

The Dentons logo is a white arrow pointing to the right, containing the word "DENTONS" in a bold, black, sans-serif font. The background of the entire page is a close-up photograph of pink peonies, with a dark purple gradient overlay on the left side.

**DENTONS**

# **Doing business in Hungary**

A brief legal guide for foreign investors

Grow | Protect | Operate | Finance





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# Introduction

## Dentons in Hungary



# Strategic investment support

Hungary is a bustling business hub situated right in the heart of Europe. It is a bridgehead between Eastern and Western Europe, with all European destinations in easy reach of the country, making it an optimal location for manufacturing, services and logistics. As a full European Union member, companies coming to do business here join the EU market of more than 500 million people.

Hungary is a small, open economy, and foreign direct investment and competitiveness are particularly encouraged by the government through a range of incentives. Partnership with potential investors is considered a national priority and special attention is paid to the needs of companies already established in Hungary and to further improving the business climate.

Companies based in Hungary are especially strong in the automotive industry, the biotechnology and the electronics sector, the services sector, and the food and agriculture industry. Famous domestic brands include pharmaceutical company Gedeon Richter, low-cost airline Wizz Air, and brewer Dreher, but there are also up and coming technology brands based in the country, such as presentation software company Prezi and architectural software developer Graphisoft.

A number of significant multinational companies – including Citi, Suzuki, Siemens, Audi, Flex, Bosch, Nestlé and Coca Cola – have established their long-term presence in the country and benefit from the highly skilled and relatively inexpensive workforce, access to top universities (both in Budapest and the rural cities), advantageous location, qualified suppliers and excellent infrastructure, including ready-made industrial sites, offices and science parks.



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In recent years, the direction of foreign direct investment has shifted from low-value textile and food-processing sectors to the luxury vehicle, renewable energy, luxury tourism and information technology sectors. Investors find value in Hungary not only as an ideal production location, but also because of the potential that it has shown as a European center for advanced manufacturing and innovation. On a strategic level, there is an intention to increase investments in projects with higher added value, with a focus on research and development and innovation activities within the country.

In addition to the beneficial market conditions outlined above, companies are also subject to favorable tax treatment in Hungary. Companies are subject to a flat corporate income tax rate of 9% and new forms of cash incentive measures were introduced in January 2017, with the aim of supporting companies in the realization of technology-intensive investments and the enhancement of research and development activities.

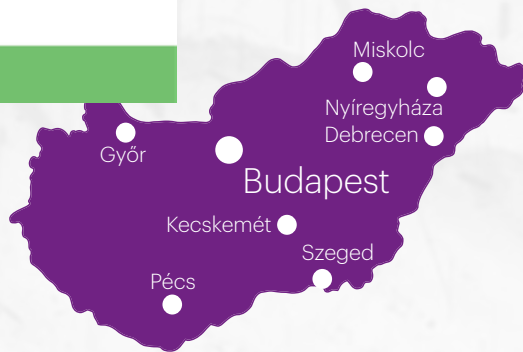
With Dentons as your legal counsel, you will benefit from a firm with well-established roots in the Hungarian market. Our Budapest office offers the services of top-tier, experienced lawyers, who are able to assist with a range of legal issues, provide cost-effective advice on various domestic matters, devise sophisticated solutions for cross-border transactions or disputes, and support you with respect to any opportunity involving foreign investment and/or joint ventures.

We trust that you will find this brief introduction to doing business in Hungary useful and invite you to contact us, or the local contacts listed at the end of this guide, with your questions.



# **Section 1**

## Hungary at a glance



### Some statistics about Hungary\*

Capital	Budapest
Population	-9.6 million, urban 71.2%
Area	93,028 sq. km.
Government type	Parliamentary republic
Legal system	Civil legal system influenced by the German model
Currency	Hungarian Forint (HUF)
GDP (purchasing power parity)	US\$427 billion: world rank 53rd (2023)
GDP (nominal)	US\$189 billion: world rank 57th (2023)
GDP per capita (PPP)	US\$43,900 world rank 44th (2023)
GDP composition	Agriculture 3.8%, Industry 28.9%, Services 67.3%
Inflation rate	14.5%
Interest rates	Central Bank policy rate 13.0%, Commercial Bank prime lending rate 16.5% (Aug 2023)
Exports	US\$149.6 billion – machinery and equipment 54.2%, other manufactures 32.8%, Pharmaceuticals 4.3%, mineral fuels including oil 4.7%, plastics 4.0% (2022)
Export partners	Germany 25.2%, Italy 5.7%, Romania 5.3%, Austria 5%, Slovakia 5.1%, Austria 4.5%, Poland 4.3%, France 4.23%, Czech Republic 4.15% (2022)
Imports	US\$158 billion – machinery and equipment 41.1%, other manufactures 33.5%, mineral fuels including oil 15.0%, plastics 4.6%, pharmaceutical 3.3%, articles of iron and steel (2022)
Import partners	Germany 21.0%, Austria 7.2%, China 6.8%, Slovakia 6.7%, Russia 6.1%, Poland 5.6%, Czech Republic 4.8%, Italy 4.1%, Korea 3.9% (2022)

World Bank 'Ease of Doing Business Rank' (2020)

**52** out of **190**

Transparency International 'Corruption Perception Index' (2020)

**77** out of **180**

\*2022 rounded estimates, source: The World Factbook, IMF, Hungarian Central Statistical Office, Eurostat, Hungarian Central Bank

## Hungary's most valued industries (based on top 10 exports)

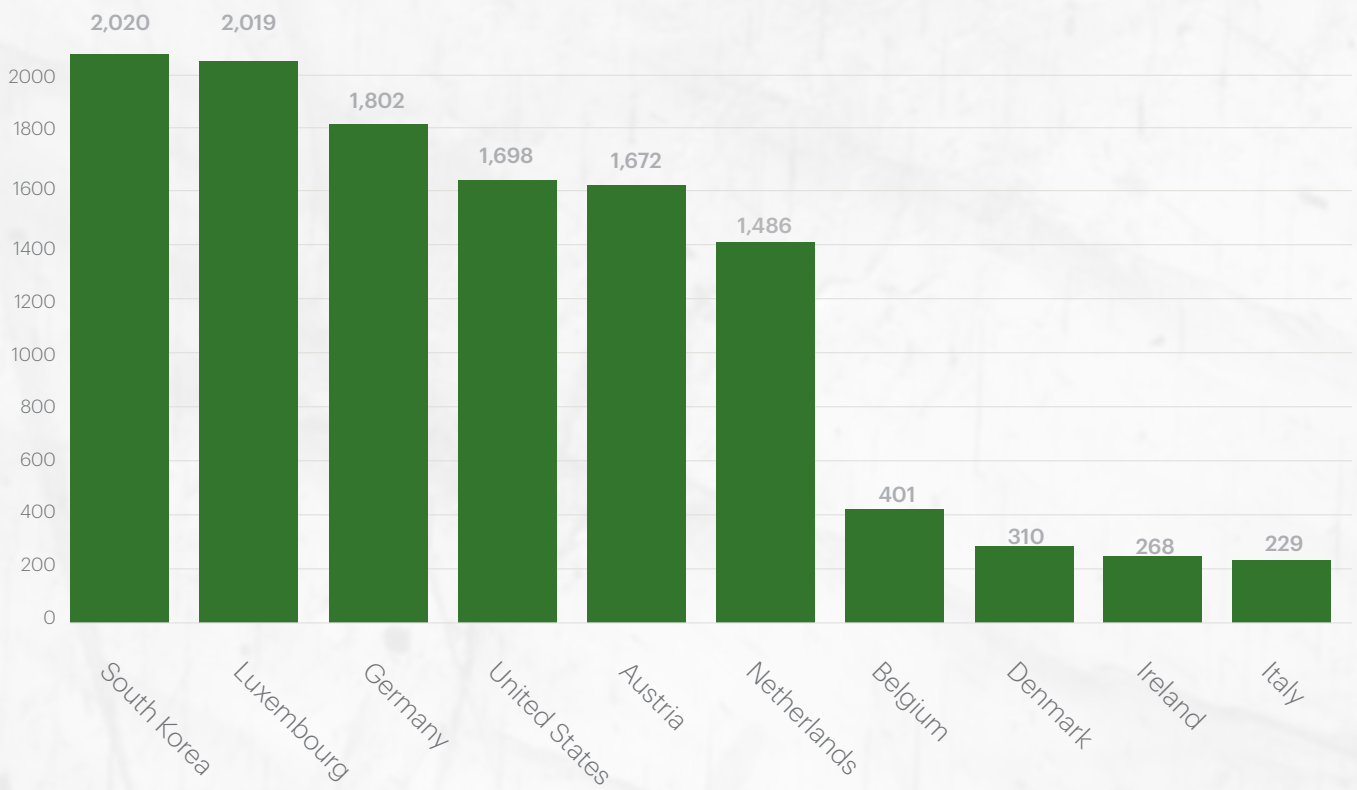
Source: World's Top Exports and World Fact Book, 2022

1	Electrical machinery, equipment: US\$37.5 billion (25.1% of total exports)
2	Vehicles: 21.9 billion (14.7%)
3	Machinery including computers: \$21.6 billion (14.4%)
4	Pharmaceuticals: \$7 billion (4.7%)
5	Mineral fuels including oil: \$6.5 billion (4.3%)
6	Plastics, plastic articles: \$6 billion (4%)
7	Optical, technical, medical apparatus: \$4.1 billion (2.8%)
8	Rubber, rubber articles: \$3.1 billion (2%)
9	Iron, steel: \$2.2 billion (1.5%)
10	Articles of iron or steel: \$2.1 billion (1.4%)

