

# R&D Tax Incentives: Hungary, 2021

## Design of R&D tax relief provisions

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).

Table 1. Main design features of R&D tax incentives in Hungary, 2021

	R&D related tax base deductibility	SSC and VTC exemption	Development Tax Incentive	R&D tax allowance in innovation contribution**
<b>Tax incentive</b>	Tax allowance	SSC exemption*	Tax credit	Tax allowance
<b>Type of instrument</b>	Volume based	Volume based	Volume based	Volume based
<b>Eligible expenditures<sup>†</sup></b>	Current	Labour	Capital, Intangibles	Current
<b>Headline rates (%)</b>	100 (300 R&D collaboration)	100 (SSC rate: 17; 7.75 for PhD students/doctoral candidates)	0-50 (large), 10-60 (medium-sized), 20-70 (small)***	100 (medium-sized and large firms only)
<b>Refund</b>	No	Redeemable against payroll/ related taxes	No	No
<b>Carry-over (years)</b>	5 (carry-forward)	n.a.	14 (carry-forward)	n.a.
<b>Thresholds</b>	Floor	-	HUF 100 million	-
<b>Ceilings</b>	R&D tax relief	SSC liability	80% of the calculated corporate income tax	-
	R&D expenditure	Gross wages per month: HUF 500 000 (HUF 200 000 for PhD students/doctoral candidates)		-

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. Municipalities in Hungary also provide local business tax (LBT) deductions equivalent to 10% of the direct costs of basic, applied, or experimental research. Hungary also offers income-based tax incentives for outcomes of R&D activities. These are beyond the scope of this note.

Note: For more details, see [OECD R&D Tax Incentive Compendium](#) and [Eligibility of current and capital expenditure for R&D tax relief](#)

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rntax>, December 2021.

### Key features:

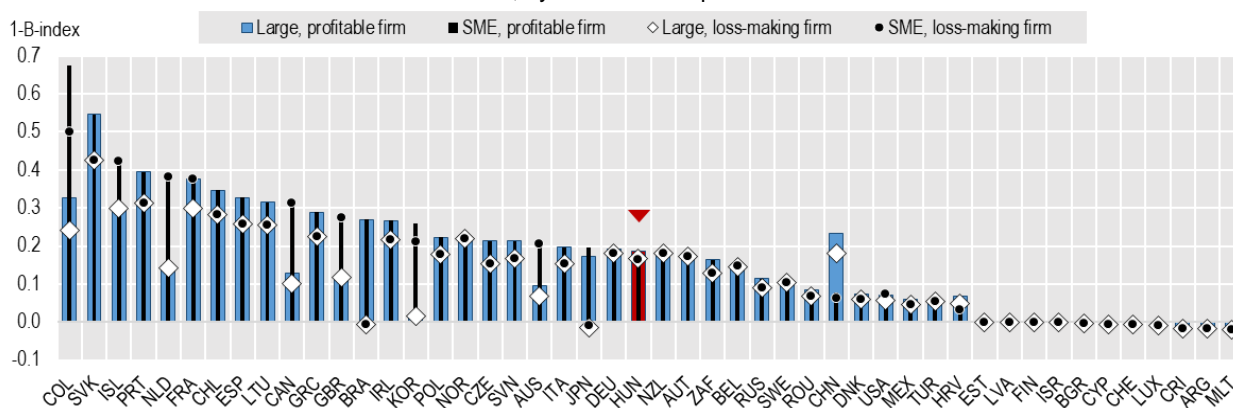
- Under the CIT based R&D tax allowance, a more generous rate applies to collaborative R&D activities (tax benefits capped at HUF 50 million, 100 HUF= 0.283 EUR, Q3 2021). Outstanding credits may be used during the next 5 years to decrease up to 50% of the taxpayer's tax base.
- The Development Tax Incentive 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.

## Generosity of R&D tax support in 2021

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 2021, the marginal tax subsidy rate for profit-making (loss-making) SMEs in Hungary is estimated at 0.18 (0.17), smaller than the OECD median of 0.20 (0.18).

Figure 1. Implied tax subsidy rates on R&D expenditures: Hungary, 2021

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 (see [methodology](#) and [country-specific notes](#)), providing an upper bound value of the generosity of R&D tax support, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of tax relief.

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rntax>, December 2021.

The tax subsidy rate for large firms is equal to 0.19 (0.17) in the profit (loss)-making scenario, larger than the OECD median of 0.17 (0.15). These estimates, capturing CIT and SSC related incentives, focus on modelling provisions of the R&D related tax base deductibility and the SSC exemption<sup>1</sup>.

