

Hungarian tax incentive system for filmmakers

The interest of filmmakers

- Hungarian Act II of 2004 on Motion Pictures encouraging film making in Hungary through setting incentive to taxpaying corporations to support filming projects.
- Using this system **filmmakers** gain additional funds **to reduce the cost of production**.
- The amount of the **tax incentive is 20%** of the Hungarian budget. Since the Hungarian budget can have 20% foreign expenditures (provided that the cost flows through the Hungarian production company) the **effective refund can be 25%** of the Hungarian expenditures. (Sample below)

Hungarian Expenditures	80
Foreign expenditures through HU	20
Hungarian Budget Total	100
Tax refund	20
Effective refund on HU expenditures 20/80	25%

The interest of supporters

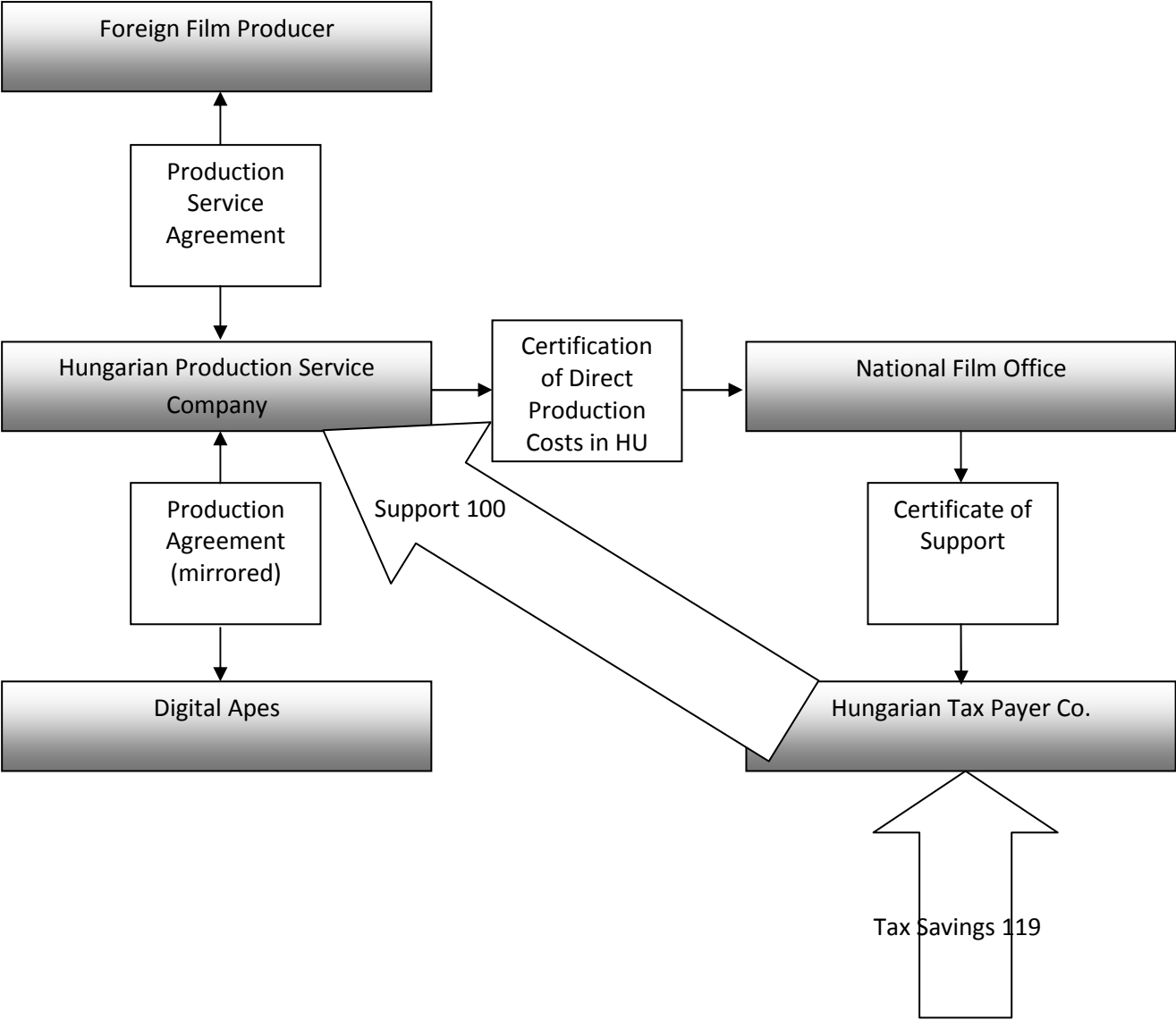
The supporting company can

- a.) reduce its' tax liability with the amount of the support
- b.) reduce the tax base with the amount of the support – generating a profit on the support that equals to the rate of the corporate income tax (19%)

The schedule below introduces two profitable companies. The first one chooses to support film production while the second one does not.

