sale prices between competitors or dividing the market among competitors. In case the parties are non-competitors an agreement qualifies as of minor importance, if the combined share of each of the parties to the agreement and of the companies that are not independent from such parties does not individually exceed fifteen per cent on any of the relevant markets.

From national strategic point of view, for example in order to save workplaces, the government may qualify concentration of enterprises as significant. In these cases, no approval of the Competition Authority is required. In addition to the above, certain groups of such prohibited agreements are

exempted from the prohibition<sup>4</sup> by government decrees. The government may exempt an agreement or a planned agreement from the prohibition by focusing on the following aspects:

- it contributes to a more reasonable organization of production or distribution, or to the promotion of technical or economic development, or to the improvement of the situation of environmental protection or competitiveness;
- a fair part of the benefits arising from the agreement is channeled to the consumer or to the business partner;
- the inherent restriction or exclusion of economic competition does not exceed the extent required for attaining the economically justified common goals;
- it does not enable the complete exclusion of competition in connection with a considerable part of the goods concerned.

The Competition Act deals not only with cartels, but contains provisions on unfair competition, unfair influencing of consumers' decisions, the abuse of dominant position and merger control also.

Unfair competition is prohibited. The Competition Act bans generally conducting economic activities in an unfair manner, in particular violating or jeopardizing the lawful interest of customers, buyers and users ('trading parties'), as well as competitors, or in a way which is in conflict with the requirements of business integrity. The Competition Act also specifies some typical activities that violate the prohibition of unfair competition.

It is also prohibited to unfairly influence consumers' business partners' decisions. The Competition Act prohibits misleading consumers in an unfair manner and consequently influencing consumers' decisions. It is prohibited to employ business methods unjustifiably restricting the consumers' freedom of choice or to misrepresent a purchase as a highly advantageous bargain.

## 1.2 Abuse of dominant position

The abuse of dominant position is prohibited, but the existence of dominant position on its own is not subject to prohibition.

A corporation is in a dominant position on the related market if it may perform its business activity independently from others, if it can decide its own market behavior without having to consider the market behavior of its competitors, suppliers, buyers or other business partners. If a corporation has significant market share, usually it can be presumed to be dominant, depending, of course, on other circumstances, as described below.

<sup>4</sup> Government Decree No. 467/2023 (X.12.) on the exception of certain groups of specialization agreements under the prohibition of restrictive market practices;

Government Decree No. 204/2011 (X.7.) on the exception of certain groups of vehicles' aftermarket agreements under the prohibition of restrictive market practices;

Government Decree No. 306/2022 (VIII.11.) on the exception of certain groups of vertical agreements under the prohibition of restrictive market practices;

Government Decree No. 4566/2023 (X.5.) on the exception of certain groups of research and development agreements under the prohibition of restrictive market practices;

Government Decree No. 86/1999 (VI. 11.) on the exception of certain groups of technology transfer agreements under the prohibition of restrictive market practices; etc.



The following shall, in particular, be examined in assessing dominant position: (i) the costs and risks entailed by entry into the market concerned and exit there from, and the realization of the technical, economic or legal conditions that it requires; (ii) the assets, financial strength and revenue situation of the undertaking and group of undertakings, and/or the development thereof; (iii) the structure of the market concerned, the ratios of market shares, the conduct of the participants of the market, and the economic influence exercised by the undertaking over the development of the market trends.

A single undertaking or group of undertakings or several undertakings together can be in a dominant position.

The Competition Act contains a non-exhaustive list of practices that constitute an abuse, i.e. establishment of purchase or sales prices unfairly or stipulation of unjustified advantages in another manner; restriction of production, distribution or technical development to the detriment of the consumers; refusal of establishment or maintenance of business relations adequate for the nature of the transaction without any justification; unreasonable discrimination of business partners by imposing different conditions to similar transactions, usage of dumping prices, etc.

Another legislation which may contain prohibitions is the Act CLXIV of 2005 - on Trade ("Trade Act"). Under Section 7 the Trade Act -amongst others - prohibits any undue discrimination against a supplier; undue restriction of access of a supplier to marketing channels; asserting a threat for cancelling the contract to impel contract conditions for lopsided advantages; applying pressure upon a supplier to use other suppliers or the trader's own supplier.

Under the Trade Act, the term "significant market power" differs from the term dominant position (described in the Competition Act) mentioned above. Significant market power is deemed to have been assessed against a supplier if the consolidated net revenues of a company group from trading activities from the previous year is in excess of HUF 100 billion.

### 1.3 Merger control

Competition Act controls concentration of corporations. Corporations become concentrated if (i) two or more previously independent (unrelated) companies merge, or one merges into another, or a part of an undertaking becomes a part of another undertaking which is independent of the first undertaking, (ii) one or more undertakings acquire direct or indirect control of the whole or parts of one or more other previously independent related undertakings, or (iii) several independent (unrelated) undertakings jointly set up an undertaking to be controlled by them which can realize all functions of an independent company.

One undertaking (or more undertakings acting jointly) has direct control if (i) it holds over fifty per cent of the shares, stocks or voting rights in the controlled undertaking, or (ii) it has the power to designate, appoint or dismiss the majority of the executive officers of the other undertaking, or (iii) it has the power, by contract, to assert major influence over the market behavior of the other undertaking, or (iv) it acquires the ability to assert major influence over the market behavior of the other undertaking.

An undertaking has indirect control over another undertaking when the latter is controlled, whether independently or jointly, by one or more undertakings under the control of the former.

The concentration of undertakings has to be reported to the Competition Authority if the combined net sales revenue of all groups of companies involved and the net sales revenues of the companies controlled jointly by members of the groups of companies involved with other companies in the previous financial year exceeded HUF 20 billion, and among the groups of companies involved there are at least two groups with net sales revenues of HUF 1 billion five hundred million or more in the previous year together with the net sales revenues of companies controlled by members of the same group jointly with other companies.

The *companies involved* are the companies involved directly and indirectly in the concentration. Direct participants are those between whom the concentration arises, meanwhile indirect participants are other members of the group of companies in which the direct participant is also a member.

'Group of companies concerned' means any direct participant, plus the indirect participants with which it is affiliated.

A company shall be regarded to be part of the same group with any company (i) that it controls independently directly or indirectly, (ii) that controls it independently directly or indirectly, (iii) that is controlled directly or indirectly by a company referred to in point (ii); (iv) that is controlled jointly by any two or more of the companies referred to in points (i)-(iii) and the company.

In connection with the merger of insurance companies, the value of the gross insurance premiums shall be taken into account instead of the net sales revenue. For the merger of investment firms and funds, the revenue from investment services and membership fees, respectively, shall be taken into account.

In the course of calculating the net sales revenues of companies, the net sales revenues generated in the previous business year from the goods sold in the territory of Hungary shall be taken into account. In the course of calculating net sales revenues, the turnover between the companies of the same group concerned or between the business units thereof shall be disregarded.

In the case of merger or fusion, the direct participant or, in all other cases, the party acquiring the business unit or direct control has to report it to the Competition Authority.

The notification of concentration shall be submitted following the time of publication of the public bid bringing about the concentration, the conclusion of the contract, or the acquisition of the right of control, whichever occurs the earliest. The notification may be submitted together with proof of making the decision of concentration in good faith.

The permission of the Competition Authority is required for the conclusion of a contract resulting in a concentration of companies according to the Competition Act.

When assessing an application for permission, amongst others the advantages and disadvantages resulting from the concentration, the structure of the relevant market and the effect of concentration upon the suppliers, business partners and consumers shall be taken into consideration.

The Competition Authority refuses authorization if the concentration creates or intensifies a dominant position in so far as to prevent the development, maintenance or expansion of effective competition in the relevant market or in a considerable segment thereof.

In the interest of reducing the disadvantageous effects of concentrations, the Competition Authority may make its permission contingent upon prior or subsequent conditions.

In summary, the process of the merger review consists of the following steps:

1. a pre-negotiation with the Competition Authority (optional)
2. submission of the notification of concentration by the company
3. proceeding of the Competition Authority : analysis and final decision – three possible processes:
  - a. fast-track approval (the deadline is eight days; four days' is the average administrative time)
  - b. decision following a simplified analysis (the deadline is 30 days; 17 days is the average administrative time)
  - c. decision following a full analysis (deadline is four months; 71 days is the average administrative time)
4. a possible follow-up investigation by the Competition Authority

#### 1.4 Merger control in the EU

The area of mergers and acquisitions – similarly to other areas in the competition law – is regulated by both European and Hungarian law. The European Union legislation is applicable on concentrations with a “Community dimension.” A concentration has a “Community dimension” where: (a) the combined aggregate worldwide turnover of all the undertakings concerned is more than EUR 5 billion; and (b) the aggregate community-wide turnover of each of at least two of the undertakings concerned is more than EUR 250 million unless each of the undertakings concerned achieves more than two-thirds of its aggregate Community-wide turnover within one and the same member state. A concentration that does not meet the thresholds laid down above has a Community dimension where: (i) the combined aggregate worldwide turnover of all the undertakings concerned is more than EUR 2.5 billion; (ii) in each of at least three member states, the combined aggregate turnover of all the undertakings concerned is more than EUR 100 million; (iii) in each of at least three member states included for the purpose of (ii), the aggregate turnover of each of at least two of the undertakings concerned is more than EUR 25 million; and (iv) the aggregate Community-wide turnover of each of at least two of the undertakings concerned is more than EUR 100 million unless each of the undertakings concerned achieves more than two-thirds of its aggregate community-wide turnover within one and the same member state.