### Recent developments in R&D tax relief provisions

Regular reforms of R&D tax incentives lead to continuous changes in the availability, scope and generosity of R&D tax incentives. Such reforms relate to the launch of new tax incentives, the R&D definition adopted for tax purposes, changes in tax credit and allowance rates, adjustments of thresholds or upper ceilings on qualifying R&D expenditure or tax relief amounts, or changes in the terms and availability of refunds.

In 2021, Hungary did not undertake any changes in its R&D tax relief provisions. However, Hungary lowered the rate for Social Contribution Tax and related tax advances from 17.5% to 15.5% with effect of 1 July 2020 (17% including training levy), and the rate of the small business tax (KIVA) and related tax advances was reduced from 12% to 11% with effect of 1 January 2021. These tax rate reductions influence the value of social security and KIVA exemptions and credits available to R&D performing firms in Hungary. An additional two (one) percentage point reduction in the Social Contribution (KIVA) tax is foreseen for 1 July 2022.

### Trends in the generosity of R&D tax support

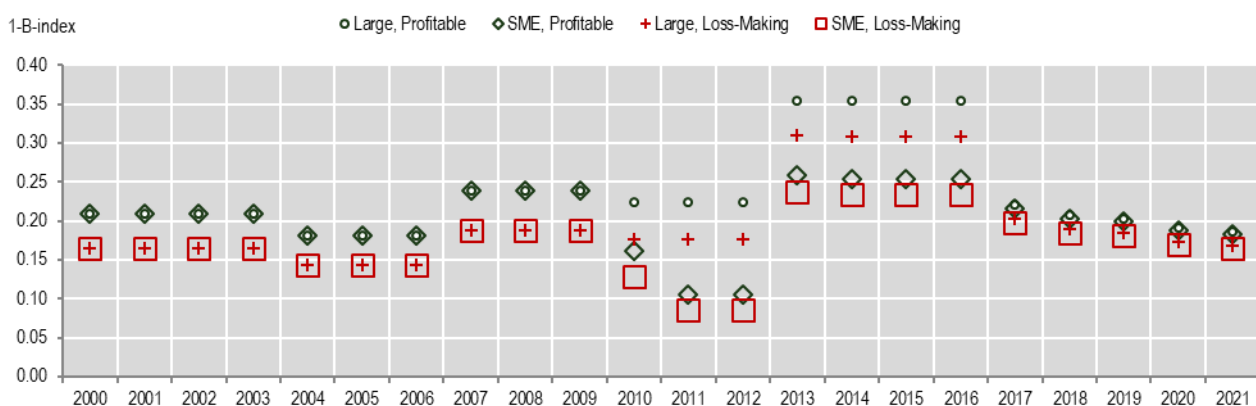
The generosity of R&D tax incentives in Hungary has remained overall stable from 2000 to 2021, with some fluctuations arising from changes in corporate income tax rates throughout this period. The value of tax deductions is directly linked to the CIT rate. The lower CIT rates for SMEs vs. large firms are similarly linked to lower implied marginal R&D tax subsidy rates for these firms over the 2010-21 period.

In 2013, Hungary introduced a SSC exemption, resulting into a steep increase in the marginal R&D 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, 2019, 2020 and 2021 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 R&D tax subsidy rate for large firms drop from 0.19 (0.17) to 0.14 (0.12) in the profit (loss)-making scenario, and the rates estimated for SMEs drop from 0.18 (0.17) to 0.15 (0.14) in the profit (loss)-making scenario. Differences in the SSC rates for researchers (17% including taring levy in 2021) vs. PhD students/doctoral candidates (7.75% in 2021) and the share or R&D labour expenditures attributable to these two categories of R&D staff explain the small variation in implied R&D tax subsidy rates estimated for SMEs and large firms.

Figure 2. Implied tax subsidy rates on R&D expenditures: Hungary, 2000-21

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 (see methodology and country-specific notes), providing an upper bound value of the generosity of R&D tax support, not reflecting the effect of thresholds and ceilings that may limit the amount of qualifying R&D expenditure or value of tax relief.

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, December 2021.

