

COOPERATION FOR A MORE COMPETITIVE HUNGARY

2020

RECOMMENDATIONS OF THE AMERICAN CHAMBER OF COMMERCE IN HUNGARY, BASED
ON DISCUSSIONS ENGAGING CORPORATE AND GOVERNMENT REPRESENTATIVES ON
INCREASING THE COMPETITIVENESS OF THE HUNGARIAN ECONOMY.

EXECUTIVE SUMMARY



AN EFFECTIVE AND EXPANDING ADVOCACY NETWORK



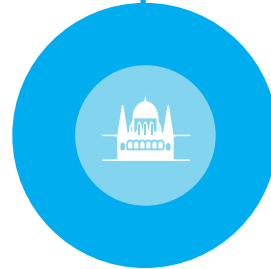
WE REPRESENT

345 AmCham members

More than **220,000** employees

Total net revenue of more than
HUF 236 trillion in 2018

Wide representation of
industries



DIALOGUE WITH GOVERNMENT

Ministry of Human Capacities

Ministry of Justice

Ministry for Innovation and Technology

Ministry of Foreign Affairs and Trade

Ministry of Finance

Hungarian Investment Promotion Agency

National Authority for Data Protection
and Freedom of Information

National Research, Development and
Innovation Office

Hungarian Intellectual Property Office



EDUCATIONAL PARTNERS

15+ universities

400+ high-school teachers

Educational Authority

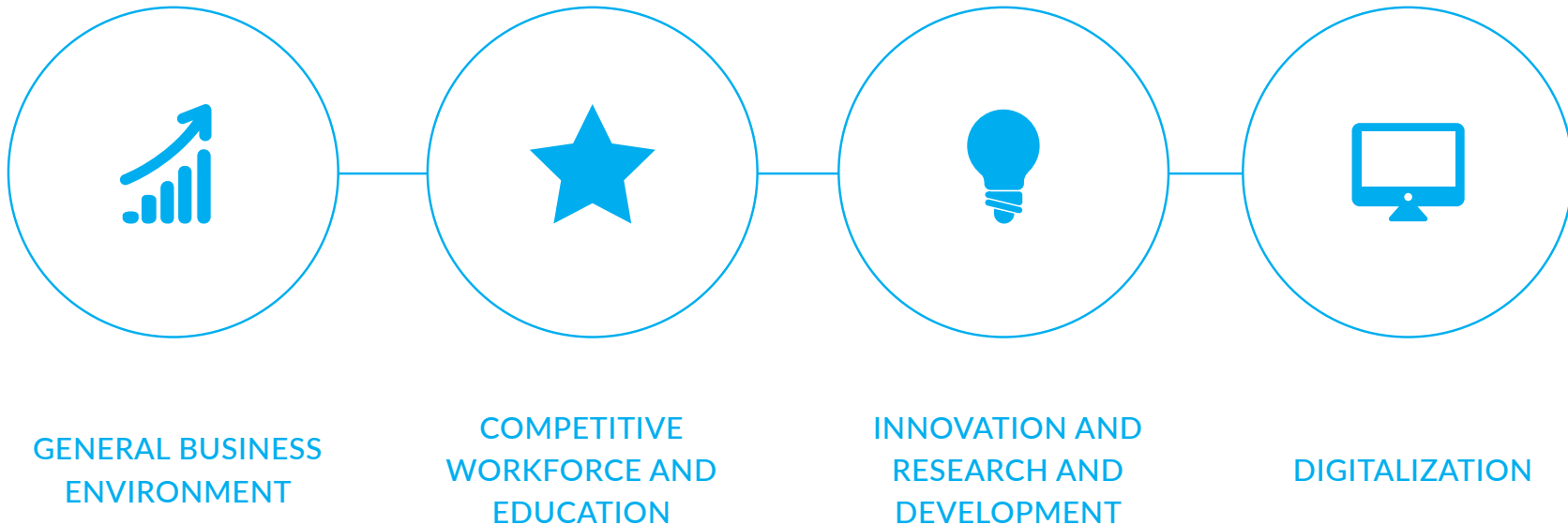
Klebelsberg Center

National Institute of Vocational
and Adult Education

Career Orientation Program

AMCHAM HUNGARY

AMCHAM'S 2020 RECOMMENDATION PACKAGE FOCUSES ON FOUR KEY AREAS



I. GENERAL BUSINESS ENVIROMENT



1. AMCHAM RECOMMENDS THAT THE REGULATORY AND INCENTIVE SCHEMES BETTER SUPPORT THE IMPROVEMENT OF COMPETITIVENESS IN THE BUSINESS ENVIRONMENT.
 - a. In order to create a better synergy between job creation and the availability of competitive workforce, it is important that investment incentive programs focus on regions that are less impacted by labor shortage.
 - b. When promoting investment, particular attention should be paid to supporting the supplier background industry of manufacturing companies, encouraging innovation and further training to reduce supplier risks.
 - c. Greater emphasis should be given to further develop regional infrastructure;
 - i. Local and interurban transport should facilitate commuting between home and workplace.
 - ii. Measures should be taken to ensure faster crossing of lorries at the Hungarian border crossing points, which are used primarily by freight traffic, as well as traffic management and investment to prevent lorries from occasionally increasing traffic congestion.
 - d. We would welcome new investments in waste management (especially electronic waste).

I. GENERAL BUSINESS ENVIROMENT



2. AMCHAM WELCOMES GOVERNMENT STEPS TO REDUCE THE TAX BURDEN AND RECOMMENDS FURTHER MEASURES TO ENSURE A COMPETITIVE AND PREDICTABLE TAX ENVIRONMENT.

- a. We recommend changes related to the local business tax (LBT/hipa). We suggest:
 - i. reviewing the definition of local business tax base and expanding tax reduction items;
 - ii. abolishing the obligation to top-up the LBT liability at year end
 - iii. simplifying related tax administration
