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The VIP cash subsidy system

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- 01 VIP cash subsidy – one of the key investment promotion incentives
 - 02 VIP cash subsidy available for investments and for the establishment or expansion of shared service centres
 - 02.1 General rules of investment subsidies
 - 02.2 Special rules related to Shared Service Centres (“SSCs”)
 - 03 VIP cash subsidy for R&D projects
 - 04 Training subsidy
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01 —

VIP cash subsidy – one of the key investment promotion incentives

The VIP cash subsidy is a special, non-refundable cash grant that can be obtained within the framework of a flexible application and negotiation process, based on the Hungarian Government’s individual decision. The VIP cash subsidy can be provided for investment, job creation, R&D and training projects.

The beneficiary (with whom a subsidy agreement must be concluded) of the VIP cash subsidy can be a company with a registered office, site or branch in Hungary; a European public limited-liability company; or a European cooperative society. Nonetheless, due to the flexibility of the system, the subsidy offer can be requested by a foreign legal entity or another group company as well, for example during a site selection process.

The projects are evaluated individually in a macroeconomic impact assessment. The main evaluation aspects include the location of the project, the industry concerned, the impact on the regional labour market, the number of jobs retained or created, the volume of the committed wage and turnover increase. The commitments undertaken are stipulated in the subsidy agreement.

The processes related to the subsidies are coordinated by HIPA (Hungarian Investment Promotion Agency).



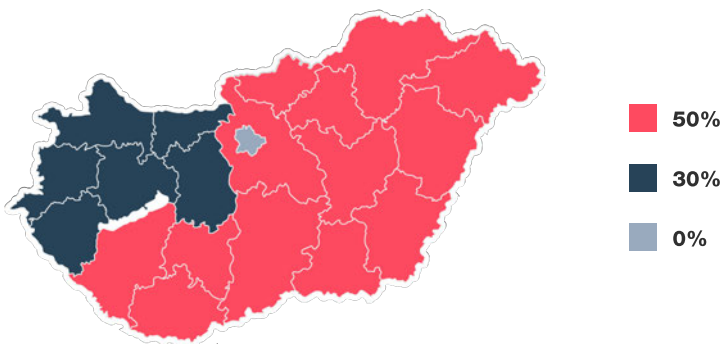
02 —

VIP cash subsidy available for investments and for the establishment or expansion of shared service centres

The VIP cash subsidy can be granted for the implementation of major investments as well as the establishment or expansion of shared service centres as a so-called regional investment aid. In this case, the theoretical maximum of the aid is determined by the regional aid map (usually to be obtained together with a development tax incentive).

The maximum aid intensity can be increased by 20 percentage points for small enterprises and by 10% for medium-sized enterprises. Stricter rules are applicable for the so-called large investments of more than EUR 50 million at present value.

Regional aid map of Hungary from 1 January 2022:



02.1 —

General rules of investment subsidies

Projects entitled to VIP cash subsidies are defined as those with an eligible cost of minimum EUR 10 million in the more developed regions and those with an eligible cost of minimum EUR 5 million in the less developed regions. The eligible costs (i.e. projection base of the subsidy) are the investment's tangible and intangible assets. If the investment (so-called 'main investment') involves specific (typically manufacturing) activities defined by NACE (in Hungarian, TEÁOR), the costs of any equipment related to renewable energy production (so-called 'additional energy investment') may also be eligible for up to half of the total investment costs.



To be eligible for the subsidy, the following minimum mandatory commitments should be undertaken:

- 01** The investment must be maintained at least until the end of the fifth business year (or at least until the end of the third business year in the case of SMEs) following its completion.
- 02** During the monitoring period a minimum of 30% average annual increase in wage cost and / or turnover is required compared to the business year preceding the investment. For newly established companies, the expectation is to undertake an average annual increase of at least EUR 300 000 in terms of wage cost and at least EUR 3 million in terms of turnover.
- 03** The average statistical headcount for the 12 months preceding the start of the investment should be maintained. Creating new jobs is not expected, but it can increase the amount of aid available.¹
- 04** Assets procured with a VIP cash subsidy may be used by the company's suppliers under certain conditions.

02.2 —

Special rules related to Shared Service Centres (“SSCs”)

The range of eligible SSC-type activities is broad. It includes certain warehousing, IT, legal, accounting, tax and management consulting services, engineering, scientific research and development activities, market research and other administrative services.

Eligible costs may be personnel costs of up to 24 months from the first workday of new employees, provided that this leads to an actual increase in the average annual statistical headcount by creating jobs within 3 years from the start of the investment.

A special mandatory commitment is to create and keep a minimum of 50 new workplaces, in addition to the general commitments.

