

Incentives	Form	Conditions	
VIP cash subsidy	cash, non-refundable, post-financed	Asset investment	Job creation investment
		<ul style="list-style-type: none"> - Developed counties min. EUR 20 million investment volume and 100 new jobs (Győr-Moson-Sopron, Komárom-Esztergom, Fejér, Pest) - Preferred counties min. EUR 10 million investment volume and 50 new jobs (Vas, Zala, Veszprém, Somogy, Baranya, Tolna, Bács-Kiskun, Csongrád, Jász-Nagykun-Szolnok, Hajdú-Bihar, Heves, Borsod-Abaúj-Zemplén) - Most preferred counties min. EUR 5 million investment volume and 50 new jobs (Nógrád, Szabolcs-Szatmár-Bereg, Békés) 	<ul style="list-style-type: none"> - Developed counties min. EUR 10 million investment volume and 100 new jobs (Győr-Moson-Sopron, Komárom-Esztergom, Fejér, Pest) - Preferred and most preferred counties min. EUR 10 million investment volume and 50 new jobs (Vas, Zala, Veszprém, Somogy, Baranya, Tolna, Bács-Kiskun, Csongrád, Jász-Nagykun-Szolnok, Hajdú-Bihar, Heves, Borsod-Abaúj-Zemplén, Nógrád, Szabolcs-Szatmár-Bereg, Békés)
		Regional service centers	Technology-intensive investment
		<ul style="list-style-type: none"> - All regional areas min. 50 new jobs (asset and job creation based eligibility) - In case of activities listed in Annex 1 of Government Decree No. 210/2014 	<ul style="list-style-type: none"> - All regional areas min. EUR 30 million investment volume and the increase of base revenue or total base gross wage by 30% within a three-year-long period (only asset based eligibility) - For large enterprises employing more than 250 people in Hungary.
		R&D projects (throughout Hungary)	
		<p>The subsidy can only be provided for large enterprises.</p> <ul style="list-style-type: none"> - min. EUR 3 million of eligible costs during a minimum one-year long and maximum three-year-long period - Increase of R&D headcount by 25 employees: <ul style="list-style-type: none"> o the employee shall work in the R&D project in at least 50% of the work time o directly or indirectly, and o the ratio of employees with higher education shall reach at least 75% - Monitoring period: min. 2 years - Submission of qualification from HIPO (Hungarian Intellectual Property Office) 	

Incentives	Form	Conditions
Job creation subsidy	cash, non-refundable, post-financed	Additional to VIP cash subsidy, min. 250 new jobs, investment in a disadvantaged area.
EU co-financed tenders	cash, non-refundable/ refundable, post financed	Specified by the tender. For further information please contact us.
Corporate tax allowance	max. 80% corporate tax allowance following the completion of the investment	<p>- Non-preferred regions min. EUR 10 million volume and min. 50 new jobs <i>(Western Transdanubia, Central Transdanubia, Central Hungary)</i></p> <p>- Preferred regions min. EUR 3.3 million volume and min. 25 new jobs <i>(Southern Transdanubia, Southern Great Plain, Northern Great Plain, Northern Hungary)</i></p>
R&D tax allowances	tax allowance	<ul style="list-style-type: none"> - Corporate tax allowance regarding R&D activity - Social contribution tax allowance regarding R&D activity - Social contribution tax allowance regarding researchers, developers
Training subsidy	cash, non-refundable, post financed	min. 50 new jobs
Workshop subsidy	cash, non-refundable, post financed	min. 50 employees with student contract
Social tax allowance	tax allowance	The tax allowance can be granted for prioritized groups up to gross wage of HUF 100 000, for researchers and developers with PhD up to gross wage of HUF 500 000, for PhD students up to gross wage of HUF 200 000.



INCENTIVES GUIDE

Incentives Directorate

2017

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INTRODUCTION

The purpose of „Incentives Guide” published by the Incentives Directorate of the Hungarian Investment Promotion Agency (HIPA) is to inform domestic and foreign investors planning to invest in Hungary about the non-refundable, post-financed VIP cash subsidy and about the most important tax allowances.

The subsidy forms are presented in two sections in the Guide, based on the legal background of the European Union regulations of state aid. In Section 1, following the review on regional aid and the relevant regulations, the VIP cash subsidy and the Development tax allowance is summarized. In Section 2, the general conditions of aid for research and development, then the special conditions of the VIP cash subsidy in relation to R&D, finally, the corporate tax allowance and the social contribution tax allowance regarding R&D activity are described.

For further information, please contact us via investment@hipa.hu.

1. REGIONAL AID

Regional aid aims at the promotion of economic, social and territorial cohesion of Member States of the European Union by supporting the implementation of investments and job creation in a sustainable manner.

Regional aid **shall not be granted** for investments in the steel sector, the coal sector, the shipbuilding sector, the synthetic fibres sector, the transport sector – as well as the related infrastructure –, energy generation, distribution and infrastructure, the agriculture sector, the forestry sector, the fishery sector, the mining sector and the extractive sector.

