



THE HUNGARIAN TAX INCENTIVE REBATE FOR FILMS

The Hungarian Rebate



2

Budapest is the biggest film production hub today in continental Europe.

One of the key reasons for this success is the local film rebate system, which has been consistently operational since 2004.

What Productions Qualify?



3

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

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

Registration



4

A Hungarian film production company is required to qualify for the rebate.

Options:

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



5

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 co-productions)

Qualifying: Cultural Test



- 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

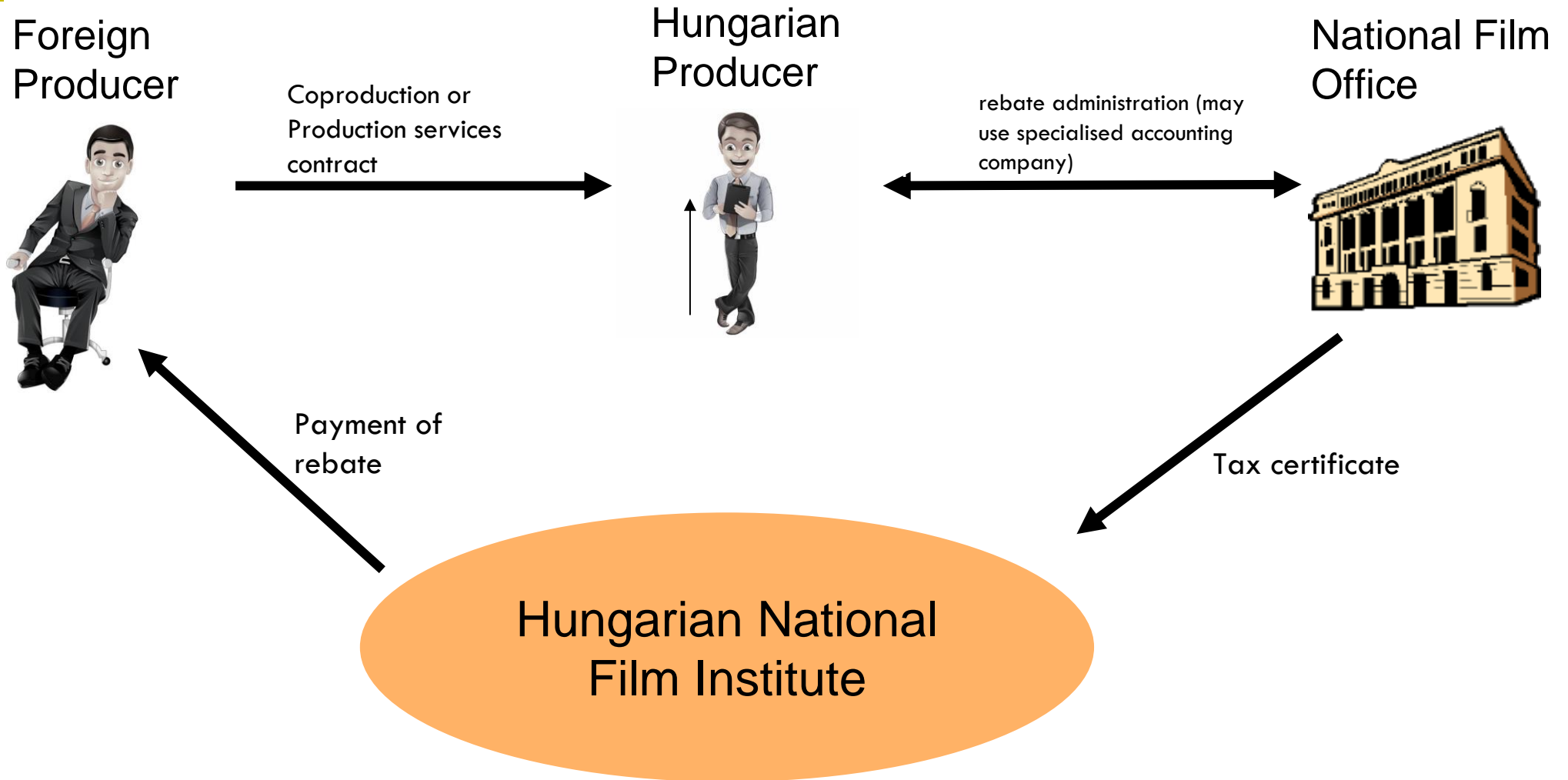
a)	The storyline / underlying material of the motion picture is based on an event, which is part of the Hungarian or the European culture / history / mythology / religions	1 point
b)	The motion picture is based on a character / personality belonging to the Hungarian / European culture / history / society / 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





