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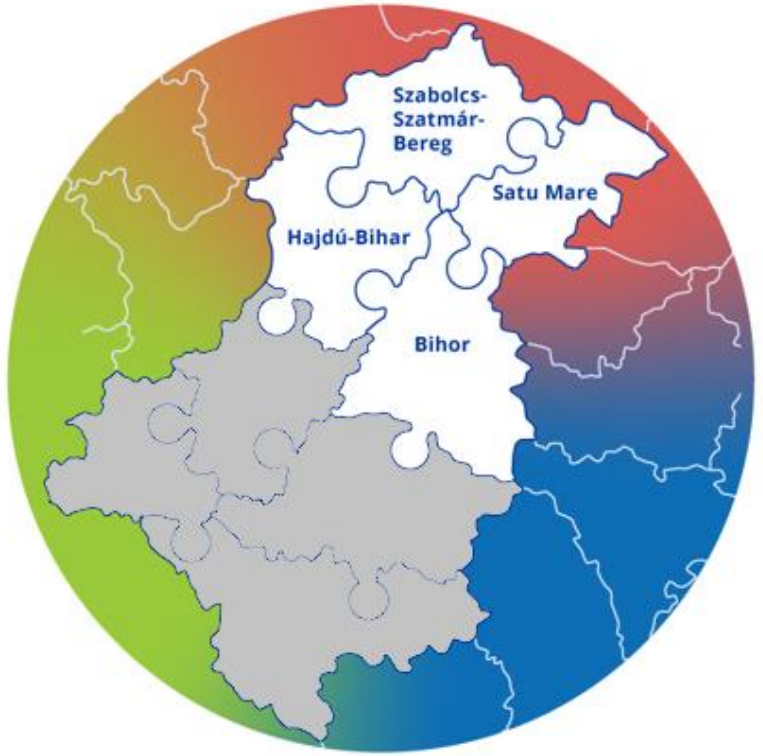
Romania - Hungary

