

Subsidies for Asian investments in Hungary

Background

In the past couple of years Hungary made significant efforts in order to become a bridgehead for Asian investors for their investments in the European Union.

This paper gives a brief summary of investment incentives available in Hungary for foreign investments, and how such investment incentives in fact have been awarded to Asian investors.

According to the Hungarian Investment Promotion Agency (hereinafter referred as “HIPA”) the foreign investment volume hit its all-time high with EUR 6.5 billion in 2022. Among the 92 major agreements made in 2022, deals made with companies from Eastern countries played an important role as investments from South Korea alone accounted for EUR 2.8 billion. This document gives an insight into previous projects where Hungary provided substantial state aid for foreign investments and lists the potential state incentives that may be granted.

1. Previous projects from Asia where state aid was granted

1.1 EUR 209 million Hungarian aid for construction of SK On Hungary's electric vehicle battery plant:

Hungary granted EUR 209 million state aid for a large investment project that consisted of the establishment of a new electric vehicle battery manufacturing plant in Hungary. The beneficiary of the aid was “SK On Hungary”, a fully owned subsidiary of SK Innovation, a South Korean holding company active in energy and chemicals.

Project details:

- i. Project volume: EUR 1,623 million
- ii. Jobs created: 1,900 direct jobs
- iii. Hungarian state aid value: EUR 209 million
- iv. Aid instrument: Direct grant
- v. Relation to Asian country: South Korea
- vi. Press release/publication in the Official Journal of the EU: 22.03.2022

1.2 EUR 89.6 million Hungarian investment aid to Samsung SDI's electric vehicle battery plant:

Hungary granted EUR 89.6 million state aid for a large investment project that supported the expansion of Samsung SDI's battery cell production facility for electric vehicle in Hungary. The beneficiary of the aid was Samsung SDI Co. Ltd., a company manufacturing battery and electronic materials and has its headquarters in South Korea.

Project details:

- i. Project volume: EUR 1.2 billion
- ii. Jobs created: 1,200 direct jobs
- iii. Hungarian state aid value: EUR 89.6 million
- iv. Aid instrument: Direct grant/ Interest rate subsidy
- v. Relation to Asian country: South Korea
- vi. Press release/publication in the Official Journal of the EU: 28.02.2023

1.3 EUR 88.38 million Hungarian investment aid to SKBM's electric/hybrid vehicle battery cells plant in Hungary:

Hungary granted EUR 88.38 million state aid for a large investment project that consisted of the establishment of a new electric / hybrid vehicle battery cells plant in Hungary. The beneficiary of the aid was SK Battery Manufacturing Kft., a Hungarian company fully owned by SK Innovation that belongs to the global South Korean energy and chemicals group (SK Group) composed of 125 entities.

Project details:

- i. Project volume: EUR 630.26 million
- ii. Jobs created: 1,000 direct jobs
- iii. Hungarian state aid value: EUR 88.38 million
- iv. Aid instrument: Direct grant/ Interest rate subsidy
- v. Relation to Asian country: South Korea
- vi. Press release/publication in the Official Journal of the EU: 25.02.2022

1.5 EUR 46.5 million Hungarian investment aid to Toray's lithium-ion battery separator film plant:

Hungary granted EUR 46.5 million state aid for a large investment project that set up a manufacturing plant for Lithium-Ion Battery Separator Films in Hungary. The beneficiary of the aid was Toray Industries Hungary Kft., a Hungarian company fully owned by Toray Industries, Inc. which has its headquarters in Tokyo.

Project details:

- i. Project volume: EUR 397 million
- ii. Jobs created: 200 direct jobs
- iii. Hungarian state aid value: EUR 60.5 million
- iv. Aid instrument: Tax allowance (EUR 46.5 million), direct grant (EUR 14 million)
- v. Relation to Asian country: Japan

- vi. Press release/publication in the Official Journal of the EU: 04.06.2021

1.6 Further Chinese investments aiming to set up battery cell plants in Hungary announced in 2023:

CATL

According to media publications and publicly accessible data, Hungary is granting EUR 800 million state aid for a gigafactory that will manufacture electronic vehicle battery in Hungary. Last fall the Hungarian government announced that CATL (world's largest electronic vehicle battery maker) would build its second European EV plant in Hungary.

