MINISTRY
FOR NATIONAL ECONOMY

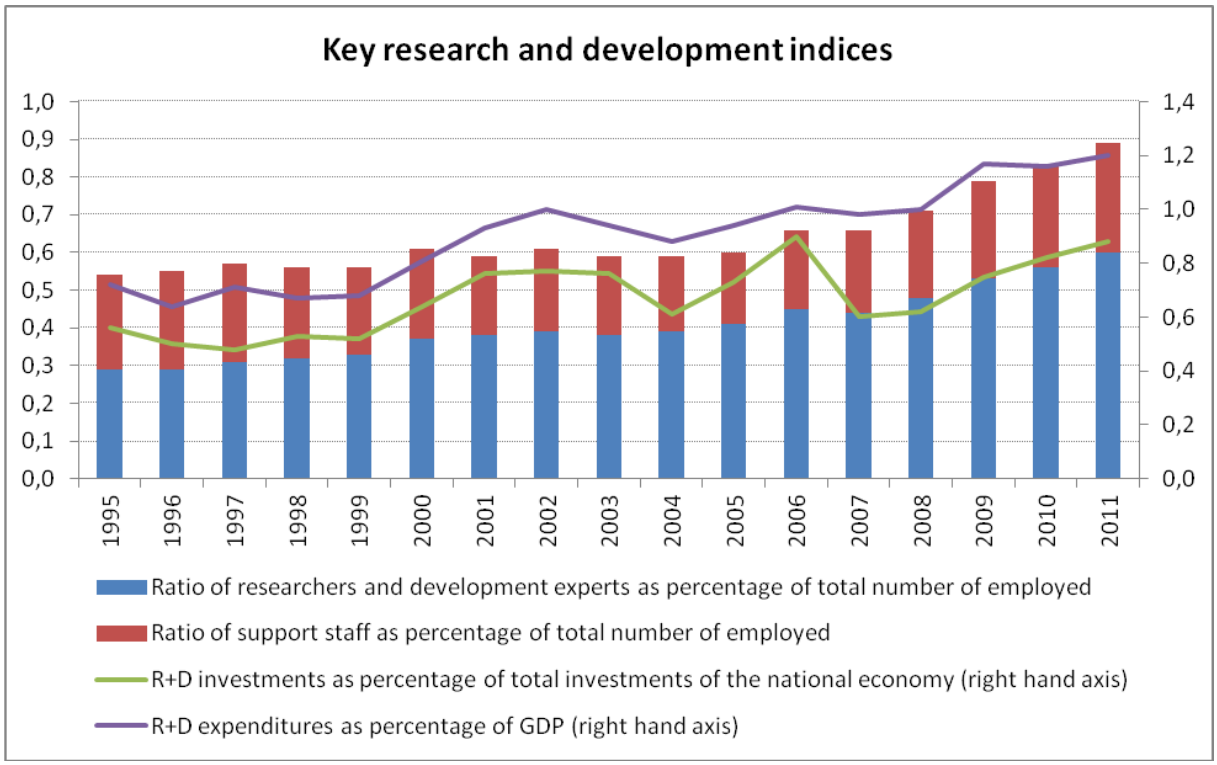
New tax relief aimed at stimulating R&D activities of enterprises and increasing payroll figures in the sector

Economic policy projections focus on growth and increasing employment. **Economic development based on research, knowledge and innovation** as well as **stimulating R&D&I** required for producing goods of high added value is the sine qua non of this objective. This is what the National Research, Development and Innovation Strategy serves, which ambitiously targets **R&D spending in Hungary to reach 1.8 percent of GDP by 2020**. It has been one of the key resolutions of the Government to assist accomplishing this goal via the instruments at its disposal and one of these is establishing a **competitive R&D tax incentive system**. Indirect tax incentives may carry several advantages (less distortion to market processes; smaller administrative burden; more transparency and predictability, lower direct R&D costs and significantly influence the choice of investment location by large enterprises).