## FDI Inflows by Country (top 10 countries)

Source: Hungarian National Bank, 2023

US\$ million



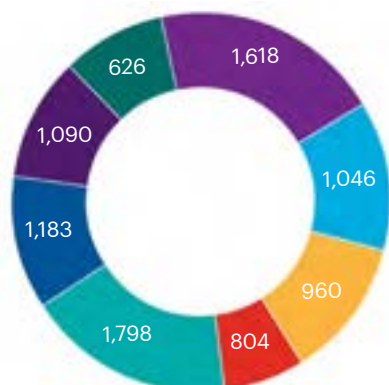


# FDI into Hungary (including SPEs): USD 346 billion (2022)

— Source: Hungarian National Bank, 2023

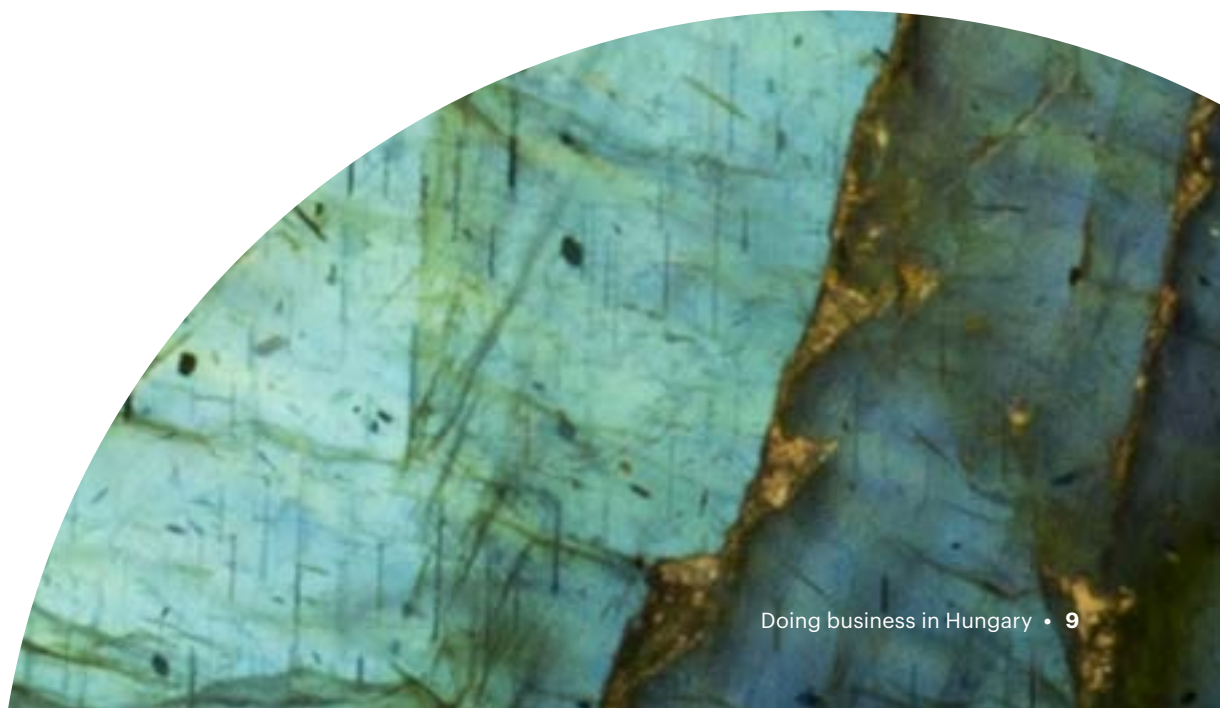
## FDI Inflows by Sector of Activity

Source: Hungarian National Bank, 2023



US\$ million

- Manufacture of electrical equipment
- Manufacture of machinery and equipment
- Manufacture of rubber and plastic products
- Manufacture of vehicle and other transportation equipment
- Manufacture of other goods
- Wholesale and retail trade
- Financial and insurance activities
- Other



## **Section 2**

### Setting up a business

## 2. Setting up a business

### 2.1. Main Rules

**2.1.1. Types of companies:** The most common forms are limited liability companies (**KFT**) and companies limited by shares (**ZRT** – publicly listed companies are marked as **NYRT**). You can own 100% of the shares in the company.

**2.1.2. Minimum capital requirements:** The minimum share capital requirements are HUF 3 million (approx. US\$8,400) for a KFT and HUF 5 million (approx. US\$14,000) for a ZRT. You can provide the share capital in the form of cash contributions, contributions in kind, or a combination of the two (in case of a ZRT, the amount of the cash contributions must be at least 30% of the share capital at the time of incorporation).

**2.1.3. Other differences between a KFT and a ZRT:** The KFT is similar to the German GmbH, and the ZRT is similar to the German AG (an unlisted company). The KFT is the company form most used by Hungarian businesses. A ZRT would be used if required by law or if you intend to list your company on a stock exchange. The advantages of a KFT include (i) lower costs, (ii) greater flexibility, (iii) less formalities and administrative burdens, and (iv) the ability to conduct almost any kind of business.

**2.1.4. Permits usually not required:** Usually no administrative permit is required to establish a company in Hungary. Most manufacturing and services companies do not need a permit to operate. Exceptions apply for certain regulated industries (such as financial service providers, insurance companies, pharmaceuticals, etc.).

**2.1.5. Executives and other officers:** For most types of businesses, a company in Hungary can have one or more executives and other officers, who can be foreign nationals. Executives need not have a permanent residence in Hungary. Where executives are not permanent residents, a local delivery agent must be appointed to receive official communication from the authorities.

**2.1.6. Purchasing an existing business:** You may also decide to buy a business in Hungary as a going concern by (i) purchasing the shares of an existing company or (ii) purchasing all or part of its assets, e.g. through a newly established company.

**2.1.7. Mandatory legal representation:** You will need to engage an attorney or a public notary in order to have your new company registered in Hungary.

**2.1.8. EU Access:** As Hungary is a member state of the European Union (**EU**), if you set up a company in Hungary you may use it to do business in other EU member states.

### 2.2. Recommendations

**2.2.1. No need to buy a shelf company:** The company registration procedure in Hungary is rather fast – you can have a company set up and registered in even one or two business days if the paperwork is completed. There is no need to buy a shelf company (a company that has never traded but was set up earlier and is registered e.g. for tax purposes), as this could take longer and cost more than setting up a new company.

**2.2.2. Take tax and legal advice from the very beginning:** If you set up or acquire a business in Hungary, you will encounter numerous administrative requirements (tax filing, financial reporting, etc.). It is expedient to engage a professional tax adviser even prior to starting the business establishment or acquisition process to help you plan the process from the outset. In the case of an acquisition, you will probably first sign a letter of intent or a memorandum of understanding. Such documents are not intended to be legally binding, but they may contain important terms which could be difficult to modify later in the negotiation process (e.g. upon preparing the final sale and purchase agreement). Therefore, it is useful to seek legal advice as well, even before signing a letter of intent.

**2.2.3. Reservation of company names:** Before documents are filed for the incorporation of a new company, the reservation of up to five company names may be requested from the court of registration, ranked according to the priority chosen by the founder. The court of registration checks the eligibility of the names for registration, and reserves the first possible name on the list for 60 days. This also prevents other companies from registering under the same name during the reservation period.

## 2.3. Things to watch out for

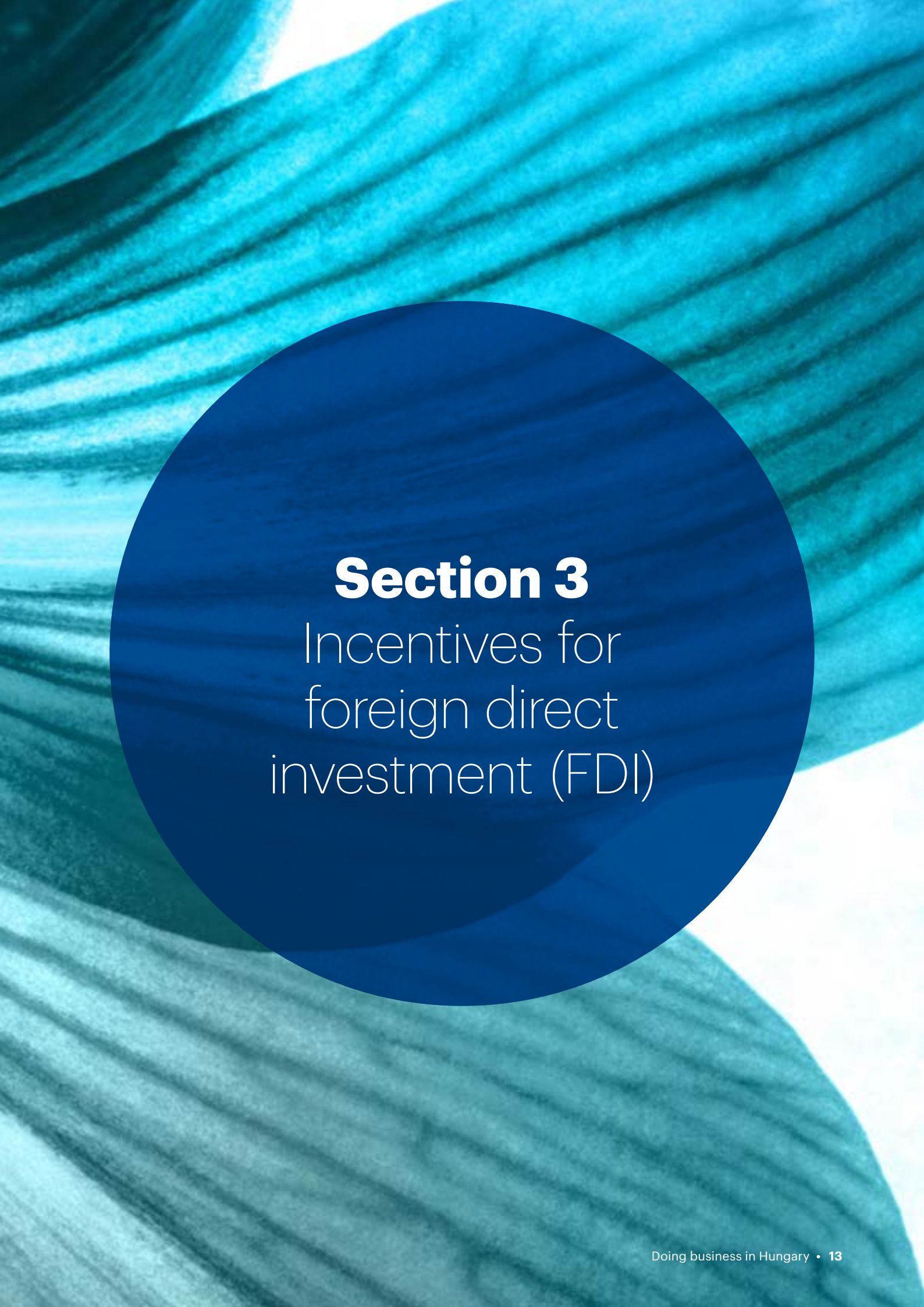
**2.3.1. Company names:** When selecting a name for the business you should not only check the company registry to see whether another business is registered under the same or a similar name (this would prevent you from registering your company). It is also crucial to search the register of trademarks kept by the Hungarian Intellectual Property Office and the internet domain name registry for the same or similar names in order to avoid an unintended breach of intellectual property rights or domain name use by your business.

