



GUIDE TO GOING GLOBAL CORPORATE

Hungary



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INTRODUCTION

Welcome to the 2023 edition of DLA Piper's *Guide to Going Global – Corporate*.

GUIDE TO GOING GLOBAL SERIES

To compete and be successful today, companies need to develop and scale their businesses globally. Each country presents its own set of unique laws, rules and regulations and business practices that companies must understand to be successful. In order to help clients meet the opportunities and challenges of expanding internationally, we have created a handy set of global guides that cover the basics companies need to know when going into and doing business in new countries. The *Guide to Going Global* series reviews business-relevant corporate, employment, intellectual property and technology, executive compensation, and tax laws in key jurisdictions around the world.

CORPORATE

The *Guide to Going Global – Corporate* has been created based on our research, our experience and feedback we have received from clients in both established and emerging businesses that have expanded internationally. We hope it will be a helpful resource for you.

The *Guide to Going Global – Corporate* covers corporate basics in 54 key jurisdictions across the Americas, Asia Pacific, Europe and the Middle East. We touch on a wide range of corporate issues for companies expanding internationally, including establishing a corporate presence and choice of entity, liability considerations, tax presence and tax filings, capital requirements, the formation process, director, officer and shareholder requirements, registration processes, office lease processes and possible exit strategies.

With more than 600 lawyers, DLA Piper's global Corporate group is one of the largest in the world, with one of the widest geographical footprints of any global law firm and experience across the legal areas companies need as they expand internationally. With both global experience and local knowledge, we partner with our clients wherever they do business to find solutions and manage their risk in relation to their challenges and objectives.

While this guide provides high-level guidance, it is not a substitute for legal advice, and we encourage you to seek advice regarding the specific matters that concern you. If you wish to speak to any of our contributors, you may find their contact details at the end of the guide.

We hope you find this guide valuable, and we welcome your feedback.

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This is a general reference document and should not be relied upon as legal advice. The application and effect of any law or regulation upon a particular situation can vary depending upon the specific facts and circumstances, and so you should consult with a lawyer regarding the impact of any of these regimes in any particular instance.

DLA Piper and any contributing law firms accept no liability for errors or omissions appearing in this publication and, in addition, DLA Piper accepts no liability at all for the content provided by the other contributing law firms. Please note that corporate law is dynamic, and the legal regime in the countries surveyed could change.

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HUNGARY



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FORM OF ENTITY

Private company limited by shares (Zrt.)

Private company limited by shares (*zártkörön működő részvénytársaság* or Zrt.) is a separate and distinct legal entity.

A Zrt. is established with a predetermined amount of share capital. Such share capital is represented by shares with a face (par or nominal) value. The shares may be issued either as printed shares or dematerialized (i.e. e-shares registered on a securities/investment account).

The owners of a Zrt. are the shareholders. Liability of the shareholders is limited to their respective share capital contributions.

Managed by a board of directors, which is responsible for making major business decisions and overseeing the general affairs of the Zrt. Shareholders may also decide to appoint a single director instead of a board to perform the duties of the board of directors (references to “board of directors” throughout this guide should be interpreted accordingly).

Directors are elected by shareholders of a Zrt. Company managers (who must be employees of the company) may also be appointed by shareholders to assist the directors in day-to-day operations.

Limited liability company (Kft.)

Limited liability company (*korlátolt felelősség társaság* or Kft.) is a separate and distinct legal entity.

A Kft. is established with a predetermined amount of initial capital provided by its quotaholders. Equity contribution of such quotaholders is not – and must not be – embodied in any negotiable instrument (eg, share certificate). It is rather an abstract membership interest called business quota (*üzletrész*). A business quota may be split into several smaller business quotas, and a quotaholder can own more than one business quota (each of which can be transferred or encumbered separately). Liability of the quotaholders is limited to their capital contributions.

Managed by managing directors appointed by quotaholders. Shareholders may also decide to set up a board of directors instead of appointing one or more individual managing directors (references to “managing directors” throughout this guide should be interpreted accordingly). Company managers (who must be employees of the

company) may also be appointed by quotaholders to assist managing directors in the day-to-day operations of the corporation.

Note: Further corporate forms are also available: general partnership (*közkereseti társaság* or *Kkt.*), limited partnership (*betéti társaság* or *Bt.*) and public company limited by shares (*nyilvánosan működő részvénytársaság* or *Nyrt.*). However, these corporate forms are not very common in the Hungarian market.