Integrating **social contribution tax allowance** into the corporate tax act, which aids the R&D activities of domestic enterprises, has been a measure pointing to this direction. According to the proposal, **as of 2013 enterprises are entitled to tax relief for employing researchers with academic grades or titles.** Via utilizing the tax relief the rate of social contribution tax payable on gross wages is 0 percent, up to a monthly gross amount of 500 000HUF. By this tax allowance for employers the Government endeavours to support research centers of enterprises and **expects that the number of employees in the R&D sector will thus increase**, further boosting employment.

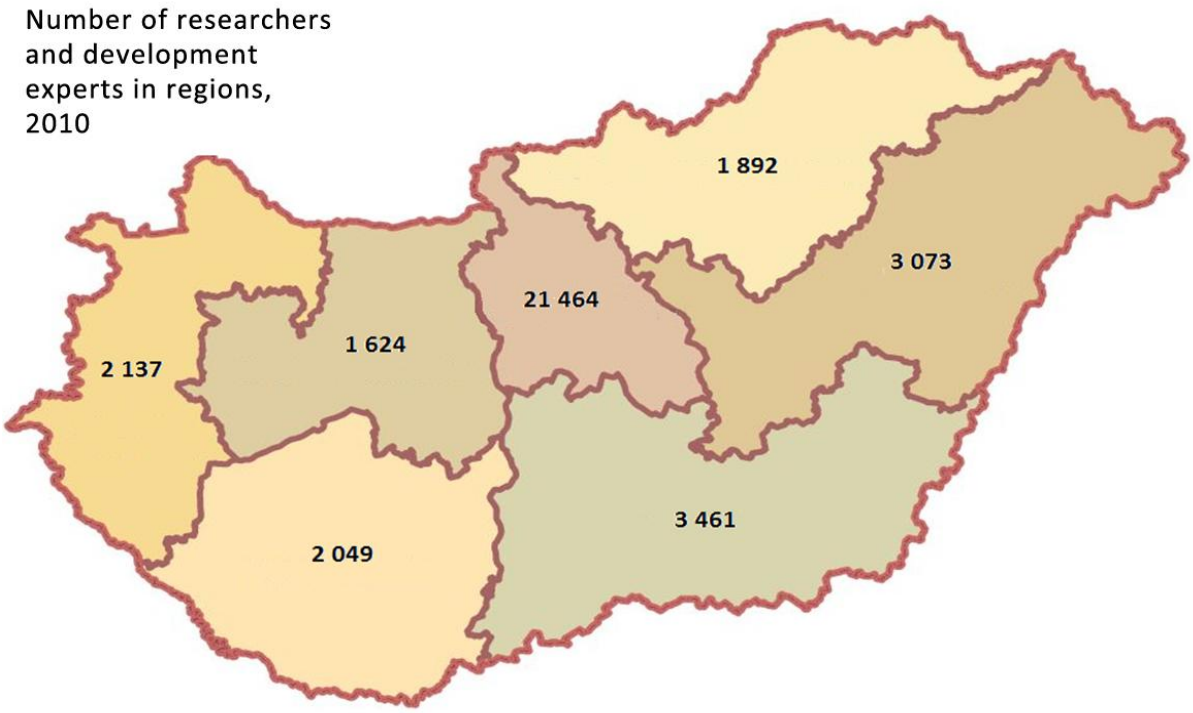
In Hungary there is an upward trend regarding **the number of workers in the R&D sector**. While this category made only 0.3 percent of the total number of employed in 1995, **this figure doubled by 2011 to 0.6 percent.** The ratio of support staff has been constant at about 0.25 percent compared to the total number of employed.

Investments in R&D centers have been permanently on the rise since 2007, and their share within the amount of total investments has increased from 0.6 percent to almost 0.9 percent. As a consequence, **R&D expenditures amounted to almost 1.2 percent of GDP in 2011**. In 1995 this ratio was 0.7 percent which increased to 1 percent in 2002 and after declining in 2003-2004 the upward trend has resumed once again.



Source: KSH

Research and development activities are geographically concentrated. **More than 60 percent of researchers and development experts,** about 21 500 people, **work in the Central Hungary region. Demand for researchers is the most limited in the Central Transdanubia region** where their number totals about 1 600, but the number of R&D employees is also low in Northern Hungary. The actual number of researchers and development experts ranges between 2000-3500 in the other regions of the country (2010 data). This statistical figure includes the number of those experts who formulate the concept of new knowledge, products, procedures, techniques and systems or manage R&D projects.



