FDI FOCUS 2017

The new Hungarian Tax & Incentive System

January 2017
2017 Tax & Incentive system – supporting FDI in Hungary

1. Tax changes
2. The new Incentive System
3. Labour mobility package
4. Renewed Training Subsidy Program
1. Tax Changes

- **Corporate income tax** in Hungary is lowered to a flat 9%

  Significant change from the former progressive tax system (the first HUF 500 million of taxable income was taxed at 10%, while the excess is taxed at 19%).

- **Continued policy** to reduce tax burden on labor

- **Existing 15% flat-rate personal income tax**

  Target is to lower the PIT to a single digit level in the foreseeable future
1. Tax Changes (continued)

- **Social contribution tax** is lowered to **22%**
  - Additional 2% decrease will be introduced from 2018.
  - Further plans of lowering the social contribution announced as a plan (2-2%) during a four-year period 2019-2022

- **Minimum wage** increased by **15%**
  - Additional 8% increase will be introduced from 2018.
2. The New Incentive System

1. New Cash Grant Schemes

- R&D projects
  The aim of the new R&D cash subsidy is to promote the establishment of new R&D centres as well support the expansion of existing R&D activities in Hungary. It is an introduction of group qualification procedure.

- Technology – intensive investments (Industry 4.0)
  The aim of the new CAPEX based subsidy is to promote those capacity expansions and technology-intensive investment projects which do not result in the increase of the headcount, but which represent investment into the most modern technologies.

2. Amendments in Existing Scheme

- Agricultural processing related investment projects will be entitled on a wider-base for VIP Cash Grant

- In Békés, Nógrád, and Szabolcs-Szatmár-Bereg the minimum investment volume is reduced to EUR 5 mn

- Closing of new economic activity related title (EUR 5 million and 100 new employees) of preferred counties

- Commitment for wage costs instead of personnel related costs.

3. Changes of the Regional Aid Map

- New eligible settlements: Göd and Sződliget – 35%.

- Non-eligible settlements: Pilisvörösvár and Solymár.

4. Changes in Development Tax Allowance

- Reduction of the new job creation criteria:
  - 150 fte -> 50 fte (EUR 10 mn investment)
  - 75 fte -> 25 fte (EUR 3.3 mn investment)
  - 25 fte -> 10 fte (medium enterprises)
  - 10 fte -> 5 fte (small enterprises)

- Longer CIT allowance utilization period: 12 years instead of 10 years.
VIP Cash Subsidy overview (from 1 January 2017)

**Type of subsidy, volume**

- Non refundable
- Post financed cash grant
- Based on the decision of the Government

**Application, legal background**

- Managing Body: HIPA
- Submission of Request List (RL)
- Gov. Decree No. 210/2014 (VIII.27.)

### Eligibility criteria, undertakings

<table>
<thead>
<tr>
<th>Area</th>
<th>Note</th>
<th>Asset</th>
<th>Job creation</th>
<th>Project based</th>
</tr>
</thead>
<tbody>
<tr>
<td>Most Preferred</td>
<td>Szabolcs, Békés, Nógrád</td>
<td>&gt;= EUR 5 m</td>
<td>&gt;= EUR 10 m</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt;= 50 fte</td>
<td>&gt;= 50 fte</td>
<td></td>
</tr>
<tr>
<td>Preferred</td>
<td>-</td>
<td>&gt;= EUR 10 m</td>
<td>&gt;= 50 fte</td>
<td>-</td>
</tr>
<tr>
<td>Developed</td>
<td>Excluding capacity expansion of LE in Central Hungary</td>
<td>&gt;= EUR 20 m</td>
<td>&gt;=EUR 10 m</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt;= 100 fte</td>
<td>&gt;= 100 fte</td>
<td></td>
</tr>
<tr>
<td>All regional</td>
<td>Regional SSC</td>
<td>&gt;= 50 fte</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Technology intensive (capacity expansion of LE)</td>
<td>&gt;= EUR 30 m AND</td>
<td>&gt;= EUR 3 m</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt;= 30% increase of wage cost OR revenue</td>
<td>&gt;= 25fte</td>
<td></td>
</tr>
<tr>
<td>All</td>
<td>R&amp;D (only LE)</td>
<td>-</td>
<td>&gt;= EUR 3 m</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>&gt;= 25fte</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
VIP Cash Subsidy – R&D projects

