

Hungary

Contacts

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What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

- As from 1 January 2020, no job creation or wage cost growth is required to qualify for the development tax allowance (DTA), merely maintaining the size of the workforce.
- The training grant currently is being reviewed by the Hungarian authorities and further changes are expected in autumn 2020.
- Several special COVID-19 incentives temporarily are available.

Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
EKD cash grant (capital expenditure/ research and development)	Cash grant for companies with investment projects exceeding EUR 5 million/EUR 10 million, and/or R&D projects exceeding EUR 3 million	25%-70% of project cost	Capital expenditure (e.g., assets)/R&D (e.g., wages, materials)	None
Super deduction of R&D costs	A super deduction is granted for qualifying R&D expenditure	200% of expenditure	Operating expenditure (e.g., wages, materials)	None
DTA	Corporate income tax reduction	Reduction of up to 80% of the corporate income tax payable on up to 50% or 70% of the cost of the investment	Capital expenditure (e.g., assets)	None

Industries most often affected by government incentives in country

Technology, Media & Telecom	Financial Services
● Telecom, Media & Entertainment	● Banking & Capital Markets
● Technology	● Insurance
Consumer	Investment Management
● Consumer Products	Real Estate
Retail, Wholesale & Distribution	Life Sciences & Health Care
● Automotive	● Health Care
Transportation, Hospitality & Services	● Life Sciences
Energy, Resources & Industrial	Government & Public Services
● Power & Utilities	● Health & Social Care
Mining & Metals	Defense, Security & Justice
● Oil, Gas, & Chemicals	● Civil Government
● Industrial Products & Construction	International Donor Organizations
	Transport

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Type	National incentive?	State, provincial, regional or local incentives? ¹	Filing deadlines imposed?	Is the claim made in advance or arrears? ²	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Innovation							
Research & development (R&D)	●	●	● ●	National: Arrears Local: Arrears	Available to companies established in, or having a place of business or branch in, any region of Hungary. Super deduction for corporate income tax, local business tax, and innovation contribution purposes	Varies	Varies
Patent box	●	●	● ●	National: Arrears Local: Not applicable	Available to companies established in, or having a place of business or branch in, any region of Hungary. Tax base reduction	50% of profits related to royalties received may be deductible	50% of profits related to royalties received may be deductible
R&D grant: (National or EU)	●	●	● ●	Advance	Available to companies established in, or having a place of business or branch in, any region of Hungary. Cash grant with fixed budget for certain periods	100% funding	100% funding
R&D grant: state/province	●	●	● ●	Advance	Available to companies established in, or having a place of business or branch in, any region of Hungary. Cash grant with fixed budget for certain periods	100% funding	100% funding
DTA	●	●	● ●	National: Advance Local: Not applicable	Available to companies established in, or having a place of business or branch in, any region of Hungary, and committing to implementing an investment as specified in the regulations. Tax allowance on corporate income tax payable for R&D capital investment	Tax allowance (50% of qualified investment) is limited to reducing the corporate income tax liability by up to 80% of the annual corporate income tax payable	Tax allowance (70% of qualified investment) is limited to reducing the corporate income tax liability by up to 80% of the annual corporate income tax payable

Key: ● = PERMANENT INCENTIVE (■) = TEMPORARY INCENTIVE (■) = NEGOTIABLE ● = NO ● = LIMITED APPLICABILITY ● = NOT APPLICABLE

- Notes:
- Green means that this incentive is currently in effect. Yellow means that the incentive has limited applicability, i.e., the requirements for this incentive limit its value to most companies. Red means that there is no incentive.
 - If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.

