

***THE HUNGARIAN TAX
INCENTIVE REBATE FOR FILMS***

WHAT PRODUCTIONS QUALIFY?

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- ▶ Feature films
- ▶ Short films
- ▶ Documentaries
- ▶ Animation
- ▶ Music videos
- ▶ Television films or series with original scripts (excluding soap operas)
- ▶ Post Production

- Films that **do not** qualify are commercials, soap operas, TV reality shows, extremely violent feature or animation films, hate films, and pornography.

THE REBATE PROCESS

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- ▶ Registration
- ▶ Qualification
- ▶ Rebate

REGISTRATION

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- A Hungarian film production company is required to qualify for the rebate.
- 1. Use the services of a third party Hungarian production company
- 2. Set up a new Hungarian production company (SPV)
(The new company must be registered with the Hungarian Film Office)

BECOMING A QUALIFIED PRODUCTION

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- The registered Hungarian production company must submit an application for the project to the National Film Office (NFO).
 - ▶ Production schedule
 - ▶ Company documents
 - ▶ The executed production service agreement (summarized in Hungarian)
 - ▶ The production budget (relevant parts)
 - ▶ The cultural test (Hungarian translation of the script is required)
 - ▶ A statement declaring how often the production wishes to receive the rebate (monthly, quarterly or at end of filming)
 - ▶ All of the above MUST be submitted at least 30 days before start of filming. (60 days before start of filming in case of official coproductions)

QUALIFYING: CULTURAL TEST

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- Section A: Cultural Criteria - 8 points
at least 2 points must come from this section
- Section B: Industrial Criteria - 24 points
- **Must reach minimum 16 points out of 32 points**
(Section A + B)

