



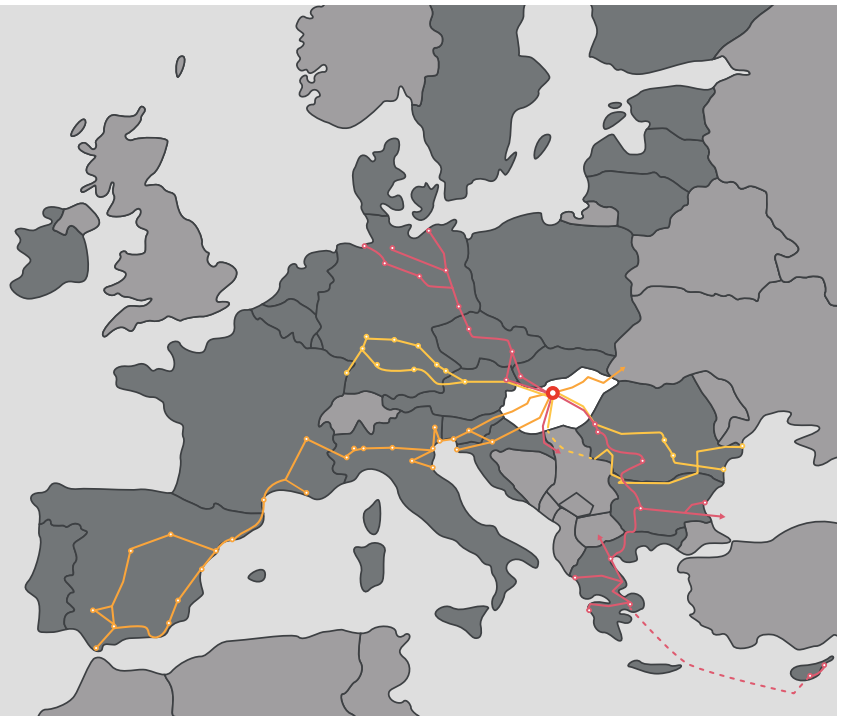
Investing in Hungary 2024





About Hungary

Area: approx. 93,000 km²
Population: 9.6 million (2022)
National currency: Hungarian forint (HUF)
Capital city: Budapest (pop.: 1.7 million)
Time zone: CET/CEST
GDP: EUR 170.2 billion (at market prices in 2022, Eurostat)



Key sectors

Automotive is one of Hungary's core industries, employing more than 170,000 people, producing roughly 20% of total exports. Considering the ongoing large investments in the country, Hungary is a significant location in Europe for EV battery production capacities. 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 roughly 4.7 million individuals (2023 data), and the unemployment rate was 4.2% (in December 2023).

Since the end of 2023 the minimum wage in Hungary is around EUR 700, the guaranteed minimum wage for skilled workers is around EUR 850, while the average gross salary is around EUR 1,600 (in November 2023). 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, employees participating in vocational education and dual training 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.

Other main taxes 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.

Based on the OECD Model rules the European Member States (including Hungary) implemented the Global Minimum Tax directive as of 1 January 2024. Accordingly, MNE groups having a Hungarian subsidiary and meeting the annual threshold of at least EUR 750 million of consolidated revenues are subject to the new rules. Based on the rules, a minimum 15% effective tax rate should be achieved by an MNE in Hungary. According to expectations, not only corporate income tax qualifies as a so-called covered tax for effective tax rate calculation purposes in Hungary (i.e. local business tax as well), however, the effective tax rate calculation requires a complex exercise taking into account several factors.

The rules contain a full list of Pillar 2 collection mechanisms, including a Qualified Domestic Minimum Top-up Tax.

The collection mechanisms will come into force according to the following timetable:

- Income Inclusion Rule ("IIR") from 1 January 2024,
- Under-taxed payments rule ("UTPR") from 1 January 2025, and
- Qualified Domestic Deduction Top-up Tax ("QDMTT") from 1 January 2024.

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 may take place in 1-2 days, and the costs of company registration in Hungary are considered low in the European Union.