### 2.3.2. Transactions with state-owned or state-related entities:

Buying from or selling to state-owned enterprises can be challenging at times. State entities or state-owned companies may impose special terms, including maintaining the current level of employment, or forbid the re-selling of the shares and assets for a specified period. The price you bid should reflect this. Some state entities may not be familiar with the international business environment.

### 2.3.3. Don't rely on statutory warranties – write your own:

The Hungarian statutory warranty regime is very general and designed mostly for transfers of title to movable assets and real property (rather than shares of a company or an entire line of business). As the buyer of a business or shares of a company, you should negotiate the warranties that you require from the seller and the limits of the seller's liability. Do not rely on statutory warranties solely.



## **Section 3**

Incentives for  
foreign direct  
investment (FDI)

## 3. Incentives for foreign direct investment (FDI)

### 3.1. Main rules

#### 3.1.1. Cash grant

**3.1.1.1. Subsidy for major FDI projects:** The Hungarian Government offers subsidies based on individual government decisions (a.k.a. VIP cash grants) to investors with significant FDI projects creating workplaces in Hungary.

**3.1.1.2. Eligibility:** Projects must generally have an investment volume of at least the HUF equivalent of €5 million (approx. US\$5.3 million), create at least 50 new workplaces, and be maintained for a mandatory operation period of five years to be eligible for VIP cash grants. Higher thresholds of investment volume and minimum number of new workplaces apply in more developed regions. Special rules apply to research and development (R&D) and technology-intensive projects.

**3.1.1.3. Available aid intensity:** The amount of subsidy that can be received for a project depends on the location of the project. The aid intensity (meaning the amount of subsidy available for a given investment volume) is 30% in the northern part of Western Hungary and 50% for the rest of Hungary, except for Budapest where projects are not eligible for subsidies.

**3.1.1.4. Restrictions:** The business must be able to demonstrate an incentive effect to qualify for a subsidy. An incentive effect exists if (i) the business submits a written application for the subsidy before the start of the project, or (ii) without the subsidy, the project would not be started in the area or would not be sufficiently profitable in the area. The business must be conducted continuously, subsidized assets must be retained and the stipulated level of employment must be maintained for the mandatory operation period.

#### 3.1.2. EU funds

**3.1.2.1. Availability:** Hungarian investment projects may benefit from subsidies available from EU funds, including the European Regional Development Fund and the European Social Fund for a large variety of projects. These cover a far greater range of projects than the VIP cash grant. Top priority targets are sustainable and quality employment, network infrastructure in transport and energy and competitiveness of small and medium enterprises. Additional funds are expected to be available under the Recovery and Resilience Facility from 2022.

**3.1.2.2. Award of EU funds:** EU funds are generally awarded to businesses through tenders issued by the competent governmental agency from time to time.

#### 3.1.3. Other sources

**3.1.3.1. Development tax allowance:** New investment projects in Hungary with an investment volume of at least HUF 3 billion (approx. US\$8.4 million) may be eligible for development tax allowance. The threshold is HUF 1 billion (approx. US\$2.8 million) in preferred regions. The amount of the tax allowance is 80 percent of the corporate income tax and can be utilized in the year of investment and during 12 subsequent years.

**3.1.3.2. Training subsidies:** Cash grants for investments in the training of employees may be granted through individual governmental decisions or an agreement with the government.

**3.1.3.3. Employment subsidies:** Cash incentives are available to companies who create new workplaces, preserve existing workplaces or employ disabled or disadvantaged workers (conditions apply).

**3.1.3.4. Incentives for R&D:** Companies may apply for funds from the National Research, Development and Innovation Fund through competitive tenders (conditions apply).

**3.1.3.5. Subsidies from local governments:** Certain municipalities offer smaller incentives to investors, usually in the form of local tax exemptions.



## 3.2. Recommendations

**3.2.1. Deadlines:** Investors should ensure that they receive the government's acknowledgment of eligibility prior to the commencement date of the project (as defined in the relevant legislation), as failure to observe the relevant deadlines could preclude the granting of subsidies.

**3.2.2. Relocations:** Additionally, investors are advised to check whether they have performed any relocations (i.e. a transfer of the same or similar activity, or part thereof, from an establishment in an EEA country to Hungary) in the two years preceding the application for the subsidy or have plans to do so up to a period of two years after the planned investment is completed. If a relocation has taken place or is planned, the subsidy may need to be approved by the European Commission.

## 3.3. Things to watch out for

**3.3.1. VIP cash grants:** In case of VIP cash grants, preference is given to projects in the biotechnology, electronics, engineering, pharmaceutical, IT, automotive, and food industries, as well as projects involving regional shared service centers. Certain sectors and activities (e.g. steel sector, synthetic fibers sector, and primary agricultural production sector) are not eligible for VIP cash grants.

**3.3.2. Employee thresholds:** Certain sectors (e.g. automotive, manufacturing, and food production) have suffered from a lack of workforce in recent years. This could pose difficulties in complying with the relevant thresholds relating to the required number of employees.



# **Section 4**

## Taxes



## 4.1. Rates and other important information

Corporate income tax (CIT)	9% (alternative minimum taxation may apply in certain cases)
Value added tax (VAT)	27% (18% and 5% reduced rates)
Personal income tax (PIT)	15%
Local business tax (LBT)	Maximum 2% based on the discretion of the municipality
Withholding tax on dividends, interest and royalties paid to non-individuals	None
Surtax	Various surtaxes are levied at a range of rates on financial institutions, telecommunication services and energy companies
Social security (covering social tax and vocational training contribution) payable by employer	19.5% plus 1.5%
Social security withheld from gross salary of employees	18.5%
Transfer tax on the acquisition of real estate and shares in real estate companies	4% up to a value of HUF1 billion (approx. US\$3,6 million) and 2% on the value exceeding HUF1 billion (approx. US\$3,6 million), capped at HUF200 million (approx. US\$715k) per property – payable by the purchaser
Statute of limitation	Five years from the last day of the year in which the tax return was due or was filed
Transfer of a “going concern”	Out of scope of VAT under certain conditions
Capital duty	None
Real property tax	Building tax/plot tax are levied at the discretion of the municipalities
Tax penalty	50% (200% in certain cases); in addition, late payment interest of 5% plus the base rate issued by the National Bank of Hungary is also levied
Tax treaties	More than 80 tax treaties

## 4.2. Compliance

Tax year	Generally the calendar year, but taxpayers may opt for different financial years under certain circumstances
Tax registration	Upon the setting up of a company via the Court of Registration
CIT returns and payment	Annually, within 150 days of the financial year-end (May 31 calendar year is used as the tax year)
CIT advance payment	Monthly or quarterly depending on the previous year's CIT liability, with a top-up payment by the 20th day of the last month of the financial year
Local business tax return and payment	Annually, within 150 days of the financial year-end (May 31 calendar year is used as the tax year)
Local business tax advance payment	Twice a year, by March 15 and September 15
VAT returns	Monthly, quarterly or annually depending on the amount of VAT liability
Payroll reporting	Monthly by the 12th day of each month
Transfer pricing report	Should be prepared for all related party transactions of a value of above HUF 50 million (approx. US\$180k)/by the date of the filing of the CIT return; Country-by-Country (CbC) rules implemented

## 4.3. Main rules

**4.3.1. Accounting principles:** Financial statements are to be prepared under Hungarian GAAP (generally accepted accounting principles) but in certain cases you may consider transitioning to IFRS (international financial reporting standards). The transition may have a significant effect on the tax position, therefore such a plan should be carefully explored. Financial statements can be prepared in HUF, EUR, USD or other currencies if certain conditions are met.

**4.3.2. Different ways of acquiring a business have different tax consequences:** you may acquire a business in the form of a share deal or asset deal, the latter consisting of either the purchase of individual assets or a "going concern". Each form of acquisition has different tax consequences that you should consider before proceeding with the transaction.

**4.3.3. Profit repatriation:** Hungary does not levy withholding tax on dividend, interest and royalty payments made to foreign recipients unless they are private individuals.

**4.3.4. Tax rulings/Advance Pricing Agreements:** are available for confirming the tax consequences/arm's length price of a transaction. Depending on your investment structure, and the volume of your transaction, you may consider applying for such rulings. In general, rulings can be obtained for future transactions. You may apply through a standard or expedited procedure; both take up to several months and are subject to a statutory fee.

## 4.4. Recommendations

**4.4.1. Consider your investment structure at the outset:** you may take advantage of legitimate investment structures that are tax efficient, such as share exchanges, investment funds, or participation exemption regimes.

**4.4.2. Consider how you remunerate key employees:** there could be tax efficient remuneration schemes available.

## 4.5. Things to watch out for

**4.5.1. Anti-avoidance rules:** when setting up your investment structure you should be aware of general and specific anti-avoidance rules. If the primary aim of a transaction is tax avoidance, any benefits may be denied.

**4.5.2. Special rules in relation to real estate:** if your investment includes real estate/real estate companies you should carefully plan your structure to mitigate any negative tax consequences. In general, capital gains realized by a foreign entity on the sale of the shares of a Hungarian entity are not taxed in Hungary unless the Hungarian entity is a real estate company and the shareholder is tax resident in a non-treaty country or a treaty country where the treaty allocates the right of taxation to Hungary.

**4.5.3. VAT deductibility:** there are very strict substantial and formal rules on the deduction of input VAT, therefore you should make sure that all those requirements are met. Passive holding companies are not allowed to deduct any input VAT.

**4.5.4. Controlled foreign company (CFC) rules:** Hungary has CFC rules that could lead to taxation of a CFC's profits in Hungary (while the tax may be creditable in the home country of the CFC). Before setting up your investment structure you should carefully investigate the CFC status of foreign entities the Hungarian company has transactions with. A CFC is a foreign entity in which the Hungarian company, together with its related parties, holds a direct or indirect participation exceeding 50 percent and which is a foreign permanent establishment. If the tax paid by the foreign entity or the permanent establishment is less than the difference between the tax that would have been payable in Hungary for the same revenue and the tax actually paid, there may be an additional tax liability, payable in Hungary. There are certain exceptions to this rule.

