

The main regulations of the Film Law

The Film Law (**Act II of 2004 on the Motion Picture**) regulates the classification of films according to their origin in three categories (Hungarian films, co-productions with Hungarian participation, other films with Hungarian participation), and declares that the first two are entitled to the same **state sources**, while films falling into the third type can gain revenues due to the **tax incentives** (mainly service productions). The categories are differentiated with a point system (on the basis of the European Convention on Cinematographic Co-production however in a more detailed way), which evaluates the various contributors of the films according to their nationality.

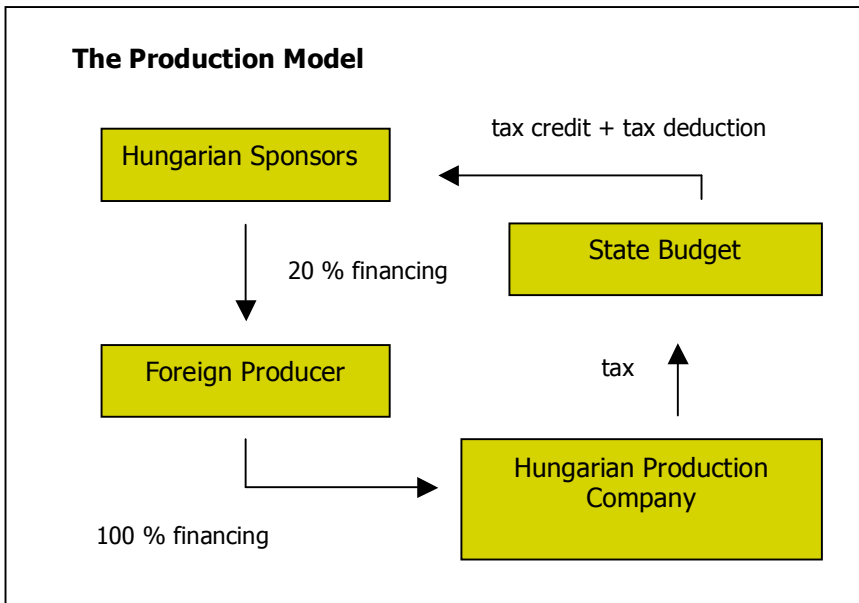
The principal body of allocating state support according to the law is the **Motion Picture Public Foundation of Hungary** founded by the government and by a number of professional film organizations. The Foundation works out its own Support Regulations according to the provisions of the law that determine the main types of subsidies, such as **selective** (granted by the board of the Foundation), normative and structural support. The normative support includes the **reference support** granted based on admission figures and festival prizes. It also includes **automatic support** of distribution of art films and the operation of art-cinemas. The supports are available in the fields of production, distribution, development, archiving, training, research, publishing, and infrastructure development.

The law establishes the **National Film Office**, which **registers and classifies the films** according to the recommended age of the viewers (rating system), according to its cultural value (so called “art” classification) and **grants national or co-production status** to the newly produced films. Persons and companies wishing to apply for state support in the film sector need to be registered by the Office. The Office maintains a registry listing the films that have been granted state support and the films being distributed in Hungary. It helps the market players make co-productions, gives them **legal assistance** in film matters, gives advice to the minister in strategic questions of cinematography.

One of the key roles of the **Office is to issue the certificates** that entitle the companies which give support to or which invest in film productions **to gain tax incentives**. The new tax incentive regime introduced by the film law is based on two models. The models rely exclusively on contributions and investments made by companies. The main difference between the two models is the **method of financing**.