ENTITY SET UP

Private company limited by shares (Zrt.)

- Unlimited number of shareholders.
- Generally, no personal liability of shareholders.
- Taxed on its worldwide income at a corporate level. Dividends paid to (resident and non-resident) corporate shareholders are exempt from taxation in Hungary. Only dividends paid to (resident and non-resident) individual shareholders are subject to withholding tax.
- Typical charter documents include the articles of association, stock certificates and stock ledger.
- Board of directors has overall management responsibility.
- At least 1 shareholders' meeting must be held each year (to resolve on the acceptance of the annual financial statements and the payment of dividend).
- Upon the foundation of the Zrt. as well as on any subsequent capital increases fresh capital can be injected in the form of cash or in-kind contributions.
- The type of shares that a Zrt. can issue can be structured flexibly, including ordinary shares, preferred and deferred shares as well as employee shares (with limited transferability).
- Annual financial statements to be filed electronically by uploading them to a website operated by the Ministry of Justice (e-beszamolo.im.gov.hu) and these can be accessed by the general public.

Limited liability company (Kft.)

- Unlimited number of quotaholders allowed.
- Generally, no personal liability of quotaholders.
- Typical charter documents include the articles of association (in the case of sole quotaholder Kft. this is called “deed of foundation”) and list of quotaholders.

- At least 1 shareholders' meeting must be held each year (to resolve on the acceptance of the annual financial statements and the payment of dividend).
- Quotaholders contribute cash or in-kind contributions to Kft.
- If the articles of association so provides, the quotaholders may be required to provide a Kft. with supplementary capital contributions in order to cover losses. These payments do not increase the quotaholders' quota in the company. The Kft must repay these contributions to the quotaholders as soon as its financial position allows it.
- Taxed on its worldwide income at a corporate level. Dividends paid to (resident and non-resident) corporate shareholders are exempt from taxation in Hungary. Only dividends paid to (resident and non-resident) individual shareholders are subject to withholding tax.

MINIMUM CAPITAL REQUIREMENT

Private company limited by shares (Zrt.)

At least HUF 5 million (USD 13,500).

Limited liability company (Kft.)

At least HUF 3 million (USD 8,100).

LEGAL LIABILITY

Private company limited by shares (Zrt.)

Shareholders of a Zrt. are generally not liable for its debts, liability of shareholders is limited to their respective share capital contributions. However, in extreme cases, such as in the case of insolvency, shareholders may be held liable if it is proven that they have “abused limited liability”.

Limited liability company (Kft.)

Quotaholders are generally not liable for the debts of a Kft., liability of quotaholders is limited to their capital contributions. However, in extreme cases, such as in the case of insolvency, shareholders may be held liable if it is proven that they have “abused limited liability”.

TAX PRESENCE

Private company limited by shares (Zrt.)

A Zrt., as a Hungarian resident company, is taxed on its worldwide income subject to conditions of double tax treaty provisions. A company is resident if it has been incorporated in Hungary or has its place of effective management in Hungary.

Limited liability company (Kft.)

A Kft., as a Hungarian resident company, is taxed on its worldwide income subject to conditions of double tax treaty provisions. A company is a resident if it has been incorporated in Hungary or has its place of effective management in Hungary.

INCORPORATION PROCESS

A corporate entity is established by:

- Founding shareholders or quotaholder(s) executing, among other documents, the articles of association of a company; to be effective, the articles of association must be countersigned by a lawyer or must be incorporated into a notarial deed
- Filing an application for registration with the Court of Registration within 30 days from the date of execution of the articles of association and
- Registration of a corporate entity with the court of registration. The registration procedure is generally completed within 1 to 15 working days after the application is filed.

Representation by a Hungarian attorney at law is mandatory in the course of registration.

Registration has a constitutive effect (*i.e.*, a corporate entity is deemed to exist from the date of registration). However, with the registration the acts of the would-be company taken after the countersigning of the articles of the association shall be deemed the act of the registered company with retroactive effect.

Note: The mandatory set of documentation differs between the corporate form. In addition, directors or managing directors and other officers (*e.g.*, statutory auditor or supervisory board members) must execute certain documents (*e.g.*, declaration of acceptance).

