

Investing in Hungary 2022





About Hungary

Area: approx. 93,000 km²

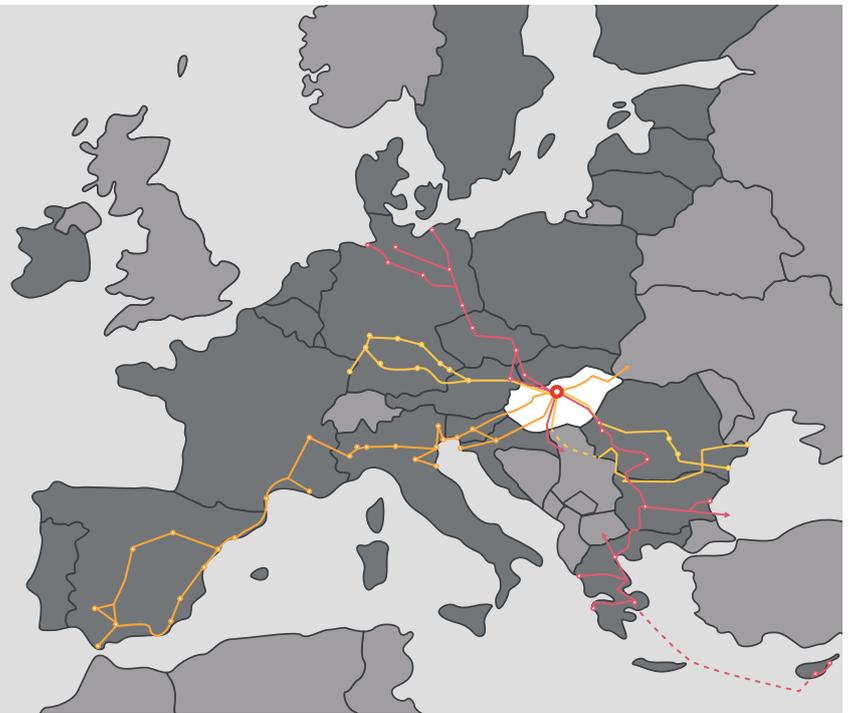
Population: 9.73 million (2021)

National currency: Hungarian forint (HUF)

Capital city: Budapest (pop.: 1.7 million)

Time zone: CET/CEST

GDP: EUR 153.5 billion
(at market prices in 2021, Eurostat)



Key sectors

Automotive is one of Hungary's core industries, employing more than 170,000 people, producing roughly 20% of total exports. Electronics, ICT, pharmaceuticals and medical technology and renewable energy are also increasingly important, as the country is shifting towards an R&D and innovation focus. The food industry may also be considered a traditionally important sub-sector of the economy. The last two decades have shown that Hungary, with its skilled labor force, is an ideal country for the operation of shared service centers.

Why Hungary?