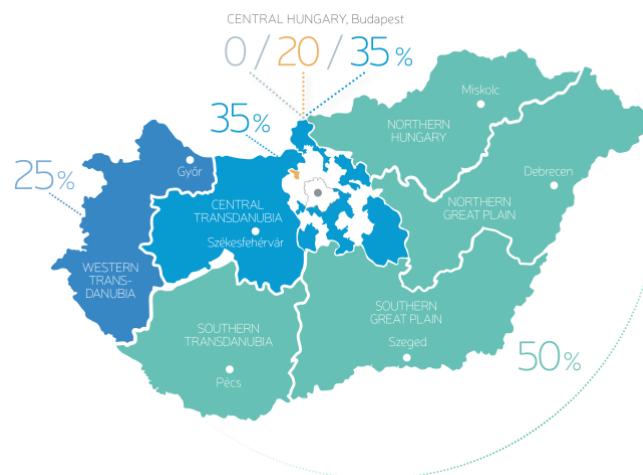


Figure 1: Regional aid map of Hungary

Regional aid shall be granted on the basis of the maximum aid intensity according to the **regional aid map** (Figure 1) based on the eligible costs of the investment. However, the relevant aid intensity shall be increased by 10 percentage points for medium-sized enterprises and 20 percentage points for small enterprises.

Please note, that in Central Hungary (Figure 2), regional subsidies can only be granted for **initial investments in favour of new economic activity**¹ in case of large enterprises.

The aid intensity is calculated in present value (PV). Please note, that investments started by the same beneficiary (at a corporate group level) within three years before the start of investment in the same county (NUTS-3 region), shall be considered as one **Single Investment Project (SIP)**, and the rules regarding maximum aid intensities are applied accordingly.

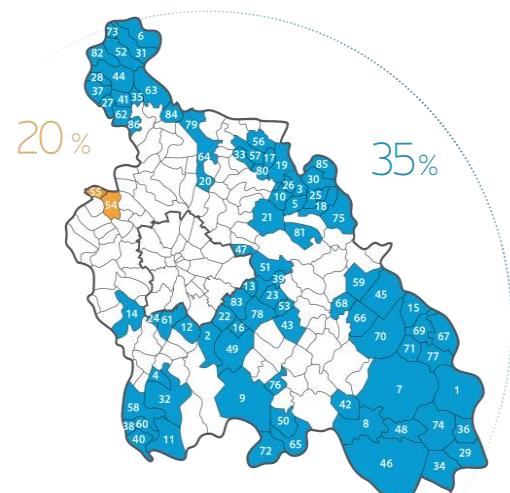


Figure 2: Regional aid map of Central-Hungary (settlement list in Annex 1.)

¹ New activity means setting-up of a new establishment or extension of the capacity of an existing establishment (NACE code shall be different).

In case of a **large investment project** exceeding EUR 50 million volume in present value, the maximum aid intensity is calculated according to the following **scale down mechanism**:

Example (EUR 160 million investment (in PV) in a „50% region”)

Eligible costs	Ratio	Adjusted eligible costs (m EUR)	Adjusted aid amount (m EUR)
Between EUR 0 and 50 million	100%	$50 \cdot 100\% = 50.0$	$50 \cdot 50\% = 25.0$
Between EUR 50 and 100 million	50%	$50 \cdot 50\% = 25.0$	$25 \cdot 50\% = 12.5$
Above EUR 100 million	34%	$60 \cdot 34\% = 20.4$	$20.4 \cdot 50\% = 10.2$
Total		95.4	47.7

Figure 3: Formula for adjusted aid amount

Please note, that in case the sum of regional aids (in PV) for a certain investment exceeds the maximum amount that can be granted for an investment with EUR 100 million eligible costs (Figure 4), the prior approval of the European Commission is required for providing the aid.

Region	Maximum aid intensity	Notification thresholds (million EUR)
Northern Hungary; Northern Great Plain; Southern Great Plain; Southern Transdanubia	50%	37.50
Central Transdanubia; Central Hungary	35%	26.25
Western Transdanubia	25%	18.75
Central Hungary	20%	15.00

Figure 4: Notification thresholds in the regions of Hungary

The different categories of regional aid (in case these aids are related to the same – partially or fully overlapping – identifiable eligible costs) **shall be cumulated** until the maximum aid intensity. However, with respect to the cumulation of cash grants, the VIP cash subsidy can only be combined with job creation subsidy and subsidies provided by local municipalities.

According to the decision of the investor – if the relevant legislation provides opportunity – there are two methodologies for defining the **eligible costs**:

- 1) asset based approach: the costs of tangible and intangible assets that occur in relation to the investment.
- 2) job creation based approach: the estimated personnel related expenditures occurring in relation to the jobs created through the investment period (max. 3 years), calculated for a period of 24 months.

Eligible costs shall only cover the costs occurring after the submission of the application form.

The subsidized assets shall be 100% new, except for the acquisition of an establishment or investments implemented by SMEs.

Regional aid can be granted to initial investment which means

- setting-up of a new establishment (greenfield)
- capacity expansion of an existing establishment,
- diversification of the output of an establishment into products not previously produced in the establishment (product diversification),
- fundamental change in the overall production process of an existing establishment (process innovation),
- acquisition of an establishment (brownfield)

Please note, that important rules are attached to the different types of initial investment; furthermore, certain types of incentive programs may regulate which type of initial investment can be eligible for that specific program.

The **obligatory monitoring period** is five years in case of large enterprises and three years for small and medium-sized enterprises after the completion of the investment.

