

## Expected changes to the Hungarian film legislation

On 15 November 2016, the proposal for the modification of the Motion Picture Act has been submitted to the Hungarian Parliament. According to the draft bill, the budget of the Hungarian National Film Fund's collection account will be raised significantly (from HUF 14 billion to HUF 25 billion), ensuring further development of the Hungarian film industry. The rules of eligible foreign cast and crew costs would also change. Furthermore, the proposal includes changes related to the motion picture industry training contribution introduced this year.

### ***Increase of the collection account to finance tax rebate***

The collection account of the Hungarian National Film Fund – opened for the purpose of collecting funds offered by companies according to the corporate income tax law and channeling these funds to film productions – has contributed to the financing of the Hungarian film industry with steadily rising support budget in recent years. The planned available budget for 2017 would be **HUF 25 billion** (approx. USD 85 million), meaning an almost 80% increase compared to the 2016 available budget of HUF 14 billion.

### ***Cost of foreign actors and crew members***

The draft bill includes some proposed restrictions in this regard. Namely, only 50% of the remuneration of foreign actors and crew members' participating in films produced in Hungary would be regarded as eligible spend for Hungarian tax rebate purposes. According to the current regulations, the total amount of the remuneration taxable in Hungary is regarded as eligible direct Hungarian film production cost, and therefore, forms basis of the 25% film support.



The reason for the change is that the tax burden of foreign cast and crew members filming in Hungary is approx. 15% of their Hungarian income, but this rate is significantly lower than the 25% rate of the Hungarian tax rebate (or the effective rate of 31.25% for international productions). Since the remuneration of foreign actors and crew members is typically not recycled to the Hungarian economy's bloodstream, it was not justifiable that that rate of the tax rebate is significantly higher than the level of the personal income tax.

As a transitional rule, the new provision would enter into force 31 days after the promulgation of the law and should be applied for film productions submitting their applications to the Film Office for the determination of the eligibility for the tax rebate after 31 December 2016. However, the new rules would apply for remunerations paid after 31 December 2017, irrespective of the date of the submission of such application.

### ***Extension of the simplified taxation regime***

According the planned changes of the *Hungarian Personal Income Tax Act*, as of 1 January 2017, foreign crew members would also be entitled to elect a simplified way of taxation for their Hungarian-sourced remuneration, provided that they obtain a certificate issued by the National Film Office proving that their work is related to a registered Hungarian film production. Based on the current rules, only foreign actors have been entitled to elect taxation by the simplified regime.

In order to control the personal scope of the new regulation, the Motion Picture Act would introduce a new registration system for the film production companies. In the future, a list of foreign cast and cast members would be part of the tax rebate application file. For the request of the film producer, the Film Office would issue a certificate on the data reported. (If the reported data changes, it would be possible to report the change by the date of initiating the Film Office's cost control procedure at the latest.)

For foreign crew members currently having difficulty with justifying their foreign social security status, taxation according to the simplified rules would mean secure and easy fulfillment of Hungarian tax obligations.

The extension of the simplified tax regime to crew members may lead to an increase in the amount of the eligible Hungarian spend.



### ***Film industry training contribution***

To support vocational training in the motion picture industry, obligatory motion picture industry training contribution was introduced in 2016. The contribution is payable by film productions receiving indirect film support. The rate of the contribution is currently 0.5% of the audited Hungarian production costs indicated in the resolution of the Film Office, or in the tax certificate, and the contribution is capped at HUF 15 million per film production. The amount of the contribution is regarded as direct film production cost.

The experience to date, however, shows that it would be more reasonable to levy the contribution at the beginning of the tax rebate process, in the Film Office's resolution on the eligibility of the film production for the tax rebate. This practice would enable film productions to account for the contribution paid as a direct film production cost in their budget filed to the Film Office for an audit. As a result, it is proposed that as of 1 January 2017, the contribution would be levied as a one-off payment instead of the current proportional payment, and the basis of the contribution would be the total budgeted direct production costs filed to the Film Office as part of the application for the eligibility for the tax rebate. The amount of the contribution would not be modified even if the final audited costs would differ from the budgeted costs. It should be noted that the 0.5% contribution in the future would be calculated on the basis of the direct film production costs instead of the audited Hungarian production costs.

The new rules would apply for applications submitted to the Film Office after the entering into force of the proposal.

**Budapest, 18 November 2016**

### ***Location permits***

From 1 October 2016, in order to make the issuing of location permits more straightforward, the National Film Fund became the general coordinator of these permitting procedures. As a result, film productions should no longer deal with local authorities, but shall file applications for the right to use public place to the Hungarian National Film Fund. The request has to be filed 5, or in some cases 15 working days prior to starting the shooting. Should the Film Fund approve the claim, it concludes a contract with the film production.

The fees payable for the use of public places would remain the same, but the categorization of public places would change (the annex of the Motion Picture Act includes the relevant rules). Fees payable for the use of public places regarded as world heritage, or as touristically important areas would be higher than fees for the use of other areas.



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#### **Contact:**

##### **Károly Radnai**

Tel: +36 1 920 6801

e-mail: [karoly.radnai@orientax.hu](mailto:karoly.radnai@orientax.hu)

##### **Zsuzsanna Lőrincz**

Tel: +36 1 920 6803

e-mail: [zsuzsanna.lorincz@orientax.hu](mailto:zsuzsanna.lorincz@orientax.hu)

##### **Veronika Csiffáry**

Tel: +36 1 920 6805

e-mail: [veronika.csiffary@orientax.hu](mailto:veronika.csiffary@orientax.hu)

##### **Helga Flaisz**

Tel: +36 1 920 6809

e-mail: [helga.flaisz@orientax.hu](mailto:helga.flaisz@orientax.hu)

##### **OrientTax Zrt.**

1124 Budapest, Csörsz u. 43.

MOM Offices, 3rd floor

Tel 00 36 1 920 6800

[www.orientax.hu/main](http://www.orientax.hu/main)