## 4.6. Exemptions and beneficial tax regime

**4.6.1. Participation exemptions:** A participation exemption applies to dividends received without any holding requirements. A participation exemption also applies to capital gains derived from the transfer of shares after a one-year holding period (no minimum shareholding requirement as of 2018) provided that the share had been reported to the tax authority within 75 days of the acquisition. If you intend to hold the investment for a longer period you may consider applying the above regime.

**4.6.2. Tax incentives:** several tax incentives may be available for your purposes including development tax incentives in the form of a tax credit depending on the amount of investment, the industry and the location; double deduction of qualifying R&D costs; accelerated depreciation in certain cases; tax credits sponsoring certain activities; or tax credit for energy efficiency investments.

## 4.7. Start-up and Merger & Acquisition (M&A) rules

**4.7.1. EU Merger Directive:** the rules of the EU Merger Directive on the deferral of capital gains taxation in case of a cross-border merger have been implemented in Hungarian law both for cross-border mergers and domestic transactions. A merger under Hungarian rules may be carried out either at book value or at market value. In this latter case, the company's assets are revalued to reflect their market value, i.e. the company can recognize a step up (increase) in value of its asset. Such step up is tax free when recognized, but has deferred tax effects, as the assets revalued shall have different values for tax and accounting depreciation.

**4.7.2. Tax losses:** previous year's tax losses may be offset by up to an amount equal to 50 percent of the tax base of the financial year. Tax losses generated in 2015 and thereafter can only be carried forward for five years, while tax losses incurred before 2015 may be carried forward until 2025. The possibility of carrying forward tax losses may be limited in the case of acquisitions and mergers, which should be taken into consideration when setting up your investment structure.

**4.7.3. Thin capitalization:** interest on debt (excluding bank debt) exceeding three times equity is non-deductible for CIT purposes. When calculating debt, certain receivables can be offset against the amount of debt. New thin cap rules will be introduced from January 1, 2019.



# **Section 5**

## Employment

## 5. Employment

### 5.1. Rates and other important information

Taxes and Other Public Levies	
Personal income tax payable by private individuals	15%
Public levies payable by an employee (deducted by the employer)	10% pension contribution 7% health insurance contribution 1.5% labour market contribution
Public levies payable by an employer (deducted by the employer)	13% social security contribution

Minimum gross monthly salary in 2022 for full-time employees	
Basic (without secondary school diploma or advanced vocational training)	HUF 232,000 (approx. US\$632)
Workers employed in positions requiring a secondary school diploma or advanced vocational training	HUF 296,400 (approx. US\$796)

### 5.2. Your basic obligations as an employer

If you are an employer in Hungary, you must:
ensure that each employee has a written employment contract;
register the employer entity and each of your employees with the tax authority;
ensure that each employee is informed in writing of main employment conditions (e.g. working time, salary payment date, represented trade unions);
ensure that each employee is informed in writing on how his/her personal data is processed;
observe working time and holiday allocation rules and keep records of working time and holidays;
ensure that the principle of equal treatment is strictly observed;
pay salaries, as well as statutory premiums (shift premium, night premium, overtime);
comply with work safety requirements;
respect the rights of employee representative bodies; and
obtain work permits for foreign employees, if necessary.

## 5.3. Main rules

**5.3.1. Labor regulations:** Employment relationships are strictly regulated by the Labor Code and other legal regulations. As a general rule, collective bargaining agreements (if applicable to the employer) and individual employment contracts can only diverge from the rules set forth in law to the advantage of the employee. In respect of certain matters that can be decided by the employer (e.g. work schedule, benefits), the employer can also issue internal regulations, policies.

**5.3.2. Employment contracts:** Employment contracts must be made in writing, and include at least the data of the employer and the employee, the base salary and the position of the employee. Employment contracts are by default for an indefinite term; if the contract is for fixed term, this fact needs to be stated. While not mandatory, it is recommended to also regulate the place of work. An employee can be ordered, subject to certain limitations, to work in a position and/or at a place other than the one defined in his/her contract up to 44 working days per year.

**5.3.3. Working time, holidays:** The daily working time in full-time jobs is eight hours. The legal maximum for daily work is 12 hours (including overtime). Overtime is limited at 250 hours per calendar year. In addition to this, maximum 150 hours of overtime work can be ordered in a given calendar year subject to agreement between the employee and the employer in writing (voluntary overtime). The employee may withdraw from the agreement by the end of the given calendar year. Daily breaks, intervals between finishing one day's work and starting the next and weekly rest periods are also strictly regulated. Employees are entitled to 20 days of annual basic holidays plus up to ten additional vacation days depending on age, as well as additional days of depending on personal circumstances and work conditions. Employers are required to keep detailed records of the working time and vacations of each employee. Labor authorities monitoring compliance with labor regulations tend to focus on compliance with working time and vacation rules.



**5.3.4. Termination of employment:** The employer can terminate the employment of an employee by unilateral termination with immediate effect (i.e., for cause); by unilateral ordinary termination; or by way of concluding a mutual separation agreement. Unilateral termination must always take written form and state proper reasons in line with strict legal requirements. In case there is a dispute, the burden of proof is on the employer, i.e. the employer must be able to demonstrate and provide evidence that the reasons referenced in the termination notice did occur and warrants termination. In the case that the employment is terminated by unilateral ordinary termination, a notice period usually ranging between 30 and 90 days must be observed and the employee may also be entitled to statutory severance pay.

**5.3.5. Employee representation:** Once the number of the employees exceeds 15, a works council must be elected. The works council has broad consultative powers: almost any major decision relating to work scheduling, reorganizations, etc. needs to be discussed with the works council in advance. Any trade union that has the employer company's employees as its members may establish representation with such an employer; trade unions do not have broad consultative powers but can negotiate and conclude a collective bargaining agreement, which may diverge from default labor law rules on a number of material points (e.g. increase the annual overtime cap, extend the maximum term of the trial period).

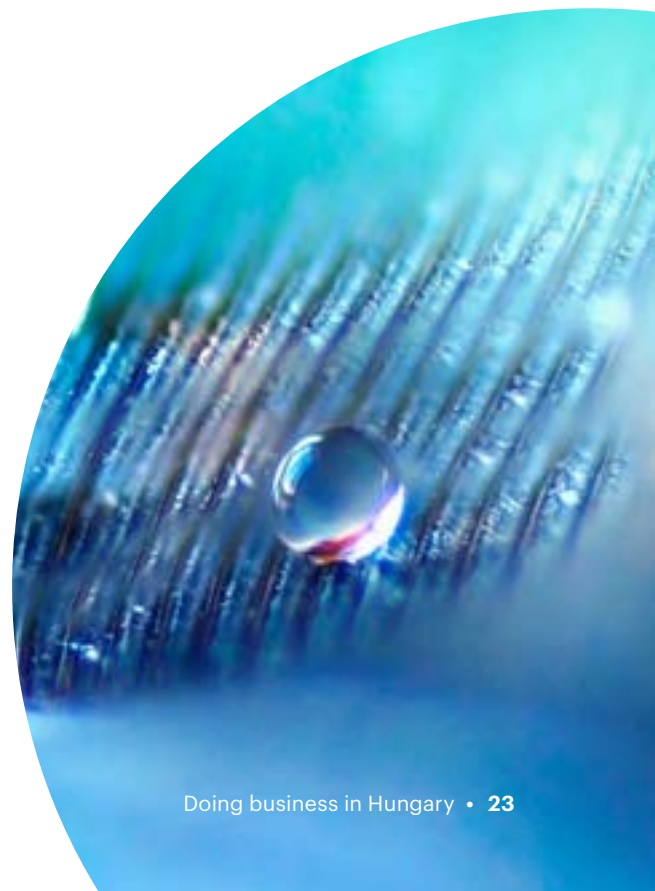
**5.3.6. Work safety:** Employers are generally required to organize work in a way that ensures working conditions that do not endanger the life, health and safety of the employees. Within this framework, employers must arrange for medical aptitude tests for each employee upon entry and at regular intervals; engage a work safety expert to evaluate the risks to the health and safety of employees; ensure that the employees elect a work safety representative; and provide health and safety at work training for the employees.

## 5.4. Recommendations

**5.4.1. Workforce leasing:** One of the most popular employment forms, used by many companies to hire temporary workforce in times when workload suddenly increases, is the employment of hired-out employees provided by an employment agency specialized in such services. Hired-out employees are employees of the employment agency but receive their instructions from the company using the services of the employment agency.

**5.4.2. Work scheduling:** The work schedule is determined by the employer; by scheduling work unevenly, so as to match actual requirements, considerable savings can be made on overtime costs.

**5.4.3. Employment due diligence:** If a Hungarian company is acquired, it is important to investigate potential severance costs, as if the employees of the target have long service time, a restructuring of the workforce could prove expensive in view of substantial statutory severance payments.



## 5.5. Things to watch out for

**5.5.1. Reclassification risk:** Authorities may reclassify a service/consultancy agreement as an employment agreement, if the terms thereof or the actual work conditions are typical of an employment relationship (e.g. work performed under the authority and upon the detailed instructions of a company, regular working hours, vacation entitlement, benefits). If a service/consultancy agreement is so reclassified as an employment agreement, the employer may be ordered to pay taxes retroactively, as well as pay substantial fines.

**5.5.2. Fixed-term contracts:** A fixed-term employment agreement may not exceed five years and can only be terminated before the end of the fixed term under exceptional circumstances only or by paying the employee for the remainder of the fixed term. Further, if a fixed-term employment is extended for another consecutive definite term without a justifiable reason, it may be deemed to be an indefinite term agreement.

**5.5.3. Protected employees:** Before proceeding with the termination of the employment of an employee by ordinary unilateral termination, it is material to clarify if such employee enjoys any statutory protection (e.g. maternity) that would render the termination notice invalid and expose the employer to wrongful termination claims.

**5.5.4. Mass layoffs:** If the number of employees planned to be dismissed exceeds a certain percentage of the total workforce (typically 10 percent), the employer will be required to comply with a strictly regulated procedure involving the notification of the competent authorities and entering into consultations with the local work council. Notices of termination cannot be served until the process is completed, which means a delay of about two months.