The prior approval of the European Commission shall be required for providing the aid, if the beneficiary (at a corporate group level) has closed down the same or a similar activity in the European Economic Area in the two years preceding its application for regional investment aid or, at the time of the aid application, has concrete plans to close down such an activity within a period of up to two years.

1.1. VIP cash subsidy

1.1.1. Form, amount and objective of the subsidy

The non-refundable, post-financed cash grant is based on the decision of the Hungarian Government. The amount of the subsidy is influenced by the number of jobs created by the implementation of the investment, and the development of the region where the project will be implemented.

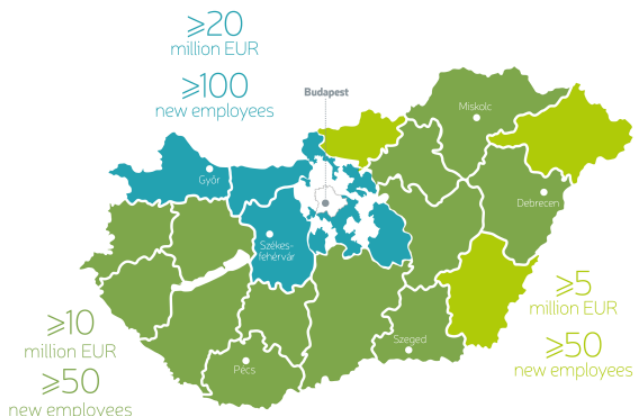
The Hungarian Government considers asset, job creation, technology-intensive and R&D investments as priorities in the field of investment promotion by providing VIP cash subsidy for such projects.

The theoretical maximum of the aid is the relevant regional maximum aid amount except for technology-intensive investments. In case of technology-intensive projects, the maximum amount of the grant is $\frac{1}{4}$ of the adjusted maximum aid intensity.

1.1.2. Conditions, undertakings

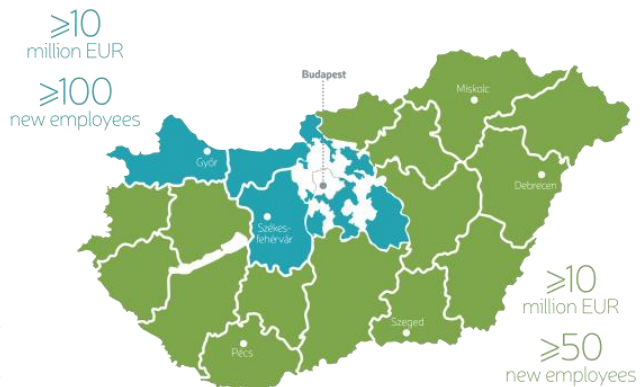
In case of asset investment

- **Developed counties:**
min. EUR 20 million investment volume and 100 new jobs created.
(Győr-Moson-Sopron, Komárom-Esztergom, Fejér, Pest)
- **Preferred counties:**
min. EUR 10 million investment volume and 50 new jobs created.
(Vas, Zala, Veszprém, Somogy, Baranya, Tolna, Bács-Kiskun, Csongrád, Jász-Nagykun-Szolnok, Hajdú-Bihar, Heves, Borsod-Abaúj-Zemplén)
- **Most preferred counties:**
min. EUR 5 million investment volume and 50 new jobs created.
(Nógrád, Szabolcs-Szatmár-Bereg, Békés)



In case of job creation investment

- **Developed counties:**
min. EUR 10 million investment volume and 100 new jobs created
(Győr-Moson-Sopron, Komárom-Esztergom, Fejér, Pest)
- **Preferred and most preferred counties:**
min. EUR 10 million investment volume and 50 new jobs created
(Vas, Zala, Veszprém, Somogy, Baranya, Tolna, Bács-Kiskun, Csongrád, Jász-Nagykun-Szolnok, Hajdú-Bihar, Heves, Borsod-Abaúj-Zemplén, Nógrád, Szabolcs-Szatmár-Bereg, Békés)





In case of investments aiming at the creation/expansion of regional service centers²

(asset or job creation based eligibility)

- **All regional areas³:**
min. 50 new jobs created.
- In case of activities listed in Annex 1 of Government Decree No. 210/2014 (see Annex 2).

In case of technology-intensive⁴ investment

(only asset based eligibility)

- **All regional areas⁵:**
minimum EUR 30 million investment volume⁶ and the increase of base revenue⁷ or total base gross wage⁸ by 30% within a three-year-long period⁹.
- For large enterprises employing more than 250 people in Hungary.

Undertakings	Asset based	Job creation (regional service centers)	Technology- intensive
Revenue	base + surplus	none	base + surplus
Total gross wage	base + surplus	base + surplus	base + surplus
Headcount	base + surplus	base + surplus	only base
Employees with higher education ¹⁰	base + surplus	base + surplus	only base

Figure 5: Undertakings in case of VIP cash subsidy

² „Organisation whose business is to provide financial, human resources management, information technology, software development, databank, legal, purchasing, marketing, analysis, research and development and other similar professional services to a any department of a company or group of companies, or to their customers, and that usually performs such services in two or more countries, relying solely on information and communication technology-based infrastructures.” (Paragraph 25 of Article 3 in Government Decree No. 210/2014).

³ All the areas, where regional subsidies can be provided (see Figure 1).

