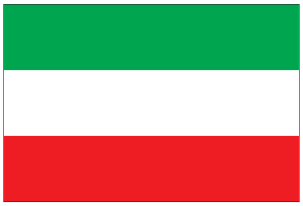
# Hungary



## Hungary provides a 200% super deduction, patent box and wage tax relief.

### Background

The corporate tax rate is 10% for taxable income up to HUF 500M, and 19% on income exceeding that limit.

### Nature of incentives

**Super deduction:** A 200% super deduction is granted for qualifying expenditure if the related R&D activities are carried out within the scope of the taxpayer's own business activities (i.e., activities that are performed with the taxpayer's own tools and employees, either for its own profit, at its own risk, or upon being contracted by another party) or with respect to cooperative R&D activities performed based on an agreement with another party.

**Patent box:** If IP is created as a result of the R&D, 50% of the gross amount of the royalty received (up to 50% of the profit before tax) may be deducted from the corporate income tax at the taxpayer's election.

A tax exemption, effective 1 January 2012, is available for capital gains derived from the transfer (sale or in-kind contribution) of qualifying IP provided that:

- The company makes an election with the tax authorities within 60 days following the date of the IP acquisition; and
- The company holds the assets for at least one year before any subsequent sale.

However, capital losses incurred on the sale of qualifying IP may not be deducted for corporate income tax purposes. The patent box is available to any type of IP, and the IP itself does not have to be "new" and may have been generated previously by another company.

**Local business tax base reduction:** The R&D costs can be deducted when computing the local business tax base.

Corporations employing researchers with academic degrees or titles are relieved from paying social tax (27% on gross wages) and the training fund contribution (1.5% on gross wages) up to a monthly gross income wage amount of HUF 500K.

R&D-related expenses may be deducted from the corporate income tax base by any associated entity of the taxpayer.

A taxpayer can take the deduction if the associated entity provides the exact deductible amount and a statement that the expenses are directly attributable to the business activity of the associated entity. Refunds of R&D incentives are not available.

Rules for the utilization of the tax incentive have changed slightly (e.g., in terms of the aid intensity by region). R&D-related tax incentives can be applied to reduce up to 80% of the tax liabilities with respect to investment projects relating to basic research, applied research and experimental development if certain other conditions are fulfilled.

### Eligible industries and qualifying costs

Eligibility is broad and is not limited to particular industries. Qualifying expenditure is defined broadly and includes all direct costs incurred in R&D. Eligible expenditure typically includes:

- Gross wage costs of new or existing R&D and/or marketing staff.
- Cost of new equipment.
- Cost of certain goods/materials/R&D services purchased from third parties.

### IP and jurisdictional restrictions

There is no restriction on the location of IP. Qualified research can be conducted outside of the country.

Incentives are available to foreign entities that do not have a permanent establishment (PE) in Hungary and that subcontract in Hungary. Tax incentives can be claimed by a Hungarian company providing R&D services to a related foreign party.

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# Hungary (cont.)

**Other concerns**

R&D benefits can be claimed retroactively, provided the statute of limitations has not expired. As from 1 February 2012, an R&D qualification procedure applies to claim research tax benefits and/or R&D cash grants. Under this procedure, the Hungarian Intellectual Property Office (HIPO) determines if the claim should be granted, and this determination is binding on the tax authorities for future projects. A non-binding "expert opinion" of HIPO may also be available with retroactive effect for past projects. Despite its non-binding nature, a positive expert opinion from HIPO may strengthen the R&D nature of past projects in the case of tax audits. HIPO published detailed guidelines in 2012 that set out the principles for classifying activities for R&D purposes.

# Hungary

| Nature of benefit available | Income tax benefit generally available | Specific pre-approval required from government | Refundable/ Carryforward |
|---|---|---|---|
| Super deductions, patent box, tax exemptions, and rate reductions. | 1. 200% corporate income tax base super deduction.<br>2. A patent box exempts from income tax 50% of the gross amount of the royalty received (up to 50% of the profit before tax) for IP owned by the taxpayer. A tax exemption is also available for capital gains derived from the transfer (sale or in-kind contribution) of qualifying IP.<br>3. Capital gains tax exemption for transfer/sale of qualifying IP.<br>4. Local business tax reduction.<br>5. Exempt for social tax and training fund contribution up to monthly HUF 500K for certain corporations. | No | No |

| R&D activities must occur in country | Cap/Limitations on benefits | IP must be retained in country | Industry eligibility restriction |
|---|---|---|---|
| No | No | No | No |