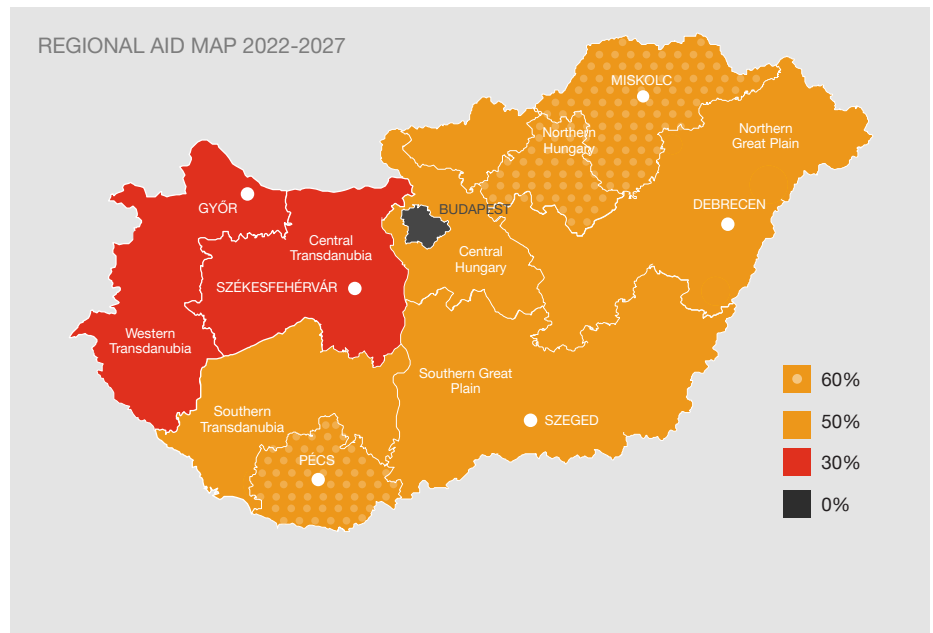


Subsidies and incentives

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 60% (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. Moreover, Borsod-Abaúj-Zemplén, Heves and Baranya counties became eligible for the Just Transition Fund, thus the maximum aid intensity increased to 60% in those counties.



In case of large investments, the intensity rate is adjusted for the portion of costs exceeding EUR 55 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 or capacity extension), and shared service center (“SSC”) sectors.

- For a **manufacturing asset investment**, the minimum criteria are to reach EUR 3-10 million eligible cost depending on the location (see details below) 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. The minimum eligible cost for such investments, based on the location, is as follows:

- At least EUR 10 million: in Győr, Székesfehérvár, Tatabánya, Szekszárd, Kecskemét, Szombathely, Veszprém, Zalaegerszeg, Debrecen, Szeged or Eger
- At least EUR 5 million: in Salgótarján, Miskolc, Nyíregyháza, Békéscsaba, Pécs, Kaposvár, Szolnok or any district seat (if the county seat and the district seat are the same, the higher prescribed amount of eligible costs must be taken into account),
- At least EUR 3 million: in municipalities that do not belong to the other two (county seats and district seats) categories.
- In case of **establishing or expanding SSCs**, at least 25 new jobs must be created – over the base headcount – without investment amount criteria. The aid intensity is according to the regional aid map.



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 7.9 million) at present value, HUF 1 billion (~EUR 2.6 million) at present value in certain regions, or HUF 100 million (~EUR 260 thousand) at present value in some designated special investment zones;
- R&D-related investments reaching HUF 100 million (~EUR 260 thousand) at present value;
- job creation-related investments with no minimum investment volume requirements;
- investments reaching at least HUF 50 million (~EUR 130 thousand) at present value for small enterprises, or HUF 100 million (~EUR 260 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, etc.).

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

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%). In addition, due to changes in the government decree on the regional aid map, the available state aid intensity ceiling increased to a maximum of 60% in Baranya, Borsod-Abaúj-Zemplén and Heves counties.

As far as Global Minimum Taxation Rules are concerned, their provisions 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 subsidy for renewable energy production investment

The Government aims to encourage manufacturing companies to **invest in renewable energy production**. VIP subsidy is available for new production capacity investments accompanied by an investment into renewable energy production and/or storage, in case the latter is below 50% of the total investment costs. The minimum limit of the total investment costs varies between 3-10M€ depending on the location. The maximum aid intensity for the renewable energy investment part is 45% throughout Hungary. The maximum aid amount for the renewable energy investment part is EUR 30 million.

Aid for investments accelerating the net-zero transition

Due to recent changes in EU state aid rules, subsidies can be granted for investments in strategic sectors aimed at accelerating the transition to a net-zero economy, such as:

- production of strategic equipment that facilitates the roll-out of renewables and carbon capture technologies (e.g. batteries, solar panels, wind turbines, heat-pumps, electrolysers and equipment for carbon capture usage and storage);
- production of key components designed and primarily used as direct input for the production of the equipment defined in the previous point;
- production or recovery of related critical raw material necessary to produce the equipment and key components defined in the previous points.