⁴ The terms of technology-intensive investments are defined in Paragraph 1 (h) of Article 9 in Government Decree No. 210/2014.

⁵ All the areas, where regional subsidies can be provided (see Figure 1).

⁶ It can be granted in case of extension of the capacity, product diversification or process innovation.

⁷ The net revenue of the last closed financial year before the commencement of the investment according to the audited financial report.

⁸ The total personnel related expenditure of the last closed financial year before the commencement of the investment according to the audited financial report.

⁹ Maximum within a three-year-long period after the commencement of the investment. The base of the comparison is the date of the last closed financial year.

¹⁰ Higher education is Bachelor course, Master course, Doctorate course and higher-level vocational training conducted by higher education institutions according to the Bologna system.

1.1.3. Eligible costs

Eligible costs shall only cover the costs occurring following the receipt of the confirmation letter sent by the Ministry for Foreign Affairs and Trade.

In case of asset based investment

- Investment costs of tangible and intangible assets according to the Article 47-51 of the Accounting Act, with the exception set out in Paragraph (2) of Article 18 of Gov. Decree No. 210/2014 (Annex 3).
- The fee charged for leasing the landed property, if incurred during the period of implementation¹¹
- Costs related to the acquisition of machinery, equipment, vehicle in the form of closed-end financial leasing agreement.
- Intangible assets are eligible only up to a limit of 50 % of the total eligible investment costs in case of large enterprises, in case of technology-intensive investments up to a limit of 15% of the total eligible investment costs and must be purchased from third parties independent from the investor company.
- In case of technology-intensive investments the ratio of the property costs (building and land together) shall not exceed 25% of the total eligible costs.

In case of job creation investment

- Personnel related expenditures (according to Article 79 in the Accounting Act) and employee benefits (according to Article 71 in the Act CXVII of 1995 on Personal Income Tax) related to the new jobs created within a period of 3 years from the start of the investment covering the period of 24 months calculated from the first day of the creation of the position. Please note, that the following items are not considered as eligible in case of job creation investments according to Paragraph (2) of Article 20 in Gov. Decree No. 210/2014:
 - a) reimbursement of costs based on travel order,
 - b) reimbursement of the commitment of the employee,
 - c) tangible premium,
 - d) other income in kind,
 - e) severance pay,
 - f) employer's contribution to early retirement,
 - g) separation allowance,
 - h) benefits in kind,
 - i) representation costs.

¹¹ In case of a fixed-term tenancy lease agreements covering the implementation and monitoring period of the investment or indefinite lease agreement.

1.1.4. Legal background and application

The legal regulation of the VIP cash subsidy is based on the Gov. Decree No. 210/2014 (VIII. 27.), which was modified the Government Decree No. 426/2016 (XII. 15.) effective from January 1, 2017.

VIP cash subsidy shall not be granted for investments aiming at carrying out tourism activity, aiming at the provision of broadband internet service or the creation of research infrastructure and to activities listed in Section 1.

One of the basic criteria of the eligibility for the grant is to provide bank guarantee/direct suretyship/collateral security/mortgage for the benefit of the Donor for an amount equal to at least 120% of the amount of the subsidy.

The Managing Body of the incentive procedure is the Hungarian Investment Promotion Agency (HIPA), the Donor responsible for the grant is the Ministry of Foreign Affairs and Trade. The application for the subsidy commences with the submission of the Request list (available at HIPA).

Procedure of application

- 1.Preparation:** HIPA consults with the investor about the investment plans and their optimization regarding the VIP cash subsidy system.
- 2.Application:** HIPA provides assistance to the investor during the preparation of the Request List (RL) before its official submission to HIPA.
- 3.Confirmation:** after the official submission of the RL, the Ministry of Foreign Affairs and Trade issues a letter of confirmation (after the receipt of this letter, the investment may start).
- 4.Incentive offer:** the investor receives an incentive offer from the president of HIPA which contains the exact amount of the subsidy based on the parameters of the project. The acceptance of the incentive offer can be confirmed within 3 months after the receipt the letter (extendable deadline).
- 5.Acceptance of subsidy:** the investor accepts the incentive offer by the submission of an official letter submitted to HIPA.
- 6.Site visit protocol:** the investor collects documents required for the site visit protocol. After the investor provides all the documents to HIPA, the agency prepares the draft of the protocol, which is finalised during the site visit.
- 7.Incentive agreement:** HIPA prepares the draft of the Incentive Agreement based on the site visit protocol, and sends the document to the investor for preliminary approval. The draft of the incentive agreement – after its approval by every contractual party – is signed by the investor and the Ministry for Foreign Affairs and Trade.
The Incentive Agreement shall enter into force after the submission of the documents required by the Incentive Agreement.

The amendment or the termination of the Incentive Agreement has to approved by the Donor.
- 8.Disbursement:** the investor shall submit the first invoice package to HIPA after the Incentive Agreement enters into force, and the disbursement of the subsidy can be commenced.

1.2. Development tax allowance

1.2.1. Form, amount and objective of the allowance

The taxpayer can take advantage of a tax relief of 80% in the tax year following the year of the installation of the investment - or in the same tax year, according to the taxpayer's decision - and in the following twelve tax years, however, not later, than the sixteenth tax year following the tax year in which the notification or the application for the tax allowance was submitted.