¹ Additional eligibility criteria may apply depending on the type of project and the location of implementation.



03 —

VIP cash subsidy for R&D projects

R&D projects carried out by a large enterprise or medium-sized enterprise (with 100 employees)² involving applied research and experimental development can be supported with VIP cash incentives – even in Budapest.

Applied research

Planned research or critical examination aimed at acquiring new knowledge and expertise to develop new products, processes or services, or to facilitate the significant development of existing products, processes or services, including the creation of components of complex systems. In some cases, this may involve building prototypes in a laboratory environment or in a setting with a simulated interface to existing systems, as well as producing experimental series.

Experimental development

Experimental development covers the acquisition, aggregation, adaptation and use of existing scientific, technological, business and other relevant knowledge and expertise in order to develop new or improved products, processes or services.

Within the framework of the VIP cash subsidy, projects and groups of projects implemented by large enterprises, as well as medium-sized enterprises with 100 employees, in 1 to maximum 3 years having at least EUR 1 million as eligible cost are entitled to support. In order to document the R&D nature of the projects, the R&D qualification of HIPO (National Office of Intellectual Property) is needed.

The aid intensity may not exceed 25% of the eligible costs. However, similarly to the above, the actual level of aid may also be affected by several factors subject to individual assessment. The maximum amount of the subsidy is EUR 15 million.

² When determining the average statistical headcount of 100 persons, the number of employees of a legal entity that directly or indirectly holds a majority of the registered capital of the legal entity carrying out the project, that directly or indirectly holds more than 50% of the shares or voting rights, or that has a majority of the voting rights may also be taken into account.



Eligible R&D project costs may include:

- 01** Costs charged in relation to R&D personnel³ (personnel expenses, except if regional aid is requested simultaneously)
- 02** Amortization (for instruments not covered by other aid)
- 03** Rental fee of the building
- 04** Material costs (up to 25%)
- 05** Contractual research costs (up to 25%)

The R&D job creation obligation should be highlighted as a mandatory commitment to be undertaken by a beneficiary: the creation of at least 10 new R&D jobs and their maintenance for 2 years after the implementation of the project compared to the 12 months preceding the submission of the application is an eligibility condition.

04 —

Training subsidy

Training projects of up to 24 months in duration, including external and internal training, may be supported under the VIP cash subsidy scheme.

The subsidy can be requested by small and medium-sized enterprises, as well as large enterprises, within the whole territory of Hungary. The key eligibility condition is to implement or expand a shared service centre (SSC) or to implement a plant development (i.e. fixed asset investment).

The aid amount

It is worth noting the three thresholds related to granting a subsidy:

- 01** Up to 50% of the eligible costs
- 02** Up to EUR 5,000 per person participating in the training
- 03** Up to EUR 2 million per training project

³ Employees are considered to be employed in a research and development workplace if their job description includes at least 50% R&D activities.



Eligible costs

In proportion to the participation in the training, the following types of costs may be eligible:

- 01** Personal expenses of trainers and trainees, and operating costs related to them
- 02** General indirect costs (e.g. administrative costs, rent, overheads)
- 03** Consultancy costs related to the training project

Conditions of the subsidy

In case of plant development:

- 01** A tangible investment of at least EUR 5 million must be implemented, and
- 02** the average number of headcount (jobs retained) for the 12 months preceding the start of the investment must be maintained for 18 months following the end of the training project (or the plant development).

In relation to the establishment or expansion of SSCs, if the beneficiary:

- 01** does not receive regional investment aid, it must increase its average statistical headcount (by the number of jobs retained) by 25 by the completion of the last training, which must be maintained for 18 months thereafter;
- 02** also uses regional investment aid, it is only obliged to maintain jobs for 18 months following the completion of the project.

The headcount participating in the training cannot exceed the cumulated headcount of retained and created jobs.

It is to be highlighted that the grant application must be submitted before the commencement of the training and the plant development; furthermore, eligibility only covers costs incurred after the receipt of the acceptance notification.

How can Andersen help?

Preparation

- 01 Advisory services on the conditions of the subsidy, commitments and available subsidy amounts
- 02 Elaboration of a state aid strategy
- 03 Advisory services on available tax incentive and tax savings opportunities
- 04 Site selection considering state aid eligibility criteria

State aid application services

- 01 Preparation and compilation of the R&D qualification request
- 02 Compilation of the grant applications
- 03 Liaison with public administration bodies, in particular with HIPA, the Ministry of Foreign Affairs and Trade and HIPO
- 04 Assistance in the conclusion process of the subsidy agreement

Project management

- 01 Preparation and monitoring of reports and notifications
- 02 Advisory services on subsidy agreement amendments



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