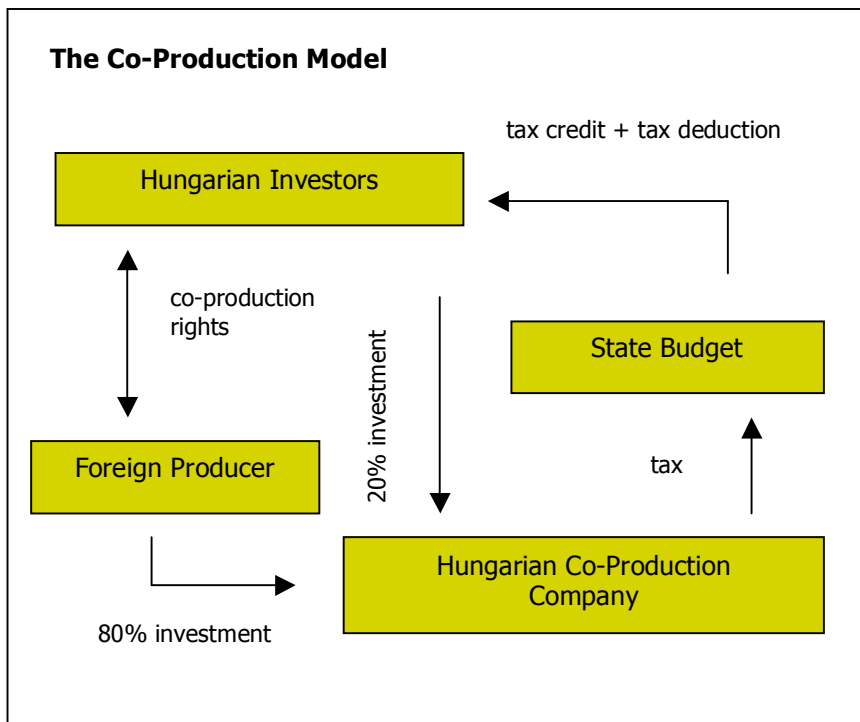
- **Production Model**

Tax relief is provided to Hungarian corporate sponsors involved in the financing of productions carried out in Hungary. Hungarian sponsors may finance up to a maximum of 20% of the qualifying Hungarian expenditure. The tax relief, in the form of a tax credit and a tax deduction, can provide the sponsors with at least a 16 % return on the sponsor's investment. The sponsors do not hold interest in the production company and will not participate in distribution revenues. The tax relief may be carried forward for a period of three years.



• Co-Production Model

Tax relief is provided to Hungarian corporate investors, who will be considered to be co-producers of Hungarian film productions, if the film is not produced to order. Again, 20% of the qualifying Hungarian expenditure can be collected from Hungarian investors under the tax incentive regime. Nevertheless, the regime does not prevent Hungarian investors from a greater than 20% participation in co-productions. As co-producers, these Hungarian investors should also retain certain rights relating to the film. Similarly to the Production Model, the Hungarian investors can exercise a 100% tax credit on their investment and a 50% tax base deduction, resulting in at least an 8% return. The tax relief may be carried forward for a period of three years.



Other Aspects

Hungary is a party to the European Convention on Cinematographic Co-Production. European co-productions with Hungarian participation of at least 20% may also obtain grants from other sources (e.g. Eurimages, or Hungarian grant programs). Moreover, investing in the Hungarian film industry is supported by additional Hungarian tax incentives. Based on the legislation, the taxpayers may apply for development tax allowances if the investment in the Hungarian film industry exceeds HUF 100 million. A development tax allowance is subject to a license issued by the Ministry of Finance and, depending on the location of the investment, can vary: 35% (Budapest), 40% (Pest county), 45% (Western-Transdanubia), 50% (rest of the country) of the invested amount. Furthermore, the taxpayers can apply for accelerated depreciation (real estate and equipment: 15% and 50% respectively).

Through these incentives, Hungary would like to attract foreign producers to invest in the Hungarian film industry. As the foreign investors will be entitled to exercise three tax incentives (i.e. tax incentive on productions/co-productions, development tax allowances and accelerated depreciation), the effective saving that foreign investors can achieve on a Hungarian production basis could be even higher than the proposed 20% cost reduction.

The Act on Motion Picture calls for the National Film Office to be established by 1 April, 2004. The tax incentives can only be utilized based on a certificate issued by the Film Office. The Film Office will review the budget proposed by the Hungarian production company as well as the actual production expenses and will issue the certificates only if the budget and the subsequent spending proves to be appropriate. The responsibilities of the National Film Office are to be set out by the Ministry of Cultural Heritage in a ministerial decree.