BUSINESS RECOGNITION

Private company limited by shares (Zrt.)

Well regarded and widely used.

Limited liability company (Kft.)

Most widely used corporate form in Hungary, more than ninety per cent of all companies operating in Hungary are Kfts.

SHAREHOLDER MEETING REQUIREMENTS

Private company limited by shares (Zrt.)

A Zrt. is required to hold an annual meeting of shareholders to vote on the acceptance of annual financial statements and payment of dividends. The shareholders' meeting is convened by a board of directors.

Limited liability company (Kft.)

A Kft. is required to hold an annual meeting of quotaholders to vote on the acceptance of annual financial statements and payment of dividends. The quotaholders' meeting is convened by managing directors.

BOARD OF DIRECTOR MEETING REQUIREMENTS

Private company limited by shares (Zrt.)

Annual meeting of a board of directors is required. If the Zrt. has a supervisory board, the board of directors must present a report on the financial position of the company quarterly to the supervisory board (this presupposes quarterly board meetings).

Limited liability company (Kft.)

Since managing directors do not act as a board but as individual officers (*i.e.*, directors) of a Kft., an annual meeting of the managing directors is not required. However, managing directors may still hold meetings informally at their convenience.

ANNUAL COMPANY TAX RETURNS

Private company limited by shares (Zrt.)

Corporate income tax is self-assessed. Annual corporate income tax returns must be filed until the last day of the 5th month following the end of the tax year.

Limited liability company (Kft.)

Corporate income tax is self-assessed. Annual corporate income tax return must be filed until the last day of the 5th month following the end of the tax year.

BUSINESS REGISTRATION FILING REQUIREMENTS

Private company limited by shares (Zrt.)

- Court of Registration – initial registration;
- Central Statistical Office – statistical number issued in the course of initial (court) registration (no separate filing is needed);
- Chamber of commerce – after initial (court) registration;
- Tax Authority – tax number is issued in the course of initial (court) registration (no separate filing is needed);

- Central clearing house – requesting ISIN code for the shares, after initial (court) registration.

Limited liability company (Kft.)

- Court of Registry – initial registration;
- Central Statistical Office – statistical number issued in the course of initial (court) registration (no separate filing is needed);
- Chamber of commerce – after initial (court) registration;
- Tax Authority – tax number is issued in the course of initial (court) registration (no separate filing is needed).

BUSINESS EXPANSION

No need to change as business expands.

EXIT STRATEGY

The primary exit route is the sale of the equity stake held in the Zrt. (i.e. the shares) or Kft. (i.e. the quota). In the case of Kfts the other quotaholders, the Kft. itself and -if applicable- any third person designated by the quotaholders meeting will have a right of first refusal upon the transfer of quotas to third parties. The equity stakes can also be contributed to other companies' share capital as in kind contribution (allowing for share-for-share exits).

If no exit transaction is feasible or preferred, corporate entities may conduct a voluntary dissolution procedure (*végelszámolás*) to liquidate their assets and to settle their debts. Dissolution documentation must be filed with the Court of Registration after completion of the procedure. The tax authority usually conducts an audit of final tax returns. The assets of the company remaining after the settlement of debts can be distributed to the shareholder (s)/quotaholder(s).

ANNUAL CORPORATE MAINTENANCE REQUIREMENTS

Companies must prepare, submit and publish annual financial statements until the last day of the 5th month following the end of the tax year. If the company fails to submit and publish its financial statements upon the request of the tax authority, default penalty is assessed up to HUF 200,000 and the tax authority requests the company to rectify such non-compliance within 30 days. If the company fails to submit and publish its financial statement within the additional 30-day deadline, the tax authority withdraws the tax number of the company and initiates the deletion procedure of the company at the Court of Registration.

DIRECTOR / OFFICER REQUIREMENTS

Basically, any natural person can be appointed as director provided that such person is of legal age and their legal capacity is not restricted.

A person may not serve as a director if they:

- Were sentenced by a final court decision to imprisonment, until the person is deemed relieved from the detrimental consequences related to the committed criminal act
- Are barred by a final court decision from accepting a director (or other executive officer) position or
- Are barred by a final court decision from exercising a regulated profession, which is in the scope of major business activities pursued by the Zrt.

In case of a Kft., legal entities (e.g., a Kft.) may also be appointed as managing director (i.e., corporate director). In this case, a natural person is appointed to represent a corporate director.