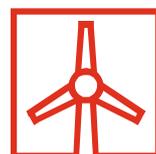
Favorable location

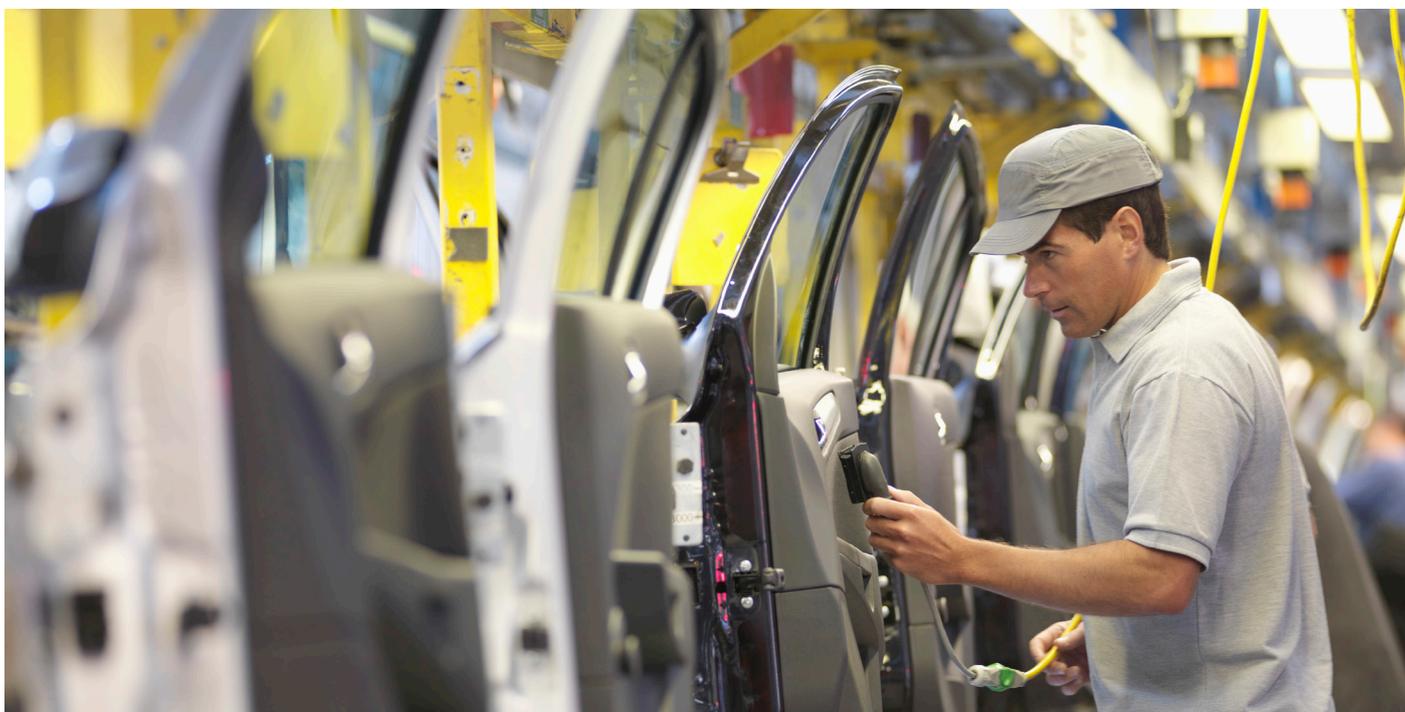
The easy accessibility of Hungary is often cited as one of its main advantages: it is at the crossroads of three major European transport corridors. Hungary has one of the highest motorway densities in Europe and has three international-, and four regional business airports. The country's location enables companies to have morning calls with Asian countries and afternoon calls with the USA, which makes Hungary a preferred location for shared service centers as well. The climate of the country lacks extremes and can be considered a typical continental climate.

Attractive human capital

Hungary provides a well-qualified workforce at an advantageous cost. The labor force consists of 4.7 million individuals (in December 2021), and the unemployment rate is 3.6% (in September-November 2021).

The minimum wage in Hungary is around EUR 563, the guaranteed minimum wage for skilled workers is around EUR 732, while the average gross salary is around EUR 1,222 (in January – November 2021). The rate of personal income tax is 15% and the rate of employees' contributions is 18.5%. The employer's social tax rate is 13%. Employers can apply several social tax allowances for employing certain classes of individuals, such as jobseekers, jobseeker mothers with three or more young children, individuals with reduced ability to work, researchers, etc. (only one type of allowance can be applied for a given employee).





Hungary has a favorable corporate income tax regime

The Hungarian corporate income tax ('CIT') rate is a flat rate of 9%. There is no withholding tax, based on Hungarian domestic law, on any outbound payments (including dividends, interest, royalties and management fees) made to foreign business entities. Dividend received is exempt from CIT unless it is received from a CFC. In addition, Hungary operates a participation exemption regime for capital gain taxation purposes resulting that Hungary is a favorable holding location for multinational company groups. Furthermore, a favorable group taxation regime is available for Hungarian taxpayers operating within the same company group as from 2019. In a nutshell, by opting for group taxation, group members' positive tax bases can be offset by up to 50% of other group members' negative tax bases (or previous group tax losses) and group members can benefit from tax incentives together.

The main tax rates in Hungary are as follows:

- maximum 2% local business tax;
- 0.3% innovation contribution liability;
- 27% as general VAT rate;
- 18% reduced VAT rate applies to certain products, for example bread and certain types of dairy products;
- 5% reduced VAT rate applies to certain products and services, for example journals, books, internet services, medicines, chicken, pork, fish, central heating, accommodation services.

Investor-friendly legal environment

As a member of the European Union, Hungary has harmonized its legal system with European law. New business associations may be established in several forms, however, the most common company form is the limited liability company (Kft.). In a simplified procedure, the registration of a Hungarian company can take place in 1-2 days, and the costs of company registration in Hungary are considered low in the European Union.