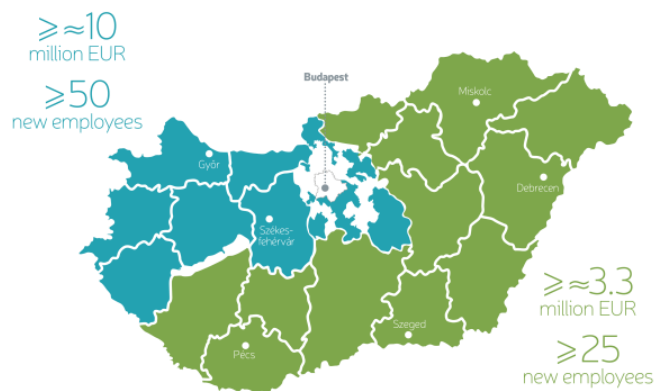
1.2.2. Conditions, undertakings

- Non-preferred regions

(Western Transdanubia, Central Transdanubia, Central Hungary)

- Preferred regions

(Southern Transdanubia, Southern Great Plain, Northern Great Plain, Northern Hungary)



The tax allowance shall be granted on asset or job creation basis.

In case of **asset based** eligibility, two criteria shall be fulfilled by the investor: eligible costs of the investment (in PV) and the number of newly created jobs or the increase of the base¹² of the total gross wage (annual minimum wage – see Figure 6).

In case of **job creation** based eligibility, the criterion of eligibility is only one newly created job.

¹² In case of the job creation conditions, the tax payer may choose how define the base: according to the data of the previous tax year or based on the data of the 3 previous tax years.

	Asset based			Job creation
	Condition I	Condition II		Number of new jobs
	Eligible cost (PV)	Number of new jobs	Total gross wage increase (annual minimum wage X)	
Non preferred region	HUF 3 billion	50 persons	300	1
Preferred region	HUF 1 billion	25 persons	150	
Medium sized enterprise	HUF 500 million	10 persons	25	
Small enterprise	HUF 500 million	5 persons	10	
Other investments	HUF 100 million	0	0	

Figure 6: Conditions for applying for development tax allowance

Tax allowance shall be granted for tax payers implementing projects in a value of HUF 100 million (PV) in the following cases („Other investments” – Figure 6):

- in case of already occupied establishments producing food of animal origin, investments aiming at the creation of conditions complying with legal food hygiene regulations,
- separate environment protection projects,
- investments in relation to fundamental research, industrial research and experimental development,
- investments implemented exclusively for motion picture and video production,
- for enterprises issuing shares on the stock exchange¹³,
- investments implemented in free enterprise zone.

1.2.3. Eligible costs

In case of asset based investment

- Investment costs of tangible and intangible assets according to the Article 47-48 and 51 of the Accounting Act.
- Rental costs of property, if occurred until the end of the obligatory monitoring period¹⁴.
- Costs related to the acquisition of machinery, equipment, vehicle in the form of closed-end financial leasing until the end of the obligatory monitoring period¹⁵.

In case of job creation investment

- Personnel related expenditures (according to Article 79 in the Accounting Act) related to the new jobs created within a period of 3 years from the start of the investment covering the period of 24 months calculated from the first day of the creation of the position.

¹³ If started following the day of introduction (first day of trading) of shares issued to increase its subscribed capital (or a part of such shares) to a regulated market that fits the definition contained in the Act on the Capital Market, not later than the last day of the third year following this day.

¹⁴ 3 years for SMEs, 5 years for large enterprises after the completion of the investment.

¹⁵ 3 years for SMEs, 5 years for large enterprises after the completion of the investment.

1.2.4. Legal background and application

The Development tax allowance shall be granted according to Section 22/B in the Act LXXXI of 1996 on Corporate Tax and Dividend Tax and to Government Decree No. 165/2014 (VIII. 27.).

The Managing Body of the Development tax allowance is the Ministry for National Economy. Before the commencement of the project, the following documents (in two copies) shall be submitted to the Ministry for National Economy, addressed to the Minister for National Economy, in Hungarian:

- Announcement (Annex 1 of Gov. Decree No. 165/2014) or
- Application (Annex 2 of Gov. Decree No. 165/2014), if the prior approval of the European Commission is necessary.
- In case of large investment the submission of Annex 3 (of Gov. Decree No. 165/2014) is also required.

In case of announcement – if the investor does not receive any notifications for deficiencies from the Ministry for National Economy – the tax allowance can be claimed automatically in the tax return after the completion of the investment. However, in case of application, the tax allowance is provided following the approval of the European Commission.

2. R&D AID

The incentive of research and development (R&D) assists the sustainable economic growth and job creation, as well as contributes to the competitiveness of the European Union.

R&D subsidy shall not be granted for investments resulting in coal industry activity and primary agricultural production.

Definition of R&D activities

The areas of R&D activities are defined by Act LXXVI of 2014 on Scientific Research, Development and Innovation – completely in line with the principles laid down in EUROPA 2020 Strategy „Innovative Union” – according to the followings:

a) *Fundamental research*

‘Fundamental research’ means experimental or theoretical work undertaken primarily to acquire new knowledge of the underlying foundations of phenomena and observable facts, without any direct commercial application or use in view.

b) *Industrial research*

‘Industrial research’ means the planned research or critical investigation aimed at the acquisition of new knowledge and skills for developing new products, processes or services or for bringing about a significant improvement in existing products, processes or services.

c) *Experimental development*

‘Experimental development’ means acquiring, combining, shaping and using existing scientific, technological, business and other relevant knowledge and skills with the aim of developing new or improved products, processes or services.