For more information on directors' duties, see our [Global Guide to Directors' Duties](#).

LOCAL CORPORATE SECRETARY REQUIREMENT

Not applicable for this jurisdiction.

LOCAL LEGAL OR ADMIN REPRESENTATIVE REQUIREMENT

It is possible and lawful to establish a wholly foreign-owned and -managed company. Representation by a Hungarian attorney at law is mandatory in the course of the initial corporate registration and subsequent amendment registration procedures before the Court of Registration.

Due to professional qualification requirements, companies are recommended to engage local accountants or accountancy firms to perform day-to-day business, accounting and taxation tasks for the company.

LOCAL OFFICE LEASE REQUIREMENT

Corporate entity's registered seat must be in Hungary. For the purpose of the foregoing "registered seat" means the place indicated in the company's articles of association as such where the company must be able to take delivery of its correspondence and where it must be able to provide access to its books and statements specific under applicable law. The place of "central administration" (i.e. place of effective management) of a corporate entity may be located outside of Hungary. From a taxation perspective, this may result in dual tax residency and potential double taxation for Hungarian purposes which can be mitigated based on the provisions of a relevant double tax treaty.

OTHER PHYSICAL PRESENCE REQUIREMENTS

Hungarian tax law does not stipulate specific minimum substance requirements for companies, but general anti-avoidance rules are in effect concerning business transactions.

Accordingly, artificial structures that aim, exclusively or mainly, at tax avoidance may be disregarded, and the real substance of such transactions may be considered for taxation purposes especially based on the following anti-avoidance principles:

- A contract, transaction or any other arrangement is assessed by the tax authorities for taxation purposes based on its actual substance (the legal substance of the transaction prevails over its legal form)
- Taxation rights must be exercised properly. Transactions and contracts that aim at tax avoidance are regarded as abuse of rights. In this case, tax liabilities must be assessed as if the parties had not abused rights
- If, in respect to legal relationships affected by international treaties or income generated from such relationships, the available facts or the different interpretation of international treaty rules by the respective countries involve that the income realized from the legal relationship is not taxable in any country, then Hungary does not provide tax exemption in respect to that income.

SUFFICIENCY OF VIRTUAL OFFICE

A corporate entity's registered seat must be in Hungary.

A corporate entity must be available at the address of its registered seat and must mark it with a sign indicating the corporate entity's name. As a minimum, the registered seat functions as the corporate entity's:

- Mailing address and
- Place where business and official documents specified under applicable law are filed, safeguarded and archived and where they can be accessed.

If the place of the effective/ de facto management of the company is different from the registered seat, such additional place must also be indicated in the articles of association.

PROVISION OF LOCAL REGISTERED ADDRESS BY LAW FIRM OR THIRD-PARTY SERVICE PROVIDER

Provision of a local registered address is strictly regulated in Hungary. Law firms are no longer authorized to provide this service, however, third-party service providers may provide the registered address on the basis of a written contract.

If the local registered address is provided by a third-party service provider and an administrative penalty was imposed on the corporate entity due to the hindrance of tax administration proceedings in the last three years, then the corporate entity will qualify as a "risky taxpayer" resulting in, amongst other consequences, less favorable rules for VAT refunds and potentially higher default penalties in the case of tax audits conducted by the Hungarian tax authority.

As a general rule, only real estate that is in the sole ownership of the service provider or such service provider is entitled to use it under a right (e.g., usufruct) which is registered in the land registry can be provided as a registered seat to corporate entities.

An exception to the general rule is if the owner of the real estate gives its prior written consent to the provision of such service and one of the following conditions is met:

- the parties (*i.e.*, the service provider and the corporate entity) are affiliated entities;
- the service provider is registered as a delivery agent (of a foreign shareholder or quotaholder or executive officer of a corporate entity) into the companies register kept by the Court of Registration; or
- there is a bookkeeping mandate relationship between the parties (*i.e.*, the service provider and the corporate entity).

PROVISION OF LOCAL DIRECTOR OR CORPORATE SECRETARY BY LAW FIRM OR THIRD-PARTY SERVICE PROVIDER

There are third-party service providers that offer corporate secretarial services, including:

- Directorship services to non-trading entities, including management services by rendering 1 or more individuals who act as director
- Holding shareholder meetings
- Preparing documentation annual filing
- Ensuring that statutory books are in order and
- Assistance during dissolution.

