




**HUNGARIAN
TAX REBATE
FOR FILMS**

BUDAPEST IS THE **BIGGEST** FILM PRODUCTION HUB TODAY IN EUROPE.



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

HOW TO CLAIM YOUR MONEY BACK?

A Hungarian film production company is required to access the rebate.

OPTION #1

Use the services of a Hungarian production company

OPTION #2

Set up a new Hungarian production company (SPV) (The new company must be registered with the Hungarian Film Office)



PRODUCTIONS THAT QUALIFY

- Feature films
- Animation
- Short films
- Documentaries
- Music videos
- Television films or series

FILMS THAT DO **NOT** QUALIFY ARE COMMERCIALS, SOAP OPERAS, TV REALITY SHOWS, EXTREMELY VIOLENT FEATURE OR ANIMATION FILMS, HATE FILMS, AND PORNOGRAPHY.

BECOMING A QUALIFIED PRODUCTION

The registered Hungarian production company must submit a **REBATE ENTITLEMENT CERTIFICATE** application for the project to the National Film Office (NFO) at least 30 days before the start of filming. (60 days before the start of filming in case of official co-productions). Along with the following:

- ✓ **PRODUCTION SCHEDULE**
- ✓ **COMPANY DOCUMENTS**
- ✓ **THE PRODUCTION BUDGET (RELEVANT PARTS)**
- ✓ **THE EXECUTED PRODUCTION SERVICE AGREEMENT (SUMMARIZED IN HUNGARIAN)**
- ✓ **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 THE END OF FILMING)**

Section #1: Cultural
criteria – 8 points

at least 2 points to be collected in
this section

Section #2: Industrial
criteria – 24 points

Must reach minimum of 16
points from 32 (section 1 + 2)

**QUALIFYING:
THE CULTURAL
TEST**



#1 CULTURAL CRITERIA

Must reach minimum
of 16 points from 32
(section 1 + 2)

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

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

The motion picture is based on a character / personality belonging to the Hungarian / European culture / history / society / religions

1 POINT

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

The story of the motion picture is set in European scene / landmark / location / architectural or cultural environment

1 POINT

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

The motion picture is centered on Hungarian / European traditions / customs

1 POINT

The motion picture reflects the Hungarian and European culture and identity.

1 POINT

**AT LEAST 2 POINTS
OUT OF 8**



#2 INDUSTRIAL CRITERIA

The film product is a motion picture product that creates value as a result of its genre.

4 POINTS

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:

a) Director, **b)** Producer, **c)** Director of photography, **d)** Script writer, **e)** Leading or secondary actor or actress, **f)** Composer, **g)** Art director or production designer, **h)** Costume designer, **i)** Editor, **j)** Make up designer, **k)** Line producer (production manager), **l)** Post production supervisor (either audio, VFX or DI)

1 point for every 2 scores

MAX 6 POINTS

At least 51% of the contributors to the motion picture - not falling under the previous scope of point - are the citizens of an EEA country, or the motion picture is a co-production that does not qualify as a European co-production.

4 POINTS

Use of Hungary's cultural resources (i.e. pre or post-production in Hungary)