In cases, other than the above, the Hungarian legislation applies. In Hungary, the mergers are regulated in Chapter VI of the Competition Act. The Competition Authority, which is the appointed agency with regard to merger control, issued useful guidelines e.g.. Notice No. 2/2020 on certain issues of law in connection with merger proceedings applicable to mergers since January 1, 2021; Notice No.

7/2017 in the subject of procedure initiation; Notice No. 8/2017 on prescribing conditions and obligations in decisions, etc<sup>15</sup>.

### **1.5 Acquisition of a qualifying holding in corporations**

Under Regulation (EU) No 575/2013 (36) qualifying holding means a direct or indirect holding in an undertaking which represents 10 % or more of the capital or of the voting rights or which makes it possible to exercise a significant influence over the management of that undertaking.

In Hungary, the Competition Authority's authorization is required for the acquisition of a qualifying holding. The percentage which determines if it's a qualifying holding or not may differ based on the business association in question. In case of financial institutions, investment firms the Competition Authority's permission shall be requested for the acquisition of a qualifying holding in a financial institution or for the acquisition of additional qualifying holding in a financial institution by which to reach the 20, 30 or 50 per cent limit.<sup>16</sup>

### **1.6 Extra commitments of members with a qualifying holding**

Where a member of a private limited-liability company or a shareholder of a private limited company - directly or indirectly - controls at least three-quarters of the votes, the Court of Firms shall be notified thereof within fifteen days from the time of acquisition of such qualifying holding for the purpose of registration and publication.

Within a sixty-day preclusive period reckoned from the date of notification of the acquisition of a qualifying holding, any member (shareholder) of the company may request that his shares be purchased by the owner of the qualifying holding. The owner of a qualifying holding must purchase such shares at the market value prevailing at the time when the request was submitted, which value may not be lower than the value the shares represent in the company's own capital.

### **1.7 Procedure of Hungarian Competition Authority, Sanctions**

The Competition Authority may give an opinion on laws and regulations introduced or planned involving the freedom of competition, prices or the terms and conditions of sales. It helps developing the competition culture and aims to raise consumer awareness. The Competence Authority is proceeding regarding actions violating the Competition Act, except for violation of the prohibition of unfair competition, which is in competence of the courts.

The Competition Authority (the proceeding Competition Council) can authorize the concentrations, declare a conduct illegal, order the termination of any illegal conduct, prohibit the continuation of any illegal conduct, prescribe certain obligations in connection with illegal conduct, impose a fine, etc.

<sup>15</sup> Notice No. 1/2023 on the amendment of Notice No. 14/2017 on the application of the rules on leniency pursuant to Article 78/A of Competition Act; as well as Notices Nos 2/2023, 3/2023, and 4/2023 related to the merger investigation procedures

<sup>16</sup> Act CCXXXVII of 2013 - on Credit Institutions and Financial Enterprises Act CXXXVIII of 2007 - on Investment Firms and Commodity Dealers, and on the Regulations Governing their Activities

The amendment of the Competition Act, effective as of January 1, 2021, brought numerous changes regarding the Competition Authority. These changes intended to ensure that the Competition Act is fully compliant with Directive (EU) 2019/1 (ECN+ Directive) and include – amongst others – the followings: easier mechanism for the Competition Authority to recover fines, possibility for the undertakings to submit a “marker” application not only for immunity but also for reduction of fines), enhanced protection of sensitive information (business secrets), new rules regarding commitments (consultation obligation of the Competition Authority with companies and other affected parties before approving commitments in antitrust proceedings initiated on an EU law basis), more possibilities for the Competition Authority to acquire evidences during on-site inspections and to order (prolong) interim measures, easier mechanism for the Competition Authority to recover fines, new rules in connection with leniency applications (e.g. detailed rules on the cooperation obligation of the undertakings with the Competition Authority), new rules in connection with leniency applications (e.g. detailed rules on the cooperation obligation of the undertakings with the Competition Authority).

The amendment of the Competition Act, effective as of January 2023, introduces the legal institution of the notice letter to the Section 36 of the Competition Act. The purpose of the notice letter is to enable the Competition Authority, in the event of a suspected violation, to directly indicate its concerns to the businesses, without initiating a competition supervision procedure, for which it is possible to promote law-abiding behavior through the correction of the obligated infringing market behavior by the business.

Procedural fees are defined in the Competition Act. In case of application for permit of concentration of corporations – except proceedings for legal remedy –, the applicant has to pay a fee of HUF 1 million (fast-track review). For competition control proceedings opened upon receipt of notification of concentration an administrative service fee of HUF 19 million shall be charged in the case it is not immediately apparent that the concentration does not significantly reduces competition in the relevant market or the investigator orders a full examination of the concentration (full-scale analysis). In any other cases, the administrative service fee is HUF 4 million (simplified analysis).

The proceeding Competition Council may impose a fine for any violation (which is in its competence) of the provisions of Competition Act. The fine shall be a maximum of thirteen per cent of the company's net sales revenue, or the net sales revenue of the group - of which the company penalized is identified in the resolution as a member - for the financial year preceding the year when the resolution on the illegal conduct was adopted.

## 1.8 EC Competition Law

Since May 1, 2004 the date of Accession to the European Union, EC Competition Law has been directly applicable in Hungary. If an anti-competitive behavior has community dimension, Competition Authority has to apply EC competition law as well.

The European Commission has adopted on May 10, 2022 the new Vertical Block Exemption Regulation (“VBER”) accompanied by the new Vertical Guidelines, following a thorough evaluation and review of the 2010 rules<sup>17</sup>. The revised rules provide businesses with simpler, clearer and up-to-date rules and guidance. The new rules will help them to assess the compatibility of their supply and distribution agreements with EU competition rules in a business environment reshaped by the growth of e-

<sup>17</sup> Regulation (EU) No 330/2010 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices

commerce and online sales. The revised VBER<sup>18</sup> and Vertical Guidelines entered into force on 1 June 2022.

### Digital Market Act

The Council and the Presidency of the European Parliament signed the legislation on digital markets on September 14, 2022 (the 'DMA'). As of 12 October 2022, the DMA was published in the [Official Journal](#) and [entered into force](#) on 1 November 2022. Before 3 July 2023, companies have to provide the Commission with information about their number of users so that the Commission can designate "gatekeepers" before 6 September. Gatekeepers will then have until March 2024 to ensure that they follow the obligations of the DMA.

The DMA is the EU's law to make the markets in the digital sector fairer and more contestable. In order to do so, DMA establishes a set of clearly defined objective criteria to identify "gatekeepers".

Gatekeepers are large digital platforms providing so called core platform services, such as online search engines, app stores, messenger services. Gatekeepers will have to comply with the do's (i.e. obligations) and don'ts (i.e. prohibitions) listed in the DMA.

The DMA is one of the first regulatory tools to comprehensively regulate the gatekeeper power of the largest digital companies. The DMA complements, but does not change EU competition rules, which continue to apply fully.

### Digital Services Act

The Council and the Presidency of the European Parliament signed the legislation on a single market for digital services on 19 October 2022 (the 'DSA') The DSA has been published in the [Official Journal](#) as of 27 October 2022 and [came into force](#) on 16 November 2022. The DSA will be directly applicable across the EU and will apply fifteen months or from 1 January 2024, whichever comes later, after entry into force. Digital services include a large category of online services, from simple websites to internet infrastructure services and online platforms. The rules specified in the DSA primarily concern online intermediaries and platforms. For example, online marketplaces, social networks, content-sharing platforms, app stores, and online travel and accommodation platforms.

The Competition Authority has been given new powers to enforce the DMA that entered into force on 1 November 2022 and will apply from 2 May 2023. Based on the Competition Act the Competition Authority may launch competition proceedings to determine whether, in their opinion, the digital platform providers with significant market impact, i.e. the so-called gatekeepers are complying with their obligations under EU law. The Competition Authority is to report the results of its investigation to the European Commission responsible for enforcement.

