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R&D ACTIVITIES

Two in one – A value added way to tax optimization



2 in 1 - A value added way to tax optimization

One of the main priority fields of the Hungarian Government in relation to the 2014-2020 European fund programming period is the development of the expertise knowledge-based economy. This means – amongst others –, that research and development & innovation (R&D&I) activities, as well as strategic R&D co-operation agreement with both companies and research institutes will be significantly expanded.

These R&D activities are performed in almost all areas of business, even if this is not always acknowledged by companies themselves. In Hungary the legal environment in case of R&D is highly favorable for tax purposes; costs incurred in relation to R&D activities may be deducted in several tax types. In the current business environment it is increasingly important that companies maximize regulatory benefits and optimize their tax burden by also considering R&D incentives.

International studies show that corporate R&D activities relevant for tax purposes may be several times higher than currently believed; therefore the amount of tax savings could be significantly higher than expected or calculated by the taxpayers.

According to international statistics, the following percentages - in proportion to revenues-, could be typically regarded as eligible costs incurred in relation to R&D activities in the following industries:

- IT services app. 20%
- High-tech manufacturing app. 15%
- Pharmaceutical industry app. 10%
- Telecommunication app. 10%
- Automotive industry app. 6-7%
- Chemical industry app. 5%

Moreover, several activities in the field of banking and insurance may also qualify as R&D activities. Furthermore, there are some industries where R&D activities are performed - in contrast to what companies typically assume like media, food industry, agriculture, or even metallurgy and construction.

Saving opportunities



The Corporate Income Tax Act provides several R&D incentives, e.g. accelerated depreciation, tax and tax base decrease related to direct R&D costs, R&D wage costs and royalty received, Development Tax Allowance for R&D related investments with eligible expenditure of HUF 100 Million at least. The local business tax base may also be reduced by direct R&D costs.

In addition to the above, tax allowance is also available on social tax for employers who employ R&D employees with Ph.D degree or above. The maximum amount of tax allowance is up to HUF 135.000 per month per R&D employee. Furthermore, the tax law codified in January 2014 allows the R&D costs to share between the Hungarian associated entities in terms of the deduction from the corporate income tax base, as well as certain R&D costs invoiced from foreign related party in frame of joint R&D activity.

Certification of Research and Development activities

As a new institution, to be able to decide whether certain services qualify as R&D activities, if yes, then what type of R&D - either a basic research, an applied one, or experimental development, and what rate is applied in certain types of R&D within the whole activity performed by the company, furthermore whether the performed activity qualifies as “own R&D activity”, in case of future projects there is a possibility of asking a ruling request from the Hungarian Intellectual Property Office, and the decision of the institution has binding force in front of all related authorities, the key decision-making authorities as National Tax and Customs Administration. The decision-making procedure takes typically 30 days and submission of the request is subjected to a reasonable fee between EUR 200-400 payable.

Our services

Based on our industry specific advisor’s knowledge, we offer a wide range of R&D services – on the highest quality, but reasonable price – to our clients:

R&D scoping



- Preliminary review of the companies' potential R&D activities
- Identification of costs associated with the potential R&D activities
- Preliminary estimates of tax savings available through the optimization of R&D incentives
- Preparation of the application for R&D classification
- Elaboration of the application strategy
- Preparation and submission of the ruling request
- Preliminary and posterior relationship management with related authorities - Hungarian Intellectual Property Office, Ministry for National Economy

Preparation of the R&D documentation



- Detailed analysis of the companies' R&D activities
- Detailed review and quantification of the costs related to the R&D activities
- Preparation of a detailed R&D documentation/manual with a view to decreasing tax risks
- Accurate assessment and quantification of the tax incentives available for the individual tax types

Services related to R&D grants

- Preparing a Grant report about the eligibility check
- Compilation of the grant application
- Aftercare services during the realization and the maintenance period



Further related services

- Strategy development and structuring to optimize R&D incentives
- Analysis and evaluation of the potential R&D activities of companies
- Liaising and negotiation with the competent authorities
- Filing requests to the competent authorities
- Filing requests for binding ruling to the Ministry of Finance in order to minimize tax risk

The below model calculation demonstrates well that a significant tax savings can be reached through several years, even on a small scale (about 15% overall tax sparing based on the below model calculation):

Corporate tax (CIT) - million HUF	2014
Profit before tax	250
- LBT decrease (without R&D)	12
CIT base (without R&D)	238
CIT liability (without R&D)	23.8
With R&D tax base allowance	
Profit before tax	250
- LBT decrease (with R&D)*	11
- R&D decrease*	48
CIT base (with R&D)	191
CIT liability (with R&D)	19.1
CIT tax saving	4.7

Local business tax (LBT) - million HUF	2014
Net sales revenue	600
LBT base (without R&D)**	600
LBT liability (without R&D)	12
With R&D tax base allowance	
Net sales revenue	600
- R&D decrease*	48
LBT base (with R&D)	552
LBT liability (with R&D)	11
LBT tax saving	1

* Conservative estimation – R&D cost is 8% of net sales revenue

** No other LBT decrease item for simplicity purposes

Contact us

If you would like to learn more about cost saving opportunities inherent in the field of R&D, please do not hesitate to contact us:



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About Accace

Accace provides complex financial outsourcing and consultancy services in the areas of accounting, payroll and HR, tax, corporate and legal. With more than 250 employees in 8 branches and a well established European network of partners Accace counts to the most dynamic outsourcing companies in the region.

Our service portfolio includes:

- Accounting & Reporting Services
- Payroll & HR Administration Services
- Tax Advisory
- Corporate & Secretarial & Legal Services

Where can we help?

- Currently Accace has its own operating offices in:
Czech Republic | Germany | Hungary | Poland | Romania | Slovakia
Ukraine | United Kingdom
- Additionally, 12 countries are serviced via trusted and long-time partner firms in:
Austria | Brazil | Bulgaria | Croatia | China | India | Luxembourg
Netherlands | Russia | Serbia | Slovenia | USA