NATIONALITY OR RESIDENCY REQUIREMENTS FOR SHAREHOLDERS, DIRECTORS AND OFFICERS

As a general rule, not applicable for this jurisdiction. It is possible and lawful to establish a wholly foreign-owned and -managed company. In certain regulated areas (e.g., banks) the presence of Hungarian tax residents on the board of director may be mandatory.

RESTRICTIONS REGARDING APPOINTMENT OF NOMINEE SHAREHOLDERS OR DIRECTORS

The position of “nominee managing directors” is not regulated specifically under Hungarian law, however, it is possible to create such a position via third party service providers.

Appointing a nominee quotaholder is possible in the form of a fiduciary asset management (*bizalmi vagyonkezelés*) relationship, which is similar to a trust.

In such relationship, the trustee undertakes to manage the assets, rights and receivables entrusted to it by the principal in its own name and on the principal's behalf for an agreed fee.

SUMMARY OF DIRECTOR'S, OFFICER'S AND SHAREHOLDER'S AUTHORITY AND LIMITATIONS THEREOF

General meeting of shareholders or quotaholders of a corporate entity is the primary decision-making body of a corporate entity, deciding on major strategic issues (eg, amendment of articles of association, increasing or decreasing registered capital, approving financial statements, dividend payment, transformation and dissolution of a corporate entity) and personal matters (eg, appointing and recalling directors or managing directors) of a corporate entity.

Directors or managing directors are appointed by the shareholders or quotaholders of a corporate entity, and they run the day-to-day operations. Directors or managing directors are entitled to represent or act on behalf of a corporate entity vis-à-vis third parties.

Limitation on the right of representation of directors or managing directors is possible by applying a co-signature, where only the joint acts of 2 directors or managing directors will bind a corporate entity.

The representation right of a director or managing director may further be limited in the articles of association (eg, certain acts require approval of the shareholders' or quotaholders' meeting). However, such limitations are not effective vis-à-vis third parties (i.e., acts of a director or managing director will bind the corporate entity regardless of limitations, but a director or managing director may be liable vis-à-vis the corporate entity for a breach of limitations).

PUBLIC DISCLOSURE OF IDENTITY OF DIRECTORS, OFFICERS AND SHAREHOLDERS

Private company limited by shares (Zrt.)

Identity of directors is publicly disclosed. The following personal data will appear in the companies' register kept by the Court of Registration: name, mother's maiden name, address, date of birth and tax number. Regarding the tax number, for foreign individuals it is possible to apply for a Hungarian tax number, in this case the companies' register includes only the Hungarian tax number.

Identity of shareholders is only disclosed publicly on the company registry extract if the shareholder has more than 50-percent ownership in a corporate entity (including if the company is a sole shareholder company). The following personal data will appear in the companies' register kept by the Court of Registration: name, mother's maiden name, address, date of birth and tax number; or, for corporates: company name, registered seat, registration number and registering authority. Please note that the articles of association filed with the Court of Registration is also publicly available, and, if it contains the updated list of the shareholders, the shareholders may be identified from it.

Limited liability company (Kft.)

Identity of managing directors and quotaholders is publicly disclosed. The following personal data will appear in the companies' register kept by the Court of Registration: name, mother's maiden name, address, date of birth and tax number; or, for corporates: company name, registered seat, registration number and registering authority.

The identity of the ultimate beneficial owner of a company (including both Kfts and Zrts) is also accessible to authorities, supervisory bodies, public prosecutors and certain service providers set out in the Hungarian AML Act from the ultimate beneficial owner register kept by the National Tax and Customs Authority, but only to comply with their respective KYC/data verification obligations under the applicable laws.

MINIMUM AND MAXIMUM NUMBER OF DIRECTORS AND SHAREHOLDERS

Private company limited by shares (Zrt.)

Zrt. is set up by at least 1 shareholder. There is no upper limit on the number of shareholders.

The minimum number of directors on the board of directors is 3. There is no upper limit on the number of quotaholders of the board of directors. Shareholder(s) may also decide to appoint a single director instead of setting up a board of directors.

Limited liability company (Kft.)

Kft. is set up by at least 1 quotaholder. There is no upper limit on the number of quotaholders.

