

Lower aid intensity in Budapest

Tax Alert



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In this edition of our newsletter we would like to briefly inform you that, as from 1 January 2011, the maximum intensity of aid for investment or job creation projects to be implemented in Budapest will decrease significantly, thereby reducing the volume of benefits.

Legal background

Beginning 1 January 2011, the maximum aid intensity for investment or job creation projects to be implemented in Budapest will decrease significantly, thereby reducing the volume of benefits.

In Hungary, the maximum aid intensity applicable to the various regions is regulated by Government Decree No. 85/2004 (Procedures for Granting State Aid Pursuant to Section (1) of Article 87 of the Treaty Establishing the European Community and the Regional Aid Map (Decree)), in accordance with EU regulations. The rules in the Decree set out both the maximum amount of regional investment aid available through grant schemes (domestic or EU co-financed schemes) and the maximum tax savings that can be claimed in connection with a tax allowance. The current aid intensity ceiling in Budapest is 25%, which means that up to 25% of the total eligible costs of a project can be obtained as regional investment aid, typically either through grant schemes or in the form of, for instance, development tax allowance. Aid can be increased by 10% for medium-sized companies and 20% for small enterprises.

However, for a project in Budapest after January 2011, the maximum aid intensity will be reduced to 10% in accordance with EU law.

“If a company's application, registration or request is submitted before 31 December 2010, the amount of aid the company may receive will be calculated using the higher aid intensity threshold.”

Consideration for implementation

This reduction in aid intensity only will affect investment projects where the documentation related to the grant or development tax allowance is submitted after 1 January 2011. Therefore, if a project starts in 2011 but the grant application, or, in the case of the development tax allowance, a registration or request is submitted before 31 December 2010, the maximum amount of aid the company may receive will be calculated using the higher (i.e. 25%) aid intensity threshold.

For the development tax allowance, if it is claimed for job creation projects, eligible costs amount to the 24-month personnel costs of new employees. However, when development tax allowance is applied for capacity extension projects (expansion of existing facilities or the construction of new facilities), eligible costs amount to the costs of tangible and certain intangible assets.

The above rules also should be considered when a company intends to claim *both* non-refundable cash grants and the development tax allowance for an investment or job creation project.

If you require additional information, please do not hesitate to contact us.

Contact

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