

OVERVIEW OF HUNGARIAN TAX INCENTIVES

The Hungarian financial support system has two pillars:

- i. indirect state support (tax incentives for films and related projects) and
- ii. direct state support (for local films or co-productions).

ELIGIBILITY

1. Films produced to order (production services)

Productions made in Hungary by foreign filmmakers with the participation of a commissioned Hungarian film production company. This model is intended to support films where the budget of the film is fully available, but the objective is that the foreign filmmaker reduces production costs in Hungary by the refund.

In this case, the contribution (refund) is directly received by the foreign filmmaker, to be provided by the domestic corporate taxpayer. The taxpayer provides such refund for the film producer exclusively for tax reduction purposes.

2. Films not produced to order (co-productions or Hungarian films)

Productions made by a Hungarian film production company alone or in co-production, with the financial involvement of domestic investors. This model is intended to support films where the producers cannot provide the total budget of the film; therefore they intend to involve external private sponsors as well. In this case the funding (investment) is received by the Hungarian production company (co-producer) of the film from the domestic corporate taxpayer. In return for the investment, the taxpayer not only receives a tax incentive but it will have a share of the revenues from the film as well (the minimum thereof is not specified).

Eligible spend includes all payments contained in the budget that were paid to a Hungarian taxpayer:

- Direct production expenses paid by the qualified Hungarian production (pre-production, production, post production)
- Wages, above- and below-the-line, when paid by the qualified Hungarian production
- Financing costs, and administration, insurance, completion bond, accommodation, etc. costs

Items excluded by the law are:

- Indirect costs (advertising, promotion) over 2% of the overall spend (max 5 mHUF/17 kEUR)
- Costs incurred after the master print (distribution)
- Royalties are limited to 4% of the Hungarian budget of the film
- Producers' fees are limited to 4% of the Hungarian budget of the film

Up to 25% of the eligible spend can be foreign spend which also qualifies for the 25% (from 2014.06.25) tax rebate

Total state subsidies shall not exceed 50% of the production budget, or in case of:

- Co-productions 60% (from 2014.06.25) of the Hungarian contribution in case another European Economic Area member state's registered film production company participates in the co-production
- Co-productions 100% (from 2014.06.25) of the Hungarian contribution in case another OECD member state's registered film production company participates in the co-production
- Low-budget films and films produced in Hungarian language the extent of subsidies is 100% (from 2014.06.25)
- Documentaries, animation, shorts, experimental films etc. 100%

The tax rebate is non-recourse, non-repayable and non-recoupable cash rebate provided by local corporate taxpayers.

THE PROCESSES

The parties are mutually bound by contractual relations. The Hungarian film producer company undertakes:

- to register itself and the production at the National Film Office;
- to order and provide the services and goods required for producing the film according to the contract concluded with the foreign filmmaker;
- to use the services undertaken in Hungary.

The Hungarian taxpayer enterprise undertakes: to pay 25% (from 2014.06.25) of film production costs in Hungary to the foreign filmmaker having completed production in Hungary (or a phase thereof) and having received the respective tax certificate issued by the National Film Office.

The Hungarian taxpayer providing such contribution may be involved in the scheme by both the Hungarian production company and the foreign filmmaker.

Registration and qualification:

- i. Hungarian film production company (not SPV) is to register with the National Film Office (takes 30-50 days).
- ii. Registered Hungarian film Production Company is to register the production (scripts consent to script rights, list of cast and crew, locations, budget and cash-flow plan, schedule, service agreement, proof of company registry).
- iii. Film has to pass the European Union mandated cultural test (16 out of 32 points - 2 of these points must be achieved in Section A "Cultural Criteria")
- iv. Payment of registration fee to NFO (0.2-0.3%, maximum 1.7 kEUR)
- v. Production is to issue statement declaring how often the production wishes to receive the rebate (monthly, quarterly, annually)