

COMPANY FORMS IN HUNGARY

The purpose of this brief essay is to give an overview of company forms according to Hungarian law, along with some relevant legal standards that define their operation.

A member of the European Union since 1 May 2004, Hungary is a country in rapid growth and, as such, an attractive destination for prospective investors that wish to set up a local enterprise.

What kind of business associations can be established?

The previous Act IV of 2006 on Business Associations which had entered into force on 1 July 2006 amended several times was overruled by the currently effective Act V of 2013 on the Hungarian Civil Code which regulates the foundation, organization and operation of business associations with a registered seat in Hungary.

The Hungarian law complies with EU legislation and allows for foreign nationals to establish business associations in Hungary under the same terms and conditions as Hungarian citizens.

1. General Partnership (Hungarian: “*Közkereseti társaság*”)

Members of the partnership shall undertake to jointly engage in business operations with unlimited, joint and several liability, and to make available the capital contribution necessary for the activities of the partnership.

2. Limited Partnership (Hungarian: “*Betéti társaság*”)

Members of the partnership shall undertake to jointly engage in business operations, and the liability of at least one member (*general partner*) for the obligations of the partnership shall be unlimited. If there is more than one general partner, all general partners shall be jointly and severally liable. At least one other member (*limited partner*) shall only be obliged to provide the capital contribution undertaken in the Memorandum of Association, and, with the exceptions set out in the Hungarian Civil Code, shall not be liable for the obligations of the partnership.

3. Limited Liability Company (Hungarian: “*Korlátolt felelősségű társaság*”)

This is a business association founded with an initial capital (so-called subscribed capital) consisting of capital contributions of a pre-determined amount, where the liability of members to the company is limited to the provision of the contribution to the initial capital, and possibly to other contributions established in the partnership agreement. This is the most common company form in Hungary. The minimum subscribed capital required to start a company has been recently raised to HUF 3,000,000 (approximately € 10,000).

4. Limited (Joint-Stock) Company (Hungarian: “*Részvénytársaság*”)

Limited companies are business associations founded with a share capital (*subscribed capital*) consisting of shares of pre-determined face value, and the obligation of members (*shareholders*) to the company is limited to the provision of the face value or issue price of shares.

Private and public limited companies are usually founded for larger investments in terms of invested capital. The minimum subscribed capital of a *private limited company* (“Zrt”) is HUF 5,000,000 (approximately € 15,000), while a *public limited company* (“Nyrt”) requires a

capital of at least HUF 20,000,000 (approximately € 60,000). When setting up a public limited company (“Nyrt”), at least the 30% of the capital shall be paid in cash and all contributions in kind shall be made available to the company. If shares of the company are subscribed through an initial public offering, specific provisions have to be followed. Privately held companies (“Zrt”) operate similarly to public limited companies but their shares cannot be listed on the stock exchange and specific provisions apply to the sale and purchase of shares.

Pursuant to the law, *nonprofit business associations* can also be set up.

What is the procedure for founding a business association?

A business association can be founded by both Hungarian and foreign citizens.

The first step is signing a *Memorandum of Association*, which is usually drafted and countersigned by a legal practitioner or notary. The format of this document varies depending on the kind of business association established.

Since 16 March 2017, there is no administrative fee for founding an association, with the exception of privately held companies (“Zrt”), for which it amounts to HUF 50,000 (approximately € 150).

The next step is requesting the inclusion of the company in the *Register of Companies*, which, according to Hungarian law, shall be carried out by a lawyer.

The following documents shall be submitted with the registration request: Memorandum of Association; acceptance of mandates (executive officers, members of the supervisory board, and auditor); statement by the executive officer or certificate from the financial institution about the payment of initial contributions; special power of attorney granted to the legal representative; certificate of payment of the necessary expenses.

The registration request shall be submitted to the County Court within thirty (30) days from the foundation of the business association. Foundation of certain types of businesses may require prior authorization by relevant authorities (e.g. foundation permit in the banking sector). In that case, the request of registration shall be issued within fifteen (15) days from receipt of the foundation permit.

The Court has eight (8) days to review and approve the request and the attached documents. Within the framework of the Hungarian Civil Code and other legal regulations, members (shareholders) may freely establish the contents of the articles of association, according to their own personal and economic needs.

Once the registration is completed, the association will be listed in the Register of Companies and published in the Official Company Gazette (Hungarian: “*Cégekötöny*”).

What is the corporate tax rate in Hungary?

As of 1 January 2017, the Hungarian government cut the corporate tax rate to **9%**, and now Hungary has the lowest level of corporate taxes in Europe, which gives the country a competitive edge to attract foreign direct investment to the country.

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