R&D Tax Incentives: Hungary, 2018

Design features

Hungary provides R&D tax relief through an R&D tax allowance, tax credit, full exemption of social security (SSC) and vocational training contributions (VTC) and tax allowance in innovation contribution.

- Under the R&D tax allowance, a more generous rate applies to collaborative R&D activities (tax benefits capped at HUF 50 million, 1 HUF = 0.004 USD, 31.12.2018). Outstanding credits may be used during the next 5 years to decrease up to 50% of the taxpayer’s tax base.
- The tax credit allows for a carry-forward of unused credits up to 14 years and limits R&D tax benefits to 80% of the firm’s corporate income tax liability.
- Ceilings on the amount of eligible R&D expenditure also apply in the case of the SSC exemption.

Table 1. Main design features of R&D tax incentives in Hungary, 2018†

<table>
<thead>
<tr>
<th>Tax incentive</th>
<th>R&amp;D related tax base</th>
<th>SSC and VTC</th>
<th>Development Tax Incentive</th>
<th>R&amp;D tax allowance in innovation contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax credits</td>
<td>Tax allowance</td>
<td>SSC exemption</td>
<td>Tax credit</td>
<td>Tax allowance</td>
</tr>
<tr>
<td>Type of instrument</td>
<td>Volume based</td>
<td>Volume based</td>
<td>Volume based</td>
<td>Volume based</td>
</tr>
<tr>
<td>Eligible expenditures</td>
<td>Capital, intangibles</td>
<td>Current</td>
<td>Current</td>
<td>Current</td>
</tr>
<tr>
<td>Headline rates (%)</td>
<td>100 (300 R&amp;D collaboration)</td>
<td>100 (SSC rate: 21, 9.75 for PhD students/doctoral candidates)</td>
<td>-</td>
<td>100 (innovation contribution* rate: 0.3%; medium-sized and large firms only**</td>
</tr>
<tr>
<td>Refund</td>
<td>No</td>
<td>Redeemable against payroll/related taxes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Thresholds (R&amp;D expenditure)</td>
<td>HUF 100 million</td>
<td>SSC liability</td>
<td>80% of the calculated corporate income</td>
<td></td>
</tr>
<tr>
<td>Ceiling (R&amp;D tax relief)</td>
<td>Gross wages per month: HUF 500 000 (HUF 200 000 for PhD student/doctoral candidate)</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
</tbody>
</table>

SSC: Social Security contributions; VTC: Vocational Training Contribution. † The base of this tax is net sales revenue decreased by the value of the payments to subcontractors and the cost of raw materials. ** Only large and medium sized enterprises pay the innovation contribution. Hungary also offers income-based tax incentives for outcomes of R&D activities. These are beyond the scope of this note.

For additional information: OECD R&D Tax Incentive Compendium and Eligibility of current and capital expenditure for R&D tax relief

Recent developments and trends

Differences in the design of R&D tax incentives drive a significant variation in the expected generosity of tax relief per additional unit of R&D investment across OECD and partner economies and over time. In 2018, the marginal tax subsidy rate for profit-making (loss-making) SMEs in Hungary is estimated at 0.20 (0.19), equal to (larger than) the OECD median of 0.20 (0.17). The tax subsidy rate for large enterprises is equal to 0.21 (0.19) in the profit (loss)-making scenario, significantly larger than the OECD median of 0.13 (0.10). These estimates focus on modelling provisions of the R&D tax allowance and the SSC exemption.

The generosity of R&D tax incentives in Hungary has remained overall stable from 2000 to 2018, with some fluctuations noticeable during this period in each of the four scenarios considered. Changes in corporate income tax rates - the value of tax deductions is directly linked to the CIT rate - explain some of the fluctuations observed over this period. The lower implied marginal tax subsidy rates estimated for SMEs vis-à-vis large enterprises over the 2010-16 period are similarly linked to the reduced CIT rates that applied for these firms in those years. In 2013, Hungary introduced an SSC exemption, resulting into a step increase in the marginal tax subsidy rates of all types of firms. With a reduction and alignment of CIT rates for SMEs and large firms, R&D tax subsidy rates drop in 2017. The stepwise reduction of SSC rates in 2017 and 2018 likewise contribute to a drop in tax subsidy rates.

Figure 1. Implied tax subsidy rates on R&D expenditures: Hungary, 2000-2018

1-B-index, by firm size and profit scenario


Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated based on headline tax credit/allowance rates. Headline tax credit/allowance rates provide an upper bound value of the generosity of R&D tax incentive, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of R&D tax credit. For more information on the calculation of implied tax subsidy rates, see http://www.oecd.org/sti/r&d-tax-stats/methodology.pdf, and for notes regarding the modelling of the country-specific time series, see http://www.oecd.org/sti/r&d-tax-stats/notes.pdf

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Public support for business R&D: the policy mix

Governments adopt various instruments to incentivise R&D by business. In addition to direct support such as grants and buying R&D services, 30 out of the 36 OECD countries provided fiscal incentives in 2018.

Figure 2. Direct government funding of business R&D and tax incentives for R&D, 2016 (nearest year)

As a percentage of GDP


- **Hungary** is placed above the OECD median in terms of total government support to business R&D as a percentage of GDP, equivalent to 0.17% of GDP in 2016.
- From 2006 to 2016, government support for BERD as a percentage of GDP declined in **Hungary** by 0.01 percentage points, while the OECD median increased by 0.02 percentage points.
- During this period, business R&D intensity in **Hungary** increased from 0.47% to 0.89%.
- In 2016, R&D tax incentives accounted for 55% of total government support for BERD in **Hungary**.

Trends in government support for business R&D

Over the last decade, a general trend towards non-discretionary instruments such as R&D tax incentives has been observed. This trend is far from uniform and the policy mix can vary by country and over time.

Figure 3. Direct funding of business R&D and tax incentives for R&D, Hungary, 2004-16

As a percentage of GDP, 2010 prices (right-hand scale)


- **Hungary** has offered R&D tax incentives since 1996. The importance of this support declined between 2004 and 2016 (when relevant data are available), both in absolute and relative terms.
- The cost of tax relief rose (in 2010 prices) from HUF 38 840 million in 2004 to HUF 28 065 million in 2016, with a sharp drop in 2012. In this year, the innovation contribution related R&D tax credit expired, and advance assurance provisions for firms applying for R&D tax relief were introduced. The decline in 2016 is attributable to the lower take-up of the R&D tax allowance by business.
- As percentage of GDP, tax support declined from 0.15% in 2004 to 0.09% of GDP in 2016.
- Direct funding of BERD increased from 0.02% in 2004 to 0.19% of GDP in 2015, dropping to 0.07% of GDP in 2016.
- The share of R&D tax incentives in total government support dropped significantly over the 2004-16 period, from 91% in 2004 to 55% in 2016.


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