

THE HUNGARIAN FILM PRODUCTION TAX RELIEF SYSTEM

The tax incentive scheme of the Hungarian film industry – as a result of the approval of the European Union for a 6 year extension in 2013 and a further 5 year extension granted in 2018 - continues to be available for foreign and Hungarian filmmakers until December 31, 2024.

Besides through corporate tax-paying companies, the actual amounts will also be available through a deposit account, operated by the Film Fund. The Film Fund collects the money to this account from corporate tax-paying companies in the market. The fund itself is not capped, the allowed inflow to the fund is currently in 2018: 33 billion HUF (app. 100 million EUR).

The tax incentive system is available for foreign films shooting in Hungary, as well as for Hungarian movies. The tax rebate has in 2018 been increased to 30% of film production costs spent in Hungary. Up to 25% of the eligible spend can be foreign spend which also qualifies for the 30% tax rebate.

WHAT TYPES OF HUNGARIAN STATE SUPPORT EXIST?

1. Direct state support (combination of normative, selective, and structural subsidies for local films or co-productions).
2. Indirect state support (tax incentives for films and related projects)

WHAT PRODUCTIONS AND FILMS ARE ELIGIBLE FOR THE REBATE?

Films of all genres made for cinema release- feature films, series, documentaries and animations made for televisions or other distribution platforms. Adult and extreme violent films, commercials, reality shows and daily soap operas are excluded.

Films applying for the incentive have to be submitted for a cultural test. Films must contain European content or cultural values and additional points are granted if EU nationals are either making or financing the movie.

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).

WHICH EXPENSES ARE ELIGIBLE?

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

WHAT IS THE INTENSITY OF THE TAX INCENTIVE?

The rebate amounts to 30% (from 2018.06.11.) of eligible film production costs spent in Hungary. The tax rebate can also be applied to non-Hungarian eligible spent up to 25% of the eligible film production costs spent in Hungary.

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.

WHO PROVIDES THE FINANCIAL SUPPORT?

- The tax benefits utilized by local companies take the form of a tax credit with a parallel tax base deduction. In effect, the tax credit serves as compensation for financial support, and the tax base deduction represents the return on the “investment”.
- The overall tax relief may provide the sponsors with a 10% to 19% return (depending on their tax base), the equivalent of the effective Hungarian corporate income tax rate. Any unused tax credit may be carried forward for a period of up to three years.
- The financial support is provided in the form of a cash refund

HOW DOES THE PROCESS WORK?

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;
- order and provide the services and goods required for producing the film according to the contract concluded with the foreign filmmaker;
- use the services undertaken in Hungary.

The Hungarian taxpayer enterprise undertakes: to pay 30% (from 2018.06.11.) of film production costs in Hungary to the local or 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 and the foreign production company.

Registration and qualification:

1. Hungarian film production company (not SPV) is to register with the National Film Office (takes 30-50 days).
2. 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).
3. Film has to pass the European Union mandated cultural test (16 out of 32 points - 2 of these must be achieved in Section A "Cultural Criteria")
4. Payment of registration fee to NFO (0.2-0.3%, maximum 1.7 kEUR)
5. Production is to issue statement declaring how often the production wishes to receive the rebate (monthly, quarterly, annually)