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<sup>18</sup> Commission Regulation (EU) 2022/720 on the application of Article 101(3) of the Treaty on the Functioning of the European Union to categories of vertical agreements and concerted practices

## TAXATION IN HUNGARY

### 1. Introduction

The present Hungarian tax system has been evolving since 1988, based on the traditions of the German-speaking countries. The specific rules (e.g., tax base and exemptions) of the tax types are regulated in separate laws, such as Act CXVII of 1995 on personal income tax. The tax system is generally regulated by Act CL of 2017 on rules of taxation ('RTA') and Act CLI of 2017 on tax administration and the regulation of tax administration. The various types of taxes can be divided into two groups: direct and indirect taxes. The Hungarian state revenues are structured on basis of three basic taxes, namely, personal income tax, corporate tax and VAT.

### 2. Direct taxes

#### 2.1 Personal income tax regulated by Act CXVII of 1995 („Personal Income Tax Act”)

##### Taxpayers

Both resident and non-resident individuals are qualified as taxpayers, however, resident taxpayers have all-inclusive tax liability: their whole income (both from Hungary and abroad) is subject to personal income tax. Non-resident taxpayers have limited tax liability: in Hungary only income (i) originating in Hungary as the place of gainful activity or (ii) that is taxable in Hungary by virtue of international agreement or reciprocity is taxed.

A private person is qualified as resident taxpayer in the following cases:

- any citizen of Hungary (with the exception of dual citizens without a permanent or habitual residence in Hungary);
- any natural person who exercises - in accordance with the Act on Admission and Residence of Persons with the Right of Free Movement and Residence - his/her right of free movement and the right of residence for a period of over three months within the territory of Hungary in the calendar year in question for at least 183 days, including the day of entry and the day of exit;
- who falls under the scope of the Act on the Admission and Residence of Third-Country Nationals and has permanent resident status, or is a stateless person; furthermore
- any natural person
  - whose only permanent residence is in Hungary;
  - whose center of vital interests is in Hungary if there is no permanent residence in Hungary or if Hungary is not the only country where they have permanent residence; center of vital interests is located in the country to which the private individual is primarily tied by bonds of family and business relations;
  - whose residence is in the domestic territory if there is no permanent residence in Hungary or if Hungary is not the only country where they have permanent residence, and if their center of vital interests is unknown.

Every private person other than resident private persons qualifies as non-resident taxpayer and who falls under the scope of the Act on the Admission and Residence of Third-Country Nationals and has a

permanent resident status, but in any 12-month period stays less than 183 days including the day of entry and the day of exit within the territory of Hungary.

The income basically originates in Hungary for example if

- it is paid by a resident employer or principal (independent from the place of activity);
- the place of activity is in Hungary (independent from the employer or principal);
- it sources from resident assets.

### Types of income

Taxpayer's income must be computed in two different ways: there are incomes that must be consolidated (e.g.: salary, income of intellectual activity, interest or dividend from controlled foreign enterprise etc.). The other kind of income (e.g., income from transferring property, interest, etc.) is taxed independently.

### Calculating the tax to be paid

The consolidated income is the base of the single 15 per cent tax rate.

The tax to be paid can be reduced by different tax allowances (e.g., allowances on certain specific activities, personal and family allowances).

The tax rate of the independently taxed incomes is also 15 per cent, unless otherwise provided by Act.

### Methods for tax assessment

Taxpayer shall determine his tax through self-assessment/self-taxation, and shall fulfill his obligation to declare the determined tax every tax year. The taxpayer (i) submits a return prepared without the assistance of the tax authority to the tax authority, or (ii) corrects or supplements the data of the draft tax return, or agrees with the data shown in the draft tax return. (In case the person did not earn any income during the tax year, or if he only earned personal income that he does not have to declare according to the Personal Income Tax Act (e.g., the tax-free incomes, non-taxable prizes and incomes, if tax has been deducted from it by the payer, etc.), it is not necessary to submit tax return).

The tax authority prepares a draft tax return for the taxpayer, compiled from the data entered in the records of the tax authority, which will be made available on a relevant electronic interface from March 15 of the following tax year. A taxpayer who does not have contact information for electronic contact can request that the tax authority forward the draft tax return on paper by post. The draft tax return includes the person in the register of the tax authority, the income earned by the taxpayer in the tax year, (i) the income falling within the scope of the Personal Income Tax Act and its tax, (ii) the income falling within the scope of the Simplified Public Contribution Act and its tax, (iii) income from a legal relationship according to the Act on Simplified Employment that exceeds the exempt limit according to the Personal Income Tax Act, as well as (iv) the income forming the basis of the social contribution tax according to the Act on Social Contribution Tax and the social contribution tax to be paid thereafter.



If the taxpayer does not agree with the data shown in the draft tax return or the data included in the register on which it is based, the data of the draft tax return can be corrected or supplemented, or a return on the form established for this purpose shall be submitted by May 20 of the year following the tax year.

A private individual with foreign residence can declare until April 30 of the year following the tax year that, due to his foreign residence, he was not taxed in Hungary in the tax year in which the income was earned.

If the taxpayer does not correct or supplement the data of the draft tax return by May 20 of the year following the tax year, or does not fulfill his reporting obligation in any other way, the draft tax return is considered a return submitted by the individual. (In contrast to this, (i) primary agricultural producers who have earned taxable income, (ii) private individuals liable to pay general sales tax and (iii) sole proprietors fulfill their tax reporting obligations if they submit a return using the draft tax return or without the assistance of the tax authorities.)

The taxpayer fulfills his tax reporting obligation without the assistance of the tax authorities, if (i) he only earned income subject to reporting obligations in the tax year, in connection with which he is not subject to the obligation to provide data, or (ii) he submits a tax return instead of accepting, correcting, or supplementing the draft tax return.

The taxpayer is obliged to pay the tax by the deadline for submitting the tax return. The tax authority must issue the refundable tax within 30 days of receiving the data required for the refund. Prepayments of the supposed tax are also required. Every month or in other cases in every quarter an amount must be paid to the tax authority, which can be calculated upon the supposed tax amount in proportion to time.

### Independently taxed incomes

- Certain allocations
- Income of private entrepreneurs
- Income from transfer of assets
- Income from capital investments (among others)

#### Interest income

The act provides for the different types of interest incomes, e.g., interest shall mean (i) yield earned on savings deposits, (ii) the yield of debt securities which are offered and traded publicly or (iii) the yield from publicly offered investment notes. The tax rate is 15 per cent.

#### Dividend income

All revenues of private individuals received as dividends shall be considered income. Tax rate on the dividend is 15 per cent.

#### Capital Gains Income

Income from capital gains realized shall mean the proceeds received upon the transfer of securities less the purchase price of the securities and any incidental costs associated with the acquisition of the securities. The rate of tax on capital gains income is 15 per cent.

## 2.2 Corporate tax regulated by Act LXXXI of 1996 on Corporate Tax and Dividend Tax („Corporate Tax Act”)

### Taxpayers

Taxpayers are treated differently depending on whether they are resident or non-resident taxpayers (a taxpayer is qualified as resident if it is created under Hungarian law).

Taxable resident persons are the following:

- business associations (including nonprofit business associations, regulated real estate investment companies under registration, regulated real estate investment companies and regulated real estate investment project companies), professional associations and European public limited-liability companies (including European holding companies), and European cooperative societies,
- cooperatives,
- state-controlled companies, trusts, other state-controlled economic organizations, companies of certain legal entities, and subsidiaries,
- law offices, bailiff's offices, patent agencies, notary's offices, forest management associations,
- Employee Stock Ownership Plan trusts (“ESOP”),
- water management associations,
- foundations, public foundations, associations, public corporations (including any organizational units of such organizations vested with legal personality in the statutes or deed of foundation), religious organizations, housing cooperatives, and voluntary mutual insurance funds,
- institutions of higher education(including the institutions they have established), and student hostels.
- European groupings of territorial co-operation.
- Private business corporation (Initiated by Act CXV of 2009)
- European Research Infrastructure Consortium

the trust foundations, public-benefit trust foundations fulfilling public functions.

A foreign person is considered a resident taxpayer if the place of business management is domestic.

Assets managed on the basis of a trust asset management contract are classified as resident taxpayers.

A taxpayer is a foreign person or a foreign resident based on the place of business management, if a) he carries out business activities at a domestic location, provided that he cannot be considered a resident taxpayer due to the place of business management (hereinafter: **foreign entrepreneur**); b) earns income by alienating or withdrawing his share in a company that owns real estate.

From 2022, the reverse **hybrid business organization** is a resident taxpayer. The reverse hybrid economic organization is an organization that (i) has a place of registration or registered office in

Hungary, and (ii) is not subject to corporate tax based on the general rules, and (iii) in which you have more than 50 percent voting rights or capital shares profit-sharing - influenced by one or more affiliated entities together, and (iv) the mentioned organization(s) do not have domestic citizenship, and the tax law system(s) of the Hungarian hybrid organization is the corporate tax (corresponding tax) considers it as a subject.

