



HUNGARIAN WATCH

Summer 2017



Masters of Collaboration

Hungarian Watch Summer 2017

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Hungarian Watch is a quarter yearly issued brochure. It contains comprehensive, up-to-date information about Hungary, focusing on breaking news in the fields of law, economics, business and other situations which could have a major impact on the course of Hungarian events.

Hungarian Watch is primarily prepared for those who are thinking about Hungary from an investment point of view. The investment perspective runs through this brochure by leading the reader through the actual Hungarian business climate including current business and investment opportunities.

We hope that Hungarian Watch will keep you regularly informed on relevant Hungarian news, enabling you to know how and when to seize a business opportunity before it vanishes.

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Table of Contents

Summary	4
Driving production	5
Will Hungary be the Next Home Country for Tesla Gigafactory 2?	5
Trust market	7
New Hope for the Hungarian Trust Market	7
State aid	9
New State Subsidies Ahead	9
VJT & Partners	11
About VJT & Partners	11
The Firm	11
Practice Areas	12
How We Work	13
Our Values	13

Summary



[Will Hungary be the Next Home Country for Tesla Gigafactory 2?](#)

[A Potencial New Player in the Hungarian Driving Production](#)

The automotive industry is one of the great success stories in Hungary and now the biggest investment in the last years is about to drive into town. Elon Musk, the CEO of Tesla, has announced that Tesla intends to set up the next gigafactory in Europe. [Read more...](#)



[New Hope for the Hungarian Trust Market](#)

[On the Way to a More Flexible, Simple and Transparent Trust Regulation](#)

A new amendment of the trust regulation was adopted in the Hungarian Parliament this summer. The new rules aim to increase Hungary's competitiveness and bring a more stable and business-friendly atmosphere to the Hungarian trust market. [Read more...](#)



[New State Subsidy Ahead](#)

[The Hungarian Subsidy System is getting More Attractive](#)

Thanks to the new changes in the state subsidy system, a potential boom is expected in the Hungarian investment market. By introducing new state subsidy rules for R&D investments and more flexible corporate tax benefits the Hungarian market has become more inviting. This is a step in creating a more attractive and investment friendly business atmosphere in Hungary. [Read more...](#)

Will Hungary be the Next Home Country for Tesla Gigafactory 2?

A Potential New Player in the Hungarian Driving Production

The automotive industry is one of the great success stories in Hungary and now the biggest investment in the last years is about to drive into town. Elon Musk, the CEO of Tesla, has announced that Tesla intends to set up the next gigafactory in Europe. Hungary is one of the potential countries which is on his map as the new investment for Tesla. This would be a new milestone in the Hungarian automotive sector. The ball is now in Tesla's court.



In the last decade Tesla became the second largest purely electric car manufacturer in the global automotive market. Its products include not only electric vehicles, such as the Model S, but also home batteries and solar roof panels. Overall, the mission of Tesla is to support the world's sustainable future through clean transportation and energy production.

Tesla created its Gigafactory in Nevada in 2014. The name of the factory comes from the gigawatt measurement. The planned annual battery production capacity of the factory is 35 gigawatt-hours (GWh), with one GWh being the equivalent of generating (or consuming) 1 billion watts for one hour. This is almost as much as the current battery production of the entire world combined.

In 2017 CEO of Tesla, Elon Musk announced that Tesla is about to invest in a new gigafactory. The market rumours were true and the head of Tesla confirmed that the second factory - after the first in Nevada - is going to be located in Europe. The Gigafactory 2 will combine the production of both electric cars and batteries. This massive investment would employ almost 17,000 people and could cost EUR 5 billion. To any of the European competitors, including Hungary, this investment would most certainly be a huge development.

The Ministry of Foreign Affairs and Trade has already announced that Hungary is joining the competition for hosting the Gigafactory 2.

Hungary could be an excellent choice for Tesla, as the automotive sector has already become one of Hungary's core industries. Four large automotive manufacturers have established themselves in Hungary: Suzuki, Audi, GM and Daimler AG. Besides these four big market players, in order to support the automotive manufacturing many equipment manufacturers and other suppliers would have to be settled in the country.

EUR 5 billion project

The automotive industry is driving Hungarian production

Could Hungary be
the winner?

Aside from the fact that the Hungarian automotive sector is outstanding in Europe, the Hungarian Government has taken extra effort to attract Tesla to the country. A new test track is being developed in the Western region of the country which is suitable for testing self-driving cars. That could be more than attractive for Tesla as the new Tesla vehicles has the appropriate hardware for self-driving cars. Also, two important market players in self-driving technology is already present in the country, Thyssenkrupp and Bosch. Finally, in the field of electro mobility, Samsung plans to establish a SDI battery factory producing batteries for electric cars. All this could present a great support for the Gigafactory 2.

Negotiations with
Tesla ahead in
September 2017

Apart from the excellent general impression the Minister of Foreign Affairs and Trade confirmed that the government will negotiate with the representatives of Tesla in September 2017. Overall, the chances to attract Tesla to Hungary are getting better as time goes by.