GOVERNMENT OF ROMANIA

HUNGARIAN GOVERNMENT

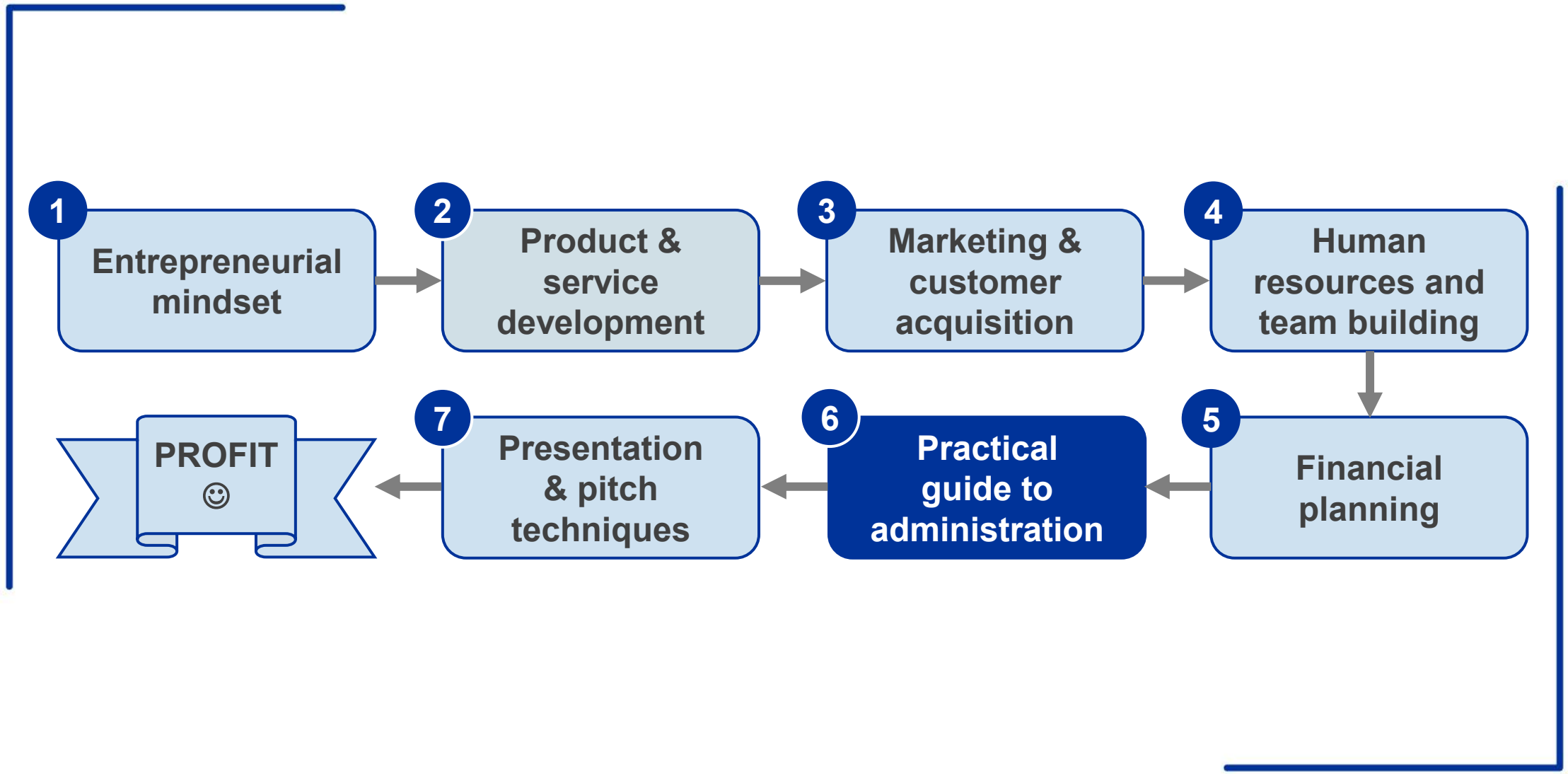
INSPIRE

Improving **N**etworks and **S**ervices to **P**romote **I**nnovative and **R**esilient **E**ntrepreneurship



Location: Nyíregyháza & Oradea
Business support workshop

interreg-rohu.eu


1
Entrepreneurial mindset
2
Product & service development
3
Marketing & customer acquisition
4
Human resources and team building
5
Financial planning
6
Practical guide to administration
7
Presentation & pitch techniques
PROFIT
☺

Questions we attempt to answer

1. How can I *establish* a business in Hungary/Romania?
2. What *legal forms* exist, and which one should I choose?
3. What do I need to know about *taxes*?

(Step 0: Consult an accountant or tax advisor – most Chambers of Commerce offer related counselling services.)

The easiest choice:

Sole proprietorship (SP)

- ❑ Fast and free procedure
- ❑ Great for beginners with not a lot of start-up capital
- ❑ Unlimited freedom… but also liability, a.k.a. you are responsible for the fulfilment of obligations with <u>all</u> your assets (as opposed to an Ltd which is the short version for **l**imi**t**e**d**)
- ❑ Must have the necessary qualification for the given activity (you can check the requirements **HERE**)
- ❑ Flexibility – you can switch to a company form any time (or pause/stop your activities)

How to start

- Online or in-person **registration** (even if you register in-person, you'll need an online profile on the official government platform, **Ügyfélkapu+**)
  - Providing **personal data**
  - Identifying the registered "office" **location** (if it's not owned by you, you need a certificate from the owner to prove that they consent to the registration)
  - Indicating your **area(s) of activity** – check beforehand whether they require qualifications by law (if so and you don't have them, you can't start a sole proprietorship or you need an employee with the necessary qualifications)
  - Making a (huge!) decision on **taxes**

Different ways of (not) paying taxes

You can be **tax-exempt** (AAM) if...

- ❑ No major investment is planned,
- ❑ You are calculating with a **smaller income** (under 12 million HUF annually),
- ❑ **Private individuals are your main customers**, and
- ❑ Your activities are not too costly.
- ❑ In addition, **some activities are exempt from VAT by law** (e.g., insurance activities, health care, certain types of education).

As a result, you won't have to pay VAT (unless you exceed the annual income limit), but you are also not entitled to deduct VAT from your expenses.

Different ways of paying taxes

If you must pay taxes, there are several options to choose from. If **private individuals are your only customers**, you can have a **fix monthly payment** (a.k.a. KATA).

- ❑ Annual limit of income: 18 million HUF
- ❑ Monthly fixed payment: 50 000 HUF (disadvantage: you must make this payment even when you don't have an income in the given month)

Monitoring is key! If you exceed the limit, you must pay a 40% tax.