The income of the reverse hybrid entity is taxed in Hungary to the extent that such income is not taxed under the tax laws of Hungary or other tax jurisdictions.

At least two taxpayers may establish a **corporate income taxpayer group**, according to special conditions and in accordance with the CIT Act. As a rule, the corporate income taxpayer group fulfils its tax obligations through a group representative, under the group identification number, and exercises its taxpayer rights. Members of a corporate income taxpayer group may be operating in the following organizational forms: (i) business association (except for not for profit business association), (ii) grouping, (iii) European public limited-liability company, (iv) cooperative society (except for social cooperative, public interest association of pensioners and school union), (v) European cooperative society, (vi) sole proprietorship, (vii) foreign person considered a resident taxpayer due to the location of the head office, and (viii) any non-resident entrepreneur via its Hungarian branch.

Additional joint conditions for the creation of a corporate income taxpayer group are:

- direct or indirect majority control must exist between members according to the provisions of the Civil Code, where one group member or future group member controls at least 75 per cent of the voting rights in the other group member or future group member, or another person controls at least 75 per cent of the voting rights in the group members or future group members (the voting right of an intermediary legal person may be taken into consideration on behalf of the holder of participating interest, if the holder of participating interest controls at least 75 per cent of the voting rights in the intermediary legal person),
- the balance sheet date specified in the group members' accounting policy, or the last day of the tax year at taxpayers not required to file a financial report is the same,
- the financial report, closing accounting statements are prepared uniformly by all group members either according to Chapter III of the Accounting Act or to IFRSs.

### Taxable income

The tax base of the resident companies is based on the accounting profits, which is modified by certain items according to the Corporate Tax Act. The tax bases of some special companies are treated differently; these companies are the non-profit organizations and non-profit companies, the school cooperative, the Employee Stock Ownership Plan, the non-resident entrepreneur and the regulated real estate investment (pre)company.

As of July 1, 2007 there is a minimum tax base for all taxpayers which is 2 per cent of all the revenues of the taxpayer reduced and increased with items regulated by law. With this provision, the legislator created the term expected profit.

There are four exceptions: the taxpayer does not have to pay tax on the “expected profit” (a) during the tax year when functioning as a pre-company and the following tax year, or during the first tax year if a separate financial statement is not required for the period when functioning as a pre-company; or (b) it is one of a limited number of special entities (e.g. foundation, religious organization, social cooperative, public-benefit organization; or (c) after having sustained any natural disaster during the current or the previous tax year, and the value of the resulting damage - or the aggregate value of multiple events, if applicable - represents at least 15 per cent of the taxpayer’s annualized revenues for the previous tax year (for the taxpayers established by way of transformation, of the revenues - combined or split as appropriate for the type of transformation - of the predecessor) and (d) if it is a trust foundation, public-benefit trust foundations or a trust fund managed under a fiduciary asset management contract.

### Tax rate

The corporate tax rate is 9 per cent. The corporate tax is calculated by multiplying the positive tax base (including the positive tax base of corporate taxpayer groups, but not including the individual tax base of group members) by the tax rate.

### Tax exemptions

The following companies are exempted from corporate tax:

- foundations, public foundations, associations - with the exception of national interest representation organizations - and public corporations not qualifying as non-profit companies, as well as housing cooperatives, if the revenues realized from their business operations, recorded pursuant to the regulations of specific other legislation applicable to their activity and the provisions of Schedule No. 6 of the Corporate Tax Act, are not more than HUF 10 million, and do not exceed 10 per cent of total revenues realized in the tax year,
- trust managing assets under fiduciary asset management contract with a natural person as grantor, solely for the benefit of the natural person as beneficiary, and the trust set up by a natural person exclusively for the provision of assets to a natural person as beneficiary, if all income earned in the tax year originates from the receipt, holdings of financial investments, receivables, securities or funds, the collection of proceeds thereof or from exercising the right of disposition over such assets;
- 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,
- water management associations for the portion of the tax base defined by law that, as a part of all revenue, represents revenue realized from activities conducted as public duties;
- public benefit non-profit business associations, and social cooperatives for the portion of the tax base defined by law that, as a part of all revenue, represents revenue realized from preferential activities, as well as
- the tax shall not be paid after the income of a public-interest asset management foundation performing a public task for the part of its tax base that it has earned through its activities for the realization of its goals, public tasks, and public interest activities - thus, in particular, from the receipt, management, and benefits of assets ordered by the founder, provided by those who join the foundation, and from other sources income from collection - represents within the total income.

## Tax allowances

The main tax allowances are the following:

- **tax allowances for small and medium size enterprises:** companies whom are considered to be small or medium sized enterprises are eligible for a tax allowance in connection to loans - by financial institutions - used for the purchase or creation of a tangible asset, where the rate of the allowance is the interest paid during the tax year for the loan.
- **tax allowances for developments:** are available for the commissioning and operation of specific investments as provided for in the Government Decree no. 165/2014 (VII.17.) on Development Tax Reliefs (worth at 50 or 10 million or 3 billion Forints). Tax allowance is established by the taxpayer. In some cases, the benefit of the tax advantage is conditional on a decision of the Government, based on the authorization of the European Commission (e.g., if the costs that can be deducted reach 100 million euros).
- **tax allowances on support provided to cinematographic works, and other tax incentives:** the taxpayer is entitled to tax allowance up to the amount determined in a certificate issued by the Hungarian National Film Foundation or by the competent authority;
- **tax allowance on live music services: taxpayers are eligible for tax allowance** in connection with the consideration (fee) paid for live music services provided at the taxpayer's restaurant, and shown under costs and expenses, in the tax year when the cost, expense incurred.
- **tax allowance for investments and renovations regarding energy efficiency purposes:** taxpayers are eligible for tax allowance in connection with an investment, renovation to comply with energy efficiency targets, upon placing the investment, renovation into operation, in the tax year following the year when the investment, renovation was placed into operation - or in the same tax year at the taxpayer's discretion - and in the following five tax years.
- **tax allowance on sponsorship of popular team sports:** may be claimed in possession of a sponsorship certificate on the promotion of a popular team sport, (e.g., such as football, handball, basketball, water polo, hockey and volleyball) up to the amount indicated in the sponsorship certificate made out to his name from the tax due for the tax year when the aid (support) was provided, and the following three tax years, irrespective of the fact that such allowance shall not increase the taxpayer's pretax profit when determining his tax base, but additional sports development aid (upon a sponsorship or grant contract) is not a recognized cost and it should therefore increase the profit before tax.
- **tax allowance for acquiring start-ups:** In 2017, a Government-Decree No. 331/2017 (XI.9.) was implemented in order to provide incentives to the start-up environment. From 2017, pre-tax profits may be decreased by three times the cost of shareholdings acquired in start-up companies, subject to certain requirements. This tax-base decreasing item is to be applied in four equal instalments, in the tax year of the acquisition and in the three subsequent tax years, but only up to HUF 20 million per tax year and per start-up company. A start-up company is a company registered in the corresponding register managed by the Hungarian Intellectual Property Office.

## Administration

Taxpayers are obliged to determine their payable taxes by self-assessment. Taxpayers must file a tax report by May 31 of the following year. Tax reports can be prepared and filed on a form standardized by the tax authority, which can be downloaded from the website [www.nav.gov.hu/en](http://www.nav.gov.hu/en).

Prepayments of the supposed tax are also required. It is calculated based on the tax paid in the previous year. It must be paid monthly or quarterly, until the 20<sup>th</sup> day of the next month depending on whether the tax paid in the previous year is higher or lower than HUF 5 million. There are several exceptions and the rules of prepayments are not applicable if the taxpayer is wound up, or if it files a tax return in connection with the conclusion of the company registration proceeding, nor shall it be applied by ESOP organizations, companies with real estate holdings, public-benefit non-profit business association, water works associations, foundations, public foundations, associations, public bodies, ecclesiastical legal entities, housing cooperatives, institutions of higher learning registered as public-benefit organizations, voluntary mutual insurance funds, social cooperatives, general interest associations of pensioners and school cooperatives.

### Growth Tax Credit ('NAHI')

The essence of the NAHI discount is that the companies entitled to it receive the tax for the current year a certain part must be paid not in the current year, but in the two tax years following the current year they pay, so they can use it for their further growth.

Regardless of the general rules for declaration and payment of tax advance, if the taxpayer

- a) his corporate tax liability began in the third tax year preceding the tax year or earlier, and
  - b) did not take part in a transformation, merger or separation in the tax year and in the three tax years preceding the tax year, and
  - c) the part of the pre-tax profit of the tax year that exceeds the pre-tax profit of the previous tax year (growth tax credit) reaches or exceeds five times the absolute value of the taxpayer's pre-tax profit of the previous tax year, and
  - d) by the deadline for completing the annual corporate tax return, he declares to the tax authority that he intends to apply the provisions relating to the growth tax credit,
- then, with regard to the amount of the growth tax credit, you can fulfill your tax declaration and tax payment obligations by the end of the second tax year following the tax year - contrary to the general rules - based on the provisions of this section. Special rules shall be applied to the calculation of the amount of the growth tax credit (e.g. dividends and interest received, support and funds received free of charge from an affiliated company, settlement of a liability assumed by an affiliated company for free, etc).