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Innovation (continued)							
Social tax	●	●	● ●	National: Arrears Local: Not applicable	Available to companies established in, or having a place of business or branch in, any region of Hungary. Tax allowance for any R&D project or employing researchers with PhD or PhD students	Varies	Varies
EKD cash grant (R&D)	●	●	● ●	National: Advance Local: Not applicable	Available to companies established in, or having a place of business or branch in, any region of Hungary, and committing to create jobs in Hungary. 25% of costs of the R&D project, up to EUR 15 million	25% of costs of the R&D project, up to EUR 15 million	Not available
Investment							
Capex: EKD cash grant	●	●	● ●	National: Advance Local: Not applicable	Available to companies established in, or having a place of business or branch in, any region of Hungary, and committing to implementing an investment as specified in the regulations. Cash grants and tax allowances for CAPEX investment	50% of CAPEX investment	70% of CAPEX investment
Capex: DTA	●	●	● ●	National: Advance Local: Not applicable	Available to companies established in, or having a place of business or branch in, any region of Hungary, and committing to implementing an investment as specified in the regulations. Tax allowance on the corporate income tax payable for non-R&D capital investment	Tax allowance (50% of qualifying investment) is limited to reducing the corporate income tax liability by up to 80% of the annual corporate income tax payable	Tax allowance (70% of qualified investment) is limited to reducing the corporate income tax liability by up to 80% of the annual corporate income tax payable
Employment: EKD cash grant for SSC	●	●	● ●	National: Advance Local: Not applicable	Available to companies established in, or having a place of business or branch in, any region of Hungary, and committing to implementing an investment as specified in the regulations. Cash grant for SSC establishment/ expansion projects	50% of qualifying costs (24 months of personnel costs related to new jobs)	70% of the eligible costs (24 months of personnel costs related to new jobs)

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Investment (continued)							
Employment: DTA			 	National: Advance Local: Not applicable	Available to companies established in, or having a place of business or branch in, any region of Hungary, and committing to implementing an investment as specified in the regulations. Tax allowance on the corporate income tax payable	Tax allowance (50% for 24 months of personnel costs related to new jobs) is limited to reducing the corporate income tax liability of up to 80% of the annual corporate income tax payable).	Tax allowance (70% of 24 months of personnel costs related to new jobs) is limited to reducing the corporate income tax liability by up to 80% of the annual corporate income tax payable
Training			TBD	TBD	Incentive measure under review	TBD	TBD
Local capital expenditure cash grants			 	National: Not applicable Local: Advance	Local cash grant provided by certain municipalities on an individual basis	50% of capital investment	70% of capital investment
Environmental sustainability							
Sustainability			 	National: Advance Local: Not applicable	Available to companies established in, or having a place of business or branch in, any region of Hungary, and committing to implementing an investment as specified in the regulations. Tax allowance on the corporate income tax payable	Tax allowance (45% of qualifying investment depending on the region) is limited to reducing the corporate income tax liability by up to 70% of the corporate income tax payable each year in the six-year period following the end of the investment	Tax allowance (65% of qualifying investment depending on the region) is limited to reducing the corporate income tax liability by up to 70% of the corporate income tax payable each year in the six-year period following the end of the investment

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Country background

Various cash grants and tax incentives are available in Hungary for R&D activities. The tax incentives apply to a range of taxes. The corporate income tax rate in Hungary is 9%. Companies may be subject to other taxes, such as the local business tax (LBT), which is imposed at a maximum rate of 2% of a calculated LBT base (with the precise rate set by each municipality), or the innovation contribution, which is 0.3% of the LBT base.

State incentives in Hungary are predominantly investment-oriented and are provided either in the form of a cash grant, or as a tax incentive. Aid intensities of up to between 50% to 70% may be achieved in many regions of Hungary; higher levels are possible where combined with e.g., training grants or innovation incentives.

Innovation Incentives

Research & Development (R&D)

Nature of incentives

Super deduction

A 200% super deduction is granted for qualifying expenditure where the R&D activities are carried out within the scope of the taxpayer's business activities (i.e., activities performed with the taxpayer's own tools and employees, for its own profit, and at its own risk, or contracted by another party) or with respect to cooperative R&D activities conducted under an agreement with a third party.

An associated entity of the taxpayer may deduct R&D-related expenses from the corporate income tax base. The taxpayer may take the deduction if the associated entity provides the exact deductible amount, and a statement that the expenses are directly attributable to the business activities of the associated entity.