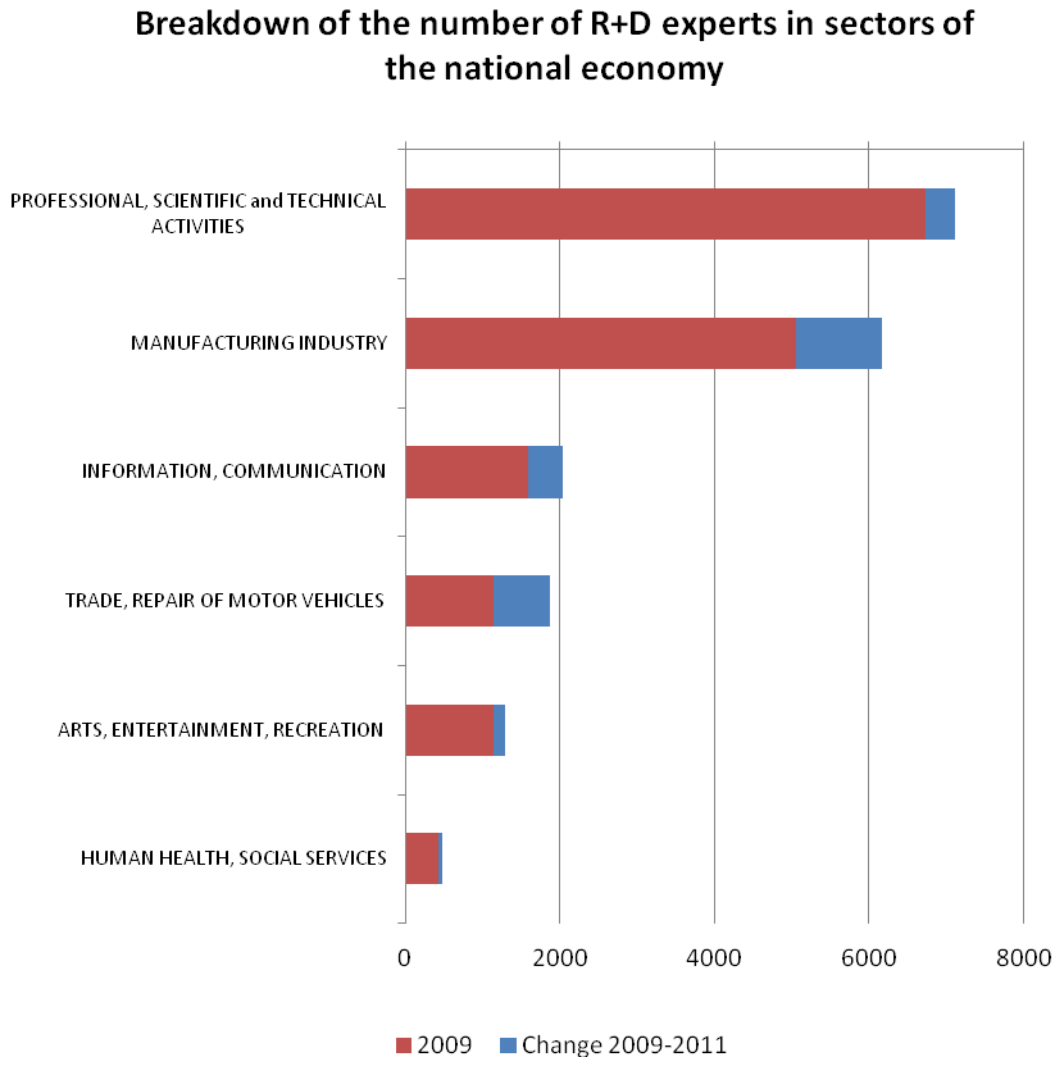
Source: KSH, NGM

At institutions with R&D activities, organizational units of higher education institutions and enterprises there were altogether almost **37 000 researchers and development experts working in the field of R&D in 2011.** The majority of R&D activities are related to **education;** almost half of researchers belong to this sector of the national economy. Among other sectors **the most significant are the fields of professional, science and engineering activities as well as the manufacturing industry.** Within the manufacturing industry one subsector of great weight has been the manufacturing of medical and pharmaceutical products (employing almost one-fourth of R&D labour force in the manufacturing industry), and the manufacturing of computers, electronic and optical products (22 percent of manufacturing industry total R&D employees). In addition, a large number of experts have been active in the information and communication as well as the trade sector.