## 2.3 Itemized tax of small tax businesses

ITST (KATA – in Hungarian) was introduced by Act CXLVII of 2012 with the aim of creating a simplified taxation form for entrepreneurs personally conducting their business. Until 2022, it was an alternative income tax for micro and small businesses with no more than HUF 12 million taxable income per year. Not just actual business associations fell within the scope of the act, but private entrepreneurs as well. By choosing this form of taxation – as it was an option for businesses – different rules applied in terms of other taxes, for example Personal Income Tax or Corporate Tax.

The Act XIII of 2022 on the itemized tax of low-tax entrepreneurs ('ITLT Act'), basically amended the conditions of the application of ITST (e.g., scope of taxpayers, rates, etc)

Taxpayers

The subject of the tax is the self-employed individual entrepreneur, if she/he declares to the tax authority using the form established for this purpose that she fulfills his/her tax obligations in accordance with the provisions of ITLT Act. It is not an obstacle to the creation of a taxable person if the taxpayer, prior to the declaration, for the tax year chose flat-rate taxation according to the Personal Income Tax Act.

Sole entrepreneurs whose tax number was canceled by the tax authorities in the year of the return or in the preceding 12 months, or whose tax number is charged with the cancellation of the tax number at the time of the return, are not eligible. be a taxable person.

A sole proprietor who, according to the list of sole proprietorship activities, earned income from activity 68.20 Leasing and operation of self-owned, leased real estate in the year of election as a taxable person is not eligible for election.

The provision obliges the taxpayer to notify the tax authority within 15 days of receiving the income, if he obtains income from rental or operation of the property, or from a payer (including a foreign payer) according to Art. income from passenger transport (TESZOR 49.32.11)].

The taxpayer will cease to be a taxpayer, if - among others - (i) the taxpayer earns income from the rental or operation of the property - the day before the income is earned; or (ii) the taxpayer obtains income from the payer (including the foreign payer) according to Act CL of 2017 - the day before the income is obtained.

#### Tax rates

The tax rate is 50 thousand HUF/month.

During the period of tax liability, the taxpayer is exempt from the obligations related to the following public charges related to his economic activity:

- a) determination, declaration and payment of personal income tax and corporate dividend fund tax or flat rate tax according to Personal Income Tax Act;
- b) determination, declaration and payment of personal income tax and social security contributions payable on oneself;
- c) determination, declaration and payment of the social contribution tax.

By paying the itemized tax, the taxpayer is not exempted from the tax obligations to be fulfilled for the incomes provided in respect of the employment of the private individuals he employs.

The above rate applies to 18 million HUF income/year, above this limit a 40 percent additional tax has to be paid (but only with regard to the amount exceeding).

The deadline for the payment of itemized tax is still the 12th of the month in question, and the tax year's income must still be declared by February 25 of the year following the tax year.

## 2.4 Small business tax (“SBT”)

SBT is a new alternative income tax for small businesses with no more than HUF 500 million taxable income per year. It was introduced by Act CXLVII of 2012. In terms of entrepreneurs fulfilling the requirements of the Act, the SBT applies instead of Corporate Tax and Social security tax.

### Taxpayers

There are 3 conditions that must be met:

- To operate in any of the following business forms:
  - private business corporation
  - general partnership;
  - limited partnership;
  - limited liability company;
  - private limited-liability company;
  - cooperative and housing cooperative;
  - forest management association;
  - bailiff’s office;
  - law office, law firm, notary’s office;
  - patent agent office
  - foreign entrepreneur
  - foreign persons with head offices in Hungary
  
- To fulfil all of these conditions:
  - the average number of employees is not expected to exceed 50 persons during the previous tax year;
  - the revenue estimated for the previous tax year is not expected to exceed 3 billion HUF, or the commensurate part of 3 billion HUF calculated on a time basis if the tax year is shorter than twelve months;
  - the tax authority did not withdraw or suspend the person’s tax number during the preceding two calendar years;
  - accounting date for the financial year is 31 December;
  - the balance sheet total shown in the financial report prepared for the previous tax year is not expected to exceed 3 billion forints;
  - it does not have a controlled foreign company in the tax year preceding the tax year;
  - if the amount by which the financing costs - provided for in the Corporate Tax Act - of a taxpayer incurred in connection with its business operations exceed the taxable interest revenues and other economically equivalent taxable revenues that the taxpayer receives is not expected to exceed 939,810,000 forints for the tax year, from the day preceding the first day of the tax year.
  
- Being subject to this tax depends on the taxable person’s choice, so choosing taxability must be reported to the tax authority.



### Taxable income

- The taxable income is based on the balances of items provided for in the Act; and
- Payments of personal nature (e.g., payments, dividend...etc.)

### Tax rates

The tax rate is 10 per cent.

## 2.5 Extra taxes of certain activities (“post-crisis taxes”)

Subject of the taxes: Activities subject to the extra taxes are banking transactions, insurance, telecommunication services, and the ownership of public supply mains (water, sewage, gas, and heat pipes, electricity and telecommunication cables).

Taxpayers: Each tax must be paid up by persons pursuing the activities subject to the extra tax.

### Tax base and tax rate:

- **Banking transaction tax:** the tax rate is 0,3 per cent of the transaction amount with a cap of HUF 10.000/transaction;
- **Insurance tax:**
  - 15 per cent of the tax base in connection with comprehensive insurance policies;
  - 10 per cent of the tax base in connection with property and accident insurance policies;
  - 23 per cent of the tax base in connection with compulsory motor vehicle liability insurance policies, not exceeding HUF 83 /motor vehicle for each calendar day of the period of risk coverage provided by the insurance company.
- **Telecommunication tax:** the tax rate is HUF 2/minute for voice calls and HUF 2/message for text messages
- **Public supply mains tax:** the tax rate is HUF 125/meter for public supply pipes and cables

## 2.6 Extra tax of financial enterprises and credit institutions – Act LIX of 2006

The tax base is the balance sheet total (adjusted by certain factors specified within the Act); the tax rate is 0,15-0,2 per cent for credit institutions, and 6,5 per cent for financial enterprises.

## 2.7 Social security tax – Act LII of 2018

Social security tax was newly introduced at the end of 2011. The tax replaced social security contributions; the main difference is that social security tax does not trigger right to social security attendances or subsidies. Social security tax must be paid by persons who allocate income (salary, etc.) to private individuals (mainly employers) as well as by private entrepreneurs; and all types of incomes are subjected to it that are also subject to personal income tax. The tax rate is 15,5 per cent.

## 2.8 Advertisement tax – Act XXII of 2014

Advertisement tax was introduced in August 2014. However, since the previous amendment of the Act, the rate of this tax is currently 0 percent, as to 31 December, 2023.

## 2.9 Other direct taxes

Motor vehicle tax: Shall be paid after the cars with valid Hungarian number-plate and after the non-Hungarian trucks that run in Hungary.

Local taxes: Within the framework of the Local Tax Act, local governments can freely decide which kind of local taxes and how high rates they apply; the various types of the local taxes are the following:

- tax on buildings;
- land tax;
- communal tax for private persons;
- communal tax for entrepreneurs;
- tourism tax;
- local business tax.

The maximum rate of the local business tax per annum is 2% of the tax base. The tax base shall be the adjusted net sales revenue. When calculating net sales, royalties received can be deducted, as well as certain special types of taxes accounted for by the company. Specific rules apply to certain types of enterprises, such as Hungarian branches of foreign companies.

Environmental taxes: For reducing the environmental pollution, certain products and activities are object to special environmental taxes; these taxes are the following:

- environmental product charge;
- environmental load charge.

Other special taxes and similar obligations:

- separate tax of private individuals in certain public positions
- mining allowance
- water inventory management contribution
- agricultural contributions
- tourist contribution

## 3. Indirect taxes

### 3.1 Value Added Tax regulated by Act CXXVII of 2007 (“VAT Act”)

#### General

VAT is a general consumption tax. As an indirect tax, VAT is included in the sale price of products or services: the price paid by the customer contains the actual value of the product plus VAT. If the customer is not an end user (he utilizes the product or the service for selling his products or providing his services), he can reduce the VAT to be paid with the VAT he paid for the purchased goods and services. Actually VAT – as apparent from the name – is only paid after the value added by the manufacturer to the value of the product, in every marketing stage.

### Taxable transactions

A transaction is taxable, if it is concluded in the territory of Hungary and it is concluded by a taxable person: (i) a natural person or (ii) a legal person or (iii) an organization which is not a legal person but is a legal entity that pursues economic activity regardless of the activity's place, target and result and the transaction is (i) purchasing products or providing services in Hungary by a taxable person or (ii) importing products (not only by taxable persons), or (iii) the intra-Community acquisition of goods.