## 5.6. Exemptions and beneficial regimes

**5.6.1. Executive employees:** There is a special class of so-called executive employees, essentially representing the senior management of a Hungarian company. In the case of such executive employees it is possible to freely agree on employment terms and set aside almost any rule that would be mandatory for all regular employees (e.g. impose stricter conflict of interest rules or agree on individual termination rules).

**5.6.2. Tax benefits:** The employment of certain employee groups (e.g. young employees at the start of their careers, long-term job seekers, employees with disability) carries considerable tax benefits. Additionally, certain benefits can be provided to employees at much more favorable tax rates than the rates that apply to regular salary.



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# **Section 6**

## Immigration

## 6. Immigration

### 6.1. Main rules

**6.1.1. Work permit:** As a general rule, foreign nationals, other than citizens of EU member states, require a work permit to work in Hungary. Individual work permits are generally valid for a maximum of two years, which may be extended by an additional two years. The work permit must be obtained prior to the commencement of the employment. In addition to obtaining a work permit, foreign nationals must also obtain appropriate visas and residency permits.

### 6.2. Recommendations

**6.2.1. Workforce leasing:** Workforce leasing companies can also employ and hire out foreign nationals. If an employer leases foreign nationals from such a leasing company, the administrative burden as well as the liability for complying with the rules applicable to the employment of foreign nationals will rest with the leasing company.

### 6.3. Things to watch out for

**6.1.2. Citizens of EU member states:** Citizens of EU member states and their family members may be employed in Hungary without a work permit, however, the competent authorities must be notified of their employment. EU citizens must also obtain a residence card and an address card from the Immigration Office if they wish to stay for more than three months.

**6.1.3. EU Blue Card:** If a foreign national possesses certain specialized qualifications, he/she may be eligible for an EU Blue Card, which allows such individual to work in any member state of the EU for a time period ranging between three months and two years.

**6.1.4. Exemptions:** There are numerous cases set in law where a foreign (non-EU) national can be employed without a work permit - for instance the executive officers of Hungarian companies do not require a work permit. There are also several instances where the work permit is issued in a simplified process e.g. in respect of Serbian and Ukrainian nationals intended to be employed in certain fields of work, employees seconded from an affiliate of a Hungarian company that is domiciled outside of the EU.

**6.3.1. Work permit:** If the employment of a foreign national is subject to a work permit, such a permit must be obtained before the individual starts work. The process of obtaining the permit can take several months (if no exemption applies and the simplified process is not available).

**6.3.2. Fixed-term contract:** If the employment of a foreign national is subject to a work permit, such individual can only be employed on the basis of a fixed-term contract (concluded for the same duration as the term of validity of the work permit). Fixed-term contracts are difficult or costly to terminate before the expiry of the fixed term.





## **Section 7**

Environmental  
protection

## 7. Environmental protection

### 7.1. Permits you might need

Environmental Permit	Required in respect of certain specialized activities that are likely to have a substantial impact on the environment; issued by the competent environmental protection authorities following the completion of an environmental impact assessment.
Integrated Pollution Prevention and Control Permit (IPPC)	Required in respect of certain activities that are likely to have the potential to significantly pollute the environment; issued by the competent environmental protection authorities following the completion of an integrated environmental impact assessment; the permit combines all necessary permits and includes provisions relating to best available techniques.
Greenhouse Gas (GHG) Emission Permit	Activities that entail the emission of greenhouse gases can usually only be pursued in possession of a greenhouse gas emission permit.
Air Emission Permit	Activities/installations that cause air pollution exceeding certain thresholds require an air emission permit (different permits are required for point-based and diffuse polluting sources).
Water Permit/Wastewater Emission Permit	Activities that involve the emission of wastewater or water which may potentially cause pollution require a wastewater emission permit; the processing and cleaning of wastewater and/or other water sources is subject to a water permit.
Noise Pollution Permit	Activities/installations that emit noise exceeding certain thresholds require a noise emission permit.
Waste Production/Processing Permits	Activities that involve the production of hazardous waste, as well as activities focusing on the removal and processing of such waste, are subject to a strict regime of licensing and reporting.
Other Environmental Licensing	Environmental licensing forms a part of various other proceedings (e.g. mining permits, building permits, etc.).

## 7.2. Main rules

**7.2.1. General Regime:** Hungarian environmental laws are aligned with relevant EU legislation on environmental protection and licensing, and the allocation of and trade in carbon emission units. In line with such EU legislation, Hungary applies a system of integrated pollution prevention and control (IPPC) in environmental licensing. Licensing procedures and compliance with the terms of the permits are monitored by the Environment and Nature Protection Departments of the local Government Offices, although in some cases other authorities are also involved in the licensing process. The environmental protection regime rests on the following principles, which are enforced in the licensing process as well:

- preventive measures are taken against pollution;
- best available techniques (BAT) are applied;
- no significant pollution is caused;
- waste is reduced, recycled or disposed of in a manner which creates least pollution;
- energy efficiency is maximized;
- accidents are prevented and their impact limited;
- sites are remediated when the activities are terminated; and
- polluters pay.

The holder of an environmental license is subject to regular reporting obligations to the environmental authority, and its activities affecting the environment (e.g. emissions of various substances) are regularly audited.

### 7.2.2. Environmental Impact Assessment

**(EIA):** In respect of activities that have or may have a significant impact on the environment (including electricity generation above a certain scale, mining activities, or the operation of other larger industrial facilities), the company planning to engage in such activities has to initiate an environmental impact assessment (EIA) procedure. Within the framework of such EIA process, the applicant has to prepare an environmental impact study, file such study with the competent environmental licensing authority, and request that the licensing procedure be initiated. The environmental authorities will either determine that no environmental permit is required or continue the process of issuing the relevant license. Certain activities can be undertaken without having to conduct an EIA procedure or to obtain a license; with respect to such activities, a simple prior notification to the competent authorities suffices.

**7.2.3. Carbon emissions:** Hungary has ratified the Kyoto Protocol and it has been binding on Hungary since 2005. In accordance with applicable EU directives and directly applicable EU resolutions establishing a common Emissions Trading System in the European Union (EU-ETS), Hungary has also adopted detailed regulations concerning the allocation, registration, accounting, and trade of carbon credits.

Facilities emitting CO<sub>2</sub>, N<sub>2</sub>O and PFCs above a certain threshold including, among many others, electricity production above 20MWth input capacity or cement production above a daily capacity of 50 tons), must apply for a greenhouse gas (GHG) emission license from the competent environmental authority. The issued GHG emission license sets forth the conditions for the measuring, monitoring, auditing and reporting of the emissions of the source to which the GHG license relates.

## 7.3. Recommendations

**7.3.1. Preparation and timing:** In the context of a planned investment in Hungary, it is important to identify the activities to be pursued in detail and consider, with the involvement of an environmental expert, if any licensing is likely to be necessary. If, on the basis of such preliminary assessment, it seems likely that environmental licensing will be necessary, it is important to factor in the time needed to complete the relevant processes. The obtaining of the necessary permits may take significant time and effort and actual operations can only be commenced once all requisite permits have been granted. The process can be facilitated by producing a high quality environmental impact study and cooperating with the authorities.

**7.3.2. EMAS and ISO 14001:** The EU Eco-Management and Audit Scheme (EMAS) helps companies prove that their business is green. EMAS can help in minimizing risk, cutting costs and complying with regulatory requirements. Using ISO14001 helps in setting up an effective environmental management system, which in turn helps companies manage their environmental responsibilities during daily operations.

## 7.4. Things to watch out for

**7.4.1. Liability:** Hungarian environmental laws have adopted the “polluter pays” principle, according to which, as a main rule, an operator causing environmental damage or creating an imminent threat of such damage shall bear the cost of necessary preventive or remedial measures. However, since in many cases the actual polluter is difficult to identify, the owners and the users/possessors of real property are deemed to be jointly and severally liable for any pollution and they will only be released from such liability if they are able to identify the actual polluter and prove beyond any doubt that they are in no way liable for the pollution in question.

Environmental liability is one of the few situations in Hungarian law where the corporate veil can be pierced. If liability for environmental damages is established on the part of a Hungarian company which is then liquidated, the executive officers and the direct owners of such company can become liable for any remediation and compensation obligations that the liquidated company failed to fulfil upon its liquidation.

In view of this regime, it is highly recommended that an environmental due diligence be conducted in the context of any investment that includes the purchase of real estate and that environmental liability is adequately covered in the transaction documents. Further, certain agreements supporting the operation of a Hungarian company also need to include language on environmental liability (e.g. waste removal agreements).

**7.4.2. Restoring obligation:** Once a licensed activity is to be terminated at a site, the environmental license holder must gradually restore areas that have lost, or have seen a reduction to, their utility, and make the areas suitable for reuse or harmonize the area with the natural environment.

**7.4.3. Special environmental protection areas:** Hungary has also joined the Natura 2000 network of the EU and nearly 21 percent of the territory of Hungary qualifies as Natura 2000 areas; such areas are considered special nature conservation areas. The Natura 2000 qualification of an area does not, in itself, impose an absolute ban on industrial or mining activities, but the applicable nature protection requirements and standards are much more stringent.



# **Section 8**

## Real estate

## 8. Real estate

### 8.1. Main rules

A number of laws regulate real estate in Hungary, including the Civil Code, the Lease Act, the Condominium Act, the Agricultural Land Act and the Land Registry Act. Legal restrictions on specific real estate transactions are applicable to foreign investors and individuals (in particular with respect to agricultural land).

#### 8.1.1. Real estate ownership

**8.1.1.1. Acquisition of real estate:** Ownership of real property is recognized under Hungarian law and is guaranteed under the Constitution of Hungary. Expropriation (compulsory purchase) is only permitted in exceptional cases, in the public interest, in a manner stipulated by law, and with the provision of full, unconditional and immediate compensation.

#### 8.1.1.2. Limitations

- **Agricultural land:** As a general rule, non-EU foreign individuals and Hungarian or foreign legal entities may not acquire agricultural land. From 2014, EU citizens may acquire agricultural land on the same terms as Hungarian citizens. The acquisition of agricultural land by EU and Hungarian citizens is subject to special conditions and restrictions.
- **Non-agricultural real estate:** EU citizens and legal entities resident in the EU (or EEA legal entities) may acquire non-agricultural real estate on the same terms as Hungarian citizens and legal entities. Citizens and legal entities resident in other countries will need a permit (governmental consent) for the acquisition of real estate.
- **Pre-emption right:** For certain properties statutory pre-emption rights may apply (e.g. pre-emption right for the Hungarian State and the local municipality with respect to buildings designated as protected cultural heritage).

