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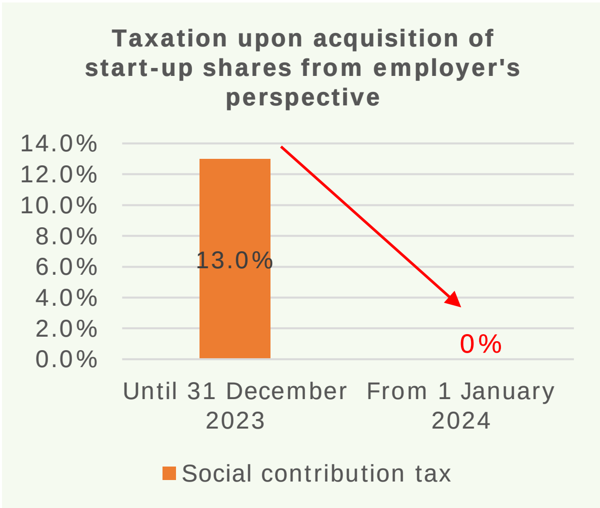
TAX-FREE ACQUISITION OF START-UP SHARES IN HUNGARY

On 1 January 2024, a new era will begin for start-ups in Hungary, as they will be able to offer tax-free shares to their employees and executive officers, provided that they do not divest their shares for at least 3 years after acquisition.

The commitment and motivation of employees and executive officers have always been key to the success of a start-up. A way to develop and maintain such qualities is to offer the employees and executive officers shares in the company.

Although this strategy is considered highly effective, it has not been widely used as it is very costly from a tax perspective.

The employees and executive officers are taxed on the market value of the shares as employment income upon their acquisition. This tax rule has made it difficult to launch option schemes, as the market value of the shares acquired are assessed at the time the option is exercised. At the time the option is exercised, this is a heavy tax burden.



Under the new Hungarian rules, no tax liability arises as long as the employees or executive officers do not sell their shares. In the event of a sale, the full purchase price from the sale is taxed as capital gains.

Hopefully, this new tax regulation will help to motivate employees and executive officers, and thus help Hungarian start-ups to be more successful than ever before.