The ball is in Tesla's
court

Whilst it is still not known who will be the final winner of the new project, a potential Hungarian success could significantly change the landscape of the Hungarian automotive sector. Such a huge investment would undoubtedly create opportunities for the construction and energy sector as well. The ball is now in Tesla's court.

New Hope for the Hungarian Trust Market

On the Way to a More Flexible, Simple and Transparent Trust Regulation

A new amendment of the trust regulation was adopted in the Hungarian Parliament this summer. The new rules aim to increase Hungary's competitiveness and bring a more stable and business-friendly atmosphere to the Hungarian trust market. They will not simply relieve the market players of administrative burdens, but also introduce a clearer and more transparent legal framework. All this could bring some refresh for the Hungarian trust market. More business activity is expected.



In 2014 the Hungarian Parliament decided to follow the European trend and introduced a whole new institution to the Hungarian legal system - the trust. The freedom of investment forms and the potential financial advantages of what a trust could essentially give to business, made everyone think the trust could refresh the Hungarian market. The legal concept of a trust could be used in dozens of life situations.

Without being exhaustive it could provide the solution for a company's quota holder who does not have professional knowledge to manage a business, or for parents wishing to provide for their children after they pass away, or it could be equally used for granting employee benefits.

However, after 3 years of its introduction, it has turned out that the regulation of the trust in Hungary is not satisfying the market players. As opposed to the expectation, the market player has tended to choose other constructions rather than the trust. It is evident that this has mainly been due to the ambiguous regulations, not because of the lack of need for it. After a broad review of the regulation it was decided to amend the regulation and to significantly modernize this legal solution with adequate guarantees, stripped of unnecessary administrative burdens.

The Hungarian Parliament sought to pass an amendment which retains the essential features of the legal institution. However, important changes were set forth in the regulation for the market players:

1. Removal of administrative duties: Under the new rules, some administrative duties of the trust's management were removed, such as notification duties, some mandatory data provided to the National Bank, and other internal administrative duties. This change in the regulation alone means a huge improvement, as a simplification in the administration always brings a more business-friendly atmosphere.

More business-friendly market environment

2. Changes in succession rules: By amending the Civil Code, the regulation handles the uncertainty in the succession rules related to the trust and the trustee. Before the changes, the principal was not entitled to determine who could exercise their rights in the event of their death or dissolution. It was the beneficiary who could act in the absence of the principal. The new rules give clear and wider power to the principal in this case.
3. New and clearer definition: Contrary to the old regulation, the definition of the commercial activity of the trustee is now set forth clearly which gives easy and simple interpretation for companies. According to the new rule, everyone who administers at least two trusts is considered to pursue commercial activity of the trustee.
4. The role of the National Bank: Although administrative duties are simplified, the amendment still sets forth clear, and simple role of the National Bank in relation to trusts. The National Bank has limited supervisory control over trusts. This control includes the approval and registration of the trusts, and as well as examining whether trustees still comply with the approval and registration requirements. The National Bank measures are restricted to two possible sanctions: withdraw of the permission and the removal of the trust from the registration. The role of the National Bank remains important as it gives the market players a guarantee that only transparent and liable trustees can enter and operate in the market.
5. Law firms as trustee: The new regulation entitles law firms to provide trustee services on a commercial basis. This makes a more tailor-made procedure for the market players as law firms are usually already involved in creating and operating trusts.

The new rules shall be welcomed by every market player as there is a new, improved way of thinking regarding trusts. It is a new hope for trusts in Hungary, as a more transparent environment, a wider legal certainty and with the simplifications a more business-friendly market is coming. In the near future, we predict more activity in the trust market in Hungary, so it is worth keeping an eye on upcoming developments.

New State Subsidies Ahead

The Hungarian State Subsidy System is Getting More Attractive

Thanks to the new changes in the state subsidy system, a potential boom is expected in the Hungarian investment market. By introducing new state subsidy rules for R&D investments and more flexible corporate tax benefits the Hungarian market has become more inviting. This is a step in creating a more attractive and investment friendly business atmosphere in Hungary.



Hungary has already been a target-location for investors. In Central and Eastern Europe, Hungary provides a well-qualified workforce for investors at an advantageous cost within a competitive tax system. Besides this, one of the economic advantages of financing in Hungary is the investor-friendly and favourable subsidy system. Currently, one can find several subsidies available for investments in Hunga-

ry such as tax incentives, cash subsidies or training subsidies. This positive trend is further strengthened, as favourable changes have been recently enacted by Hungarian lawmakers.

Corporate tax benefits: By amending the Corporate Tax Act, the Parliament decided to reduce the minimum job creation criteria to development tax incentives. In practice, it reduces the creation of from 150 to 50 new jobs, and in less developed regions from 75 to 25 new jobs, in order to be eligible for the new tax benefits. Thus, it becomes easier for financiers and management to fulfil the criteria needed to attain the attractive benefits.