### 8.1.2. Common ownership

**8.1.2.1. Co-ownership rights:** Under the Civil Code, co-ownership means that the property is owned by more than one person (the co-owners) in proportion to their ownership ratio. In the case of co-ownership, each co-owner has the right to possess and use the property which right cannot be exercised in a way that adversely affects the rights and legitimate interests of the other co-owner(s).

The rights and obligations of the co-owners are based on their ownership ratio: the proceeds of the co-owned real property are due to the co-owners in proportion to their ownership shares, and obligations, costs and losses related to the property are to be borne by the co-owners in the same proportion. Any of the co-owners may carry out works that are essential for the preservation and maintenance of the property and each co-owner shall be obliged to bear its share of the costs involved. The unanimous decision of the co-owners is required for expenditures exceeding the scope of ordinary business and to transfer, encumber or enter into a commitment burdening the entire property. In other matters the co-owners decide with majority based on their ownership ratio.

Each of the co-owners may freely dispose of and encumber its ownership share, but each will have a statutory pre-emption right in case a co-owner sells its ownership share.





### 8.1.3. Real estate encumbrances:

**8.1.3.1. Mortgages:** Real property can be encumbered with a mortgage to secure the claims of a third party. For the establishment of a mortgage, a mortgage agreement must be signed with special formalities and the mortgage must be registered with the land registry.

**8.1.3.2. Other encumbrances:** Other encumbrances can also be applied to real estate, e.g. servitudes/easements, right for construction and utilization of buildings, pre-emption rights and call options. These also require registration with the land registry.

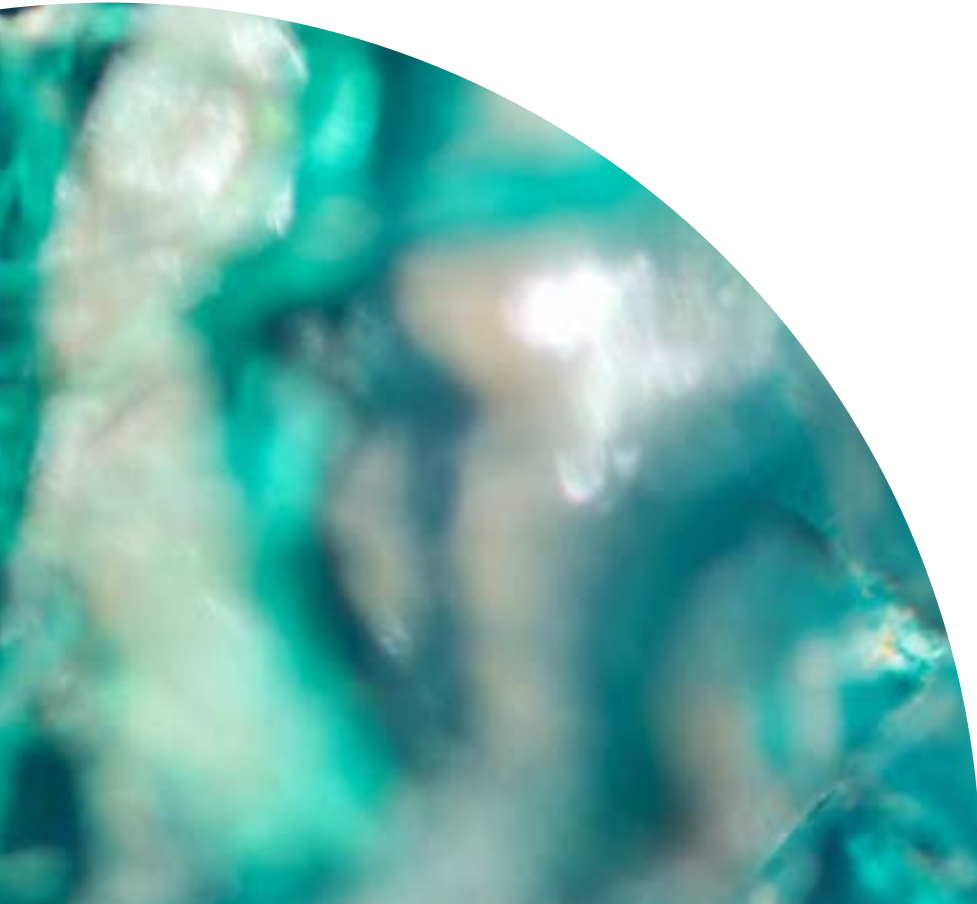
**8.1.4. Environmental issues:** There are various environmental laws and planning instruments at the national, regional and local level which impact real estate ownership (and investment) in Hungary. There is a system of guidelines and plans on multiple regulatory levels, including the National Environment Protection Program, regional waste control plans and local municipal regulations for the protection of nature. As the real estate market evolves, there is a trend towards greater regulation, heightened enforcement and increased liability for non-compliance with respect to environmental issues.

## 8.2. The land registry system

**8.2.1. Land registry offices:** Ownership of all real property in Hungary is recorded in the land registry, maintained by the land registry offices throughout Hungary. Each individual parcel of real property is identified by a topographical lot number and is registered by the local land registry office.

All applications are reviewed by the land registry office to approve the registrable rights/obligations and facts of legal importance established in documents affecting real property. Only rights (encumbrances) defined by law may be registered with the land registry with regard to a real property (e.g. ownership title, land use right, easement, pre-emption right, mortgage, etc.). The land registry office will first enter a margin note on the real property's proprietary sheet (title extract) to reflect that there is a pending application when such an application is filed. The title/encumbrances are registered by priority of their filing date. In general, land registry procedures take a maximum of 60 days.

The land registry office proprietary sheet (title extract) evidences the registered owner of the real estate. It also evidences the registered encumbrances over the real estate (such as mortgages, easements, and rights of way) and it also contains the basic data of the real estate (e.g. its footprint area, classification (registered function) and address) and contain margin notes on pending applications.



### 8.2.2. Legal effect of registration in the land

**register:** Title and encumbrances (rights and facts of legal importance) are subject to registration with the land registry.

Certain rights may be perfected without registration (e.g. leases, statutory pre-emption rights, etc.).

Information (e.g. the size of the real estate) recorded in the land registry shall be considered as true until proven otherwise. A person acquiring a right that is not entered in the land registry may not enforce such a right against a party acquiring a right in exchange of consideration and in good faith and relying on the land registry records.

Title/encumbrances recorded for the benefit of a person acquiring rights in good faith, for consideration (exchange of good value) and in reliance on the validity of the previous registration, may not be cancelled from the land registry after three years have elapsed since the date of registration.

Pursuant to the Civil Code, a person who has continuously had possession of real estate for 15 years may acquire ownership title to it through adverse possession, provided certain conditions are met.

Rights may exist with respect to real property that are perfected without registration. Among these rights some may be subject to a declaratory registration (e. g. pre-emption right, repurchase right, call option, right of enforcement, etc.). There may exist, however, other rights regarding a real property which are not subject to registration (e. g. rights under a lease contract, statutory pre-emption rights, etc.).

## 8.3. Recommendations

**8.3.1. Consider title insurance:** Although in general the Hungarian land register provides reliable information concerning ownership title and encumbrances over real properties, it is common practice for developers/investors of commercial real estate to take out title insurance when acquiring real property.

**8.3.2. Don't rely on statutory warranties – write your own:** The Hungarian statutory warranty regime is very general and not specified for commercial real estate transactions. As the buyer of commercial real estate (in particular with construction permits and leases in place), you should negotiate the warranties that you require from the seller and the limits of the seller's liability, instead of simply relying on statutory warranties.

## 8.4. Things to watch out for

**8.4.1. Statutory pre-emption right:** The Hungarian State (and in certain cases the local municipality) may have a statutory pre-emption right over a real property, in particular if the property is a listed cultural heritage or if it is located in a designated World Heritage Area. In such case the entire terms of the sale agreed between the owner and the prospective buyer must be notified to the Government/the municipality, who can step in as buyer under the same terms.



# **Section 9**

## Construction

## 9. Construction

### 9.1. Main rules

#### 9.1.1. Planning instruments

##### 9.1.1.1. Key rules and regulations:

The Building Act and the National Building Regulations regulate legal, technical and aesthetic requirements for urban planning. Local municipality rules also apply to licensing and planning.

The Budapest Building Regulations and the Budapest Zoning Plan contain the general building and zoning provisions applicable to Budapest. Within the framework of the Budapest Building Regulations and the Budapest Zoning Plan, the district municipalities prepare their own local zoning plans and building regulations.

##### 9.1.1.2. Area Development Agreements:

Planned development often requires changes to the local building and zoning regulations. Such changes are usually subject to an area development agreement, to be concluded with the local municipality. In the area development agreement the local municipality undertakes to initiate the respective legislative changes, and in return the developer undertakes certain infrastructural developments.

#### 9.1.2. Construction requirements

**9.1.2.1. Application for a building permit:** In most cases, a building permit needs to be applied for in respect of a construction project. For certain types of construction works (determined by the law) it is sufficient to notify the building authority before commencing the construction works (but no permit is needed). The building authority is the Capital City Government Office or a County Government Office. In the case of buildings of a special nature (e.g. protected cultural heritage buildings), special authorities will act as the building authority.

- The issuance of a building permit may be subject to the approval of various authorities, the scope of which depends on the type of the construction project (e.g. fire protection, public health authorities).
- Upon issuance the building permits are final and enforceable. The developer is entitled to commence construction works on the basis of the final building permit.
- A person whose right or lawful interest is affected by the construction may initiate court procedure challenging the building permit. In practice this usually means the owners / users of nearby properties (properties exposed to adverse physical effects, e.g. noise, air pollution, shade etc.).
- The building permit becomes invalid automatically after four years unless the construction works have begun during this period. Works should be completed, and an occupancy permit should be applied for, within six years of the commencement of the works.
- If the construction works are carried out without a building permit (or the building permit is not complied with), the building authority may suspend the construction works and fine the developer. In a worst case scenario, the building authority may issue a demolition or reinstatement order.

##### 9.1.2.2. Application for an occupancy permit:

Once the works have been completed, and the building is safe and suitable for the intended use, an occupancy permit shall be required before the building is put into commercial use (depending on the specifics of the construction).



