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highlights

Mid-year changes to development tax allowance rules – what should you know?

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The provisions of Act LXXXI of 1996 on Corporate Tax and Dividend Tax ("CDT Act") regarding development tax allowances changed from 4 July 2014; furthermore, Government Decree 165/2014 (VII.17) on development tax allowances entered into force on 18 July 2014. The new rules must be applied for investments reported and for applications submitted after this date.

The **basic concept** remains the same: in priority regions the tax allowance is available for investments over HUF 1 billion, while at least HUF 3 billion is required for other regions. In certain special areas (e.g. R+D, environmental protection, film and video production), investments in excess of HUF 100 million are sufficient, while there is no such limit in the event jobs are created. Investments still have to be reported to the Minister (of Economy) responsible for tax policy before they are launched, while above a certain investment volume the tax allowance has to be requested in advance. Available tax allowances are still calculated based on the product of the eligible investment costs and the aid intensity for the given municipality, while the tax allowance can be claimed up to 80% of the tax payable.

But aside from the basic framework, many of the detailed rules have changed, and we would like to highlight some of the main ones here.

The **aid intensities** have been altered, with the biggest change coming in Pest county: the aid intensity in Budapest and parts of Pest county that are not supported has fallen to zero, which means companies not considered SMEs cannot claim the tax allowance for their investments implemented in these municipalities. We presented the detailed changes of the aid map and the groups of priority municipalities in our 2014/5 newsletter.

The **eligible investment objectives** have changed:

- » wholesale investments in excess of 1,000 square metres are now eligible if they are not linked to the operation of a shopping centre.
- » Energy efficiency investments are now entitled to tax allowances either as independent environmental investments or as general investments (with limit thresholds of 1 or 3 billion forints).
- » The differing provisions for investments concerning the processing and distribution of agricultural products have been abolished.
- » For example, tax allowances are not available for the following objectives: for energy generation, energy services and to create infrastructure for energy purposes; for broadband internet services; for passenger and goods transportation services.

The **"novelty criterion"** is to change. So far only investments that resulted in new facilities, the renovation of existing facilities, the expansion of existing facilities, or which were related to fundamental changes in products made, services provided, and the production and service process were entitled to allowances. From now on, SMEs as well as large enterprises outside the Central Hungary region in certain cases can claim tax allowances not just for investments establishing new facilities, products or processes. According to the new rule, tax allowances are now available to these enterprises for investments involving the acquisition of an existing establishment and its assets by an investor unrelated to the seller, even if the establishment was or would have been closed.

Several definitions and criteria were specified regarding the judging of eligibility for tax allowances, such as the start date of the investment, the definition of large investments, the scope of eligible costs, and in which cases the eligibility for the tax allowance ceases if employees are not duly registered.

The real winners of the changes are **small and medium-sized companies**. On the one hand, the general HUF 500 million preferential threshold remains in place for investments entitling tax allowances, while the potential SME aid intensity is still 20 or 10 percentage points higher than for large enterprises (see our June newsletter for more details on aid intensity).

Additionally, the **employment criterion** for the four years after claiming the tax allowance (based on the HUF 500 million threshold) for the first time has been halved for SMEs: the average increase required in the headcount for small enterprises is no longer 20, but 10, and for medium-sized enterprises it is 25 as opposed to 50. If a company uses wage cost as the basis for meeting the employment criterion, then over this period small enterprises have to increase this cost by twenty-five times the minimum wage instead of fifty, while medium-sized businesses must increase their cost by fifty times the minimum wage instead of one hundred.

You could take advantage of a substantial corporate tax allowance, ever thought about it?

- » As the manager of a large company you need to be careful given that many of the concepts related to development tax allowances have been specified (e.g. large investment, eligible costs), while certain other ones have not (e.g. shopping centres). This could be crucial when claiming the tax allowance, so we recommend asking for an expert opinion.
- » Do you have a small or medium-sized enterprise and are contemplating investing? In certain municipalities of Pest county (e.g. Budaörs, Törökbálint, Biatorbágy, Dunakeszi, Göd, Mogyoród or Szentendre), where the aid intensity has fallen drastically to zero, small and medium-sized enterprises can still apply for development tax allowances. It is also worth examining the aid intensity for other regions on a case-by-case basis. Should you have any questions on this topic, please feel free to contact us.

The newsletter accurately reflects the statutory provisions as they stand at the time of its issue.
The authors of the news articles have endeavoured to provide general information that both reads well and is professional.
Given the general nature of the content and possible changes to legal regulations, please contact us if you require this information tailored to your personal circumstances.

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