The minimum number of managing directors is 1. There is no upper limit on the number of managing directors. Shareholders may also decide to set up a board of directors instead of appointing one or more individual managing directors.

MINIMUM NUMBER OF SHAREHOLDERS REQUIRED

Private company limited by shares (Zrt.)

Zrt. is set up by at least 1 shareholder.

Limited liability company (Kft.)

Kft. is set up by at least 1 quotaholder.

REMOVAL OF DIRECTORS OR OFFICERS

Directors may be removed by a resolution of a shareholders' or quotaholders' meeting at any time, without having to give reasons.

Directors may also resign from their position at any time (subject to their service/employment agreement). If operation of a company so requires, the termination will become effective only on the 60th day after the resignation is submitted (eg if there is no other director).

REQUIRED AND OPTIONAL OFFICERS

Private company limited by shares (Zrt.)

At least 3 directors are required for the board of directors.

In addition, company managers may be appointed by shareholders to assist directors in the day-to-day operations of a corporate entity in accordance with the instructions of the directors.

Directors may also authorize employees of a corporate entity to represent the company on a permanent basis, such authorization must -however- be limited in scope.

The auditor and supervisory board may additionally be appointed by shareholders. Appointment is mandatory in certain instances.

Limited liability company (Kft.)

At least 1 managing director is required.

In addition, company managers may be appointed by quotaholders to assist managing directors in the day-to-day operations of a corporate entity in accordance with the instructions of the managing director(s).

The managing director may also authorize employees of a company to represent the company on a permanent basis, such authorization must -however- be limited in scope.

The auditor and supervisory board may also be appointed by shareholders. Appointment is mandatory in certain instances.

BOARD MEETING REQUIREMENTS

Private company limited by shares (Zrt.)

An annual meeting of the board of directors is required. If the Zrt. has a supervisory board, the board of directors must present a report on the financial position of the company quarterly to the supervisory board (this presupposes quarterly board meetings).

Limited liability company (Kft.)

Because managing directors do not act as a board, but as individual officers (i.e., directors) of the Kft., an annual meeting of managing directors is not required. However, managing directors may hold meetings informally at their convenience.

QUORUM REQUIREMENTS FOR SHAREHOLDER AND BOARD MEETINGS

As a general rule a quorum exists on shareholders' or quotaholders' meeting if more than 1/2 of the votes that can be cast are represented at such meeting. The quorum must be checked at each and every voting (not just once for the meeting).

If there is a quorum, shareholders or quotaholders adopt resolutions by a majority of votes cast. Some matters (eg, amendment of articles of association, increase or decrease of registered capital, transformation or dissolution) require a qualified majority (i.e., 3/4 of votes) or even unanimity (if the amendment to the articles of association would be detrimental for the rights of certain shareholders or quotaholders). Under applicable law there is substantial flexibility allowed to shareholders and quotaholders to diverge from the default quorum and majority requirements (eg simple majority requirement may be raised to qualified majority and vice versa).

For board meetings, the quorum and majority requirements are primarily set by the board itself via the rules of procedure of the board.

Articles of associations and rules of procedure of the board of directors usually allow resolutions to be adopted in writing and participation in shareholders'/quotaholders'/board meetings via telecommunication devices.

MUST A BANK ACCOUNT BE OPENED PRIOR TO INCORPORATION, AND MUST THE BANK ACCOUNT BE LOCAL?

Capital contributions of shareholders/quotaholders must be transferred to a bank account. A corporate entity must have at least 1 local bank account.

A company must open at least 1 Hungarian bank account for its operations. Foreign bank accounts of the company must be reported to the Hungarian tax authority. Information on the bank account, account number and date of opening and closure of the bank account must be reported to the Hungarian tax authority within 15 days from the date of an event.

AUDITING OF LOCAL FINANCIALS. IF SO, MUST THE AUDITOR BE LOCATED IN LOCAL JURISDICTION, AND MUST THE COMPANY'S BOOKS BE KEPT LOCALLY?

If the company has an auditor, or if appointment of an auditor is mandatory, the auditor must comply with all qualification requirements determined by Hungarian laws.

In general, in Hungary it is mandatory to appoint an auditor for a company operating on the basis of double-entry bookkeeping. Exemption is available if both of the following requirements are met:

- Annual net sales revenues did not exceed HUF 300 million (USD800,000) on average for the 2 prior financial years and
- The average number of people employed did not exceed 50 people on average for the 2 prior financial years.

