

Investing in Hungary 2017

Guide for potential investors

About Hungary

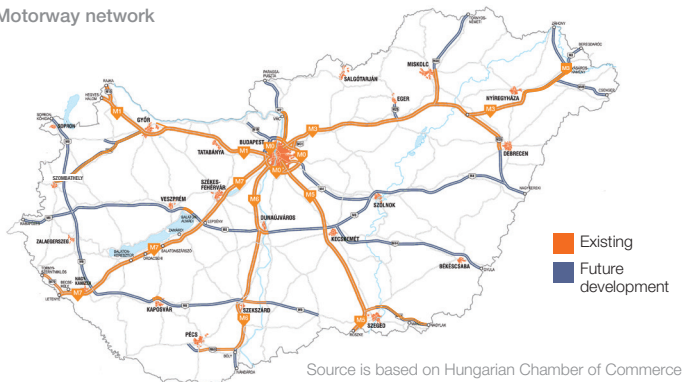
Area: 93,030 km²
Population: 9.8 million (2016)
National currency: Hungarian forint (HUF)
Capital city: Budapest (pop.: 2 million)
Time zone: CET/CEST
GDP: EUR 110 billion (2015)

Key sectors

Automotive is one of Hungary's core industries, employing a total of approx. 140,000 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 labor force, is an ideal country for the operation of shared service centers.

Why Hungary?

Motorway network



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 labor force is 4.6 million (in 2017, Q1), the unemployment rate is 4.5% (in 2017, Q1).

The minimum wage in Hungary is HUF 127,500 (~EUR 410), the guaranteed minimum wage for skilled workers is HUF 161,000 (~EUR 518), while the average wage is around HUF 287,100 (~EUR 923, between January-April 2017). The rate of personal income tax is 15% and the total rate of employees' contributions is 18.5%. The employer's contribution rate is 23.5% (vocational training contribution 1.5% and social contribution tax 22%) and the future trend is for that to decrease.



Competitive tax system

In 2017 a flat corporate income tax rate replaced the former progressive system in Hungary: 9% corporate income tax and no withholding tax on payments (interest, dividend and royalty) made to foreign legal entities.

Further 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, milk, internet services and accommodation services;
- 5% is the reduced VAT rate for e.g. journals, books, medicines, chicken, pork and central heating;
- 0% means exemption for certain services.

Investor-friendly legal environment

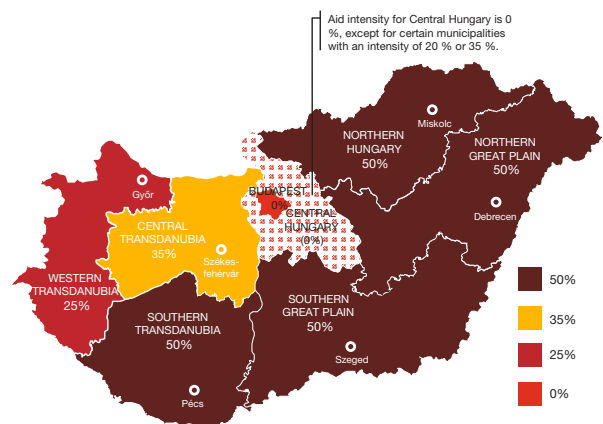
As a member of the European Union, Hungary has fully harmonised its legal system with European law. New business associations are free to be established in the forms of general partnerships (kkt.), limited partnerships (bt.), limited liability companies (kft.), public limited companies (nyrt.) and private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

Subsidies and incentives

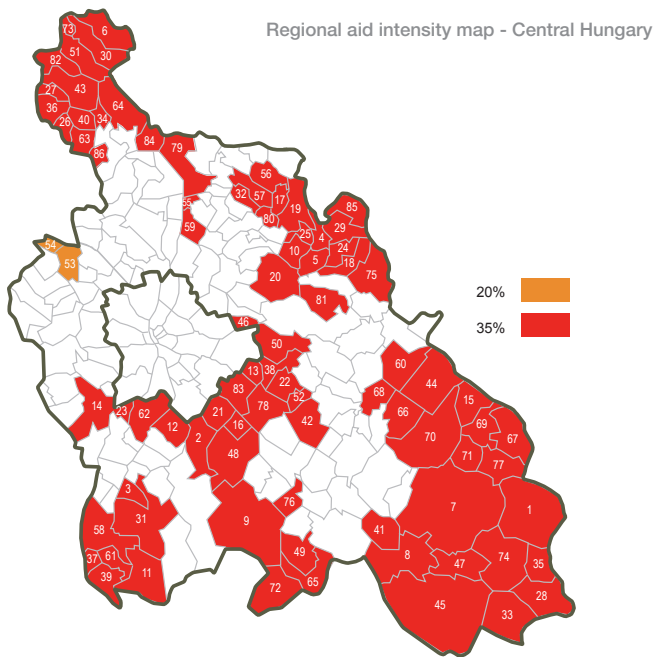
One of Hungary's economic advantages is the wide range of available incentives the Government offers to increase competitiveness.

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.



*Aid intensity is 20 percentage point higher in the case of small businesses and 10 percentage point higher in the case of medium-sized enterprises.



- For a **manufacturing asset investment** the minimum criteria are: EUR 5-20 million and 50-100 new jobs, depending on the location. Further conditions may apply (e.g. for Pest county). The aid intensity is according to the regional aid map.
- In the case of **job creation** the minimum criteria is EUR 10 million and 50-100 new jobs depending on the location. The aid intensity is according to the regional aid map.
- There is also an opportunity for **technology intensive investments** of a minimum of EUR 30 million without specific new job criteria. The aid intensity is a maximum of 25 percent of the regional aid intensity.
- 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:

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 in eligible costs. The aid intensity is up to 25% of the eligible costs, and the maximum available subsidy is EUR 15 million. 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 to investors creating at least 50 new jobs in Hungary. Aid intensity is a maximum of 50% of the eligible costs. The subsidy amount is limited by the total number of training participants (varies between EUR 0.5-2 million subsidy per project) and by a maximum average limit per participant (3,000€ subsidy per participant).

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.

Development tax incentives may be claimed for a 13-year period (beginning once the investment is completed) in Corporate Income Tax (“CIT”) returns within a maximum period of 16 years starting from the tax year following the tax year when the original application for the incentive is submitted. In any given tax year, the tax incentive is available for up to 80% of the tax payable, but in total up to the state aid intensity ceiling. The eligibility criteria is min. HUF 3 bln (EUR 9.7 mln) investment volume and min. 50 new jobs; or HUF 1 bln (EUR 3.2 mln) investment volume and 25 new jobs depending on the location. Other types of investment may be also subsidized such as: investments aiming at job creation, R&D or carried out in free entrepreneur zones.

“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.

PwC can support you in...

Obtaining the maximum aid available

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

Feel free to contact us!

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