- a) activities related to the **definition, planning and documentation** of new products, processes and services;
- b) activities related to **preparation of plans and other documentations**, excluding commercial purpose;
- c) construction **of prototypes**, excluding commercial purpose;
- d) the development of commercially usable prototypes and experimental projects if the prototype itself is by necessity the commercial end product as well, and its manufacturing is too costly to be done for demonstration and certification purposes only;
- e) **experimental production and test** of products, processes and services, in case they are not convertible or usable for further industrial and commercial use.

Experimental development shall not include normal, periodical or routine changes carried out with regard to products, production lines, manufacturing processes, existing services or other ongoing operations even if such changes are considered development, or if they result in the improvement of the given product, process, operation or service.

Category of R&D	Maximum aid intensity ¹⁶	Notification threshold ¹⁷ (million EUR)
Fundamental research	100%	40
Industrial research	50%	20
Experimental development	25%	15

Figure 7: Maximum aid intensity and notification thresholds of R&D aid

Qualification of R&D activities

Based on the provisions of Act LXXVI of 2014 on Scientific Research, Development and Innovation, the Hungarian Intellectual Property Office (hereinafter: HIPO) manages the qualification process of R&D activities, i.e. the preliminary certification procedure (voluntary and optional) proposed by enterprises, as well as it participates as an expert regarding the certification of certain activities.

HIPO, as an accredited authority shall – based on the request of an enterprise – certify projects with regard to its content regarding research and development activities (fundamental research, industrial research, experimental development).

Only projects or project parts with a clearly defined time frame, commencing after the submission of the request may be the subject of certification procedures. Please note, that certification shall only be requested for project parts individually, if they can be clearly separated from each other.

If a project qualifies as research and development, the certification shall – based on request – also extend to

- determining the ratio of basic research, applied research and experimental development activities in the project;
- determining whether the applicant is carrying out the activity in question within its scope of activities, pursuant to Section 32 of Act LXXXI of 1996 on Corporate Tax and Dividend Tax.

All activities certified as research and development activities by HIPO in a final resolution, which shall be considered as such by other authorities as well.

The resolutions issued in a certification procedure shall only be binding for the authority if the project is implemented as indicated in the request. If the project is implemented differently from the request, the activity shall be considered a new project regarding tax and allowance benefits, not covered by the certification.

¹⁶ In case of the same – partially or fully overlapping – identifiable eligible costs, the subsidy shall be cumulated only with other R&D subsidies.

¹⁷ The maximum amount of aid per enterprise or project. If the R&D project includes more than one R&D activity, the notification threshold is defined by the category of R&D that has the most significant share (more than 50%) of eligible costs in the project.

2.1. VIP cash subsidy

2.1.1. Form, amount and objective of the grant

The objective of the post-financed cash grant system effective from January 1, 2017 is to promote the R&D activity of large enterprises and the creation of R&D competence centers in Hungary. The program contributes to turning Hungary into an „innovation center” and provides opportunity to grant aid for investments implemented in Budapest.

The level of cash subsidy is based on a sophisticated preliminary analysis, taking into consideration several factors (e.g.: location, new vs. existing R&D activity, cooperation with research partners, possession of industrial property protection) and the level of commitments (i.e. number of employees, number of employees with higher education, maintenance period, etc.). The maximum aid intensity is 25%.

2.1.2. Conditions, undertakings

In case of R&D project (throughout Hungary)

- The subsidy can only be provided for large enterprises
- min. EUR 3 million of eligible costs during a minimum one-year long and maximum three-year-long period¹⁸
- Increase of R&D headcount by 25 employees:
 - the employee shall work in the R&D project in at least 50% of the work time
 - directly or indirectly, and
 - the ratio of employees with higher education shall reach at least 75%
- Monitoring period: min. 2 years



2.1.3. Eligible costs

The aided R&D project shall include exclusively industrial research and experimental development activity. If an R&D project includes more than one activity, the activities shall be classified as industrial research or experimental development.

Eligible costs shall be only the costs in connection with the R&D project to the extent and for the period of the project. Concerning instruments and equipment, only depreciation costs corresponding to the duration of the project can be eligible. Please note that only those depreciation costs can be eligible which are calculated according to Article 52-23 of Act on Accounting.

Eligible costs:

- depreciation of buildings
- depreciation of instruments and equipment;
- personnel costs regarding researchers and developers¹⁹ to the extent employed in the project.

¹⁸ Starting from the commencement of the first subsidized R&D project.

¹⁹ According to Act LXXVI of 2014 on Scientific Research, Development and Innovation, researcher-developer is a natural person who is in charge of projects creating or developing new knowledge, intellectual property, product, service, process, method or system.

2.1.4. Legal background and application

The legal regulation of the subsidy is based on Gov. Decree No. 210/2014 (VIII. 27.), which was modified by Gov. Decree No. 426/2016 (XII. 15.) effective from January 01, 2017.

Subsidy shall not be granted to activities listed in Section 1 and Subparagraph 1.1.4.

