

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%**

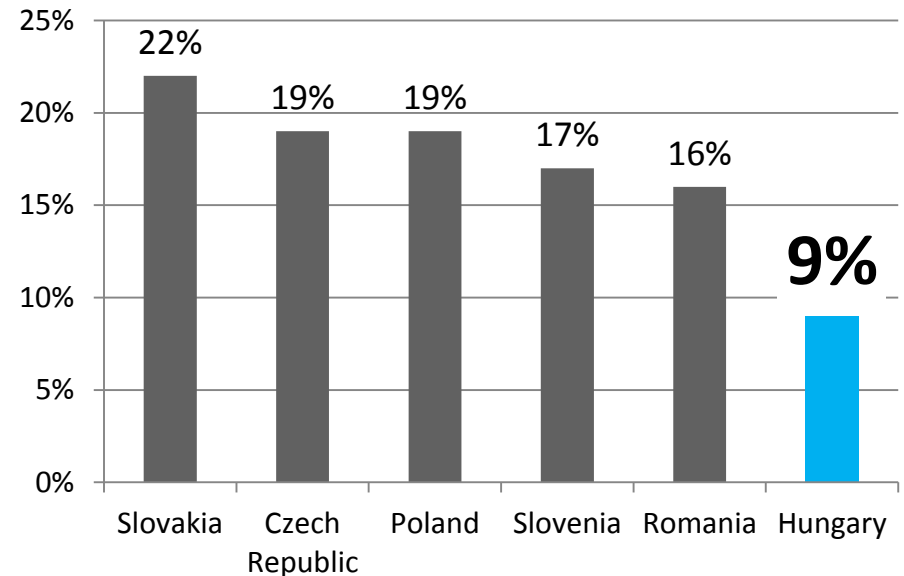
Significant change from the former progressive tax system (the first HUF 500 million of taxable income was taxed at 10%, while the excess is taxed at 19%).

- **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

Corporate tax- rate
in some CEE countries, 2017



Source: MTI

1. Tax Changes (continued)

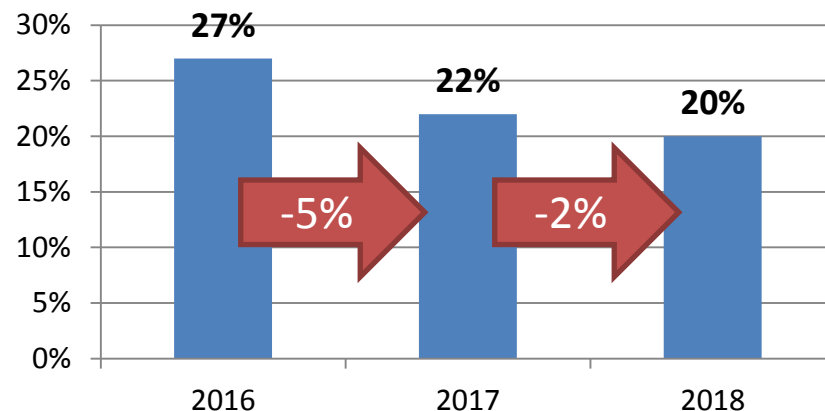
- **Social contribution tax** is lowered to **22%**

- 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

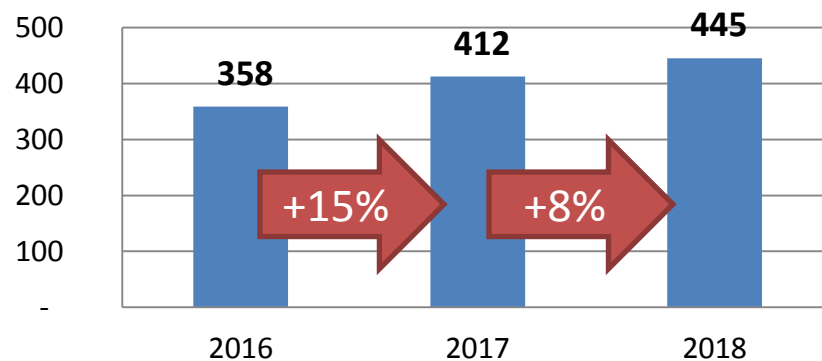
- **Minimum wage** increased by **15%**

- Additional 8% increase will be introduced from 2018.

