

Qualifying foreign cast & crew compensation for the Hungarian Film Incentive

The project is able to qualify most non-Hungarian cast and crew for the purposes of the Hungarian Film Incentive. The exclusions are:

- UK loan-out – crew only
- UK schedule D – crew engaged to work in Hungary under 183 days

There will be a few other exclusions based on the cast or crew members tax and social security (SS) residency combined with the structure of the project and their type of engagement.

The incentive is applicable on 50% of the cast or crew member's compensation to include per diem, box rental & phone allowance but exclude fringes. *NOTE: The first HUF 3,000,000 of compensation attracts 100% of the film incentive.*

- The Producer's foreign entities are the employer of record.
- The individual is taxable from day 1 of their engagement in Hungary.
- 15% income tax is payable on compensation to the National Tax and Customs Administration in Hungary (NTCA, in Hungarian: NAV).
- Double tax treaties or Hungarian tax law (in the absence of a treaty, i.e. USA) allows for the tax paid in Hungary to be credited against the income tax liability in the country where the individual is tax resident.
- Hungarian tax compliance is triggered by:
 - (a) The cast/crew member completing a data sheet which is sent to local tax council (Andersen Hungary) who will review and advise on the individual's tax and social security status in Hungary.
 - (b) The cast/crew member will execute a suite of documents and will be registered as a HU taxpayer.

IMPORTANT NOTE: The tax payments are the responsibility of the individual and not the production. The production is facilitating the individual's obligation in order to take advantage of the incentive.

Cost Recharge Agreements

The producer should have a non-US entity (UK is usual) to engage non-US/non-resident cast and crew that will work in Hungary. This non-US entity will execute a **Cooperation and Cost Recharge agreement** with the HU PSC. This recharge will

- include any UK PAYE and any non-US/non-resident cast and crew engaged to work in Hungary for less than 183 days;
- will make the HU PSC the economic employer of those individuals for the purpose of taxation and make them taxable from day 1.

The recharge will be implemented in arrears after all taxation related to all cast and crew has been paid.

Tax compliance documents to be executed by non-resident cast and crew paying PIT in Hungary

- 1) **Assignment Contract** – short-form agreement specifying the engagement details relevant for Hungarian taxation *NOTE: This document will also be signed by the Producers' engaging company.*
- 2) **Social security declaration** – statement that the individual pays SS in their home country
- 3) **Tax office authorization** – authorizes payroll company Process Solutions (PS) to represent the individual before the Hungarian Tax Authority
- 4) **Post Office authorization** – authorizes Process Solutions to receive the individual's mail from the Hungarian Tax Authority
- 5) **Exit declaration** – individual instructs Process Solutions that their engagement in Hungary is completed and requests that their Hungarian personal income tax (HU PIT) return is prepared *NOTE: This document will be sign in the beginning based on the duration of their engagement.*
- 6) **Form EGYKE** – authorizes Process Solutions to communicate electronically with the Hungarian tax authority on the individual's behalf

- 7) **Declaration on personal data handling** – authorizes Andersen Hungary and Process Solutions to handle personal data relevant to Hungarian taxation
- 8) **A-1/CoC information document** (if applicable)

NOTE: A hi-quality scan of each individual's passport (or ID document, if EU citizen) will be required.

Social Security related to non-resident cast & crew

Most taxpayers are responsible for applying for an A1 certificate (EU) or Certificate of Coverage (US, Canada, Australia) to cover their period of engagement in Hungary evidencing their social security status at home is current. In the case of

- ▶ **UK PAYE tax payers:** the UK company that engages them will be responsible for applying for their A1. The UK company must apply for an Exhibit E from HMRC (link: <https://www.gov.uk/hmrc-internal-manuals/payee-manual/payee82001>). In the case a UK PAYE is not engaged by a UK company, then they will not be able to receive an A1.
- ▶ **Most individuals from Mediterranean countries** will only be able to obtain an A1 if they are engaged by a company resident in their country (to include their own loan-out).
- ▶ Some countries outside of the EU have no social security treaty with Hungary and in some cases a one-time exemption from social security can be sought for up to 2 years in a 3-year period.

Most of the cast or crew member who cannot evidence an A-1 (or CoC) can be administrated under the Hungarian Simplified Tax regime.

- ▶ In addition to the 15% HU PIT there will also be a one-time social security payment with a cap of HUF 1,007,136 (2026 cap; approx. USD 3,150 / EUR 2,650) is remitted which fully satisfies all HU SS obligations.
- ▶ *NOTE: This min. HU social security payment is not creditable by the individual in the home country.*

Practical guidance for A1 / Certificate of Coverage (CoC) application

As issuance of the A1/CoC takes time. The application should be filed during the first week of each individual's engagement. The A1/CoC should cover the entire period the individual will be in Hungary including any extensions to their stay due to changes in schedule.

- ▶ We recommend adding an extra 4 weeks to the end of the work period. This should cover any changes to the schedule.
- ▶ It is required that the Hungarian production company is indicated in the A1 certificate (in Section 5)/CoC. If not, then the A1/CoC will not exempt the individual from Hungarian social security taxes.
- ▶ The A1/CoC should be presented no later than 90 days from the start of the assignment.

NOTE: The Hungarian tax compliance team will guide each individual through the A1/CoC application procedure.

Box or kit rental

Payments made for box or kit rental owned by the individual are taxable in Hungary.

- Box rental fee (aka kit fee) is a fee paid by foreign engaging companies to foreign crew members for the use of their equipment. We understand these fees are also regarded as taxable income under US tax law.
- Non-resident crew members paying tax in Hungary are regarded as performing dependent activity.
 - ▶ For Hungarian tax purposes, box rental fee should be regarded as part of their remuneration in the same way as salaries and per diem.
 - ▶ No cost deduction is allowed from box rental fee.
 - ▶ 15% personal income tax (PIT) will be withheld and 50% the box rental costs will qualify for the 30% film incentive.

*NOTE: Box rental fees paid for the use of equipment leased by the crew member and then sub-leased to the project **should not** be taxed in Hungary and should be excluded from the Hungarian film incentive base.*