

# Are You Facing Forced Deregistration?

Has forced deregistration been ordered for your company? Are you unsure what to do? We can help. If the appropriate measures are not taken, you risk being disqualified from company management or, even more seriously, becoming personally liable with your private assets for the claims against the company to be dissolved.

Act immediately in order to avoid disqualification and to ensure that you are not held personally liable for the company's outstanding obligations. There may still be a way out of forced deregistration, and in certain cases your company may continue its economic activity even during the procedure.

Contact our experts, who will help you find the optimal solution for your specific situation.

The primary purpose of forced deregistration proceedings is to remove, as quickly as possible, companies that operate unlawfully or are no longer viable from the company register and from economic activity.

Forced deregistration is therefore a threatening process that fundamentally affects the operation of a company, and its ancillary consequences may be extremely severe.

However, even during the procedure, there may be opportunities to continue the company's business activities and to restore lawful operation in order to avoid termination without legal succession.

To ensure that these options are also available to your company, feel free to contact our legal colleagues with experience in tax authority matters.

## When Does Forced Deregistration Occur?

- 1 the company is declared terminated and thus becomes eligible for final deletion;
- 2 the company fails to complete voluntary liquidation within three years;
- 3 voluntary liquidation has been completed, but the company did not request deregistration;
- 4 a reason leading to termination without legal succession has occurred and voluntary liquidation is not applicable.

## What Are the Consequences of Forced Deregistration?

Following the ordering of forced deregistration, the company may no longer conduct economic activity, may not decide on transformation, merger or demerger, and its representative may not independently dispose of the company's assets.

After publication of the final court order initiating forced deregistration, claims against the company and other pending proceedings must be reported within sixty days.

If no claims are submitted, the company will be deleted. If it had assets, these will be distributed among the members. If claims are submitted and can be satisfied based on the company's financial situation, the court will initiate liquidation instead of forced deregistration.

If there are insufficient assets to satisfy claims, the managing directors and, in most cases, the members will be disqualified from further company management and from holding company ownership exceeding 50%.

## **When Can Forced Deregistration Turn into Liquidation?**

If creditor claims exceed HUF 1,000,000, liquidation may be ordered even if the company's assets exceed this amount. Creditors must pay the registration fee and cost advance within 40 days.

The registration fee equals 1% of the principal claim amount (minimum HUF 5,000, maximum HUF 200,000). The cost advance equals 0.5% of the principal claim amount (minimum HUF 5,000, maximum HUF 40,000).

An even more serious consequence is that authorities may disqualify executive officers and members from company management during or after forced deregistration, even if tax debts have been settled, provided their conduct contributed to unlawful operation.

## **What May a Company Not Do During Forced Deregistration?**

- 1 conduct regular business economic activity;
- 2 decide on transformation, merger, demerger, voluntary liquidation or reduction of registered capital;
- 3 adopt decisions contrary to the purpose of forced deregistration.

Within fifteen days from the start of the procedure, the company may request permission to conduct limited ordinary business activities if it intends to apply for termination of the procedure.

## **Can Forced Deregistration Be Terminated?**

In procedures initiated on or after 1 July 2021, the company court will terminate forced deregistration upon request filed within 90 days if the company proves that:

- 1 the reason for the procedure no longer exists and lawful operation has been restored;
- 2 all due claims reported in the procedure have been settled;
- 3 the HUF 50,000 supervisory fee has been paid;
- 4 the company has a valid tax number.

If you did not find the answer to your question, please contact us and we will be happy to assist you.

To get in touch with our experts, please click the contact button on our website. You may call, leave a message, or book an appointment online.

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