

Investing in Hungary 2020

About Hungary

Area: 93,030 km²

Population: 9.77 million (2019)

National currency: Hungarian forint (HUF)

Capital city: Budapest (pop.: 1.74 million)

Time zone: CET/CEST

GDP: USD 155.7 billion (2018)



Key sectors

Automotive is one of Hungary's core industries, employing a total of approx. 170,000 people, producing 20% of total exports. Electronics, ICT, pharmaceuticals and medical technology 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 labour 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 four main European transport corridors. Hungary has one of the highest motorway densities in Europe and has five international 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 influenced climate.

Attractive human capital

Hungary provides a well-qualified workforce at an advantageous cost. The labour force is 4.5 million (in July-September 2019), the unemployment rate is 3.5% (in June-September 2019). The minimum wage in Hungary is ~EUR 500, the guaranteed minimum wage for skilled workers is HUF ~EUR 650, while the average gross salary is around HUF ~EUR 1,200 (in January – November 2019). The rate of personal income tax is 15% and the total rate of employees' contributions is 18.5%. The employer's contribution rate is 19% (vocational training contribution 1.5% and social contribution tax 15.5%) and the future trend is for that is to decrease.

Hungary has a favorable corporate income tax rate. The corporate income tax rate is a flat rate of 9%. In addition, capital gains can be exempt from taxation. Furthermore, a favorable group taxation regime is available for Hungarian taxpayers from 2019.

Further, the main tax rates are:

- 2% maximum local business tax;
- 0.3% innovation contribution;
- 27% general VAT rate;
- 18% is a reduced VAT rate for e.g. bread and milk;
- The VAT rate for e.g. journals, books, internet services, medicines, chicken, pork, fish, central heating and accommodation services is a reduced 5%.

Investor-friendly legal environment

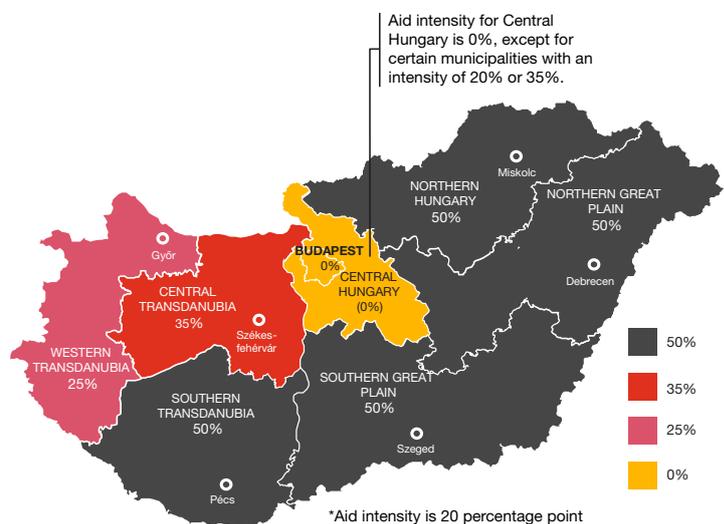
As a member of the European Union, Hungary has harmonized its legal system with European law. New business associations may be established in the forms of general partnerships (kkt.), limited partnerships (bt.), limited liability companies (kft.), public limited companies (nyrt.) and private limited companies (zrt.).

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 20% and 50%, except in Budapest and several towns of Central Hungary where no regional aid can be granted.



Development tax incentives may be claimed for a 13-year period, starting from the year subsequent to when the investment is completed, in Corporate Income Tax (“CIT”) returns within a maximum period of 16 years starting from the tax year in which the application for the incentive is submitted. In any given tax year, the tax incentive is available for up to 80% of the corporate income tax payable, but in total up to the state aid intensity ceiling.

There are several ways to be entitled for development tax allowance, of which we highlight the following:

- the investment value has to be at least HUF 3 billion (~EUR 9,350,000) at present value.
- R&D-related investment in value of HUF 100 million.
- Job creation related investment without investment volume requirement.
- investment value has to be at least HUF 300 million (~EUR 935,000) for small enterprises or HUF 400 million (~EUR 1,250,000) investment for a medium-sized enterprises.

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

- For a **manufacturing asset investment** the minimum criteria is to reach EUR 5-10 million eligible cost depending on the location. 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. The maximum aid intensity is according to the regional aid map.
- In the case of **establishing or expanding SSCs**, at least 50 new jobs have to be created without investment amount criteria. The aid intensity is according to the regional aid map.

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 3 million of eligible costs. The aid intensity is up to 25% of the eligible costs, and EUR 15 million is the maximum available subsidy. At least 25 new R&D-related jobs have to be created (50% of the new jobs created have to be employees with higher education).

“VIP” training subsidy is offered for the training of a company’s own employees. The subsidy is available for investors creating at least 25 new jobs. In case the training is related to the introduction of new technology in the field of expertise, job creation is not required. Aid intensity is a maximum of 50% of the eligible training costs in the case of large-sized enterprises. The subsidy amount is limited to a maximum of EUR 2 million per project and a maximum average limit to EUR 4,000 per participant.

Tax incentive for energy efficiency investment projects Investments aiming at energy efficiency may be entitled to tax incentives for Corporate Income Tax purposes as well.

The available tax incentive 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. 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. Some investments are not entitled to qualify for both development tax incentives and tax incentive for energy efficiency purposes.

R&D Subsidy:

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.

Subsidy available from EU Funds:

A wide range of tender calls are available from EU Funds. The tenders reflect the importance of supporting several aims (e.g. R&D activities, creation of new workplaces, environmental investments etc.) and the focus on small- and medium-sized enterprises. The conditions for the EU tender application, the timing, and the total amount of the subsidy available vary from tender to tender.

Feel free to contact us

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- Site selection
- Establishing a company in Hungary
- Taxation
- Hungarian accounting requirements
- Payroll
- International mobility, expats
- Labour law and employment contracts
- Evaluating feasibility of your project