## 9.2. Recommendations

### 9.2.1. Don't rely on statutory warranties – write

**your own:** The Hungarian statutory warranty regime is very general and not specified with respect to commercial real estate. When procuring construction works, you should negotiate the warranties that you require from the contractor, together with guarantees and other collaterals, instead of simply relying on the statutory provisions.

## 9.3. Things to watch out for

**9.3.1. Fund managers:** As per the law the involvement of a construction payment trustee is mandatory if the value of the construction works reaches the threshold of EUR 5,382,000 (approx. US\$5,7 million) (determined for 2023). It should be checked in advance of signing the construction contracts if a construction payment trustee scheme is required for the project.

The construction payment trustee acts as a “financial intermediary” between the principal, the general contractor and its subcontractors and its main role is to pay the fees due to the main contractor and the subcontractors deposited in advance by the principal on a bank account over which the construction payment trustee has exclusive control. The principal must provide the contractor's fees to the construction payment trustee's exclusive disposal before the commencement of the respective construction phase.

**9.3.2. Construction agreements:** Hungarian legislation prescribes certain mandatory formal and substantive requirements for construction agreements (e.g. references to the electronic building log, detailed performance milestones, settlement mechanism of contractor's fee and extra works, responsibility for the execution documentation, etc.). Exact contractual requirements should be considered with each contract with view to the unique nature of every project.



# **Section 10**

## Resolving disputes

## 10. Resolving disputes

### 10.1. Main Rules

**10.1.1. Resolving disputes in Hungary:** Commercial disputes in Hungary are resolved in litigation before state courts or, if the parties so agree, in arbitration before an arbitrator or a panel of arbitrators appointed by the parties.

- There is no jury system. Litigation proceedings are adjudicated by one judge on first instance and a panel of three judges on second instance. In most cases the parties must be represented by qualified legal counsels.
- The procedure is divided into two phases: depository phase and hearing(s) on the merit.
- In the depository phase, the parties must present all their claims, counterclaims, legal arguments and evidence.
- On hearings of the merit, the judge hears the witnesses and the experts and the arguments of the parties and renders the judgment. There is a limited precedent system, and judges are also bound by statutory provisions.
- First instance decisions are subject to appeal to appellate courts and second instance judgments may be challenged before the Supreme Court.

**10.1.2 How long does it take?** Subject to the complexity of the issues raised, typical litigation proceedings going through the second instance will last for two to three years. If the second instance decision is challenged before the Supreme Court, it could take another 6 to 12 months.

**10.1.3 How much does it cost?** The stamp duty corresponds to the litigated value and amounts to in general 6 percent on first instance (capped at HUF 1,500,000 or US\$4,050) and 8 percent (capped at HUF2,500,000 or US\$6,756) on second instance. Costs related to evidencing procedure (such as expert fees, translation costs, etc.) shall be advanced by the party who presented the relevant evidence. At the end of the proceeding the losing party is ordered to pay the stamp duty, the costs related to evidencing, and the legal fees incurred in by the prevailing party. Judges have a wide discretion in approving/decreasing counsel's legal fees and they usually do not shy away from exercising such discretion.

**10.1.4 How to enforce?** The enforcement of a final, non-appealable judgment (or an arbitration award) is a rather straightforward exercise. If the losing party does not comply voluntarily within the prescribed deadline (usually 15 days), the court issues an enforcement order upon the judgment/award and transfers the case for collection to the competent bailiff.

### 10.2. Recommendations

**10.2.1. Create paper trail:** In contractual disputes judges tend to explore and give effect not only to the wording of the contract, but also to the parties' motives when concluding the contract. The more documented the contractual negotiations are, the easier to demonstrate the parties' respective position in a dispute.

**10.2.2. Use arbitration clauses:** In complex commercial disputes parties tend to agree on the use of arbitration as opposed to litigation. This agreement is usually incorporated already in the contract based on which the dispute arises. Arbitration offers more flexibility, the parties' influence on procedural issues is stronger and the procedure is quicker. A final arbitral award is usually rendered within one year to 18 months and is not subject to challenge (except for some very limited circumstances).



**10.2.3. Act Fast:** Courts tend to grant relatively short deadlines for the parties' submissions (eight to 30 days). As all evidence should be filed with the court in the depository phase, it is crucial (especially in the defendant's position) to start collecting materials and engage legal counsel as soon as possible.

**10.2.4. Ask for an injunction:** Hungarian courts are authorized to grant a wide variety of temporary injunctions if the procedural conditions are met. If the injunction is granted, the petitioner receives protection for the duration of the proceedings immediately.

### 10.3. Things to watch out for

**10.3.1. Statute of limitations:** The general statutory limitation period in Hungary is five years and claims brought thereafter will be dismissed if the defendant invokes the statute of limitation. Sending a written demand letter to the other party will not interrupt the flow of the time limit.

**10.3.2. Payment warrant:** Public notaries in Hungary are authorized to issue payment warrants under certain procedural circumstances. If the addressee of the warrant does not object within 15 days, the warrant becomes final and binding and may be enforced like a final judgment. It is important to closely monitor incoming official communications and to react swiftly.

**10.3.3. Liquidation:** Incoming invoices should be monitored at all times. If an invoice is not disputed properly and in time, the company who issued the invoice may initiate the debtor's liquidation.



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# **Section 11**

## Intellectual property

## 11. Intellectual property

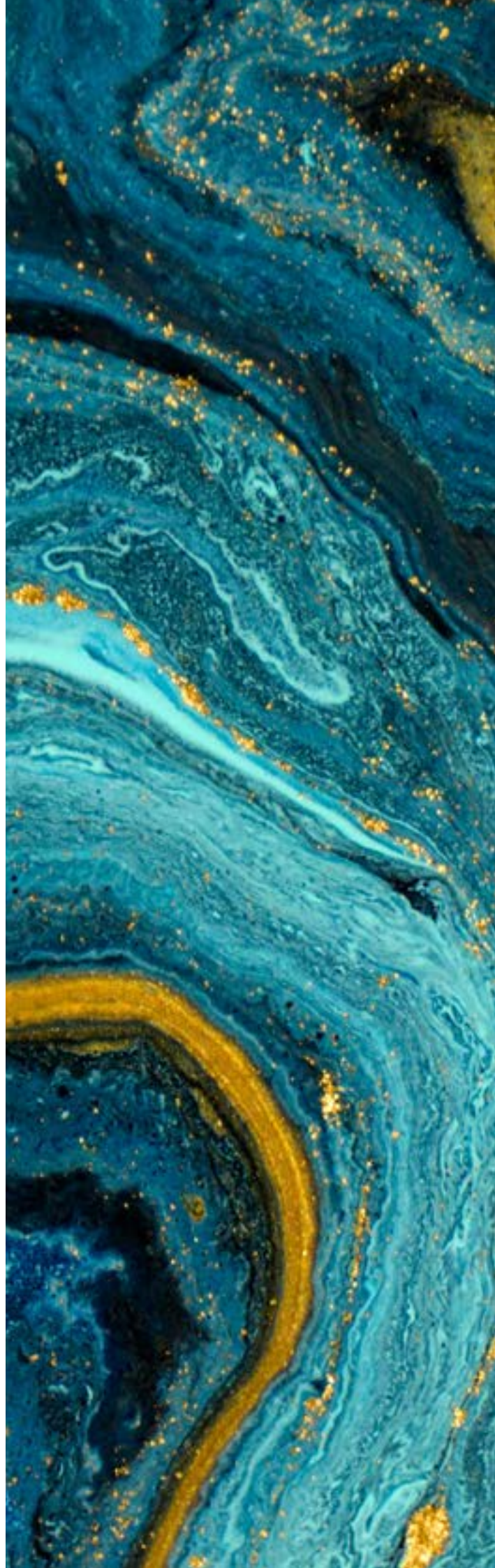
### 11.1. Main rules

#### 11.1.1. Recognized types of intellectual property

**(IP):** As an EU member state, Hungary fully harmonized its IP legislation with EU law and is party to all major international IP agreements. Hungary recognizes two main categories of IP rights: copyright and industrial property rights. In addition, know-how, which is technical, economic or organisational knowledge, solutions, experience or a combination of these, recorded in an identifiable manner and classified as a trade secret, should also be treated as IP.

**11.1.2. Hungarian copyright law:** provides protection for literary, academic, scientific, and artistic works including, in particular:

- Literary works (e.g. literature, technical writings, academic and scientific publications);
- Public speeches;
- Computer programs and the related documents (software);
- Plays, musicals, ballets and pantomimes;
- Musical compositions with or without lyrics;
- Radio and television plays;
- Motion picture and other audiovisual works;
- Works created by means of drawing, painting, sculpting, engraving, lithography, or in any other similar manner;
- Photographic works;
- Maps and other cartographic works;
- Architectural works;
- Designs for technical structures;
- Applied art works and their designs;
- Costumes and scenery, and their designs;
- Industrial designs;
- Databases recognized as compilations; and
- Neighboring rights (including rights of performers, sound recordings producers, radio and television broadcasters, filmmakers and creators of databases).



**11.1.3. Industrial property rights:** are regulated under a number of sectoral laws and include the following types of rights:

- Patterns;
- Trademarks;
- Designs;
- Plant variety rights;
- Utility models;
- Topographies of microelectronic semiconductors;
- Geographical indications; and
- Business names, including domain names.

**11.1.4. Protection of Copyright:** A work is entitled to copyright protection under Hungarian law on the basis of its individualistic and original nature. Hungarian copyright law recognizes the authors' economic and moral rights. Within the framework of an author's moral rights, it shall be the author's exclusive right to disclose the work, to withdraw it from the public, to have his name indicated on the work and to prevent any distortion, mutilation or any other modification of the work, which would be prejudicial to the author's honor or reputation.

The author's moral rights cannot be assigned. As a general rule, the Hungarian Copyright Act does not allow the assignment of the economic rights either; however, the economic rights can be inherited and, in certain cases, it is possible to assign them. In any other cases, the authors may grant rights of use or licenses for the exploitation of copyright-protected works.

Within the framework of a right holder's economic rights, the right holder has the exclusive right to authorize the use of the work i.e. its reproduction, its distribution, its public performance, its communication to the public by broadcasting or in any other manner, its retransmission, its alteration and its exhibition. The right holder is entitled to remuneration for use of the work and such right may be waived only by an express statement to that end; in certain cases the law may exclude the right to waive the remuneration.