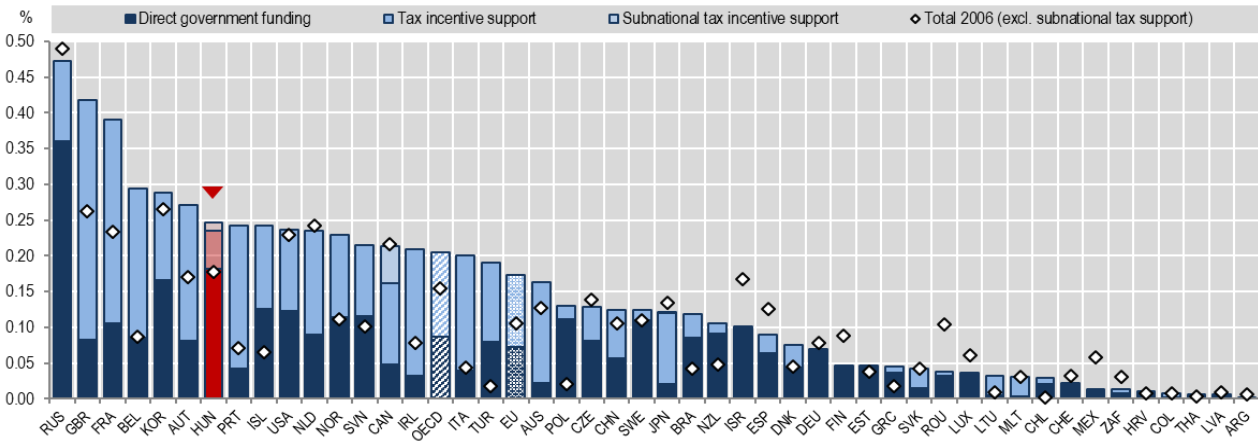
<sup>1</sup> The development tax incentive, used by very few firms, is not modelled.

### Policy support for business R&D: the policy mix

In 2019, **Hungary** is positioned above the OECD average in terms of total government support to business R&D as a percentage of GDP, at a rate equivalent to 0.25% of GDP.

**Figure 3. Direct government funding of business R&D and tax incentives for R&D, 2019 (nearest year)**

As a percentage of GDP



Note: Data on subnational tax support are only available for a group of countries.

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rntax>, December 2021.

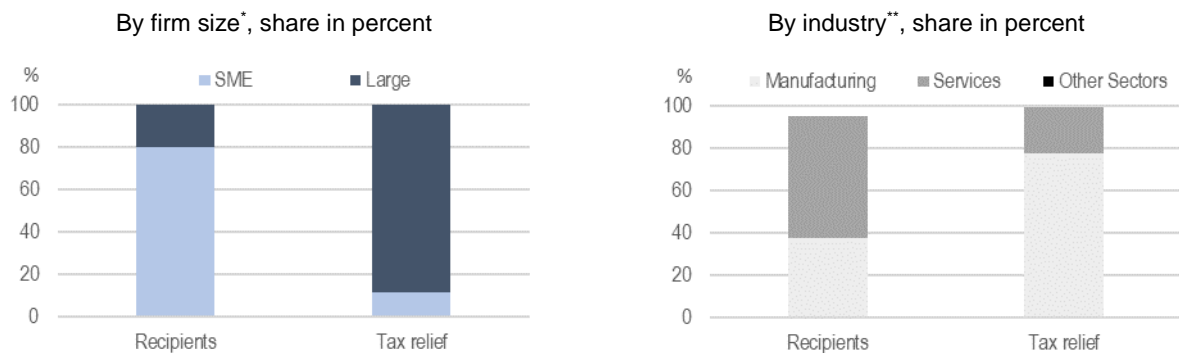
**Key points:**

- From 2006 to 2019, total government support for BERD as a percentage of GDP (excl. subnational R&D tax support) increased in **Hungary** by 0.06 percentage point (pp), while the OECD average increased by 0.05 pp.
- During this period, business R&D intensity in **Hungary** increased from 0.47% to 1.11%.
- In 2019, R&D tax incentives accounted for 27% of total government support for BERD in **Hungary**.

### Distribution of R&D tax relief recipients and government tax relief for R&D

The distribution of R&D tax relief recipients and government tax relief for R&D expenditures (GTARD) provide insights into what types of firms claim and benefit from tax relief.

**Figure 4. Number of R&D tax relief recipients and value of government tax relief for R&D, 2019**



Note: Figures refer to the R&D tax allowance and the Development tax incentive. \*SMEs are defined as firms with less than 250 employees and an annual turnover that does not exceed EUR 50 million or an annual balance sheet that does not exceed EUR 43 million. \*\*Economic activity is classified based on NACE Rev2 (manufacturing: 1011-3320; services 3511-9609; other sectors: remaining classes).

Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rntax>, December 2021.