Project details (publicly accessible data):

- i. Project volume: EUR 7.3 billion
- ii. Jobs created: 9000 direct jobs
- iii. Hungarian state aid value: EUR 800 million
- iv. Aid instrument: Tax allowance, direct grant
- v. Relation to Asian country: China

Eve Power

This year the Hungarian government has also announced that the ninth largest electric battery manufacturer in the world, the Chinese Eve power will build its first battery cell plant in Hungary.

Project details:

- i. Project volume (publicly accessible data): EUR 1.3 billion
- ii. Jobs created: more than 1000 direct jobs
- iii. Hungarian state aid value: HUF 14 billion (~EUR 37 million)
- iv. Aid instrument: Direct grant
- v. Relation to Asian country: China

2. Subsidies and incentives

2.1 Tax incentives: Development and energy efficiency tax incentive

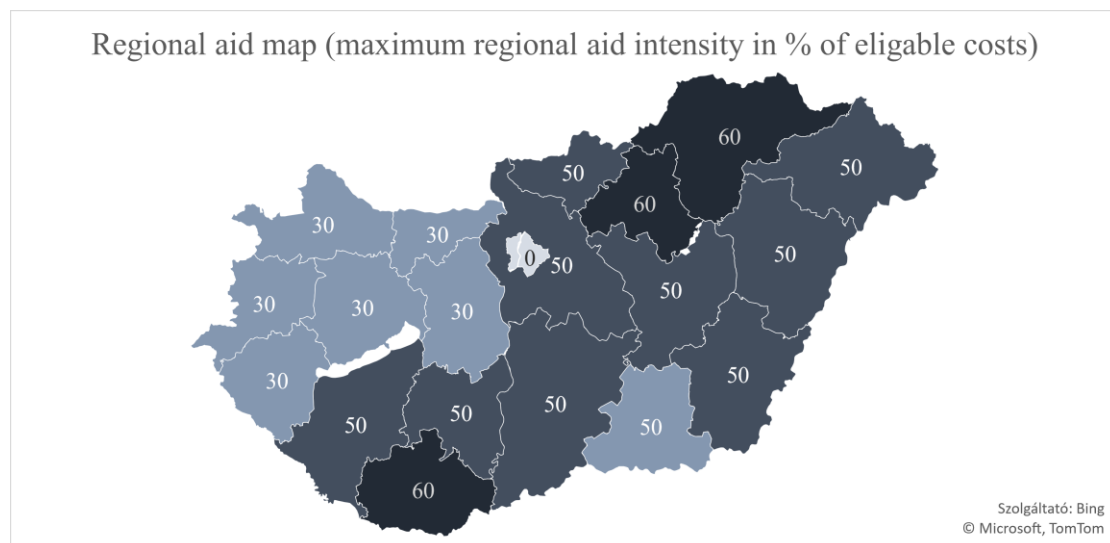
Hungary offers several potential investment subsidies for investments made in almost every industry or economic sector. The Government Decree 210/2014. (VIII. 27.) on Investment incentives (hereinafter referred as "State Aid Decree") determines that except certain industries and economic sectors such as steel industry, coal industry or primary agricultural production, state aid may be granted for investments or research and development (hereinafter referred as "R&D") projects in any industry or sector.

Investments or R&D projects made in specific sectors such as biotechnology-, electronics-, pharmaceuticals-, automotive- or telecommunications industry shall be prioritised in terms of granting state aid.

Investment cash subsidy may be granted for new business if the amount of eligible costs reaches the amount of EUR 3-10 million (depending on the region) or irrespective of the eligible costs if the investment is for the creation/expansion of a regional service centre and it creates at least 50 direct jobs.

As the regional aid map demonstrates it down below, the amount of the maximum aid intensity is between 30%-60% of the eligible costs which can be increased by 10-20 percentage point for small or medium-sized enterprises. For major investments¹, the maximum aid intensity applicable is:

- i. 100% of the eligible costs up to an amount of HUF 50 million in present value;
- ii. 50% of the eligible costs between EUR 50 million and EUR 100 million in present value;
- iii. 34 % for the part of the eligible costs above the amount in HUF equivalent to EUR 100 million in present value.