Social contribution tax



Minimum wage



Exchange rate 309,65 HUF/EUR

EUR

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)

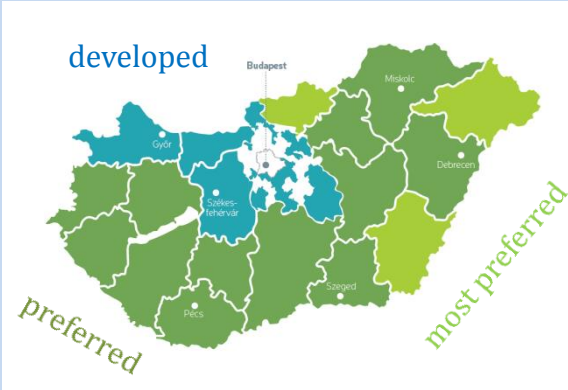
Type of subsidy, volume

- 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

	Area	Note	Asset	Job creation	Project based
	Most Preferred	Szabolcs, Békés, Nógrád	>= EUR 5 m >= 50 fte	>= EUR 10 m >= 50 fte	-
	Preferred	-	>= EUR 10 m >= 50 fte		
	Developed	Excluding capacity expansion of LE in Central Hungary	>= EUR 20 m >= 100 fte	>=EUR 10 m >= 100 fte	
	All regional	Regional SSC	>= 50 fte		
		Technology intensive (capacity expansion of LE)	>= EUR 30 m AND >= 30% increase of wage cost OR revenue		
	All	R&D (only LE)	-		>= EUR 3 m >= 25fte

VIP Cash Subsidy – R&D projects

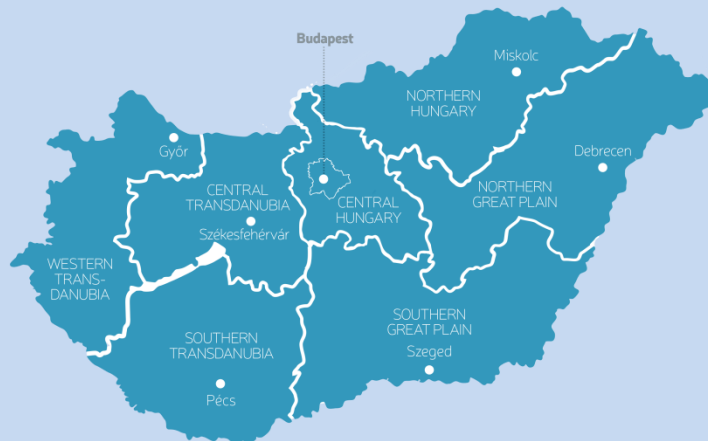
Description

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

Eligible costs

Buildings (incl. rental)	amortization (fee)
Machinery	amortization
Personnel costs	FTE

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

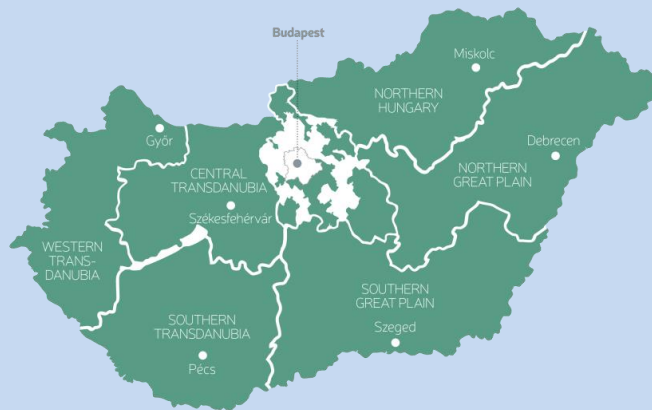
Description

- 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

Land and buildings (incl. rental)	Max. 25%
Machinery	No limit
Intangible assets	Max. 15%

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

TAX-FREE TRAVELLING COSTS

- Tax-free reimbursement of commuters – 15 HUF/km instead of 9 HUF/km
- Amount can be decided between 9HUF/km and 15HUF/km by the employer.

TAX-FREE HOUSING ALLOWANCE

- Tax exemption for workers' accommodation for 5 years

An amount not exceeding the following ratios of the minimum wage:

- in the first 24 months of employment up to 40% of the minimum wage,
- in the second 24 months of employment up to 25% of the minimum wage,
- in the fifth year of employment up to 15% of the minimum wage.

TAX-FREE HOUSING FOR EMPLOYEES

- The housing for employees living alone in an accommodation unit will be a tax free allowance

INCOME BEFORE TAX REDUCED BY HOUSING COSTS

- The income before tax may be reduced by:
- the housing support for mobility purposes
- the amount spent on establishing workers' accommodation, its maintenance and operation declared as operational costs in the tax year

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