R&D Tax Incentives: Hungary, 2019

Design features

Hungary provides R&D tax relief through tax allowances (in CIT and innovation contribution), a Development Tax Incentive, and the full exemption of social security (SSC) and vocational training contributions (VTC).

- Under the CIT based R&D tax allowance, a more generous rate applies to collaborative R&D activities (tax benefits capped at HUF 50 million, 100 HUF = 0.305 EUR, Q3 2019). Outstanding credits may be used during the next 5 years to decrease up to 50% of the taxpayer’s tax base.
- The Development Tax Incentive provides an investment-based CIT offset and allows for a carry-forward of unused credits up to 14 years. R&D tax benefits are limited to 80% of the firm’s CIT liability.
- Ceilings on the amount of eligible R&D expenditure also apply in the case of the SSC exemption.
- Municipalities in Hungary also provide local business tax (LBT) deductions equivalent to 10% of the direct costs of basic, applied, or experimental research.

Table 1. Main design features of R&D tax incentives in Hungary, 2019†

<table>
<thead>
<tr>
<th>Tax incentive</th>
<th>R&amp;D related tax base deductibility</th>
<th>SSC and VTC exemption</th>
<th>Development Tax Incentive</th>
<th>R&amp;D tax allowance in innovation contribution**</th>
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</thead>
<tbody>
<tr>
<td>Tax allowance</td>
<td>Tax credit</td>
<td>SSC exemption*</td>
<td>Tax credit</td>
<td>Tax allowance</td>
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<tr>
<td>Type of instrument</td>
<td>Volume based</td>
<td>Volume based</td>
<td></td>
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<tr>
<td>Eligible expenditures*</td>
<td>Current</td>
<td>Volume based</td>
<td></td>
<td></td>
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<tr>
<td>Headline rates (%)</td>
<td>100 (300 R&amp;D collaboration)</td>
<td>100 (SSC rate: 20; 9.25 for PhD students/ doctoral candidates) 0-50 (large), 10-60 (medium-sized), 20-70 (small)**</td>
<td>100 (medium-sized and large firms only)</td>
<td></td>
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<tr>
<td>Refund</td>
<td>No</td>
<td>No</td>
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<tr>
<td>Carry-over (years)</td>
<td>5 (carry-forward)</td>
<td>14 (carry-forward)</td>
<td></td>
<td></td>
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<tr>
<td>Floor (R&amp;D expenditure)</td>
<td>HUF 100 million</td>
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</table>

SSC: Social Security contributions; VTC: Vocational Training Contribution. *In 2019, Hungary introduced three additional R&D tax incentives which are mutually exclusive in their use with the existing SSC exemption and beyond the scope of this note: an SSC credit and KIVA (optional small business tax, replacing SSC and corporate income tax) exemption and credit, both available to small companies. ** Only large and medium sized enterprises pay the innovation contribution of 0.3%. The base of this tax is net sales revenue decreased by the value of the payments to subcontractors and the cost of raw materials. *** The tax credit rate applicable under the Development tax incentive varies by firm size and region of investment. Hungary also offers income-based tax incentives for outcomes of R&D activities. These are beyond the scope of this note.

Recent developments and trends

Differences in the design of R&D tax incentives drive significant variation in the expected generosity of tax relief per additional unit of R&D investment. In 2019, the marginal tax subsidy rate for profit-making (loss-making) SMEs in Hungary is estimated at 0.20 (0.18), slightly larger than the OECD median of 0.19 (0.17). The tax subsidy rate for large firms is equal to 0.20 (0.19) in the profit (loss)-making scenario, significantly larger than the OECD median of 0.14 (0.10). These estimates, capturing CIT and SSC related incentives, focus on modelling provisions of the R&D related tax base deductibility and the SSC exemption.

The generosity of R&D tax incentives in Hungary has remained overall stable from 2000 to 2019, with some fluctuations due to changes in corporate income tax rates – the value of tax deductions is directly linked to the CIT rate. Lower CIT rates for SMEs vs. large firms are similarly linked to lower implied marginal tax subsidy rates for these firms over the 2010-16. In 2013, Hungary introduced a SSC exemption, resulting into a step increase in the marginal tax subsidy rates. 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, 2018 and 2019 likewise contribute to a drop in implied R&D tax subsidy rates. If the SSC ceiling is considered in the modelling of R&D tax subsidy rates, the rate of large firms and SMEs drop to 0.16 (0.14) in the profit (loss)-making scenario.


Note: Implied marginal tax subsidy rates, presented for different firm size and profitability scenarios, are calculated (see methodology and country-specific notes) based on headline tax credit/allowance rates. Headline tax credit/allowance rates provide an upper bound value of the generosity of R&D tax incentives, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of R&D tax relief.

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1 The development tax incentive, used by very few firms, is not modelled.
Public support for business R&D: the policy mix

In 2017, Hungary is above the OECD median in terms of total government support to business R&D as a percentage of GDP, at a rate equivalent to 0.20% of GDP.

Figure 2. Direct government funding of business R&D and tax incentives for R&D, 2017 (nearest year)

As a percentage of GDP

* Data on tax support not available. ** Data on subnational tax support not available


- From 2006 to 2017, total government support for BERD as a percentage of GDP (excl. subnational R&D tax support) increased in Hungary by 0.01 pp, while the OECD median increased by 0.015 pp.
- During this period, business R&D intensity in Hungary increased from 0.47% to 0.99%.
- In 2017, R&D tax incentives accounted for 30% of total government support for BERD in Hungary.

Trends in government support for business R&D

Hungary has offered R&D tax incentives since 1996. The importance of this support declined between 2004 and 2017 (when relevant data are available), both in absolute and relative terms.

Figure 3. Direct government funding of business R&D and tax incentives for R&D, Hungary, 2004-17

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

The cost estimate of tax incentive support covers the R&D tax allowance, the R&D tax allowance in innovation contribution, the development tax incentive, the payroll withholding tax remission, the R&D tax credit on wages of researchers and the R&D tax credit in innovation contribution.


- The cost of tax relief dropped (in 2010 prices) from HUF 48 297 million in 2010 to HUF 22 278 million in 2017, 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 from 2016 onwards 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 0.06% of GDP in 2017.
- Direct funding of BERD increased over the 2000-17 period, from 0.095% in 2010 to 0.13% of GDP in 2017, with a temporary drop in 2016 (0.074% of GDP).
- The share of R&D tax incentives in total government support dropped significantly over the 2010-17 period, from 65% in 2010 to 30% in 2017. Subnational R&D tax incentives (local business tax deduction) accounted for 20% of total tax support for BERD in 2017, up from 7% in 2010.