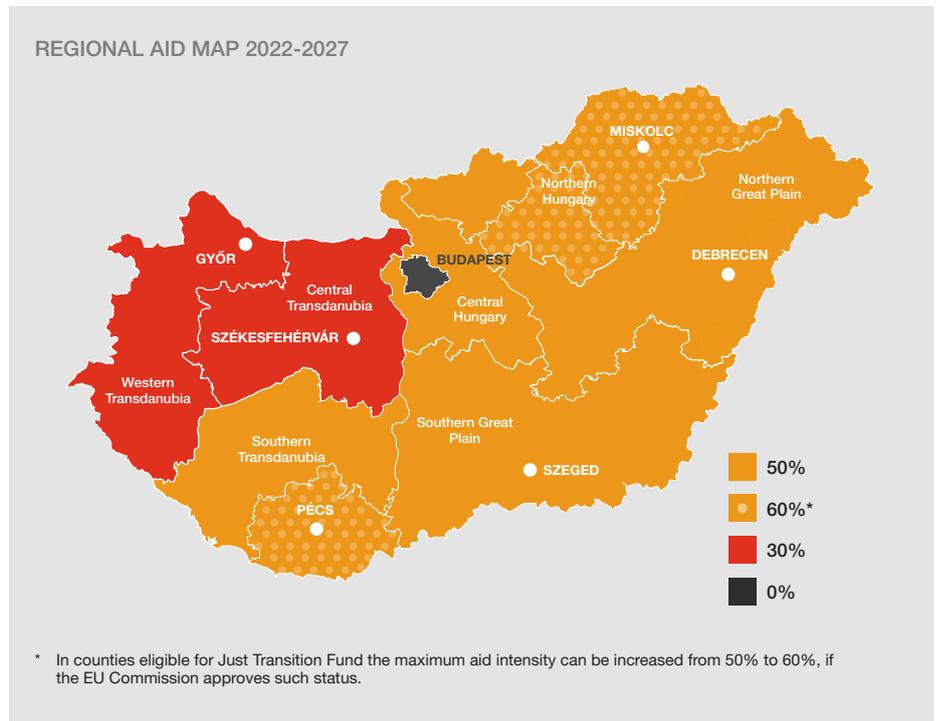


Subsidies and incentives

One of Hungary's economic advantages is the wide range of available incentives the Government offers to increase competitiveness.

Regional aid from Hungarian Funds:

The maximum regional aid intensity in Hungary varies between 30% and 50% (which might be increased further in the case of SMEs), except in Budapest where no regional aid can be granted. From 2022 Central Hungary (excluding Budapest) is eligible for up to 50% regional aid intensity. Another modification is in Central Transdanubia (max. 30% aid intensity instead of the previous 35%) and in Western Transdanubia (max. 30% aid intensity instead of the previous 25%). Moreover, in the counties eligible for Just Transition Fund, the maximum aid intensity can be increased by 10% in any state aid support if the EU Commission approves such status of the proposed counties (Borsod-Abaúj-Zemplén, Heves and Baranya counties).



In the case of large investments with over EUR 50 million eligible costs, the intensity rate is adjusted for the portion of costs exceeding EUR 50 million, based on EU rules. All regional aid (including e.g. VIP investment cash subsidy and development tax incentive) need to be considered in the maximum available regional aid intensity. In certain cases (e.g. if the regional aid exceeds a certain amount) European Commission notification and approval are also required.

“VIP investment cash subsidy” is available based on individual Government decisions. The main aim is to attract investments in the manufacturing (greenfield, brownfield or capacity extension), and shared service center (“SSC”) sectors.

- For a **manufacturing asset investment**, the minimum criteria are to reach EUR 5-10 million eligible cost depending on the location and to maintain the base headcount during the monitoring period. New businesses must increase their sales revenue by EUR 3 million and their wage costs by EUR 300,000 on an annual average over the monitoring period, compared to the base values. Mature businesses must increase their base sales revenue and/or base wage costs (at the investor's choice) by at least 30% on an annual average during the monitoring period, compared to the base values. The maximum aid intensity is according to the regional aid map.
- In the case of **establishing or expanding SSCs**, at least 50 new jobs must be created – over the base headcount – without investment amount criteria. The aid intensity is according to the regional aid map.



Another cash subsidy opportunity based on individual decisions is the **Investment Aid Scheme for Large Enterprises**. Its main aim is to encourage investments in the industrial sector and in warehousing, storage. Medium-sized enterprises and large enterprises are entitled for this grant if a company's annual average statistical headcount (on group level) is under 13,000 and goes no lower than 150 (at the latest within two years after completion of the investment). The projects must have a minimum total capital expenditure of HUF 100 million. The minimum subsidy is HUF 50 million.

Development tax incentives may be claimed for a 13-year period in the CIT returns, starting from the tax year or the tax year subsequent to when the investment is put into operation, within a maximum period of 16 tax years starting from the tax year following the one in which the application for the incentive is submitted to the Ministry of Finance. In any given tax year, the tax incentive is available for up to 80% of the CIT payable, but in total up to the state aid intensity ceiling.