The State Aid Decree determines special rules for certain investment aids as follows:

- i. Energy efficiency investment aid or Renewable energy investment aid
 - a. Beneficiary: large enterprise which has its registered office, branch or establishment in Hungary and which has at least one completed business year at the time of registration

¹ Major investment shall mean any investment where the eligible costs are at least EUR 50 million in present value. (Section 3 point 22 of State Aid Decree)

- b. Eligible activities e.g.: manufacture of batteries, electric motors, generators, cables or information storage media and several other activities are listed in Annex 2 of State Aid Decree
 - c. Maximum state aid intensity: 45% of the eligible costs, or 30% of the eligible costs in Budapest
- ii. Investments for the transition to a net-zero emission economy:
- a. Beneficiary: large enterprise which has its registered office, branch or establishment in Hungary which, in the absence of aid, would carry out its productive investment outside of the European Economic Area
 - b. Excluded entities: state aid shall not be granted for certain enterprises such as entities subject to legal sanctions and other sanctions imposed as a result of Russia’s aggression against Ukraine
 - c. Maximum state aid intensity:
 - i. in Budapest: 15% of the eligible costs, up to a maximum of EUR 150 million;
 - ii. in regions outside Budapest: 35% of the eligible costs, up to a maximum of EUR 350 million.
 - d. Period of time: state aid may be granted until 31.12.2025

2.2 Tax incentives: Development and energy efficiency tax incentive

Hungary has the lowest corporate income tax (hereinafter referred as “CIT”) in the European Union with its 9% flat rate, offering a very favourable tax regime for foreign investors.² Furthermore, investors may be granted certain tax incentives under the Act LXXXI of 1996 on corporate tax and dividend tax (hereinafter referred as “Tao Act”).

The **development tax incentive** may be claimed for 12 (twelve) tax years following the year in which the investment is put into service, up to a maximum of 16 (sixteen) years following the tax year in which the application is submitted.

The Tao Act determines several ways in which an investment can be eligible for the development tax such as:

- i. investments with a value of at least HUF 3 billion (~EUR 8 million) or HUF 100 million (~EUR 263 thousand) in designated investment zones or HUF 1 billion (~EUR 2.7 million) in certain regions, calculated at present value;
- ii. investments reaching at least HUF 50 million by a small enterprise or HUF 100 million by a medium-sized enterprise;
- iii. job creation-related investments without investment volume limits;
- iv. R&D investments with a value of at least HUF 100 million (~EUR 263 thousand) at present value;

² Source: HIPA (2022): Invest in Hungary

The development tax incentive can be claimed by any small and medium-sized enterprises, while large enterprises can be only eligible for the development tax incentive if their investments are made in certain regions.

The amount of the development tax incentive cumulated with other incentives granted for the enterprise may not exceed the 30-60% of the eligible costs depending on the region where the investment was made.

