

Tax Rebate

Hungary introduced a simple and transparent tax incentive mechanism in 2003 to stimulate local film production activities. The results speak for themselves, the overall spending on film productions have increased significantly and now Hungary is among the top countries in Europe to host international and Hungarian film productions.

BASIC EXPLANATION

- 25% rebate on Hungarian “LOCAL SPEND”, as long as all invoices are coming from a taxable Hungarian company or individual.
- 25% rebate on qualifying “FOREIGN SPEND” up to a max of 25% of the total LOCAL SPEND, as long as it is paid via the Hungarian company. The Foreign Spend must come from non-Hungarian incorporated companies and not individuals.
- All invoices must be paid via a Hungarian production company registered with the National Film Office (NFO). This includes the Foreign Spend.
- All projects need to be registered at the National Film Office by an already registered Hungarian production company, which must be a SPV set up exclusively for the project.
- Contractual relationship between the Hungarian production company and foreign producer affects tax and rebate costs, i.e., an “un-official” co-production structure avoids the 2% Budapest City Tax on all HU spend and reduces Film Office application costs by 50%. A traditional PSA structure incurs the above costs. Thus it is cost-effective to create a co-production structure.
 - The tax rebate is paid out via a Government run “Collection Account”
 - The fee is 2.5% of the tax rebate amount.
 - All projects must pass the EU mandated Cultural Test
 - There is no floor or ceiling on the amount of the local qualifying spend
 - Tax rebate and VAT (27% and monthly reclaimable) come back as HUF (local currency)
 - We can set up prod accounts and make payments in foreign currencies (USD, EUR, GBP)

TAX REBATE EXCLUSIONS

- Foreign crew per diem
- Airfares and any travel fares NOT including a Hungarian destination
- Publicity and distribution expenses
- Production related marketing (incl. EPK, still photographer) payments over 2% of the overall spend
- Production fee
- Producer fee over 4% of the overall spend
- Copyright related payments over 4% of the overall spend

The foreign producer must set up its own bank account in Hungary to pay these and other non tax deductible costs (food, catering, etc).

TAX REBATE CALCULATION EXAMPLE

ESTIMATED REBATABLE LOCAL SPEND AS PER BUDGET: 10,000,000 USD

REBATABLE FOREIGN (NON-HUNGARIAN) SPEND MAXIMUM

ALLOWANCE 25% OF LOCAL SPEND: 2,500,000 USD

TOTAL HUNGARIAN SPEND AS BASIS FOR TAX REBATE CALC: 12,500,000 USD

25% TAX REBATE: 3,125,000 USD

LESS 2.5% ADMIN/SPONSOR FEE: 78,125 USD

NET REBATE: 3,046,875 USD

TAX REBATE CYCLE

Applications for registration and/or tax certificate will take about 40 calendar days for the National Film Office to process

1. Application for registration – needs: form filled in, service or co-production agreement signed, budget, schedule, crew and cast list, cultural test and payment of film office fee

2. Application for tax certificate(s) – needs: audit prepared with all related payments made, invoices and copies of all contracts

Cycle: can be monthly, quarterly or once at the end. Have stipulate in the application for registration.

Sponsor transfer funds, in most cases within 10 business days, once they receive the tax certificate in their name issued by the National Film Office and as per signed sponsorship agreement.

CULTURAL TEST

- EU mandated cultural test has to be passed by each project. Attached with E&Y explanation.

Each project must attain 16 out 32 points – and 2 of these points must be achieved in Section A “Cultural Criteria” in order to pass