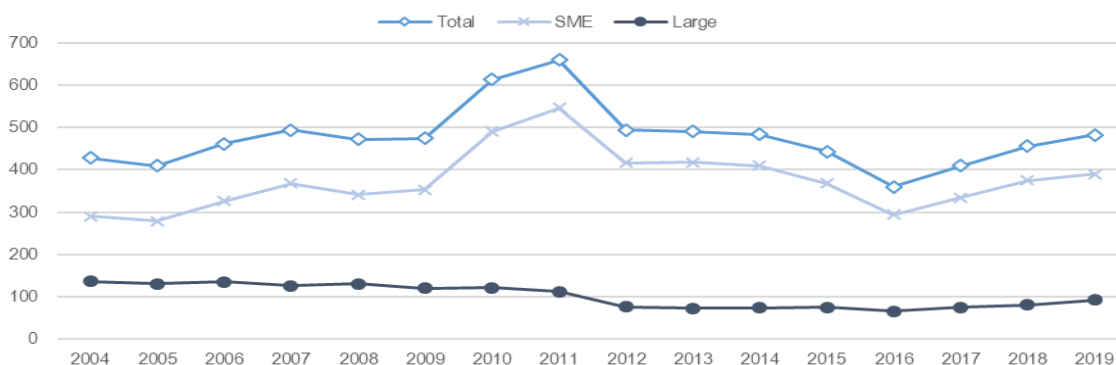
**Key points:**

- In **Hungary**, SMEs accounted for 80% of R&D tax relief recipients in 2019, while the share of R&D tax support accounted for by SMEs amounted to around 12% in this year. 88% of R&D tax benefits were allocated to large firms, comprising 20% of the population of R&D tax relief recipients in 2019.
- In 2019, firms in services represented around 57% of R&D tax relief recipients in **Hungary**, followed by firms in manufacturing with a share of 38%. The share of R&D tax benefits accounted for by the latter amounted to 78% in that year, while this share amounted to 22% in the case of firms in services.

## Trends in the uptake of R&D tax incentives

Over the period 2004-2019, the number of R&D tax relief recipients increased in **Hungary**, reaching close to 500 firms in 2019. Most of this increase is attributable to SMEs. Throughout these years, the number of SMEs receiving R&D tax support increased from almost 300 to close to 400, while the number of large firms receiving tax support decreased from around 140 to slightly more than 90. Over the 2004-19 period, SMEs accounted for between 68% and 85% of R&D tax relief recipients in **Hungary**.

**Figure 5. Number of R&D tax relief recipients, Hungary, 2004-2019**



Note: Figures refer to the R&D tax allowance.

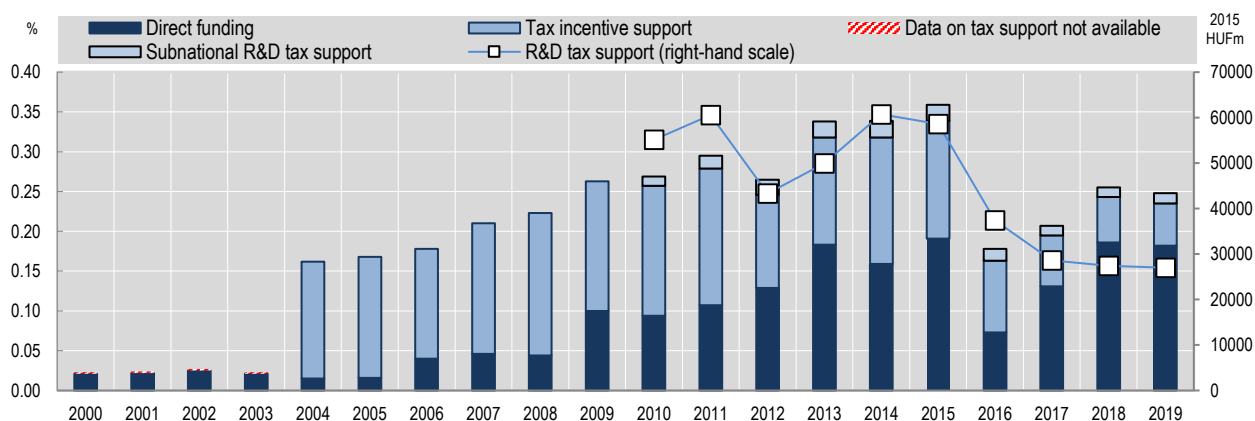
Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, December 2021.

## 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 2019 (when relevant data are available), both in absolute and relative terms.

**Figure 6. Direct funding of business R&D and tax incentives for R&D, Hungary, 2000-19**

As a percentage of GDP, 2015 prices (right-hand scale)



Source: OECD, R&D Tax Incentives Database, <http://oe.cd/rdtax>, December 2021.

- The cost of (central and subnational) government tax relief for R&D dropped (in 2015 prices) from HUF 55 164 million in 2010 to HUF 27 007 million in 2019, 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 0.07% of GDP in 2019.
- Direct funding of BERD increased over the 2000-19 period, from 0.094% in 2010 to 0.18% of GDP in 2019, with a temporary drop in 2016 (0.073% of GDP).
- The share of R&D tax incentives in total government support dropped significantly over the 2010-19 period, from 65% in 2010 to 27% in 2019. Subnational R&D tax incentives (local business tax deduction) accounted for 20% of total tax support for BERD in 2019, up from 7% in 2010.

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