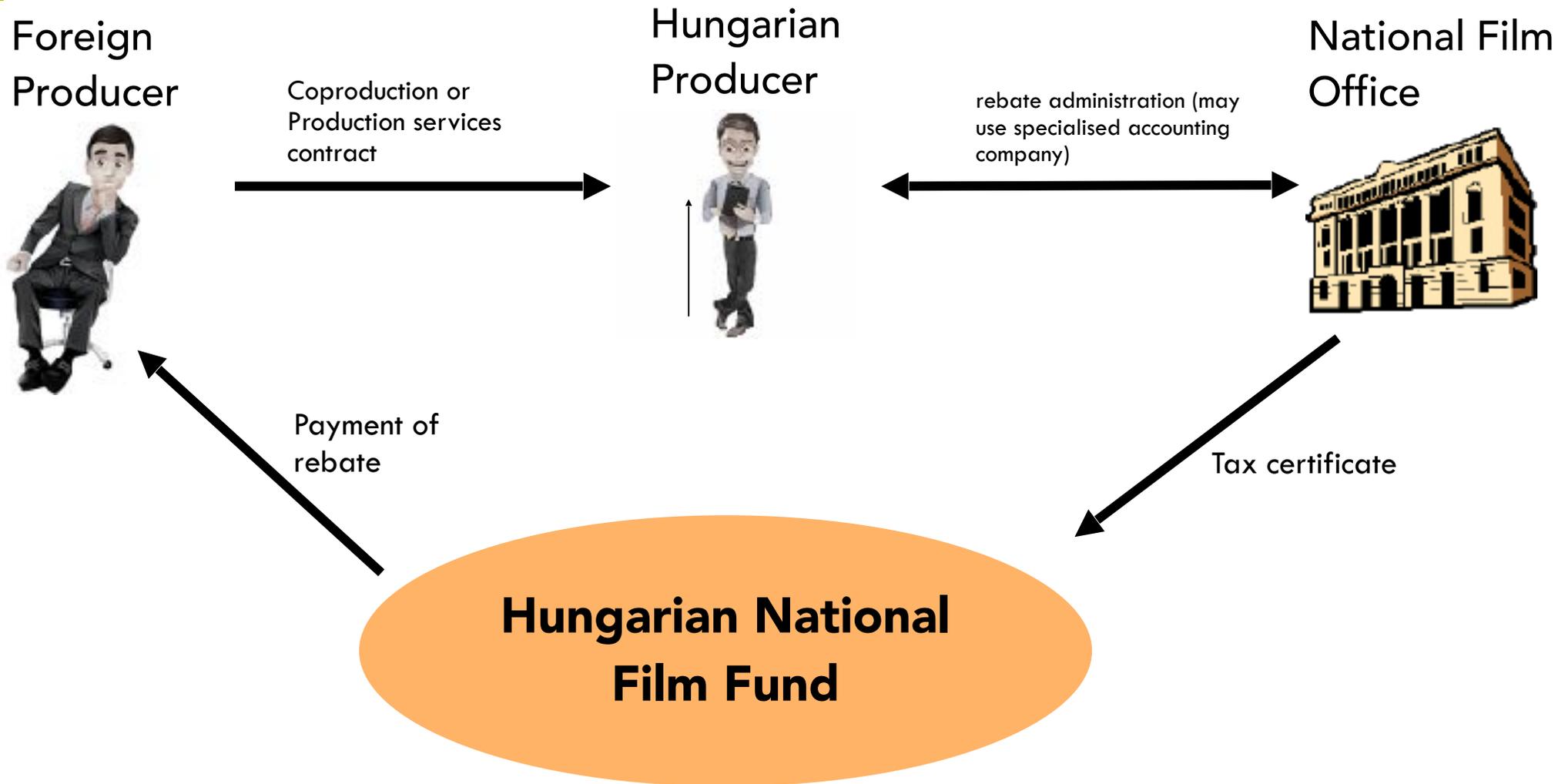
CULTURAL CRITERIA

a)	The storyline / underlying material of the motion picture is based on an event, which is part of the Hungarian or the European culture / history / mythology / religions	1 point
b)	The motion picture is based on a character / personality belonging to the Hungarian / European culture / history / society / religions	1 point
c)	The motion picture is centered on Hungarian / European traditions/customs	1 point
d)	The story of the motion picture is set in European scene/landmark/location/architectural or cultural environment	1 point
e)	The storyline or underlying material is based on a literary work or on an adaption of other art work (products of fine or applied arts, music etc.) with cultural value.	1 point
f)	The storyline or underlying material of the motion picture is centered on a current actual cultural, sociological, or political issue for Hungarian or European society	1 point
g)	The motion picture reflects an important Hungarian or European value such as cultural diversity / solidarity / equality / protection of minorities or human rights /tolerance / environmental protection / respect for traditions of culture or family	1 point
h)	The motion picture reflects the Hungarian and European culture and identity.	1 point

INDUSTRIAL CRITERIA

i)	The film product is a motion picture product that creates value as a result of its genre	4 points
j)	The creators of the motion picture include Hungarian citizens or citizens of another EEA country, or those non-EEA citizens who have received an international film festival award:	1 point for every two scores
	Director / Producer / Director of photography / Script writer / Leading or secondary actor or actress / Composer / Art director or production designer / Costume designer / Editor / Make up designer / Line producer (production manager) / Post production supervisor (either audio / VFX / DI)	(max. 6 points)
k)	final version of the film in any official EEA language	4 points
l)	At least 51% of the contributors to the motion picture - not falling under the scope of point j)- are the citizens of an EEA country, or the motion picture is a co-production that does not qualify as an European co-production.	4 points
m)	The location of the shooting is in Hungary	3 points
n)	use of Hungary's cultural resources (i.e. pre or post-production in Hungary)	3 points

MECHANISM OF THE HUNGARIAN TAX REBATE SYSTEM



GROUND RULES

- ▶ **30% tax rebate** on the Hungarian qualifying production spend.
- ▶ The effective rate can reach **37,25%** if foreign spend (outside of Hungary) is also an integral part of the Hungarian budget.
- ▶ **No cap** on the amount of tax rebate.
- ▶ **No minimum** expenditure

GROUND RULES (CONT'D)

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- ▶ Tax certificates can be obtained once budget items have been financially settled.
- ▶ Periodicity of tax certificates can be annual / quarterly or monthly (monthly is rarely requested due to higher administration costs).
- ▶ In general, tax-rebate works as post-financing.
Pre-financing is available through a specialised bank loan.

