

# Tax Incentives for Films in Hungary

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**Hungary has a great history of filmmaking and may become again one of the most attractive locations in Europe. Its success is partly due to a recently-introduced tax incentive regime that enables film producers to save up to 20% of their production budget if it is spent in Hungary.**

**Hungary now has a couple of credits when fighting for competitiveness: relatively cheap labor and hosting costs, a very favorable tax allowance system, and a great amount of professional talent which can contribute greatly to the success of films produced in Hungary.**

## **I. Film Production Incentive**

In 2003, Hungary introduced this tax incentive regime, aiming at reducing Hungarian film production costs. The system, which originally consisted of two models, was significantly simplified as of the end of 2004. The tax incentive regime is now based on a single model.

Basically, the system involves two players; a company producing the film and a corporate sponsor contributing up to 20% of the Hungarian production budget. The benefit to the production company is achieved through the cash contribution received from the sponsor, while the sponsors, typically large companies with a significant Hungarian corporate income tax base, are motivated by the tax incentives.

The contribution may be provided either to the foreign producer or directly to the Hungarian production company. Qualifying Hungarian expenditure is defined as any payment made to Hungarian taxpayers in relation to the production of the film. However, there are certain exclusions.

The tax relief utilized by corporate sponsors takes the form of a tax credit

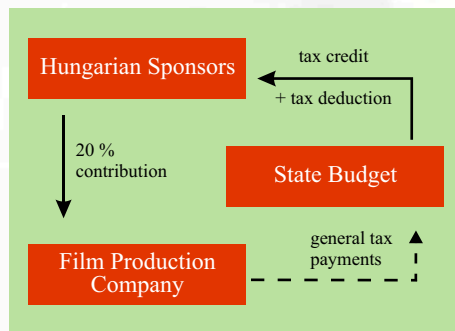
**Procedural Aspects the Role of the National Film Office**

with a parallel tax deduction. The contribution may then be credited against the corporate income tax payable, and, at the same time, it qualifies as a tax-deductible cost. In effect, the tax credit serves as compensation for contribution, and the tax base deduction represents the return on the investment.

Accordingly, overall tax relief may provide the sponsors with a 16% return on the investment, the equivalent of the Hungarian corporate income tax rate. Banks may even achieve 24% due to their special corporate income tax situation. Any unused tax credit may be carried forward for a period of up to three years.

To be entitled to the incentive, the sponsors must not hold any interests in the production company and must not gain from the distribution revenues or receive any other compensation for their involvement.

Here is a simplified scheme demonstrating the basic mechanism of the regime:



The tax incentive may only be utilized based on a certificate issued by the National Film Office ("Film Office"), the public body responsible for the state's administrative and regulatory activities in connection with the film industry. The Film Office will review the budget proposed by the Hungarian production company, as well as the actual production expenses, and will issue the certificates only if the budget is in line with spending.

The responsibilities of the Film Office are set out in a joint ministerial decree by the Ministry of Finance and the Ministry of Culture. In summary, the procedure before the Film Office for the issuance of certificates consists of the following steps:

1. Both the Hungarian production company and the planned production need to be registered with the Film Office. The registration request regarding the production must be filed at least 45 days before the start of principal photography.
2. On the basis of the registration request, the Film Office makes a resolution specifying the direct Hungarian costs for the film qualifying for the tax incentive, which is viewed as an upper limit for the tax incentives.
3. As a general rule, production invoices for verification may be submitted to the Film Office as soon as the Hungarian production of the film has been completed. Alternatively, at the request of the production company, the invoices may be issued by the Film Office on a quarterly basis if the Hungarian production costs exceed HUF 150 million (approximately EUR 600,000).
4. The Film Office reviews the invoices submitted by the Hungarian production company and issues the certificate to the sponsor after verification. In general, the deadline for the Film Office to verify the invoices is 30 days; however, this may be extended for one time only by another 30 days. Having received the certificate, the sponsor may take advantage of tax relief on condition that the contribution has actually been made (e.g., the cash transferred) to the film production company.

**II. Infrastructure Development Incentives**

In addition to the film production incentive, investing in the Hungarian film infrastructure is also supported by additional Hungarian tax incentives. Taxpayers may apply for development tax allowances, which last for up to 10 years if the investment serving film and video production (e.g., studio development) exceeds HUF 100 million (approximately EUR 400,000). Through these incentives, Hungary would like to attract foreign producers, not only to shoot films in Hungary, but also to invest in the Hungarian infrastructure. The development tax allowance is subject to a license issued by the Ministry of Finance and, depending on the location of the investment, may vary between 35% (Budapest) and 50% (most of the rest of the country) of the invested amount. Furthermore, taxpayers may apply accelerated depreciation (real estate and equipment at 15% and 50% respectively).

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### III. How Can We Help?

We would be happy to:

- **Assist** you in obtaining and implementing the tax incentives mentioned above
- **Advise** you in the tax planning of cross-border film production structures (production on hire against co-production)
- **Assist** in VAT refunds
- **Advise** on personal income tax and social security matters in relation to expatriates working in Hungary
- **Assist** you with the procedure and negotiations with the National Film Office or other authorities
- **Keep** you informed about developments regarding the mechanism of the tax incentive models

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