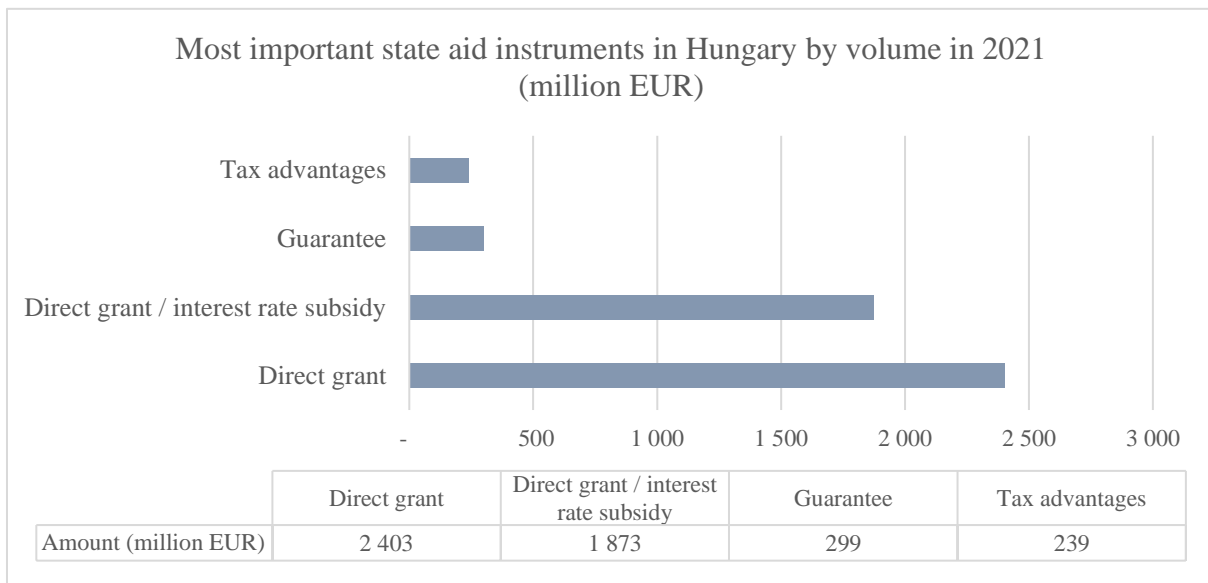
Energy efficiency tax incentive may be claimed for the installation and operation of investments for energy efficiency purposes in the tax year following the investment or in the five tax years thereafter.

The amount of the energy efficiency tax incentive may not exceed the 30-65% of the eligible costs depending on the region where the investment was made, up to a maximum amount of EUR 15 million.

In respect of the same investment, the energy efficiency tax incentive may not be applied in conjunction with the development tax incentive.

3. Subsidies and incentives in numbers

As described above in details, Hungary offers a wide range of investment subsidies to attract foreign investments to the country. The chart below illustrates the spending on the top 4 state aid instruments in Hungary in 2021. According to the European Commission’s State aid Scoreboard 2022, Hungary spent 45% of the total State aid spending on direct grant and 35.1% of total state aid spending on direct grant/ interest rate subsidy.



According to the HIPA, in the automotive sector there have been 16, while in the electronics sector 12 new projects in 2021, breaking the annual investment volume record with a value of nearly EUR 6 billion.

The table down below shows the state aid instruments provided by Hungary for companies investing in battery manufacturing and electric vehicle industry up to 2023, based on data from the European Commission’s database. It is worth mentioning that with the mega-deals that have been made in 2023 (see section 1.6), Hungary is aiming to be one of the dominant countries in the lithium-ion battery manufacturing industry.

Companies/State aid in million HUF	Tax advantages	Soft loan	Guarantee	Direct grant
Toray Industries Hungary Kft.	10 387			
Robert Bosch Power Tool Elektromo	385			
SHINHEUNG SEC EU Kft.		2 886		
SungEel HiTech Hungary Kft.		179		
TOYO INK Hungary Kft.			815	
SK Battery Manufacturing Kft.				113 859
Toray Industries Hungary Kft.				9 211
Volta Energy Solutions Hungary Kft.				16 920
BMW Manufacturing Hungary Kft				12 323
Valeo Siemens eAutomotive Hungary Kft.				7 582
Robert Bosch Energy and Body Systems kft.				6 008
Doosan Energy Solution Kft.				4 689
Robert Bosch Power Tool Elektromo				3 729
Linamar Hungary Autóipari és Gépgyártó Zrt.				3 893
SHINHEUNG SEC EU Kft.				769
Bumchun Precision Hungary Kft.				2 655
Samsung SDI Magyarország Gyártó és Értékesítő Zrt.				1 860
INZI Controls Hungary Kft.				1 627
SIIX Hungary Kft.				1 558
LOTTE ALUMINIUM Hungary Kft.				1 106
BYD Electric Bus&Truck Hungary Kft.				925
GS Yuasa Magyarország Kft.				753
SOULBRAIN HU Kft.				425

4. Contact us

Should you have any questions on investments in Hungary or the subsidies available, our colleagues are pleased to assist you in the relevant matters.



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