DTA

A tax allowance is available for R&D capital investments exceeding EUR 300,000. The taxpayer may utilize a pool of up to 50% (for large enterprises) or 70% (for small and medium-sized enterprises (SMEs)) of the R&D investment costs to reduce the corporate income tax liability by up to 80% of the corporate income tax payable annually.

LBT base reduction

All R&D costs may be deducted in calculating the LBT base.

Reduction in LBT payable

National law allows local municipalities to provide enterprises with a reduction in the LBT payable in an amount equal to 10% of the direct costs of basic, applied, or experimental research. The municipalities have discretion to decide whether this additional benefit is available.

Innovation contribution tax base reduction

All R&D costs may be deducted in calculating the tax base for the innovation contribution.

Social tax and training fund exemption

Taxpayers carrying out R&D within their scope of their activities are entitled to a social contribution tax allowance of 50% of the social tax payable (15.5% on gross wages) on the wages of employees involved in R&D.

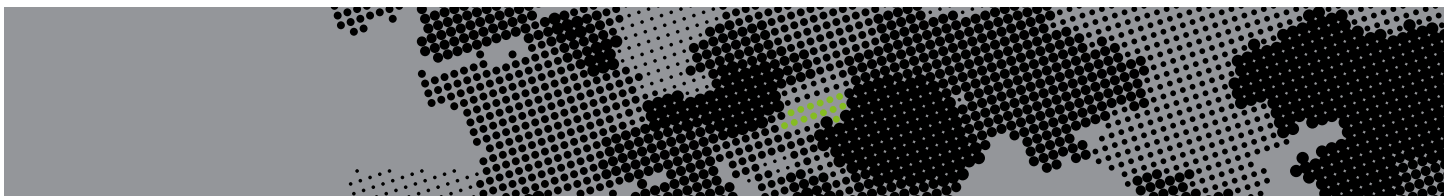
Corporations employing researchers with academic degrees or titles are relieved from paying social tax, and the training fund contribution (1.5% on gross wages), up to a gross monthly wage of HUF 500,000.

Taxpayers employing PhD students are entitled to a social contribution tax allowance of 50% of the social contribution tax payable on the wages of the PhD students, up to a gross monthly wage of HUF 200,000.

Eligible industries and qualifying costs

Eligibility is wide and is not limited to certain industries. Qualifying expenditure is defined broadly and includes all direct costs incurred in R&D, including:

- Gross wage and salary costs of new or existing R&D staff;
- Costs of new equipment; and
- Costs of certain goods, materials, and R&D services purchased from third parties.



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IP and jurisdictional restrictions

There is no restriction on the location of IP. Qualifying research may be conducted outside Hungary.

Incentives are available to foreign entities that do not have a permanent establishment in Hungary and subcontract in Hungary. Tax incentives also may be claimed by a Hungarian company providing R&D services to a related foreign party.

Other concerns

R&D benefits may be claimed retroactively, provided the statute of limitations has not expired. An R&D qualification procedure applies to tax benefits and/or R&D cash grants. Under this procedure, the Hungarian Intellectual Property Office (HIPO) determines whether the project qualifies as R&D, and this determination is binding on the tax authorities for future projects. A non-binding "expert opinion" by HIPO also may be available with retroactive effect for past projects. Despite its non-binding nature, a positive expert opinion from HIPO may strengthen the R&D nature of past projects in the case of a tax audit. The HIPO has published detailed guidelines that set out the principles for classifying activities for R&D purposes.

An R&D qualification method has been introduced, under which taxpayers can request the qualification of groups of projects carried out in the same financial year.

Patent box

Hungary revised its patent box regime in 2016 to bring it in line with the recommendations in action 5 of the OECD BEPS project by introducing the modified nexus approach to limit the beneficial tax treatment of intangible assets and royalty income.

The following benefits are available under the patent box regime:

- 50% of qualifying IP income may be deducted in computing the corporate income tax base, with the adjustment capped at 50% of the total accounting profit before tax;
- Unconditional availability of amortization expenses for tax purposes up to 50% annually (no nexus limit);

- A super deduction from the corporate income tax base for certain R&D costs, resulting in a double deduction of such costs (no nexus limit);
- A full exemption for capital gains derived from the alienation (sale or in-kind contribution) of qualifying IP following a one-year holding period (subject to an election filed with the tax authorities at the time of acquisition). There are no holding and election requirements for a full exemption if the amount equal to the exempted capital gains is used for the acquisition of qualifying IP in the following five years; and
- An exemption of qualifying royalty income from the exploitation and sale of qualifying IP assets from LBT and the innovation contribution (no nexus limit).