Important condition that the granting authority must verify the concrete risks of the investment not taking place within the European Economic Area without the aid. The subsidy is available throughout Hungary, the maximum aid rate available in Budapest is 15%, and 35% outside Budapest. The possibility of such incentive to be provided for the

transition towards a net-zero economy is available both in VIP cash subsidy scheme and development tax incentive scheme.

Tax incentive for energy efficiency investment projects:

Investments (including renovation/modernization) aiming at energy efficiency may qualify for tax incentives for CIT purposes and energy suppliers' income tax 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 30 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 certified energy auditors or auditing organizations. In contrast to the development tax incentive, the energy efficiency tax incentive is available for investments realized in the municipality of Budapest as well, with an intensity ratio of 30%.

There is a separate rule **for investments and renovations for general energy efficiency purposes** and for **energy efficiency projects in buildings**. As regards to investments and renovations for general energy efficiency purposes, the law provides detailed guidance on alternative investments and renovations that are significant in terms of eligible costs. For energy efficiency projects in buildings, the law makes the eligibility for the tax incentive conditional primarily on a minimum energy efficiency improvement measured in primary energy.

In addition, the aid intensities are reduced in some cases compared to the previous rates. The extent of the reduction depends on a number of factors and the eligible costs and corresponding incentive rates are to be determined on a case-by-case basis.



The introduction of Global Minimum Tax rules similarly impacts the energy efficiency tax incentives as the development tax incentive; therefore, careful planning and continuous monitoring of the regulatory changes are recommended.

Tax incentive for investment in electricity storage

As of 1 January 2024, a new tax incentive is available regarding investments in electricity storage. The taxpayer can apply the tax incentives for an investment in the construction of an electricity storage facility. The tax incentive is available for the tax year following the year in which the investment is put into operation, or the tax year in which the investment is put into operation, at the taxpayer's option, and for the following five tax years. At least 75 percent of the project's energy fed into the electricity storage during the year needs to be covered from a renewable energy power plant connected to the public grid at the same point as the electricity storage.

The amount of tax incentive is limited as follows: per taxpayer and per investment, together with the total amount of state aid claimed for the investment, it cannot exceed 30% of the eligible investment cost in present value, but maximum of HUF 30 million. In case of small and medium sized enterprises the percentage of the available eligible costs can be higher. Further before the investment is planned to start an electronic form's submission to the Minister for Tax Policy is required in order to claim the tax incentive. The maintenance of assets is also required for five tax years after the implementation of the investment.

Tax incentives regarding R&D

A tax base allowance is only applicable for R&D activities if the taxpayer carries out basic research, applied research, or experimental research activities within its own scope of activities. The direct cost of the R&D activity or the amount of depreciation on the research activity (if the cost of R&D activity is capitalized) is deductible when calculating the pre-tax profit. Additionally, an extra deduction is granted from the tax bases in the form of a downward tax base adjustment.

In addition to the R&D tax base allowance available so far, by introducing the global minimum tax a new R&D tax credit had been entered into force, which is proposed to be recognized as refundable tax credit. Companies will have a choice between the two types of R&D incentives. The new R&D tax credit is introduced with certain restrictions

compared to the current R&D tax base credit. The legislator narrows down the range of eligible costs and excludes certain direct costs related to R&D services performed as subcontractors.

It is important to note that the old tax base reduction and the newly introduced tax credit cannot be applied at the same time. If the company opts to apply the newly introduced tax credit, it cannot take into account the tax base reduction item in respect of R&D activities not only in corporate tax but also in local business tax and social contribution tax.

"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 40% (except Budapest where the maximum is 25%) of the eligible costs, and EUR 25 million is the maximum available subsidy. Furthermore, for the part of the project which qualifies as applied research, the maximum aid intensity is 50%. At least 10 new R&D-related jobs must be created (50% of the new jobs created need to be employees with higher education). Under certain conditions, medium-sized companies, with a headcount of at least 100 (taking into account the headcount of its direct owner as well), are also eligible for R&D VIP subsidy.

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 3 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 at maximum 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.

Subsidy available from EU Funds:

Significant new financial sources and a wide range of tender calls are expected 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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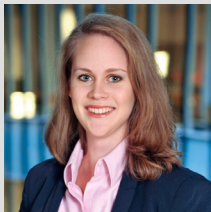
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