Copyrights are protected as of the time of the creation of the work, and no application or registration with any authority or payment of fees is required in this respect.

**11.1.5. Levels of protection of industrial rights:**

Registration to protect the main types of industrial property rights is possible on the following levels:

- National: Hungarian Intellectual Property Office and Council of Internet Service Providers
- European: European Union Intellectual Property Office and European Patent Office
- International: World Intellectual Property Organization (Madrid Agreement/protocol or Patent Cooperation Treaty)

**11.1.6. Durations of IP rights:** The terms of protection of IP rights are as follows:

- Copyright is protected during the author's lifetime and for 70 years following the author's death
- 20 years for patents
- 10 years for trademarks (with extensions for 10-year periods)
- five years for industrial designs (with extensions for five-year periods for up to 25 years)
- 10 years for utility designs



### 11.1.7. Remedies for infringement of IP rights:

Measures for the protection of IP rights include both civil and criminal measures provided for in the copyright and industrial property laws and criminal law. In case IP rights are violated, the right holder has a number of remedies. The right holder may demand:

- a court ruling establishing that there has been an infringement of rights;
- that the infringement of rights be terminated and that the infringer be enjoined to cease any further infringement of rights;
- that the infringer make amends for its actions by declaration or in some other appropriate manner;
- that the infringer provide information on parties taking part in the manufacture of, and trade in, goods or the performance of services affected by the infringement, as well as on business relationships established for use by the infringer;
- restitution of the economic gains achieved through the infringement of the rights; and
- that the infringement be terminated and the antecedent state of affairs be restored.

In the event of an infringement, the right holder may also demand compensation for damages in accordance with the provisions of civil law. In the event of a violation of personal rights, the author may also demand restitution in accordance with the general rules of civil law. The Hungarian Criminal Code also defines a number of offences and establishes penalties related to the violation of IP rights.

## 11.2. Recommendations

### 11.2.1. Things to note if you are party to an IP assignment, use, or license agreement:

Assignments, licenses, or use contracts must be put in writing and shall list the method of exploitation (e.g. communication to the public, reproduction, lease, etc.). In addition:

- Right holders grant licenses for the use of their works on the basis of written license or use agreements, and the licensees or users are obliged to pay remuneration in return, unless the right holders expressly waive their rights to remuneration.
- If the contents of the license or use contract cannot be clearly interpreted, the interpretation most favorable to the author shall be accepted.
- Licenses or use contracts grant exclusive rights only if exclusivity is expressly stated in the contract.
- A license to use a work can be limited to a specific area, duration, manner of use, and extent of use.
- A license to use a work includes adaptation or alteration rights only if it is expressly stated in the agreement.
- A license to use includes the right to sublicense only if it is expressly stated in the agreement.

### 11.3. Things to watch out for

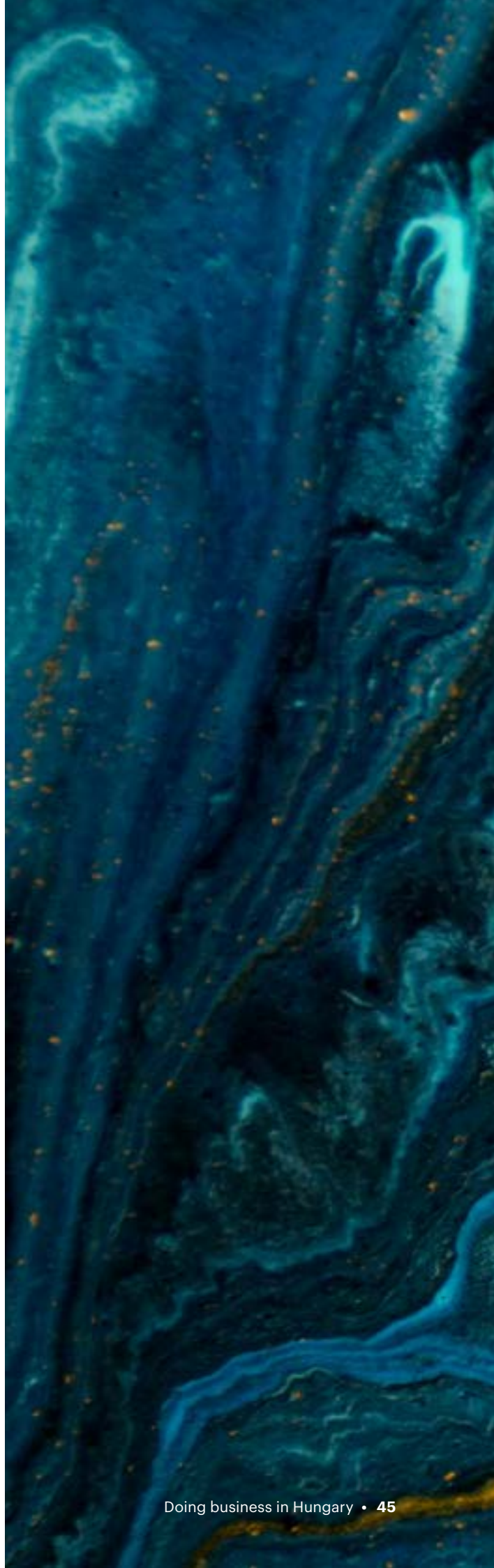
**11.3.1. Protection of business needs:** Make sure that the use or license agreements are drafted in accordance with your business's needs. Exclusivity, ability to sublicense, unlimited scope of territory, means of exploitation, or timeframes are included only if expressly stipulated in the agreement.

**11.3.2. Works created during an employment relationship:** If the creation of the work was the author's duty within the scope of his/her employment, the employer, regarded as the legal successor of the author, obtains all economic rights to the work. In the case of legal succession in the person of the employer, the economic rights are transferred to the employer's legal successor. Authors are entitled to appropriate remuneration if the employer authorizes a third person to use the work or if it assigns the economic rights in connection with the work to a third person.

**11.3.3. Free use of works:** Works that fall within the framework of free use can be used without paying remuneration; however, several limitations are applicable in such cases. In the case of free use, the right holder's authorization is not necessary for use.

**11.3.4. Scope of copyright:** Copyright protection does not extend to facts and daily news items, ideas, theories, mathematical operations, laws and other legal instruments and folklore art.

**11.3.5. You may need an Attorney-at-law or a patent agent:** You may need to be represented by an attorney-at-law or a patent agent in matters before the Hungarian Intellectual Property Office.



## **Section 12**

Dentons contacts  
in Hungary

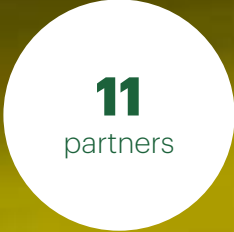
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# Contact



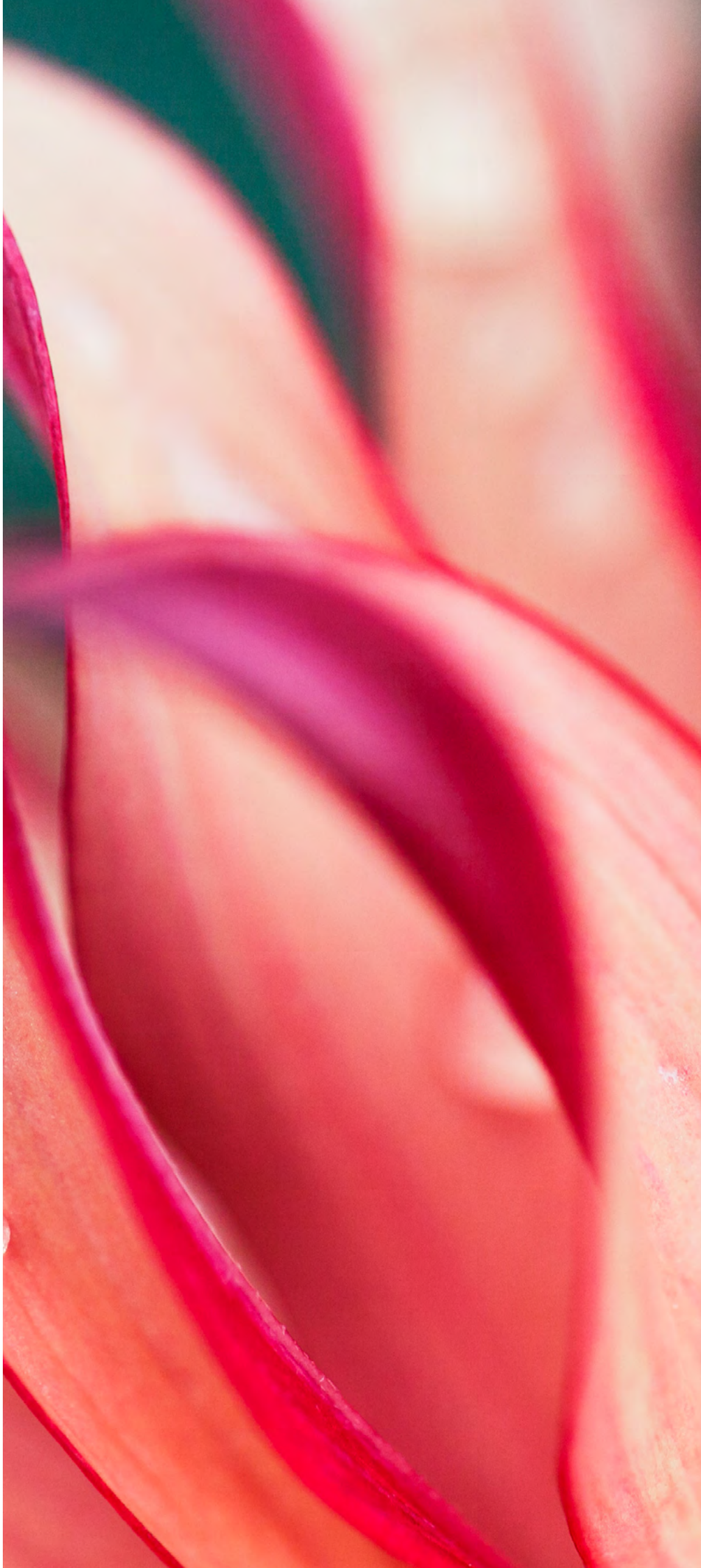
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