

TAX SHELTER PRESENTATION HUNGARY



NCM
Neighbouring
Co-production Meeting
16 November 2009

Brief History

- The Hungarian Parliament passed the Act No II on Motion Picture in 2004. The New Act targeted foreign film producers besides encouraging Hungarian filmmakers.
- For half a year starting at the end of 2007 the European Commission examined the Hungarian film law and the enforcement laws whether they comply with the basic principles of the European Union.
- In July 2008 the European Commission approved a six-year EUR 231m Hungarian film support scheme which was modified from the original to introduce cultural content eligibility criteria.

Registration of Company and Production

- Hungarian companies, registered with the National Film Office are eligible to apply
- Foreign companies should conclude co-production or service agreements with Hungarian registered company
- Production has to be registered
- Start of filming has to be reported to NFO

Who provides the financial support?

- Corporate-tax-paying domestic enterprises may reduce their tax payable and tax base by the financial support they provide (double write-off) - 16% profit realized
- The financial support is provided in the form of a cash refund (post-financing)

New Provisions

- The new regulations treat direct film production costs and direct Hungary film production costs
- The scope of eligible production expenses has been extended to consider the 'territorialisation rule' of the European Union. In other words, the producer is free to spend 20% of the budget outside Hungary without suffering a reduction in the amount of state aid. *

* In practice, this means that not only the spend made to Hungarian taxpayers will qualify, but also some of the services provided by foreign taxpayers - up to 20% of the total production budget. Or in other words, 25% of the Hungarian spend will be refunded.

Changes Affecting Regulations on Aid Intensity

- Subsidies shall not exceed 50% of the production budget of the film, or
- In case of co-productions 50% of the Hungarian contribution
- In case of low-budget and „difficult” films the extent of subsidies is 90%
- In case of documentaries, animation, shorts, experimental films etc. - 100%

How Much is the Benefit?

- Up to 20% of the eligible production expense (Hungarian or not-Hungarian)
- The non-Hungarian eligible spend is capped at 25% of the Hungarian eligible spend

Cultural Test

- Upon revision of the Hungarian tax rebate system the EC approved a 32 point cultural test
- Films must contain European content or culture and additional points if EU nationals are either making or financing the movie (point system)
- 16 points has to be earned to pass

What Productions Can Benefit?

- Hungarian productions
- Co-productions
- Service productions

Co-productions with a Hungarian production company can get further support from the Hungarian Film Foundation's Co-production Fund.

Excluded Costs

- Part of copyright costs over 4% of the budget
- Travel costs are limited to trips from and to Hungary, stopover possible
- P&A is limited up to 2% of the budget (but max 5m HUF)
- Cost of services delivered by non-Hungarian sub-contractors limited up to 25% of eligible Hungarian spend.
- Producers' fee maximum up to 4%

Other Advantages

- Experienced crews
- Languages spoken
- Well equipped new studios - sound stages
- Variety of Locations
- Post-Production facilities and expertise

Is Pre-financing Possible?

- Certain banks are willing to pre-finance state subsidies and VAT
- Depending on the bank and the individual contract they keep a percentage from the 20% (meaning the actual rebate will be about 16%)
- Deal with National Film Office for monthly or quarterly accounting

Interesting Information

- 335 films were completed in Hungary in 2008: 26 features, 120 shorts, 152 documentaries, 28 films, and 9 TV productions
- According to the Hungarian Film Fund 1560 applications were received in 2008 and 870 applications for aid were granted
- TV channels also support film production in Hungary

Thank you for your attention!

Nasvidenje!

Auf wiedersehen!

Arrivederci!

Viszontlátásra!

See you next year!