**Description**
- For industrial research and experimental development projects
- Available in the whole country
- Maximum aid amount: 25%

**Eligible costs**

<table>
<thead>
<tr>
<th>Buildings (incl. rental)</th>
<th>amortization (fee)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Machinery</td>
<td>amortization</td>
</tr>
<tr>
<td>Personnel costs</td>
<td>FTE</td>
</tr>
</tbody>
</table>

**Eligibility criteria, undertakings**

- Only for large enterprises
- Min. EUR 3 million project cost within 1 – 3 years
- Min. 25 new R&D headcount:
  - Direct and indirect
  - Min. 50% of the working time
  - Min. 75% with higher education
- 2-year-long monitoring period
- Qualification by Hungarian Intellectual Property Office
## VIP Cash Subsidy – technology-intensive projects

### Description

- Only for capacity expansion, product diversification or process innovation
- Available in the whole country (except certain areas of Central Hungary)
- Maximum aid amount: ¼ of the regional ceiling

### Eligible costs

<table>
<thead>
<tr>
<th>Cost Category</th>
<th>Maximum Aid Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land and buildings (incl. rental)</td>
<td>Max. 25%</td>
</tr>
<tr>
<td>Machinery</td>
<td>No limit</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>Max. 15%</td>
</tr>
</tbody>
</table>

### Eligibility criteria, undertakings

- Only for large enterprises
- Minimum headcount in Hungary: 250 fte
- EUR 30 million investment within max. 3 years
- 30% increase within 3 years of
  - Wage cost OR
  - Revenue
- Commitment for total base headcount
### 3. Labour mobility package

**NEW Measures related to encouraging labor mobility – travel and housing**

<table>
<thead>
<tr>
<th>TAX-FREE TRAVELLING COSTS</th>
<th>TAX-FREE HOUSING ALLOWANCE</th>
<th>TAX-FREE HOUSING FOR EMPLOYEES</th>
<th>INCOME BEFORE TAX REDUCED BY HOUSING COSTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Tax-free reimbursement of commuters – 15 HUF/km instead of 9 HUF/km</td>
<td>• Tax exemption for workers’ accommodation for 5 years</td>
<td>• The housing for employees living alone in an accommodation unit will be a tax free allowance</td>
<td>• The income before tax may be reduced by:</td>
</tr>
<tr>
<td>• Amount can be decided between 9HUF/km and 15HUF/km by the employer.</td>
<td>An amount not exceeding the following ratios of the minimum wage:</td>
<td></td>
<td>• the housing support for mobility purposes</td>
</tr>
<tr>
<td></td>
<td>• in the first 24 months of employment up to 40% of the minimum wage,</td>
<td></td>
<td>• the amount spent on establishing workers' accommodation, its maintenance and operation declared as operational costs in the tax year</td>
</tr>
<tr>
<td></td>
<td>• in the second 24 months of employment up to 25% of the minimum wage,</td>
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<tr>
<td></td>
<td>• in the fifth year of employment up to 15% of the minimum wage.</td>
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</tbody>
</table>
4. Renewed Training Subsidy Program

- Training subsidy can be provided from 50 new headcounts, up to a maximum of 2 M EUR
- Approximately 50% of training costs can be covered
- Can cover both internal and external trainings
- Planned changes:
  - Increase of subsidy amount from 3000 EUR/HC to 4000 EUR/HC
  - Inclusion of part time workers
  - Reduction of administrative burdens
  - Reduction of employment requirement after training from 18 months to 12 months