> *Example: You started your business on March 1, 2024 – you have 10 months until the end of the year, so your upper limit is 18M/12*10 = 15 million HUF. If you are under it, you only pay the 50 000 HUF in every month. However, if you have 16 million HUF, you pay an additional 400 000 HUF ((16M-15M)*0.4).*

Pro tip: If you register your business on March 29, you still must pay the 50 000 HUF for March so **it's better to register at the beginning of a month**.

Different ways of paying taxes

If not KATA, then what?

Option 1: **Entrepreneurial income tax** (based on personal income tax rules)

- Full-time entrepreneurs are obliged to pay the minimum contributions every month which is approx. 140 000 HUF. Part-time entrepreneurs are only taxed based on year-end profit (see below).
- *Timing:* end of the year
- *Amount:* 9% of the profit + dividend tax of the after-tax profit (15% personal income tax, 13% social contribution tax – with the latter, there is an upper limit above which you no longer pay)

Different ways of paying taxes

If not KATA, then what?

Option 2: **Flat-rate taxation**

- ❑ Certain percentage of the income is the tax basis – depends on the activity, but it's **mostly around 60%** (see paragraphs 50-56 of the related **LAW**)
- ❑ Full-time entrepreneurs: there's a minimum amount – even if the income is less than the minimum wage, it must be paid based on that
- ❑ *Timing:* paid continuously during the year
- ❑ *Amount:* 15% personal income tax, 18.5% social security tax, 13% social contribution

Pro tip: Option 1 is more advantageous for part-time entrepreneurs because here they will need to pay contributions (similarly to full-time entrepreneurs). However, a tax-free zone has been introduced which might be good for low-income part-time entrepreneurs.
CALCULATOR

Other (mandatory) registrations

Chamber of Commerce

- (Online) registration with the regional Chamber of Commerce
- *Timing:* within 5 days of the business registration
- *Amount:* 5 000 HUF annually (paid immediately for the registration year and then until March 31 of every year)

Local municipal government

- Mandatory for paying the **business tax**
  - Option 1: Based on a report done until May 31 (about the previous year)
  - Option 2: Simplified procedure in case of KATA
    - Paid in two equal instalments (March 15, September 15)
    - Basis (by law): 2.5 million HUF

Additional tasks

- Business **bank account** – mandatory (except in case of tax-exempt status) **within 15 days** of the registration
  - If you fail to do this – and thus fail to manage your business's finances on a dedicated account – you can expect a serious penalty!
- Invoices can be generated on paper but it’s mandatory to provide data to the national tax authority (NAV) about every invoice → it’s better to use a software (e.g., **Számlázz.hu**, **Billingo**)

Other business forms

- Bt. or Kkt.
  - **Two members** are required – one liable for the company's debts with all of their assets, while the other is liable with the assets they have invested in the partnership
    - In the case of a Kkt., both members are fully liable.
  - Great for family businesses and/or businesses with low capital requirements (there’s no mandatory amount) and low risk
  - Disadvantage: **you will need a lawyer** to establish it **and** (most likely) **an accountant** for bookkeeping + activities cannot be suspended, and termination is more complicated than that of a sole proprietorship

Other business forms

- Kft.
  - Usually based on a **business partnership** – the owners are only liable with the assets they have invested in the company
  - Significant start-up costs and investment are required, and the business is expected to have a **higher profit**
    - Company profits can be **distributed as dividends or reserved** for various purposes
  - **Everything** (e.g., starting, suspending, terminating) **costs money**
  - No KATA – having an **accountant** is mandatory

Taxation in the case of a Bt.

- **Corporate tax** (TAO)
  - Similar to Option 1 (slide 8) BUT owners here have a choice – sole proprietors must take out every profit and pay its related % as tax, while the owners of a Bt. can decide to reserve the money
- **Small business tax** (KIVA)
  - 10%, replacing the 9% tax + the 13% social contribution tax → those with significant salary costs can save larger amounts

Consulting an accountant is even more important in these two cases!

Example of an SP with KATA – costs

- Establishing a sole proprietorship – free (mostly online)
- Chamber membership fee – 5 000 HUF per year
- Business tax – 50 000 HUF per year (2% of the 2.5 million flat rate)
- Bank account – not needed in case of AAM, otherwise it varies based on the bank and its package deals
- Taxes: 50 000 HUF per month
- Accountant: 30-50 000 HUF per month (not necessary but recommended at the beginning)
- Software: depends on the service provider (it can even be free)

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Thank you for your attention!

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