### Place of the performance

In case of purchasing products, the place of the performance is

- where the product is at the time of the beginning of the transportation or of the dispatching (if it is abroad, and the receiver is an importer, the place of the performance is Hungary),
- the place of the set-up,
- the place where the product can be found at the time of the obligation,
- the place of dispatch or the destination of delivery in case of purchase of the product from the European Community.

In case of providing services, the place of the performance is

- the seat or business establishment of the provider (if it is in abroad, the service is not subject of VAT),
- in case of services concerning immovable: the place of the immovable,
- in case of carrying passengers or goods the route that was actually taken,
- in special cases at the place where the service is provided,
- in special cases at the seat of the customer
- in case of carrying goods within the European Community the place of departure.

### Calculating the tax

The tax base is the consideration paid for the product or for the service. The tax rates are different depending on the type of the product or the service; the possible tax rates are the following:

- 27%: main rule,
- 18% for products listed in Annex III/A of VAT Act (e.g. milk, meal products).
- 5%: for products listed in Annex III of the VAT Act (e.g. medicines, books etc.).

Since VAT is only paid after the value, the paid VAT can be deducted from the received VAT if the product or service is used for manufacturing other products or providing other services (with some exemptions listed in Section 124 of VAT Act).

Some persons and activities are exempted from the tax. The conditions of the subjective tax exemption are: (i) national seat or domicile and (ii) the income of the previous year is under HUF 12 million. The types of the objective tax exemptions are listed in the 6<sup>th</sup> Chapter VI of VAT Act.

### Administration

The taxable persons must (i) report their existence to the tax authority for registration, (ii) issue an invoice (or a document equivalent with the invoice according to the VAT Act) after the received consideration, (iii) have a detailed book-keeping with the received invoices and the copies of the issued invoices, (iv) fill in a tax report monthly/quarterly/yearly depending on the amount of the VAT and (v) pay the VAT.

### 3.2 Excise tax

#### Subject of the tax

Excise products listed in the act: petroleum, alcoholic products, beer, wine, champagne, intermediate alcoholic products, tobacco products.

Excise tax warehouse Special warehouse, where the excise product can be produced, or the imported excise product can be stored tax-free. A valid excise tax warehouse license given by the custom authority is needed to operate such a warehouse.

Taxpayers' Inland producer of excise products, who holds a valid excise tax warehouse license, and persons importing excise products.

Tax suspension: The tax shall not be paid upon importing or producing excise products, if the product is stored in an excise tax warehouse. The suspension lasts until the obligation of paying the tax comes into force (typically the product is being put on the market), or until the taxable person is released from the obligation (for example the product is being exported). There are also several tax-free uses of excise products.

Tax base and tax rate: The tax base depends upon the product in question. The tax rate is itemized, and also depends on the product. The method of calculating the tax base and the tax rate is detailed in the Excise Tax Act.

### 3.3 Product tax for public health

Subject of the tax: Products with customs tariff number as listed in the Health Product Tax Act which are pre-packaged and the sugar-, salt-, or caffeine content of which is higher than that determined by the Product Tax Act.

Taxpayers: Tax payers are natural persons or organizations introducing the product into the Hungarian market at the first time.

Tax base and tax rate: Tax base is itemized and depends upon the amount of the product expressed in kilograms or liters. Tax rate is itemized as well and is determined in terms of each product-type.

## 4. Stamp duties

The two main types of duties are: property acquisition duties and procedural duties.

## 5. Property acquisition duties

### Acquisition of property for free

- Inheritance duty

Subjects of the duty are: heritage, testamentary gift, forced share, donatio mortis causa.

- Duty of gifts

Subjects of the duty are: any property, including real property, free founding of valuable rights and interests, or assigning such right or exercise of such right.

- Tax base and tax rate for both inheritance duty and duty of gifts

The tax base is the net value of the property, which is described by the Act XCIII of 1990 on Duties ('Duties Act'). The general rate of the duty on inheritance and gifts is 18 per cent. In case of acquisition of residential property or rights related to residential property the rate of duty is 9 per cent. There are also several items modifying the tax base. Tax allowances are also available. Duties Act provides duty exemption for direct line relatives.

### Acquisition of property for consideration

As a main rule this tax applies only to the acquisition of immovables, while there is a list of certain movables in the Duties Act that are also subject to the tax. The tax base is the market value of the property, including all charges. The tax rate is basically 4 percent, but it may vary based on the provisions of the Duties Act. There are several exceptions. Special rules apply for residential property, acquiring property for the purpose of real estate marketing, property acquisition of credit institutions, acquisition of motor vehicles.

## 6. Procedural duties

Administrative proceedings: There are general and special duties. General duties apply as to a certain percentage of the amount/value of the subject-matter of the proceedings, while special duties are connected to special proceedings, such as issuing driving licenses, passports, etc.

Court proceedings: Different duties apply for civil court proceedings and for criminal court proceedings.

Tax rates: There are itemized and percentage tax rates.

## 7. Other indirect taxes

Registration tax: Shall be paid after cars and certain other vehicles when registered and introduced into the Hungarian market as well as by operators of fleet vehicles in case of lease. The amount of registration tax depends upon the age, environmental classification of the car and the size of its engine.

Game tax: Shall be paid by organizers of gambling, lottery, bets, casinos and similar games of chance, on the basis of the amount of the prize that can be won by participants.

## EXPATRIATE EMPLOYEES

### 1. Cost of Living and Immigration

Since the average wages are also significantly lower than those in other EU countries, the cost of living is higher from the point of view of a Hungarian citizen. Foreigners from non-EU countries can find this cost higher than in their own countries.

### 2. Driving licenses

A foreign person may drive for one year with his/her driving license acquired in his/her country, if the license satisfies the formal conditions set forth in the relevant Hungarian laws. Driving licenses acquired in an EU country are accepted in Hungary though in case of those without validity date, those have to be changed to a Hungarian driving license after 2 years of residency. If the driving license was issued in a non-EU country it shall be changed to a Hungarian one after one year of Hungarian residency. The Hungarian authorities change the driving license of the foreign investor upon his/her request.

In case the foreign person does not have a driving license, after having spent 6 months in Hungary, he/she may obtain a Hungarian driving license. For obtaining such license, the person must pass a complex exam. During this examination the skills of driving, the knowledge of the Driving Code and a fundamental technical knowledge concerning the vehicle are examined. The complete charges of obtaining the driving license (including practice, exams, administration fees) may amount to. EUR 750-850.

### 3. Education

The foreign investors' children may enroll the same schools as Hungarians, provided that the children speak a minimum level of Hungarian language. If not, many foreign-speaking schools are available in Budapest area. In Hungary there are schools maintained by the state, (local governments), churches and private persons.

In public schools and usually in church schools, too, the enrolment is free, the private schools may ask for enrolment fees.

### 4. Housing

A foreign person may rent houses, flats, rooms or other type of accommodation available in Hungary. The rental fees vary depending on the number of rooms, neighborhood, etc. The monthly rental fee of a two-roomed flat with kitchen, bathroom in the III. district (calm, elegant suburb) of Budapest amounts to approximately EUR 700-800.

A foreign person may acquire property in Hungary in case of obtaining the required permits. Under the general rule non-resident individuals and foreign undertakings may not acquire arable land and protected natural areas in Hungary. Other types of acquisition of real estate are subject to a licensing procedure carried out by the competent authorities.

In case of inheritance, in case of EU or EEA citizen or citizen of Switzerland, permit is not required to acquire property. An EU citizen does not have to have housing before entering the country, but shall have sufficient financial resources to cover the full cost of his/her journey and staying. Such proof of the existence of such resources may be a document certifying that the investor already has accommodation in Hungary. A non-EU citizen who wishes to stay longer than three months may enter the country if he/she has accommodation and sufficient financial resources.

### **5. Importing personal possessions**

The EU custom rules also apply in this area. The relevant EU regulation is the Council Regulation (EC) No 1186/2009/EC setting up a Community system of relief from custom duty.

### **6. Medical care**

There is a national health care system in Hungary, including health services and pensions. Foreign investors may conclude an agreement with the Hungarian authorities in order to participate in the health insurance services. Such agreement may be concluded by the employer for the benefit of the foreign employee. Private hospitals, private care options, and private health insurance is also available.

### **7. Tax liability**

The tax liability of the foreign persons depends on the double tax conventions concluded by the investor's country and Hungary. Usually if the employee spends more than 183 days in Hungary, the salary paid to him/her by the employer for the work done in Hungary is subject to personal income tax in Hungary.