QUALIFYING EXPENSES

- ▶ Direct production expenses (both Hungarian and foreign) invoiced to, and paid by (via bank transfer), the qualified Hungarian production company, for example:
 - ▣ Local wages (both above-the-line and below-the-line)
 - ▣ Rental costs
 - ▣ Purchases, costs of materials / amortisation
 - ▣ Travel and accommodation
 - ▣ All kinds of financing and administration costs, insurance, completion bond, etc.
 - ▣ Post production

- ▶ **Foreign spend element:** Production expenses incurred outside of Hungary can qualify in an amount up to 1/4 of the total qualified Hungarian production expenses. If 100 units are spent in Hungary, another 25 units of foreign spend can also be deemed qualifying/eligible spend. ***This is what can increase the effective tax rebate from 30 to 37.5% (of the qualifying Hungarian budget).***

EXPENSES THAT DO NOT QUALIFY

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- ▶ Travel costs where Hungary is neither the departure, nor the destination
- ▶ Producers fees above 4% of qualifying budget
- ▶ Copyright fees, royalties above 4% of qualifying budget
- ▶ Promotional costs, unless directly related to production (like still photos), but maximum USD 30.000 or 2% of qualifying budget
- ▶ Costs incurred three months after the end of the scheduled production period

EXAMPLES FOR QUALIFYING FOREIGN SPEND

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- ▶ Non-Hungarian copyright fees paid by the Hungarian production company (4% limitation)
- ▶ Foreign shooting costs paid by the Hungarian production company
- ▶ Foreign post-production costs paid by the Hungarian production company
- ▶ Rental costs (either equipment or real estate) paid to foreign entities

BRINGING FOREIGN CAST & CREW INTO THE HUNGARIAN SPEND

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- ▶ Cast and crew members can become qualifying expenses if their country of tax residency has a double taxation treaty with Hungary for such activities.
- ▶ The foreign cast or crew member will have to obtain a Hungarian tax number, and pay personal income withholding taxes (flat 15% of salary) to the Hungarian tax authorities. In this case **50% of their salary qualifies as Hungarian Spend.**
- ▶ The above is a requirement for all EU tax resident cast and crew members.

AUDIT PROCESS

- ▶ Either monthly, quarterly, or at end of the production, depending on production's choice (monthly is not necessarily the best).
- ▶ The production submits a financial report to the NFO of incurred expenses in each budget line category.
- ▶ The NFO does a random review of the submitted invoices and contracts.

TAX CERTIFICATE AND TRANSFER OF REBATE

- ▶ The rebate is financed by both governmental and non-governmental tax-paying corporations who receive corporate tax benefits for cash flowing the rebate process. These companies pay into a special account administered by the Hungarian National Film Fund.
- ▶ Once the expenses have been approved, the NFO issues a tax certificate to the production.
- ▶ The tax certificate is submitted to the Hungarian National Film Fund, and the rebate amount is transferred to the production's bank account, or is paid directly to the producer.

IMPORTANT TAX IMPLICATIONS TO CONSIDER

- 27% VAT has to be financed
 - ▣ Reclaim of VAT is possible under the EU VAT Directive
 - ▣ Refund claims can be submitted on a monthly basis
 - ▣ Average timeline ranges from 3 to 6 months
 - ▣ VAT on certain costs is not deductible by law (e.g. fuel, parking, catering labor, entertainment costs and 30% of telecommunication expenses)
 - ▣ **Hero Squared Productions can offer loans to aid VAT financing (cash-flow)**

- 2% local business tax
 - ▣ Limited amount of deductibles, better to budget on the total production spend
 - ▣ The place of shooting determines the liability; it is applicable in most municipalities

IMPORTANT TAX IMPLICATIONS TO CONSIDER (CONT'D)

- Personal income tax / social security
 - ▣ Non-US actors are, in general, subject to personal income tax in Hungary on their remuneration allocable to Hungarian activities (also depends on double-taxation treaties)
 - ▣ Foreign crew and US actors may also be subject to personal income tax if hired locally, or spend more than 183 days in Hungary (also depends on treaties)

TEN REASONS TO FILM IN HUNGARY

- ▶ 30 - 37.5% tax rebate that is bankable
- ▶ No fringes. All Hungarian film crew are independent contractors and submit invoices for payment of services.
- ▶ 12 hour working days (11 hour day + one hour lunch break)
- ▶ Overtime pay for *shooting* crew only
- ▶ English-speaking crews with experience on major international productions
- ▶ Local rental companies for all industry standard production and post-production equipment
- ▶ Locations: Variety of diverse filming locations in close proximity to each other. Budapest is the one of the most diverse and beautiful cities in Central Europe, and can represent almost any European city on film.
- ▶ Set-building know-how
- ▶ Studios: Brand-new, world-class film production infrastructure
- ▶ Budapest is fun after work also... :)



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