- b. We recommend changes related to transfer pricing.
 - i. We suggest the extension of the deadline for preparation as deadlines for the preparation of the annual report, the corporate tax return and the transfer price documentation are currently one the same day.
 - ii. Further recommendations to clarify and simplify tasks of companies related to transfer pricing (NAV should provide: a National Transfer Pricing Guideline in English and Hungarian, a detailed guideline on NAV investigations, requests, resolutions etc.)

I. GENERAL BUSINESS ENVIROMENT



- c. We recommend the revision of corporate tax (TAO) concept, including its possible elimination. We recommend providing a more effective form of support to help beneficiary organizations.
 - i. The TAO system should be reconsidered, including its elimination.
 - ii. If the TAO system remains, we recommend expanding the scope of beneficiaries (educational, healthcare and patient)
 - iii. We recommend the simplification of the TAO administration.
- d. Rules of corporate tax group (tao-csoport) should be further liberalized. Tax losses and tax allowances within the group should be fully available for each group member without restriction.
- e. Cafeteria should be reconsidered in personal income tax (PIT/szja)
 - i. We recommend encouraging the employer's contribution to voluntary pension funds (up to a certain cap) by introducing new tax benefits of its tax burden. The long-term effects of this will alleviate the anomalies of the pension system.
 - ii. Extra corporate spending on health preservation and health services would be subject to favorable tax conditions, as part of cafeteria and beyond as well.
 - iii. Eliminate the tax burden on housing allowances and group life-, accident-, health, and pension insurance by the employer.
 - iv. Allow the gifting of tangible assets to employees and employed student workers (up to a small amount) without employer's obligation to declare and pay personal income tax.
- f. Simplify the administration of rehabilitation contribution.
- g. Reconsider the timing of the new provisions on online reporting requirements effective from 1 July 2020
- h. We suggest the extension of e-invoicing possibilities in the VAT regulation.

I. GENERAL BUSINESS ENVIROMENT



3. UNIFORMIZATION AND FURTHER DIGITALIZATION OF PUBLIC ADMINISTRATION SERVICES ARE A SERIOUS COMPETITIVENESS FACTOR. PROPOSALS FOR THE MORE USER-FRIENDLY ONE-STOP GATEWAY / CUSTOMER GATE:

- a.** Introducing a more advanced document and access rights management in the existing electronic communication systems (several specified recommendations on digital storage, filter system, updating data etc.)
- b.** Further development of one-stop shop (one-store) systems particularly with respect to the electronic transfers of taxes and similar payments, LBT filing/declaration and auditing.