Sector	Actual number of researchers and development experts
Education	16963
Professional, scientific and technical activities	7105
Manufacturing	6164
Information, communication	2040
Trade, repair of motor vehicles	1866
Arts, entertainment, recreation	1287
Human health and social work	480
Other services	282
Agriculture, forestry, fishing	206
Public administration, defense	120
Construction	106
Water supply	79
Real estate	67
Administrative and support service activities	46
Transport, storage	36
Electricity-, gas, stream and air-conditioning supply	8
Total	36945

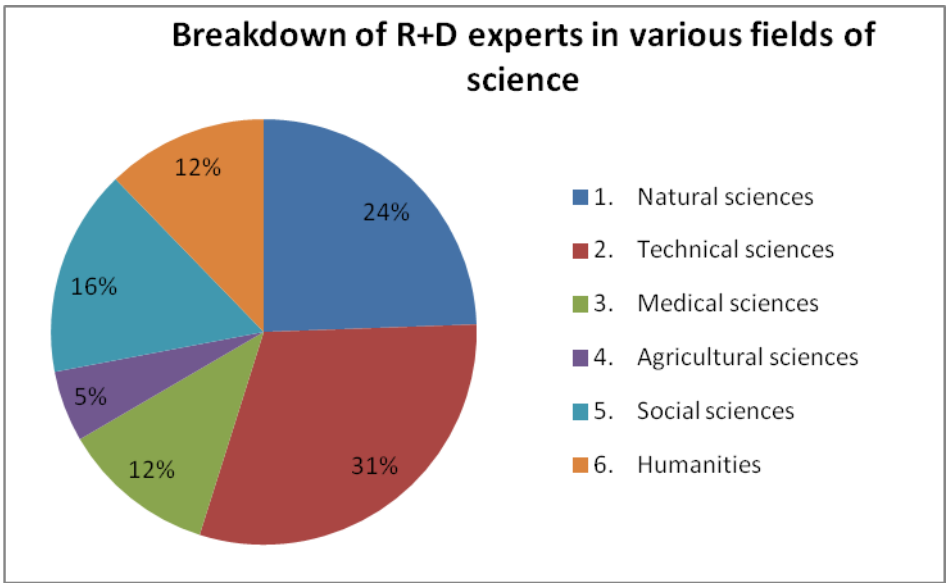
Source: KSH

As a whole, **the number of people employed in the field of R&D increased by almost 1 700** between 2009 and 2011. With regard to sectors of the national economy employing most of R&D professionals (except for education) the number of these experts has increased in each of them. **Growth has been significant in wholesale and retail trade, repair of motor vehicles, the information and communication sector as well as the manufacturing sector**. As these sectors may become the growth engines of recovery highlights the significance of these three fields.



Source: KSH

Research dominates primarily in technical activities (31 percent) and natural sciences (24 percent), but the share of social sciences (16 percent) has also been substantial. The 5 percent of all researchers are active in the field of agriculture.



Source: KSH

In spite of growth achieved so far, the number of people in R&D is still relatively low compared to the number of employees in production. Therefore, in order to close the gap with European countries of advanced innovation background **improving the conditions of R&D activities has been of substantial importance**. This includes, among others, **providing adequate financing, supporting innovative start-ups and establishing a competitive R&D tax incentive system** which are prominent elements of the National Research, Development and Innovation Strategy. The **new tax relief integrated into the corporate tax act has been a key step towards increasing the weight of indirect tax incentives which aims to stimulate the employment of people with academic grade or title working in the private sector.**