

LIQUIDATION OF A LIMITED LIABILITY COMPANY IN HUNGARY

(A) How many types of liquidation do exist?

It is possible to distinguish three types of liquidation:

- 1) Voluntary, when the shareholders decide to wind up a company. The shareholders have the freedom to cease operations whenever they wish, even without a specific reason. This is called “**voluntary winding-up procedure**”.
- 2) Judicial, when ordered by a court decision. This is the so called “liquidation procedure”.
- 3) Compulsory, when the fact of termination of the company is established by the Company Court due to specific reasons, and the company must be deleted from the Companies Register. This is called “involuntary de-registration procedure”.

(B) What are the steps to liquidate a company?

There are three main phases in the liquidation of a limited liability company:

- 1) Establishment of the existence of a cause for winding-up of the company;
- 2) Execution of the liquidation procedure;
- 3) Termination of the company, which occurs by the action of deleting the company from the Companies Register.

(C) Are there specific procedures to follow in order to liquidate a company?

The first step in the liquidation process is to ascertain the cause of dissolution of the company and the liquidation ends with the cancellation of the company from the Companies Register. But it should be noted that the liquidation procedure may end before all creditors of the company have been satisfied. A Hungarian company not always have the assets to satisfy every creditor, and that is why there is a satisfaction order between creditors, prescribed by Article 57 of the Liquidation Act – based on which claim category the creditor has (these categories and their order are determined by law).

For those creditors who have not been satisfied, there is a possibility to establish the (unlimited) liability of shareholders for any transfer of partnership shares done in bad faith as per Article 63/A of the Liquidation Act liability or to establish management liability as per Article 33/A of the Liquidation Act.

(D) What are the criteria for the order of payment of creditors?

As mentioned above, there is a so called “**satisfaction order**” in the Hungarian Liquidation Act (Article 57). It is important to note that creditors also include the tax authorities (category e) claims), which in general forego other creditors who have only “normal” claims (so called category f) claims). However,

salary claims of Employees forego all the above (because these are considered as “liquidation costs”), so they have a good position as category a) claims.

(E) Which are the tasks and responsibilities of the liquidator?

The liquidator becomes the legal representative of the company substituting its managing director(s). The liquidator shall collect the claims of the debtor when due, enforce his claims and sell his assets. If consented by the creditors, the liquidator may invest the debtor’s assets into private limited-liability companies, limited companies, or cooperatives as non-pecuniary assets (contribution) if it promises to draw a better price this way.

If the amount of money received during the liquidation procedure is sufficient to cover the claims of creditors, the liquidator may prepare an interim liquidation account (hereinafter referred to as “interim financial statement”) following the deadline for the notification of claims. The interim financial statement shall contain the data of the balance sheet, closing the activities of the economic operator and the particulars of the opening liquidation account. It is mandatory to prepare the interim financial statement each year after the time of the opening of liquidation proceedings. Upon conclusion of the liquidation proceedings the liquidator shall prepare the final liquidation balance sheet, the statement of revenues and expenditures, the final tax returns, the closing report, and a proposal for distribution of assets, and shall send all these to the court and, on the day that follows the date of the final balance sheet, to the tax authorities and shall arrange for the placement of the economic operator’s documents. Upon filing the final tax return with the tax authority, the applicable tax shall be paid as well.

In the event of any illegal action or negligence by the liquidator, the aggrieved party, as well as the creditors’ selected committee and the creditors’ representative, may file a complaint against the liquidator within fifteen days of gaining knowledge thereof at the court which has ordered the liquidation.

(F) How can I tell if a company is in liquidation?

When a company is in liquidation, it can be seen from an excerpt of the Companies Register. The Court ordering liquidation must send this notice and the person of the liquidator to the Company Court who discloses the liquidation procedure to the public by mentioning the starting date, file number and the data of the liquidator.

(G) Liquidation timing and costs

The time required for the liquidation process very much depends on the size of the company and on its size and quality of assets. It can vary in fact from few to several years.

The liquidation costs may as well vary also depending on the size of the company and go along with the duration of such process. Therefore, they may start from about net Euro 1,200 (from this net EUR 300 is the procedural duty and net EUR 900 is the minimal fee of the liquidator) up to hundreds of thousands.

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