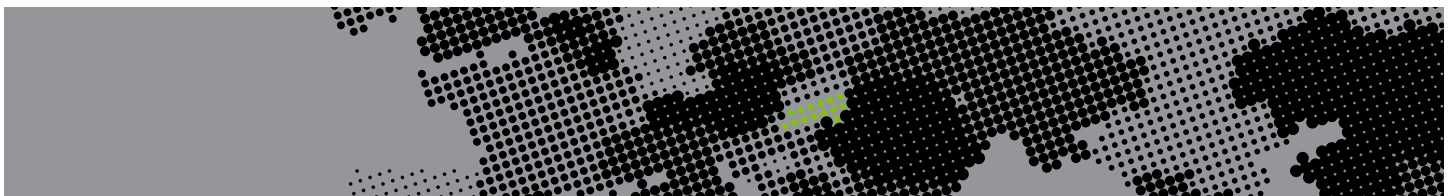
The patent box is available for a wide range of IP. Qualifying IP income for purposes of the patent box includes business profits from the exploitation and disposal (sale or in-kind contribution) of patents, software, and other assets that are functionally equivalent to patents (e.g., patented designs, semiconductor topographies, plant variety rights, and orphan pharmaceutical products), as well as embedded IP income from the sale of products and services that can be attributed to qualifying assets.

The IP itself does not have to be "new" and may have been created by another company.

EKD cash grant (R&D)

R&D grants (both national and EU) are usual calls with fixed budgets and are available for certain periods. The EKD cash grant is available at any time with no fixed budget, providing more flexibility for companies wishing to apply.

Companies with R&D projects exceeding EUR 3 million may apply for an EKD cash grant, which may be up to 25% of qualifying costs, but the exact amount will be determined by the government. The grant amount is capped at EUR 15 million.



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Investment Incentives

Capex: EKD cash grant

Companies with investment projects exceeding EUR 5 million up to EUR 10 million (depending on the region and the planned project) may apply for the cash grant, the maximum of which may range from 50% to 70% of eligible costs. Projects awarded grants under this program also typically receive DTAs. No job creation is needed.

Capex: DTA

The DTA is limited to qualifying capital investments exceeding a higher threshold, which can range from EUR 300,000 to EUR 10 million, depending on the region. Once the project is completed, the taxpayer may utilize an expenditure pool of up to 50% (for large companies) or 70% (for SMEs) of the investment costs to reduce its corporate income tax liability by up to 80% of the corporate income tax payable annually. No job creation is needed.

Employment: EKD cash grant for shared service centers (SSCs)

Companies with investment projects in certain regions establishing or expanding an SSC with a headcount of at least 50 may request the grant. The maximum grant may range from 50% to 70% of qualifying costs. There are no minimum expenditure requirements.

Employment: DTA

A tax allowance is available for job creation projects. There is no minimum headcount increase (it may be utilized for any number of new jobs created). Once the project is completed, the taxpayer may utilize an expenditure pool of up to 50% (for large enterprises) or 70% (for SMEs) of personnel costs of the new employees for 24 months to reduce its corporate income tax liability by up to 80% of the corporate income tax payable annually.

Employment: Training grant

As at the date of publication, the training grant is being reviewed by the Hungarian authorities.

Environmental Sustainability Incentives

Energy efficiency tax allowance

The energy efficiency tax allowance is available for energy efficiency-related investments or renovations (i.e., investments aiming at the reduction of final energy consumption). The taxpayer may utilize an expenditure pool of up to 45% (for large companies) or 65% (for SMEs) of the investment costs to reduce its corporate income tax liability by up to 70% of the corporate income tax payable. The maximum amount of the tax allowance is EUR 15 million per project.