For newly established companies, because no data is available for prior financial years, the expected data of a given financial year is to be considered.

REQUIREMENT REGARDING PAR VALUE OF STOCK

Private company limited by shares (Zrt.)

A par value (i.e., face value) and an issue price can differ for the same share. However, the share's issue price cannot be less than its par value.

Under applicable law it is also possible to issue no par value shares.

Limited liability company (Kft.)

The capital contribution of each quotaholder must be at least HUF100,000 (USD265).

INCREASING OF CAPITALIZATION IF NEEDED

Registered capital can be increased by a resolution of a shareholders' or quotaholders' meeting. In the case of Zrts, the general meeting often authorizes the board of directors to increase the registered capital (issue new shares).

The effective date of the capital increase may be set out in the pertaining resolution, but it cannot be earlier than the date of the resolution.

In order to cover the losses of the Kft./Zrt., the quotaholders' /shareholders' meeting may order that the quotaholders/shareholders provide supplementary contributions (*pótbefizetés*). The supplementary contributions must be repaid to the quotaholders/shareholders if financial position of the Kft./Zrt. allows for such repayment.

SUMMARY OF HOW FUNDS CAN BE REPATRIATED FROM YOUR JURISDICTION (IE DIVIDENDS OR REDEMPTION)

Payment of dividends requires a resolution of a shareholders'/quotaholders' meeting and is subject to the Zrt.'s Kft.'s financial statements showing sufficient funds to pay dividends.

Decrease of the registered capital (effected with a view to make distribution to the shareholders'/quotaholders') requires a resolution of a shareholders'/quotaholders' meeting. Decrease of the registered capital is a complex, 4-6 months procedure. Amongst others, the intention to decrease the registered capital must be published in the Companies Gazette and creditors of a Zrt. or Kft. may demand collateral (security). Payments to shareholders regarding capital decrease may only be made after the Court of Registration registers the capital decrease.

There is no withholding tax on accumulated profits distributed in the course of a capital decrease (i.e., redemption) or with respect to dividends distributed to resident or nonresident corporate entities.

Accumulated profits distributed in the course of a capital decrease (ie, redemption) or dividends distributed to resident individuals are subject to personal income tax and social tax. Withholding tax due on dividends paid or accumulated profits distributed in the course of a capital decrease (ie, redemption) to nonresident individuals must be withheld by the paying company. No social tax payment obligation arises in respect of payments made to an individual qualifying as secured person in another EU member state.

RESTRICTIONS ON TRANSFERABILITY OF SHARES

Private company limited by shares (Zrt.)

Articles of association may stipulate that transfer of shares is subject to a right of first refusal (in favor of one or more shareholders) or approval of the shareholders' meeting (e.g. to prevent transfer to a competitor). Such restrictions are effective *vis-à-vis* third parties only if they are included on the share certificate or (in case of dematerialized shares) on the document deposited with the central depository during the creation of shares.

Limited liability company (Kft.)

Business quota may be transferred freely amongst quotaholders. However, the articles of association may stipulate a right of first refusal in favor of the other quotaholders.

Business quota can only be transferred to a third party if in the business quota is fully paid up. Other quotaholders of Kft., the Kft. itself or a person designated by the quotaholders' meeting – in this order – has a right of first refusal.

The right of first refusal may be exercised pro rata by the quotaholders.

The articles of association may also stipulate that approval of the quotaholders' meeting is required for the transfer of a business quota to a third party (e.g., to prevent transfer to a competitor).

Foreign investment control regulations

The minister of home affairs must be notified of certain transactions and he has the right to block them if the transaction is deemed against the national security interests of Hungary. A transaction is subject to such notification if, among other things, (i) the investor is incorporated in, or resident of, a country that is not part of the EU, the EEA or Switzerland, (ii) a key industry sector (eg, national defense, financial services or energy) is involved or (iii) the transaction pertains to, among others, the acquisition of more than 25 percent of the shares in a Hungarian entity.