### **8. Work contracts**

For obtaining an extended stay visa by the employee, the employee's valid work contract is needed. (For the conditions of employment for EU and Non-EU citizens, see LABOR LEGISLATION, RELATION AND SUPPLY title)

## INTELLECTUAL PROPERTY

Hungary is a member of most of the WIPO-administered international treaties related to intellectual property (such as the Berne Convention, the TRIPS Agreement or the Lisbon Agreement); consequently, the law for the protection of intellectual property is in accordance with the European regulations. Matters regarding intellectual property are administered by the Hungarian Intellectual Property Office (HIPO). In Hungary there is no specific court for lawsuits related to intellectual property claims and infringements, legal disputes are settled in front of a civil or criminal court.

### 1. Copyright

In accordance with EU regulations Hungary successfully implemented the Satcab and CDSM directives to its legal system during the summer of 2021, therefore Hungary incorporated the EU copyright reform into its legal system.

Copyright protection subsists automatically, without any registration requirements according to Act LXXVI of 1999 - On Copyright. A work or creation is entitled to copyright protection on the basis of its individualistic and original nature deriving from the intellectual activity of the author. Copyright protection does not depend on quantitative, qualitative, or aesthetic characteristics or any judgment of the quality of the work.

In case copyrights are infringed the author may - in accordance with the circumstances of the case - lodge a number of civil law claims, amongst this the author can demand the following:

- the infringer makes amends for his action
- restitution of the economic gains achieved through infringement of rights
- compensation for damages in accordance with the provisions of civil liability

#### 1.1 The Council of Copyright Experts

Disputes over copyright matters are complicated, assuming to take into consideration several aspects at the same time and therefore require special expertise.

The Council of Copyright Experts ("SZJSZT" in Hungarian) generally provides advisory opinion in copyright disputes for the request of courts and other authorities however, an opinion can be requested by the parties concerned in out-of-courts disputes or before dispute settlement as well. An advisory opinion can help in solving the arising disputes (or even to avoid a long and costly court procedure) since it can give a lead about the legal adjudication of the case and may indicate a way to settle it.

#### 1.2 Voluntary register of works of art

Although there is no need for registration in order to acquire copyright protection it is possible for the author to register the work into the Voluntary register of works of art administered by HIPO. The registration in itself does not create any copyright or other legal protection for intellectual property but based on the Voluntary registration of works of art HIPO issues an authentic instrument which later in a legal dispute can prove that the registered work existed with the content at that time.



## 2. Patent

In Hungary, any novel invention that involves an inventive step and is industrially applicable shall be patentable in any area of technology. An invention appears to involve an inventive step if it is nonobvious to an expert relative to an existing technology.

An application must be submitted to the Hungarian Intellectual Property Office (HIPO) by the claimant in order to acquire patent protection. European and international patent application is also available in the HIPO.

During the application period a temporary protection shall protect the invention to be patented. The term of definitive patent protection is twenty years. During the protection period, the patent holder has exclusive right to exploit its invention. The patent holder shall be entitled to prohibit anybody (with some exceptions, i.e. private use, experiment with the product, testing of medical product, non-regular preparation of medical product), who, without his authorization holder of the patent shall be entitled to prohibit anybody, who, without his authorization manufactures, uses, distributes or offers for distribution the product that is the subject matter of the invention or keeps stocks of this product, or uses the patented process.

### 2.1. Non-Infringement

According to Act XXXIII of 1995 on the Patent Protection of Inventions, a Declaration of Non-Infringement can be acquired for patents. Any person who anticipates of being charged for an alleged patent infringement may request, before the proceedings are opened, a finding to the effect that the product or process exploited - or proposed to be exploited - by him does not infringe upon the patent he has specified.

The final resolution adopted for the declaration of non-infringement precludes those proceedings be instituted for patent infringement on the basis of the specified patent, for the same product or process.

### 2.2. Patent Prosecution Highway

The Patent Prosecution Highway (PPH) is an agreement between two or more national Intellectual Property Offices. In its bilateral form it is an individual agreement (such as the one between the Hungarian and the Chinese Offices) and in its multilateral form (GPPH – Global Patent Prosecution Highway) it's a network of these Offices which the Hungarian Intellectual Property Office is part of. Although it is important that both Global PPH and PPH are voluntary options for patent applicants, the intellectual property offices are not obliged to accept the opinion of any other intellectual property office involved in the cooperation

It provides applicants with fast-track patent examination procedures to obtain corresponding patents faster and more efficiently. It will also permit each office to make use of the work previously done by any other office and reduce duplication. Patent applicants can request accelerated processing of their applications at any of the offices (Office of later examination, OLE) involved in the pilot if their claims have been found to be acceptable by any of the other offices (Office of earlier examination, OEE) involved in the pilot. Thus, the PPH initiative will reduce the examination workload and improve patent quality.

## 2.3. Compulsory Licensing

Under Hungarian law if the holder of the patent did not exploit the invention within the territory of the country, in the interest of satisfying domestic demand, did not make any effective and genuine arrangements therefor, and did not license exploitation to others during the four years reckoned from the patent application or - if this period is longer - during the three years from granting the *patent*, a compulsory exploitation right shall be granted to anyone requesting it, unless the holder of the patent justifies the default.

The Act therefore states the three cases when compulsory licensing might occur. These are:

1. Dependency of Patents
2. Failure to Commence Exploitation and to the Dependency of Patents
3. Public Health Compulsory Licensing

## 3. Utility models

Under Act XXXVIII of 1991 on the Legal Protection of Utility Models a new technical solution not reaching the level of a patentable invention can be protected by utility model relating to the construction, structure or arrangement of components. By virtue of utility model protection, the owner of the said protection has, as provided for by legislation, the exclusive right to exploit the utility model or to license another person to exploit it. The utility model protection can be obtained through the granting procedures set out in law before the Hungarian Intellectual Property Office.

In Hungary it is also possible to obtain a valid utility model protection through an international application within the frame of Patent Cooperation Treaty (PCT). Foreign applicant has to be represented by authorized representative residing in Hungary in procedures started before the Hungarian Intellectual Property Office. In case of obligatory representation, only attorney or patent attorney is entitled to perform it.

A utility model application filed in Hungary can be transformed into a European patent application within the union priority range of 12 months, if the utility model application meets the requirements of European patent applications.

## 4. Trademark

Act XI of 1997 on the Protection of Trademarks and Geographical Indications defines that trademark protection can only be acquired if the proposed trademark may consist of any signs which are capable of distinguishing goods or services from the goods or services of others; and capable of being represented in a manner which enables the competent law enforcement bodies and the public to determine the clear and precise subject matter of the protection afforded to its proprietor.

A trademark may consist of any signs capable of being represented graphically, particularly: words, word combinations, including personal names and slogans; letters, numerals; designs, graphics; flat or three-dimensional figures, including the shape of the goods or of their packaging; a color, a combination of colors, a light signal, a hologram; sounds; motion displays; position signs; multimedia displays; patterns; and combination of signs.

Trademark protection shall be valid for a period of ten years from the date of filing for registration, but it may be renewed for further periods of ten years. Following the registration, the holder of the trademark has exclusive right for the use and exploit of trademark, the proprietor may initiate proceedings against any party (with some exceptions) who, without his consent, uses within the scope of its economic activities and its use can confuse the consumer or it is identical or similar.

However, if the proprietor of an earlier trademark has acquiesced, for a period of five successive years, in the use of a later trademark in Hungary, while being aware of such use, the trademark proprietor shall no longer be entitled to oppose the use of this later trademark, nor may he apply for a declaration that the later trademark is invalid on the basis of his earlier trademark.

#### 4.1. Types

In Hungary a trademark is protected only if it's registered by HIPO. There are six different types of trademarks which can be registered in Hungary, these are the following

1. Goods, services and commercial trademarks
2. Trademarks which enjoy a (good) reputation in Hungary and in the European Union
3. International trademarks
4. EU trademarks
5. Certification trademarks
6. Collective trademarks

The second one provides a unique protection because any sign which is identical with, or similar to, an earlier trademark irrespective of whether the goods or services for which it is applied or registered are identical with, similar to or not similar to those for which the earlier trademark is registered, where the earlier trademark has a reputation in Hungary or, in the case of an EU trademark, has a reputation in the European Union and the use of the later trademark without due cause would take unfair advantage of, or be detrimental to, the distinctive character or the repute of the earlier trademark. Such trademarks include Törley, Richter Gedeon or Dr. Oetker.

HIPO maintains a database of all the registered trademarks both foreign and domestic which can be accessed by anyone through its website.

#### 4.2. Treaties

Hungary is a member of the following conventions regarding trademark protection:

- The Paris Convention
- Trademark Law Treaty (TLT)
- Madrid Agreement Concerning the International Registration of Marks
- Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks

Hungary signed the Singapore Treaty on the Law of Trademarks but it was not ratified, therefore it is not applicable in Hungary yet.