Rebate: Ground rules

10

- ▶ 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

Rebate: Ground rules (cont'd)



11

- ▶ 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



12

The final Hungarian Rebate realized will consist of three categories of spend:

- 1. Local Spend (Hungarian spend)**
- 2. Foreign (non-Hungarian) spend**
- 3. Foreign Cast/Crew working in Hungary**



1. Local Spend

13

Local Spend: Direct Hungarian production expenses invoiced from a Hungarian company or crewmember 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 (equipment, set dressing, etc.)
- Set Construction
- Purchases, costs of materials, consumables (if used up during course of production)
- Travel and accommodation
- Catering
- Certain financing and administration costs, insurance, completion bond, etc., if invoiced from Hungary
- Post production



2. Foreign Spend

14

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).* Examples of qualifying foreign spend:

- Non-Hungarian shooting costs paid by the Hungarian production company
- Non-Hungarian post-production costs paid by the Hungarian production company
- Rental costs (either equipment or real estate) paid by the Hungarian production company to non-Hungarian entities
- Non-Hungarian bond, insurance, legal fees directly related to the Hungarian portion of the shoot.
- Non-Hungarian Producer fees (up to 4% of the budget)



3. Foreign cast and crew

Foreign Cast and Crew: Cast and crew members working in Hungary can become qualifying expenses if their country of **tax residency** has a double taxation treaty with Hungary for such activities. (Note: this is based on tax residency and NOT nationality.)

In this case, 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. As a result, **half (50%) of their salary for work completed in Hungary qualifies as Hungarian Spend.** (note: as of 2020, the first \$10,000 of their salary is 100% qualifying, and all salary above is 50% qualifying.)

The above is a requirement for all EU tax resident cast and crew members. It is in most cases optional for US and Canadian cast and crew and subject to producer decision and type of contract. UK tax residents will remain qualifying after Brexit. *Each contract must be reviewed individually to determine taxation procedures.*

In case a **Producer** elects to have their work in Hungary become taxable in Hungary - and therefore qualify for the Rebate – their fee is not subject to the 4% cap on qualifying producer fees.



3. Foreign cast and crew (cont)

16

Implications for foreign crew paying taxes in Hungary:

- The flat personal income tax rate in Hungary is 15% on their remuneration allocable to Hungarian activities.
- Foreign cast or crew member will have to prove they have paid their social security contributions in their home country (through an A1 form in the case of EU tax residents, a Certificarte of Coverage for US tax residents, or an SSW for Canadian tax residents.)
- Per Diems may also be taxable in Hungary (and as a result become Rebate qualifying spend)
- After all taxes have been filed and paid, the cast/crew member will recieve a certificate from the Hungarian tax authorities proving they have paid their taxes on the work completed in Hungary, which they can use to reduce their taxes in their home country.



Expenses that DO NOT qualify

17

- ▶ 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 (including post-production)

Rebate audit process



18

- ▶ 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.
- ▶ The NFO officially has 60 days to review each submission.



Rebate administration fees

19

The National Film Office charges the following fees for Rebate administration:

- Nominal flat fees for company registration and cultural test submission
- 0,2% of Qualifying spend at Registration
- 2,5% of Rebate amount

All of the above costs qualify as Hungarian spend, and are therefore Rebate eligible.

Tax Certificate and Transfer of Rebate



20

- ▶ 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 Institute.
- ▶ 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 Institute, and the rebate amount is transferred to a designated Hungarian bank account. This usually takes 2 weeks.
- ▶ The amount of money available in the Film Institute's payout account can be viewed online.

Important tax implications to consider



21

- 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, food, entertainment costs, and 30% of telecommunication expenses)
 - *Local loans are available to aid VAT financing (cash-flow)*

- 2% local business tax
 - Limited amount of deductibles
 - The place of shooting determines the liability; it is applicable in most municipalities

Ten Reasons to Film in Hungary



1. 30 - 37.5% tax rebate since 2004, that is bankable.
2. No fringes. All Hungarian film crew are independent contractors and submit invoices for payment of services.
3. 12 hour working days (11 hour day + one hour lunch break)
4. Overtime pay for shooting crew only
5. English-speaking crews with experience on major international productions
6. Local rental companies for all industry standard production and post-production equipment
7. 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.
8. Set-building know-how
9. Studios: Brand-new, world-class film production infrastructure
10. Budapest is fun after work also... :)



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