The criteria of granting the aid is to provide bank guarantee/suretyship/collateral security/mortgage for the benefit of the Donor in an amount equal to at least 120%.

The Managing Body of the incentive procedure is the Hungarian Investment Promotion Agency (HIPA), the Donor responsible for the grant is the Ministry of Foreign Affairs and Trade. The application for the subsidy commences with the submission of the Request list (available at HIPA).

Procedure of application

The procedure of application is similar to the regular VIP cash subsidy procedure (see 1.1.4.), however, the disbursement of the subsidy shall only commence after the submission of the certification regarding the R&D project by the HIPO (the certification shall also contain the ratio of R&D activities) to HIPA. The submission of the certification is not a condition of starting the incentive procedure, to make the process shorter. The disbursement of the aid is scheduled annually, following the fulfilment of certain criteria (i.e. reaching proportionate eligible cost).

2.2. R&D tax allowances

2.2.1. Corporate tax allowance regarding R&D activity

The corporate tax base – according to the general rules – is calculated on the basis of the earnings before taxes stated in the annual report. The tax base equals to the earnings before taxes modified by the items that decrease or increase tax base – according to Act LXIII of 1996 on Corporate and Dividend Tax.

100% of the direct costs²⁰ of fundamental research, industrial research, experimental development²¹ carried out by the taxpayer within its own scope of activities are deductible from the earnings before taxes. In this way, the benefit²² shall be provided above the costs. However, in case the research activity is carried out jointly with a specified organisation²³, 300% of the direct costs of R&D activity (up to a maximum of HUF 50 million) are deductible from the earnings before taxes.

Tax liability	
Revenues	10 000
Expenses	500
EARNINGS BEFORE TAXES	9 500
- Items that decrease tax base (R&D expenses)	500
+ Items that increase tax base	0
TAX BASE	9 000
Calculated tax (CIT 9%)	810
EARNINGS AFTER TAXES	8 190

Figure 8: Example for Corporate tax allowance after R&D activity

²⁰ The direct cost shall be reduced by the grant and the amount of research service (from - domestic corporate taxable entity, domestic sites of foreign enterprises and private enterprise).

²¹ It is independent of the fact whether the tax payer activates the amount of experimental development (uses among the intangible assets) or not.

²² The base of the benefit shall not be reduced by the – recognised as part of the eligible costs – amount of R&D service, if the person granting it is not a corporate taxable entity, private enterprise and states that the listed services were taken by the person.

²³ Cooperation based on contractual agreement with any of the following institutions: higher education institutions, the Hungarian Academy of Sciences, research institution operating as a central fiscal institution or research institute established by any of them.

2.2.2. Social contribution tax allowance regarding R&D activity

According to Article 462/H in Act CLVI of 2011, in case the tax base deduction of an undertaking results in negative corporate tax base regarding the direct costs of the R&D activity²⁴ carried out within its own scope of activities, the enterprise employing a natural person in an employment relationship generating social contribution tax payment obligation may apply for a tax allowance from the social contribution tax with respect to this employment relationship from the month following the submission of corporate tax declaration.

Tax liability		Tax liability	Example without tax allowance	Example with tax allowance
Revenues	500	Payroll expenses (gross wages)	1000	1000
Expenses	500	Social contribution tax (22%)	220	220-22,5
EARNINGS BEFORE TAXES	0	Vocational contribution (1,5%)	15	15
- Items that decrease tax base (R&D expenses)	500	Taxes payable by the employer	235	212,5
+ Items that increase tax base	0	Personnel expenses	1235	1212,5
TAX BASE	-500			
Calculated tax (CIT 9%)	0			
EARNINGS AFTER TAXES	0			

$$500 \times 50\% \times 9\% = 22,5$$

Figure 9: Social contribution tax allowance regarding R&D activity

The social tax allowance is equal to the 50% of the negative corporate tax base calculated with the 9% applicable corporate tax rate. The tax allowance is available until 12 months from the first deducted month. Multiple tax allowances shall be applied at the same time (see 2.2.3).

2.2.3. Social contribution tax allowance regarding researchers, developers

According to Article 462/F of Act CLVI of 2011, the tax payer certified as research institution²⁵ is entitled to tax allowance as follows:

- in case of researcher or developer employees with a PhD or higher academic degree or academic title: the amount of the tax allowance is 22% of the gross wage, but maximum HUF 500,000, or
- in case of students or PhD candidates in doctoral programs: the amount of the tax allowance is 11% of gross wage, but maximum HUF 200,000.

The tax payer shall state the amount of the tax allowance on a monthly basis, as an aggregate amount of the partial allowances calculated separately for each employment relationships generating tax payment obligation in the given month.

The partial allowance shall not be applied during the period when the employer did not or did not only employ the employee as a researcher or developer.

²⁴ Based on Paragraph 1 of Article 7 of Act LXXXI of 1996 on Corporate Tax and Dividend Tax.

²⁵ Institution, department or enterprise pursuing R&D activity as a basic or main activity.