	Taxpayer providing support for film production purposes	Taxpayer not providing support for film production purposes
Profit before taxes of the taxpayer	1 000	1 000
Amount of support for film production purposes	100	0
Tax base	900	1 000
Tax liability payable (19% of Base minus support)	71	190
Amount of payments made	171	190
Savings	19	

The administrative structure of the system /1



The administrative structure of the system /2

- The controlling body of the process on behalf of the Hungarian State is the **National Film Office**
- The project must be represented by a **Hungarian Production Service Company (HPSC) registered at the Film Office**
- The HPSC prepares all required documentation to **register the project**
- The HPSC **submits all the documentation** (yearly or quarterly) on the actual cost that is audited by the Film Office.
- The HPSC and also the Supporter receive the **Certificate of Support** issued by the Film Office
- The HPSC collects and **redistributes** the support.

Requirements and details of documentation

- The project should qualify at the **Cultural Test** to prove that the film will be a part of the European culture and/or strengthen the European film industry.
- The project qualifies if reaches **16 points out of 32** in the scoring system of the cultural test. If the language of the film is one of the EEA states' and a part of the VFX is in Hungary that adds up to **11 points** leaving 5 to go. (Cultural Test is enclosed)
- Initial documentation to register:
 - script (both Hungarian and foreign)
 - cast and crew
 - Production Service Agreement (both Hungarian and foreign)
 - Budget (Hungarian part only – HPSC prepares it)
 - Financial/cash flow plan (Hungarian part only - HPSC prepares it)
- Final documentation to submit to Film Office
 - General ledger of HPSC
 - Proof of payments

Cultural Test for films

A film shall meet cultural requirements if it scores at least 16 points based on the criteria established in the table below, in such a way that it scores points in at least four out of categories *a)-n)*, and

a) shall be considered a European co-production film, as determined in a separate law, if the co-production is made with Hungarian participation,

or

b) fulfils at least 2 of the criteria listed in Points *a)-h)*:

Cultural content		Awardable points
<i>a)</i>	the topic of the film or the work that serves as the basis for the film is based on a story (event) that is part of Hungarian or European culture, or is related to the presentation or reworking of a story (event) that is significant from a historical, mythological or religious aspect;	1
<i>b)</i>	the topic of the film or the work that serves as basis for the film features persons or characters who are related to Hungarian or European culture, or are significant due to their relation to history, society or religion;	1
<i>c)</i>	the film presents Hungarian or European traditions and lifestyles or promotes certain elements of these traditions and lifestyles;	1
<i>d)</i>	the film is set at a Hungarian location or (an)other European location(s) or a related cultural setting, or its imagery presents a Hungarian location or (an)other European location(s) (city, region) or presents typical Hungarian or European cultural motifs;	1
<i>e)</i>	the script of the film or the work that serves as basis for the film is based on the adaptation of a literary or other work of cultural value (works of applied and fine art, musical composition, etc.);	1
<i>f)</i>	the topic of the film or the material that serves as basis for the film is focused on an issue that is relevant to Hungarian society or other European societies from a cultural, sociological or political aspect;	1
<i>g)</i>	the film reflects or presents certain significant Hungarian or European values—in particular: cultural diversity, respect for cultural traditions, respect for the institution of the family, solidarity, equality, protection of minorities, tolerance, environmental protection;	1
<i>h)</i>	the film serves the better understanding of and familiarity with Hungarian and European culture and identity.	1
Production criteria		

i)	a film creating cultural value based on its genre;	4
j)	<p>contributors to the film include Hungarian citizens or citizens of other EEA States, or citizens of non-EEA States who won awards at international film festivals in their capacity as a:</p> <p><i>ja)</i> director,</p> <p><i>jb)</i> producer,</p> <p><i>jc)</i> director of photography,</p> <p><i>jd)</i> script writer,</p> <p><i>je)</i> leading and supporting actors,</p> <p><i>jf)</i> composer,</p> <p><i>kg)</i> production designer,</p> <p><i>jh)</i> costume designer,</p> <p><i>ji)</i> editor,</p> <p><i>jj)</i> make-up artist,</p> <p><i>jk)</i> senior production manager/production manager or</p> <p><i>jl)</i> post-production manager (audio/visual/digital);</p>	<p>1 point for each 2 categories fulfilled, maximum 6 points</p>
k)	the final version of the film is produced in the language of an EEA State;	4
l)	At least 51% of the participants of the film — with the exception of contributors who scored points in accordance with Point j) — are citizens of an EEA State or the film in question is a co-production that does not qualify as a European co-production film;	4
m)	The shooting location is in Hungary;	3
n)	The preparation of film production or the post-production takes place in Hungary.	3