There are several ways to qualify for the development tax incentive. The most common investment types are as follows:

- investments reaching at least HUF 3 billion (~EUR 7.7 million) at present value, HUF 1 billion (~EUR 2.6 million) at present value in certain regions, or HUF 100 million (~EUR 256 thousand) at present value in some designated special investment zones;
- R&D-related investments reaching HUF 100 million (~EUR 256 thousand) at present value;
- job creation-related investments with no minimum investment volume requirements;
- investments reaching at least HUF 50 million (~EUR 128 thousand) at present value for small enterprises, or HUF 100 million (~EUR 256 thousand) at present value for medium-sized enterprises.

There is no minimum requirement for newly created jobs, but the investing entity must maintain the average headcount of the three tax years prior to the starting date of the investment for four tax years following the first tax year in which the tax incentive is utilized in connection with most of the investment categories listed above (except for R&D-related investment and the investments realized in special investment zones).

Project companies of real estate developers may also be entitled to benefit from the development tax incentive, provided that certain conditions are met.

Based on the recent changes of the legislation, initial investments realized in Pest county are also entitled to benefit from development tax incentive. The applicable intensity ratio is 50% in Pest county (except for Budapest where it is 0%).

As far as the currently not finalized Global Minimum Taxation Rules are concerned, we may not exclude that their provisions might have (even significant) impact on the future utilization of development tax incentives. Thus, the continuous monitoring of the current development of the respective rules and following their clarification, the review of their impact on tax incentives currently in use and on tax incentives in connection with current and planned investments is highly recommended.



Non-regional aid from Hungarian Funds:

“VIP R&D subsidy” can be obtained – based on individual Government decisions – for R&D projects that last a minimum of one and a maximum of three years, with a minimum of EUR 1 million in eligible costs. The aid intensity is up to 25% of the eligible costs, and EUR 15 million is the maximum available subsidy. At least 10 new R&D-related jobs must be created (50% of the new jobs created need to be employees with higher education).

Furthermore, depending on the available budget, tender calls might be available for subsidizing R&D projects from the funds of the National R&D&I Fund.

A “VIP” training subsidy is available – based on individual Government decisions – for investors establishing or expanding a shared-service center (SSC) or implementing an asset-based investment of at least EUR 5 million.

- An investor establishing or expanding an SSC must either create at least 25 new jobs and maintain base and new headcount for 18 months following the conclusion of the training project or the SSC project (whichever concludes later, if they are not utilizing regional aid in the form of VIP cash subsidy), or if they are utilizing regional VIP cash subsidy then the investor must maintain - for the aforementioned 18 months - the headcount undertaken in the regional VIP cash subsidy.
- If the investment is asset-based, the investor must maintain base headcount for 18 months following the conclusion of the training project or the asset-based investment project (whichever concludes later).

The period of the training project can be up to two years. During this period the employees can be provided both internal and external trainings. The available subsidy for a training project is a maximum of 2 million euros, however, the available amount also depends on the number of participants in the training project and on the costs of the trainings, as the maximum subsidy amount is capped at 5,000 euros per participant and it may not exceed 50% of eligible costs. The number of training participants can be a maximum of the combined number of maintained and newly created headcount. The Donor takes several factors into consideration when making a subsidy offer, for example: the specific industry sector and the size of the company, the base headcount – and, in the case of an SSC, the new headcount -, investment volume and location, the aim of the training project and the scope of trainings.

Tax incentive for energy efficiency investment projects

Investments (including renovation/modernization) aiming at energy efficiency may qualify for tax incentives for CIT purposes as well. The available tax incentive depends on the location of the investment and is up to 45% of eligible costs (but not more than the HUF equivalent of EUR 15 million at present value) and can be used first in the tax year in which the investment is put into operation and in the following five tax years. The project must be operated for at least five years (obligatory operational period). Projects become eligible for the tax incentive through certificates issued by energy auditors or auditing organizations listed by the Hungarian Energy and Public Utility Regulatory Authority. The same investment is not entitled to qualify for both development tax incentives and tax incentive for energy efficiency purposes at the same time. However, in contrast with the development tax incentive, the tax incentive for energy efficiency purposes is available for investments realized in the municipality of Budapest as well, with an intensity ratio of 30%.

Subsidy available from EU Funds:

Significant new financial sources and a wide range of tender calls have been available from EU Funds in the period of 2021-2027. The first new tender calls were opened already in 2021. The tenders will reflect the importance of supporting several aims (e.g. R&D activities, digitalization, environmental investments, etc.) and the focus on small- and medium-sized enterprises. The conditions for the EU tender applications, the timing, and the total amount of the subsidy available vary from tender to tender.



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