ANNEXES

Annex 1: List of settlements entitled to grant in Central Hungary

1 Abony	31 Kémence	61 Szigetszentmiklós
2 Alsónémedi	32 Kiskunlacháza	62 Szob
3 Aszód	33 Kisnémedi	63 Szokolya
4 Áporka	34 Kocsér	64 Sződliget
5 Bag	35 Kóspallag	65 Táborfalva
6 Bernecebaráti	36 Kőröstetétlen	66 Tápióbicske
7 Cegléd	37 Letkés	67 Tápiógyörgye
8 Csemő	38 Lórév	68 Tápióság
9 Dabas	39 Maglód	69 Tápiószele
10 Domony	40 Makád	70 Tápiószentmárton
11 Dömsöd	41 Márianosztra	71 Tápiószőlős
12 Dunaharaszti	42 Mikebuda	72 Tatárszentgyörgy
13 Ecser	43 Monor	73 Tésa
14 Érd	44 Nagyörzsöny	74 Törtel
15 Farnos	45 Nagykáta	75 Tura
16 Felsőpakony	46 Nagykőrös	76 Újhartyán
17 Galgagyörk	47 Nagytarcsa	77 Újszilvás
18 Galgahévíz	48 Nyársapát	78 Üllő
19 Galgamácsa	49 Ócsa	79 Vác
20 Göd	50 Örkény	80 Váckisújfalu
21 Gödöllő	51 Pécel	81 Valkó
22 Gyál	52 Perőcsény	82 Vámosmikola
23 Gyömrő	53 Péteri	83 Vecsés
24 Halásztelek	54 Piliscsaba	84 Verőce
25 Hévízgyörk	55 Pilisjászfalu	85 Verseg
26 Iklad	56 Püspökhátvan	86 Zebegény
27 Ipolydamásd	57 Püspökszilágy	
28 Ipolytölgyes	58 Ráckeve	
29 Jászkarajenő	59 Szentmártonkáta	
30 Kartal	60 Szigetbecse	

Annex 2: List of activities that shall be carried out by regional service centers according to NACE

- 1. Warehousing and support activities for transportation (52)**
5210 Warehousing and storage
- 2. Programming, consultancy and related activities (62)**
6201 Computer programming activities
6202 Computer consultancy activities
6203 Computer facilities management activities
6209 Other information technology and computer service activities
- 3. Information service activities (63)**
6311 Processing, hosting and related activities
6399 Other information service activities n.e.c.
- 4. Legal and accounting activities (69)**
6910 Legal activities
6920 Accounting, bookkeeping and auditing activities; tax consultancy
- 5. Activities of head offices; management consultancy activities (70)**
7022 Business and other management consultancy activities
- 6. Scientific research and development (72)**
7211 Research and experimental development on biotechnology
7219 Other research and experimental development on natural sciences and engineering
7220 Research and experimental development on social sciences and humanities
- 7. Advertising and market research (73)**
7320 Market research and public opinion polling
7810 Activities of employment placement agencies
- 8. Office administrative, office support and other business support activities (82)**
8211 Combined office administrative service activities
8220 Activities of call centres
8299 Other business support service activities n.e.c.

Annex 3: Non-eligible costs related to VIP cash subsidy

Based on Paragraph (2) of Article 18 in Government Decree No. 210/2014:

- a) the cost of any asset, software product, service, or system introduction produced, marketed or provided by the investor itself, unless only the investor is capable of producing such an asset and the value used for the settlement of the asset corresponds to a market purchase price that would be used between independent third parties
- b) the cost of relocating an existing production capacity of the investor within the premises or to other premises,
- c) the costs of preparatory tasks, including especially the costs of producing the application, application management, compilation of the payment request, production of a feasibility study, public notary fee,
- d) consultancy fees relating to the identification of possible resources, application production, and the realization of the application during the life-cycle of the application,
- e) the costs of transforming existing machinery, if the output and parameters of the transformed machinery remains unchanged, excluding the introduction of new technology,
- f) the cost of removing assets
- g) the market value of tangible assets acquired by the investor from a company subject to any bankruptcy or liquidation proceeding or from a natural person subject to judicial enforcement,
- h) assets and equipment that were already in use under any rental or similar arrangement or for testing or pilot run purposes on any premises of the investor before the submission of the aid application, and the assets that have cost of HUF 100 000 or less,
- i) the costs of acquiring stocks
- j) the costs of acquiring consumer goods,
- k) the costs of acquiring vehicles, including especially motor vehicles fit for running on public roads, crafts, railway vehicles, as well as trailers, semi-trailers,
- l) the value of contributed assets,
- m) costs arising in relation to any agency or works contract concluded with an agent and adviser, if the contractual payment is determined in proportion to the total costs of the activity, with the exception of cases where the contract allows for partial performance and such actually incurred and paid partial costs are confirmed by the final investor in a detailed performance certificate with reference to the contents and actual value of the work or service,
- n) the costs of renovation works aiming to restore the original condition of end-of-life tangible assets, and costs serving ordinary operation,
- o) assets that replace any tangible asset or eligible intangible asset already used by the investor, without resulting in the extension of the capacity of the existing establishment, diversification of the output of the establishment into products or services not previously produced in the establishment or a fundamental change in the overall production process of the existing establishment,
- p) costs of leaseback assets,
- q) borrowing costs, costs of bank guarantees and pledges, costs relating to the provision of collaterals,
- r) franchise fee,
- s) tax advisory and accounting fee,
- t) taxes, duties, other public administration,
- u) interest costs, and exchange rate costs,
- v) operating costs, excluding the bank account fees,
- w) costs of representation,
- x) fees of updates on legislation,
- y) translation costs.