## 5. Design

According to Act XLVIII of 2001 on the Legal Protection of Designs the appearance of a product can be protected if it is new on a worldwide level and has individual character and if it's not excluded from protection for some grounds for refusal.

The design protection can be obtained by filling a design application with the Hungarian Intellectual Property Office or by means of an international application under the Hague Agreement Concerning the International Deposit of Industrial Designs. By means of the later foreign applicants have to be represented by an authorized patent attorney or an attorney-at-law, having residence in the country.

### 5.1. Design Protection in the European Union

In Hungary – as in any member state of the European Union – it is possible to protect a design with a Registered Community Design (RCD) or an Unregistered Community Design (UCD). In case of RCD the design needs to be registered by the European Union Intellectual Property Rights Office (EUIPO) and it will be protected for five years from registration. This solution can be useful if the business in connection with the design is taking place in more than one EU country. In case of UCD there is no need for registration thus there is no need to pay a fee but it only protects the design for three years from the moment of public disclosure. This solution can be useful if the protection of a design is needed only for a short period of time as it cannot be renewed after the three years have passed.

It is worth noting that designs are also eligible for protection under copyright law if they fulfil the protection requirements for both: originality for copyright and novelty and individual character for design rights.

## DATA PROTECTION

In general, data protection is mainly governed by two pieces of legislation in Hungary:

- The General Data Protection Regulation (Regulation (EU) 2016/679; “GDPR”)
- Act CXII of 2011 on the Right to Informational Self-determination and on the Freedom of Information (“Data Protection Act”)

Aside from these, sectorial regulations such as the Labor Code also contain additional rules for data protection.

### 1. GDPR

The GDPR is a European Union law which entered into force in 2016 and, following a two-year transition period, became directly applicable law in all Member States of the European Union on May 25, 2018, without requiring implementation by the EU Member States through national law.

The GDPR (unlike the Directive 95/46/EC which it replaced) is directly applicable and has consistent effect in all Member States. However, there remain more than 50 areas covered by GDPR where Member States are permitted to legislate differently in their own domestic data protection laws, and there continues to be room for different interpretation and enforcement practices among the Member States.

#### 1.1 Territorial Scope

Primarily, the application of the GDPR turns on whether an organization is established in the EU. An 'establishment' may take a wide variety of forms, and is not necessarily a legal entity registered in an EU Member State.

However, the GDPR also has extra-territorial effect. An organization that it is not established within the EU will still be subject to the GDPR if it processes personal data of data subjects who are in the EU where the processing activities are related "to the offering of goods or services" (Article 3(2)(a)) (no payment is required) to such data subjects in the EU or "the monitoring of their behavior" (Article 3(2)(b)) as far as their behavior takes place within the EU.

#### 1.2 Digital privacy protection in the EU

Currently, the other main strand of the data protection legal framework in the EU aside the GDPR is Directive 2002/58/EC on privacy and electronic communications (“ePrivacy Directive”).

The ePrivacy Directive builds on EU telecoms and data protection frameworks to ensure that all communications over public networks maintain respect for fundamental rights. There should be a high level of data protection and of privacy regardless of the technology used.

The ePrivacy Directive requires EU countries to ensure that users grant their consent before cookies (small text files stored in the user's web browser) are stored and accessed in computers, smartphones or another device connected to the Internet.

The EU Regulation on Privacy and Electronic Communications (also known as the ePrivacy Regulation or ePR) proposed in 2017 will replace the ePrivacy Directive and all EU Member State laws that have implemented it. The ePrivacy Regulation is currently in the final stages of negotiation, and its implementation is anticipated for 2024.

In September 2022, the European Commission published its proposal for a regulation on horizontal cybersecurity requirements for products with digital elements (also known as the EU Cyber Resilience Act or CRA), with the aim to establish common cybersecurity standards for products and softwares, containing a digital component (including devices from printers to smart homes). Upon entry into force, stakeholders will have 24 months in which to adapt to the new cybersecurity requirements, with the exception of a more limited 12-month grace period in relation to the reporting obligation on manufacturers.

## 2. Hungarian regulations, the Data Protection Act

The Data Protection Act is comprehensive in scope, as it is applicable to all data processing operations undertaken in Hungary regardless of the public or private legal status of those performing such operations, including also law enforcement, national security and defense sectors, together with activities which relate to the data of a natural person, as well as data in the public interest and data made public on the grounds of being in the public interest. The Data Protection Act is supplementary to the GDPR.

This sector-neutral and generally applicable nature of the Hungarian data protection regime was, to the extent possible, consciously retained by the legislator when the necessary legislative steps were taken to align the Hungarian legal system with the EU data protection reform. The Hungarian lawmaker decided not to repeal the Data Protection Act but to amend it substantially in order to implement the GDPR and to transpose the Directive (EU) 2016/680, also known as the Law Enforcement Directive (LED) into the Hungarian legal system.

In order to provide an unhampered application of the GDPR, the Data Protection Act

- establishes the national supervisory authority, regulates its organizational structure and the procedural framework through which it exercises the tasks and powers specified in the Regulation;
- regulates the supervisory regime applicable to processing operations of courts acting in their judicial capacity;
- prescribes that data processing operations according to Article 6 (1)(c) and (e) of the GDPR shall be further regulated by sector-specific legislation.

With the aim to make use of a number of opening clauses incorporated in the GDPR, the Data Protection Act

- provides for rules designed to reconcile the right to access public information with the right to the protection of personal data;
- extends, to a limited extent, the scope of data protection rules to the processing of personal data of deceased persons;

- prescribes that, with regard to data processing operations according to Article 6 (1) (c) and (e) of the GDPR, a data protection impact assessment, as well as prior consultation shall be carried out during the process of drafting of the sector-specific legislation that requires processing.

### 3. The Hungarian Data Protection Authority

The National Authority for Data Protection and Freedom of Information (In Hungarian: “*Nemzeti Adatvédelmi és Információszabadság Hatóság*” or “*NAIH*” in short) is responsible for monitoring and promoting the enforcement of two fundamental rights: the right to the protection of personal data and the right to freedom of information (access to data of public interest and data accessible on public interest grounds) in Hungary, as well as promoting the free movement of personal data within the European Union. The NAIH resides in Budapest and is in charge of enforcing the GDPR in Hungary.

Among others, the NAIH is entrusted with duties in connection with the Schengen Information System (SIS), the Customs Information System (CIS), Europol, Eurodac and the Visa Information System (VIS) as well as with representing Hungary within the common data protection supervisory bodies of the European Union.

Based on Constitutional provision, the Data Protection Act - which entered into force on 1 January 2012 - established the NAIH and regulated its operation in detail.

From an organizational perspective, the NAIH is an autonomous state administration organ; it may not be instructed in its functions and shall operate independently of other organs and of undue influence. The tasks of the NAIH may only be determined by an Act of Parliament.

## ABOUT NAGY & TRÓCSÁNYI

Nagy és Trócsányi Ügyvédi Iroda is a legal entity and registered with the Budapest Bar Association. All lawyers of the Budapest office are either members of, or registered as clerks with, the Budapest Bar Association. Several of our lawyers are admitted attorneys or registered as legal consultants in New York.

Our activity focuses on the following practice areas: M&A, company law, litigation and dispute resolution, real estate law, banking and finance, project financing, taxation, competition, utilities, energy, media and telecommunication.

We advise a broad range of clients, including numerous multinational corporations. Being the premier independent law firm in Hungary means that law firms from all over the world that do not have direct representation in Hungary seek us out to advise their clients.

Nagy és Trócsányi is recognized in the leading law directories such as the Legal 500, Chambers and Partners and IFLR1000.

### Brief History of our firm

N&T began in 1991, when Péter Nagy and László Trócsányi, having worked in New York and Brussels respectively, returned to Hungary to start their own law firm in Budapest. Within a year, the firm was up and running and had evolved into a full-service commercial law firm, with over a dozen specialized attorneys advising and acting for clients in virtually every area of international private and commercial law. N&T quickly built a strong reputation, which was cemented in 1998 when it entered into an association with Coudert Brothers LLP, a leading multinational law firm. Since 2002, N&T has been the sole Hungarian member of Lex Mundi, the world's leading network of independent law firms.

To serve the needs of its global client base, N&T continued to expand and was joined by many outstanding partners and associates, among them well-known law professors. N&T alumni went on to serve variously as President of the Republic of Hungary, Constitutional Court judge, ambassador, Hungary's Minister of Justice, EU General Court judge, European Commission officer and Member of the ICC International Court of Arbitration.

Over the years, among countless other complex and fascinating matters, N&T has acted for clients involved in Hungary's largest ever privatization; its largest ever energy construction project; and its largest ever litigation by disputed sum. N&T has carved out a name for itself advising sophisticated international clients, and its excellent reputation among its peers is reflected in the firm's ratings by Chambers, Legal 500 and other similar organizations.

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# DOING BUSINESS IN HUNGARY



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