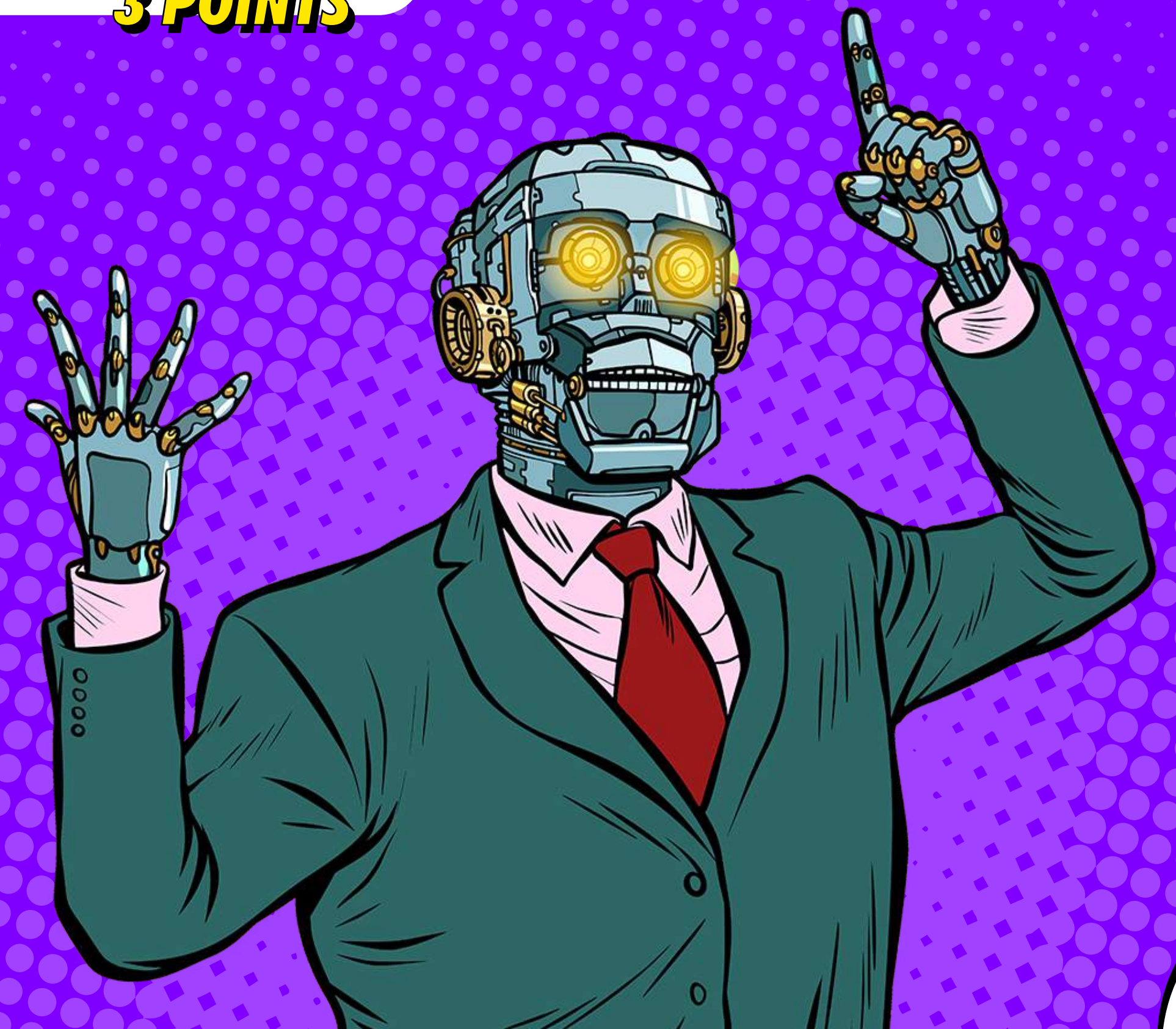
3 POINTS

The final version of the film in any official EEA language.

4 POINTS

The location of the shooting is in Hungary.

3 POINTS



MECHANISM OF THE HUNGARIAN REBATE SYSTEM



**THE FINAL HUNGARIAN REBATE
REALIZED WILL CONSIST
OF THREE CATEGORIES OF
SPEND:**



**LOCAL SPEND
(HUNGARIAN)**

**FOREIGN SPEND
(NON-HUNGARIAN)**

**FOREIGN CAST / CREW
WORKING IN HUNGARY**

LOCAL SPEND

Direct Hungarian production expenses invoiced from a Hungarian company or crewmember to, and paid by, the qualified Hungarian production company

Examples:

- Local wages
- Rental costs (equipment, set dressing, etc.)
- Set Construction
- Purchases, costs of materials, consumables (if used up during the course of production)
- Transport, Travel, and Accommodation Catering & Post-production
- Certain portions of financing and administration costs, insurance, completion bond, etc., if invoiced from Hungary

FOREIGN SPEND

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 spending can also be deemed qualifying/eligible to spend. This is what can increase the effective tax rebate from 30 to 37.5% (of the qualifying Hungarian budget).

Examples:

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

FOREIGN CAST & CREW WORKING IN HUNGARY

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: 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 the producer's decision and type of contract. UK tax residents remain to qualify after Brexit.

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.

Implication for foreign crew paying taxes in Hungary:

- The flat personal income tax rate in Hungary is 15% on their remuneration for Hungarian activities.
- Foreign cast or crew members 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 Certificate 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 receive 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

- Travel costs where Hungary is neither the departure nor the destination
- Producer's fees above 4% of the qualifying budget
- Copyright fees, royalties for non-Hungarian films
- Promotional costs, unless directly related to production (like still photos, EPK), but maximum 2% of qualifying budget or \$30,000.
- Costs incurred after the end of the scheduled production period (including post-production). This date can be extended if needed, but no later than the release date.
- Currency Gains or Losses

REBATE AUDIT PROCESS

The production submits a financial report to the NFO of incurred expenses in each budget line category (bi-monthly, quarterly, or at end of the production).

The NFO does a random review of the submitted invoices and contracts. The NFO officially has 60 days to review each submission.

ADMINISTRATION FEES

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 the Rebate amount

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

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 through 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 in Hungarian forints to a designated Hungarian bank account. This usually takes 2-4 weeks. The amount of money available in the Film Institute's payout account can be viewed online.



IMPORTANT!!

GROUND RULES

- 30% tax rebate on the Hungarian qualifying production spend.
- The effective rate can reach 37.25% if non-Hungarian spending is also an integral part of the Hungarian budget.
- No cap on the amount of tax rebate.
- No minimum expenditure.

- Tax certificates can be obtained once budget items have been financially settled.
- The periodicity of tax certificates can be annual/quarterly or bi-monthly.
- In general, tax-rebate works as post-financing.
- Pre-financing is available through a specialized bank loan.

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 The average refund 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)
- Loans are available to aid VAT financing (cash-flow)

2% local business tax

- The place of shooting determines the liability; it is applicable in most municipalities (such as Budapest) VAT has to be finance
- Limited amount of deductibles



BOOM!

EVEN MORE IMPORTANT: 10 REASONS TO FILM IN HUNGARY

1 Trusted 30 - 37.5% tax rebate since 2004. Bankable.

2 No fringes. All Hungarian film crews are independent contractors and submit invoices for payment of services.

3 12-hour working days (11-hour day + 1-hour lunch break)

4 Lower market crew rates than even Slovakia or Croatia.

5 English-speaking crews with experience in major international productions

6 Local rental companies for all industry-standard production and post-production equipment

7 Locations: A variety of diverse filming locations in close proximity to each other. Budapest is 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...

THE END & THANK YOU

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