These changes are reasoned by the decrease of unemployment in Hungary. During the years of the global financial crisis, the aim was to reduce unemployment by creating new jobs. During the last few years Hungary managed to significantly reduce its unemployment rate, so it was difficult for companies to fill the vacancies for 150/75 jobs. Thus, there is no longer any reason for such strict conditions in the subsidy system. The aim of these changes was to make subsidies more flexible and beneficial for the investors.

R&D aid scheme: As a consequence of the changes in the regulations, more subsidy opportunities are available to investors who invest in R&D projects. If a large company has at least 3 million EUR eligible cost and carries out a qualified research and development program, it can even be eligible for a non-refundable subsidy from the Hungarian state. Also, there is a possibility to receive state support without creating new jobs. It is anticipated that the new rules will draw the attention of several new investors.

Overall, Hungary has clearly straightened its position in Central and Eastern Europe since it is offering outstanding criteria for the eligibility of the subsidies. By establishing these new subsidies, Hungary may well create a better investment climate. This development will likely boost further investment opportunities in Hungary.

About VJT & Partners

The Firm

VJT & Partners is a Hungarian commercial law firm advising international and domestic corporate clients and entrepreneurs. The firm was founded by János Tamás Varga, who has created a highly successful team based on values including inspiring leadership, striving for perfection, commitment, courage and harmony.

VJT & Partners is recognised as one of Hungary's leading commercial law firms and also as an excellent collaborative partner, working hand-in-hand with its clients. Clients value the firm's absolute commitment, leading to effective and enduring relationships. The firm combines the highest degree of professionalism, the efficient delivery of legal services with dynamism, flexibility, responsiveness and personal attention.

Lawyers in the firm have developed an in-depth understanding of both the legal and the commercial realities of business. The firm prides itself in giving direct, honest and practical advice, tailored to its clients' needs. The shared values of VJT & Partners are at the very core of the creativity and 'fresh thinking' approach of the firm.

As a member of the EU, but not the single currency, Hungary has a unique language and business culture and a complex legal system bringing particular challenges. All lawyers at VJT & Partners have extensive experience of working with international and domestic companies alike, to help navigate these challenges and to achieve their objectives in Hungary, and to ensure appropriate regulatory approvals.

The leading legal directories rank VJT & Partners highly across a range of practice areas.

VJT & Partners is a full-service law firm that satisfies the needs of clients across a broad range of industries and professions. The firm's legal services include aviation, commercial contracts, competition, corporate M&A, data protection, dispute resolution, finance, immigration, employment, intellectual property, outsourcing, private equity, real estate, regulatory, restructuring and insolvency, and technology.

Practice Areas

The firm is especially active and highly ranked in the following areas:

Corporate mergers and acquisitions

VJT & Partners believes that advising on M&A transactions is to provide more than just legal advice. Understanding the logic and dynamics of the industry sector in which the client and other participants operate is a prerequisite for success.

We advise clients on international and Hungarian M&A transactions including acquisitions, disposals, mergers and demergers, from deal inception through due diligence and negotiations to post completion. The expertise of our multi-disciplinary team in the areas of corporate, commercial, competition, real estate, employment and regulatory enables us to provide excellent service.

Employment

The highly-rated employment lawyers at VJT & Partners have a wealth of experience in all aspects of contentious and non-contentious employment matters. Fully appreciated for understanding their clients' business goals, lawyers design structures and procedures that are watertight and defensible in many court proceedings.

We regularly advise employers on general employment matters including drafting employment agreements, internal policies, termination agreements, termination notices and complex mass dismissal structures as well as employee incentive schemes. We have particular expertise in managing work permit and business immigration applications as well as advising on the different employment and labour related issues which arise with commercial transactions such as outsourcing.

Our team has successfully represented employers and executive employees in all types of court proceedings in Hungary. In particular, we represent clients in disputes concerning issues which include unlawful termination, overtime payment and bonus claims.

Technology

Understanding our clients' underlying technical and technological ideas and objectives, while providing clear, concise and practical advice lies at the heart of our work. The phenomenon of convergence and the rapid proliferation of innovative services inspire our Information, Communications & Technology (ICT) team to continue to build unique expertise in a wide range of technology matters.

Our lawyers have particularly strong track record in commercial IT arrangements such as software licensing, call centre and hosting services as well as hardware procurement, online and e-commerce matters such as setting up web-shops. We also regularly advise on sector-specific regulatory issues concerning communications services such as licensing, interconnection and carrier-pre selection.

How We Work

Lawyers at VJT & Partners are encouraged to develop, to enjoy their work and to become real 'Masters of Collaboration'. Clients comment on the firm's cooperation, communication and its absolute commitment to what they are trying to achieve.

In turn, we find that this leads to effective and enduring relationships. We combine the highest degree of professionalism and the efficient delivery of legal services with dynamism, flexibility, responsiveness and personal attention.

Our Values

The values that lie at the heart of our business ethos are the building blocks of our business. Nurturing the following values brings the 'hearts and minds' of VJT & Partners' lawyers together as one successful team. We would be happy to talk you through them, what they mean to us, to our business and our clients:

- Inspiring leadership
- Striving for perfection
- Commitment
- Courage
- Harmony

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