



TRANSACTION COSTS OF A REAL PROPERTY INVESTMENT IN HUNGARY

When investing into a real property in Hungary, some additional costs must be taken into account beyond the purchase price. Even if these costs are not too high, it is better to calculate them before, than have a bad surprise after. In this short article we summarise them in the chronology of the transaction so that you can plan your budget carefully.

1. Overview of transaction costs

A prospective buyer shall take into account the following costs when embarking on a real property investment project

- 1) Fee of real estate agent
- 2) Attorney's fees
- 3) Other transactional costs
- 4) Transfer tax
- 5) Personal income tax on selling

2. Fee of real estate agent

In case that a real estate agent is involved in the transaction, she will reclaim her fee upon contract signature. The fee of the real estate agent is between 3-5% of the purchase price and it is borne by the seller. However, this fee is calculated in the purchase price, so it shall be taken into account by the purchaser, too.

3. Attorney's fees

The buyer shall pay attorney's fees for the drafting of the real estate purchase contract and its registration with the land office. The attorney's fee is subject to negotiation, generally it is between 1-2 % of the purchase price, depending on complexity of the transaction, and it shall be paid when the purchase contract is signed.

4. Other transactional costs

There are some other minor transactional costs related to the signature of the contract:

- checking the legal background of real property (cca. EUR 12 / real estate)
- checking the identity of the contracting parties (cca. EUR 7 / person)
- registration of the contract with the land office (cca. EUR 25 /real estate)
- costs of acquisition permit in case of non EU citizen (cca EUR 230)

These costs shall be borne by the buyer.

5. Transfer tax

The buyer of the real property shall pay the transfer tax, which is 4% of the purchase price up to HUF 1bn and 2% in excess.

Not only the purchase of a real estate is subject to transfer tax, but also the acquisition of shares in a company if the real estate represents more than 75 % of its assets.



The transfer tax shall be paid by the buyer within the deadline set forth in the tax authority's decision (ca. 2-3 month after the signature of the contract).

6. Exemption & reduction of transfer tax

There are a couple of cases when the buyer shall not pay transfer tax at all or the tax is lower than general. These are the most common tax exemptions / reductions:

- transaction between close family members is exempted from transfer tax;
- buying an off-plan real property with the commitment to build a house on it within 4 years is also exempted from transfer tax.
- preferential exchange of shares and preferential transformations of a company being the owner of the real property is also exempted from transfer tax;
- buying a newly built apartment for a price lower than HUF 15 million (ca. EUR 50.000) is exempted from tax;
- a reduced transfer tax applies for buying a newly built apartment for a price between HUF 15-30 million.

7. Personal income tax (PIT)

In case of selling the real property the private individual owner have to pay personal income tax after the tax base at a rate 16 %.

The tax base is the income (selling price) reduced with the costs of the acquisition of the real property (e.g. the purchase price, the cost investments). With the lapse of time the tax base reduces as follows:

- in case of selling a residential property (eg. apartment) the tax base decreases in each year, and after 5 years from the acquisition there is no PIT at all.
- in case of selling other kind of real property the tax base starts to decrease from the 6th year and the exemption applies if you sell the real property after 15 years.

In other words, if a private individual sells its residential real property with profit 5 years after acquisition, there is no personal income tax. In case of commercial property the tax free time period starts after 15 years.

Should you have any further question, do not hesitate to contact us.

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