Under recent COVID-19 legislation, the minister responsible for the domestic economy must be notified of certain transactions and he has the right to block them if he deems them to be against the national interests of Hungary. The scope of this legislation is much wider than the previous (and still existing, parallel notification regime concerning only “foreign investors” (i.e., investors whose beneficial owner is a resident of a country that is not part of the EU, EEA or Switzerland.) Accordingly, the newly introduced notification regime is applicable if, among other things, (i) the investor is incorporated in, or resident of, a country that is not part of the EU, the EEA or Switzerland (ii) the target company conducts its business in a key industry sector (e.g., pharma, leisure or energy), (iii) the transaction pertains to, among others, the acquisition of at least 10 percent of the shares in a Hungarian company if the aggregate value of the transaction reaches HUF 350 million (USD941,000). The investment screening regime also applies to investors incorporated in the EU, EEA or Switzerland if they acquire a

controlling shareholding in the Hungarian target company operating in the relevant sector provided aggregate value of the transaction reaches HUF 350 million (USD941,000).

Under a recent legislation adopted by the government of Hungary with reference to the war in Ukraine, some of the rules of the above COVID-19 FDI legislation has been temporarily amended (e.g. the 10 percent threshold regarding the shares has been reduced to 5 percent and the financial sector has been added as key industry sector).

OBTAINING A NAME AND NAMING REQUIREMENTS

A corporate entity's name cannot be confusingly similar to the name of any other corporate entity already registered in Hungary. A name can only contain reference to "state" or "national" if the Hungarian State holds a majority interest in the corporate entity. If a third party has a legal interest in a name, (element of it), such name (element) can only be used with the consent of the beneficiary.

The name selected by the shareholders or quotaholders is registered in the course of the initial company registration procedure by the court of registration. Shareholders or quotaholders may also conduct a so called advance name reservation procedure (if the name of the company is critical) before the foundation of the company. If the court of registration confirms that the desired name is registerable, it will be reserved for 60 days in favor of the applicant (so that the foundation documents can be signed and filed).

SUMMARY OF "KNOW YOUR CLIENT" REQUIREMENTS

Service providers (eg, inter alia, law firms, credit institutions, financial service providers, auditor companies, funds and tax advisers) must verify the identity of their clients for anti-money laundering purposes before entering into an engagement. Service providers must record the identification data of a client (in the case of natural persons: name and surname, name at birth, nationality, date and place of birth, mother's birth name, home address, number and type of identification document; in the case of legal entities and unincorporated organizations: name, abbreviated name, registered office, main activities, name and position of authorized representatives, identification data of the agent for service of process, registration number and tax number).

For the purposes of identification and verification procedures, service providers must require the presentation of various documents (in the case of natural persons: an official document suitable for identification purposes and official address card for Hungarian citizens, and passport or personal identification document for foreign nationals; in case of legal entities and unincorporated organizations: personal identification documents of a natural person acting on behalf of a legal entity or unincorporated organization, documentary evidence of registration or that an application for registration has been submitted, and a constitutional document if an application for registration has not yet been submitted).

If the client is a natural person, it is required to provide a written statement as to whether the person is acting in the name or on behalf of a beneficial owner. The statement must indicate the following data of the ultimate beneficial owner:

- Name at birth
- Nationality

- Date and place of birth and
- Home address.

The service provider must additionally request a statement declaring whether the beneficial owner is a politically exposed person.

If a client is a legal entity or unincorporated organization, it is required to provide a written statement identifying its ultimate beneficial owner; the statement must indicate the following data of the ultimate beneficial owner:

- Name and surname
- Name at birth
- Nationality
- Date and place of birth
- Home address and
- The nature and extent of ownership interest.

The service provider must additionally request a statement declaring whether the beneficial owner is a politically exposed person.

APPROVAL REQUIREMENTS FOR AMENDING CHARTER DOCUMENT

A shareholders' or quotaholders' meeting may approve amendment to the articles of association of the Zrt. or Kft. Such approval requires a qualified majority (3/4 of the votes) by default of law, which can be increased (up to unanimity) or decreased (but not below a simple majority) in the articles of association of the company. The amended articles of association must be submitted to the Court of Registry to ensure that the public always has access to the up-to-date articles of association.

LICENSES REQUIRED TO CONDUCT BUSINESS IN JURISDICTION

There is no general business license requirement, but some business activities (typically financial services, but also certain forms of industrial, energy and public utility activities, among others) may only be conducted with a regulatory license.

PROCESS OF PURCHASING AND UTILIZING A SHELF COMPANY

Some service providers offer shelf companies for sale but the use of a shelf company is not common in practice given that a clean, new company can be set up very quickly.

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