4. WE RECOMMEND FOR ASSOCIATIONS AND FOUNDATIONS A SIMPLIFICATION OF THE OPERATING ENVIRONMENT AND A GREATER ALIGNMENT OF ECONOMIC INCENTIVES WITH STAKEHOLDERS, ALL IN THE INTEREST OF EFFICIENCY.

II. COMPETITIVE WORKFORCE AND EDUCATION



5. THE GOVERNMENT SHOULD PROMOTE THE INCREASE OF THE WORKFORCE SUPPLY IN EVERY POSSIBLE FIELD IN ORDER TO HELP THE AVAILABILITY OF THE WORKFORCE NECESSARY:
- a. We recommend the support of the expansion of new forms of flexible employment and atypical employment schemes and the creation of a convenient regulatory environment.
 - b. We recommend expanding employment opportunities for non-EU (third country) nationals and making the licensing process more efficient, especially the process of applying for the health insurance card.
 - c. We suggest enabling labor force hiring from non-EU countries without the obligation of starting a new authorization procedure in case the borrower changes, but the non-EU national stays the same.
 - d. We recommend stronger and more effective participation in adult education and support for lifelong learning.

II. COMPETITIVE WORKFORCE AND EDUCATION



- 6. REVISE CERTAIN LABOR CODE REGULATIONS SO THAT BUSINESS REALITY REQUIREMENTS CAN MEET THE EXPECTATION OF THE LABOR CODE.**
 - a. Revise the Regulation on Minimum Health and Safety Requirements for screen work.
(change the maximum of 6 hours of work allowed in front of screen and monitor free work)
 - b. We recommend the revision of the Regulation on selection of representatives of employees.
 - c. We recommend the revision of the maximum weekly working time rules.
 - d. We recommend the revision of the Regulation on the mandatory schedule of monthly one rest day on a Sunday.

II. COMPETITIVE WORKFORCE AND EDUCATION



7. WE RECOMMEND THAT EDUCATIONAL EXPENDITURE AS A PERCENTAGE OF GDP SHOULD REACH AT LEAST THE OECD AVERAGE.

- a. A significant improvement is necessary regarding the professional and financial appreciation of teachers, and a better social prestige of the teaching profession as a necessary condition for a good quality education system.
- b. We consider it important to reduce the workload and especially the administrative burden of teachers.

8. WE PROPOSE FURTHER MEASURES TO INCREASE THE EFFECTIVENESS OF FOREIGN LANGUAGE TEACHING.

- a. We recommend reviewing and extending the foreign language learning program for students.
- b. We recommend supporting the training of foreign language teachers, including the possibility of further training abroad.

II. COMPETITIVE WORKFORCE AND EDUCATION



9. WE RECOMMEND THAT THE GOVERNMENT SHOULD FACILITATE THE STRENGTHENING AND EXPANSION OF SCHOOLS' CAREER ORIENTATION ACTIVITIES WITH A SPECIAL FOCUS ON STEM SUBJECTS.
- a. Career orientation must start from a very early age in public and vocational education and should be coherent part of the education system.
 - b. Support STEM related career guidance and provide fair and equal opportunities for girls to engage in STEM-related subjects at school and to draw more girls and women into STEM fields of study. Introducing experience-based education would improve the current system.

II. COMPETITIVE WORKFORCE AND EDUCATION



10. IT IS NECESSARY TO BOOST PARTICIPATION IN HIGHER EDUCATION, REDUCE ADMINISTRATIVE BURDENS AND INCREASE THE EFFICIENCY OF DUAL EDUCATION.

- a. We recommend encouraging greater participation in higher education, with special focus on PhD training by
 - i. providing a scholarship system and benefits for students which is closely equivalent to the livelihoods of employment.
 - ii. Student loan should be available over age 45 as well (regardless of age).
- b. We recommend making the dual training framework more flexible and reducing the administrative burden on companies.

II. COMPETITIVE WORKFORCE AND EDUCATION



11. WE SUGGEST THAT THE GOVERNMENT REDUCE THE ADMINISTRATIVE OBLIGATIONS OF TRAINING SUPPORT; PROMOTE FLEXIBLE TRAINING PLANNING AND PROVIDE FURTHER INCENTIVES FOR CORPORATIONS.

- a. Administrative burden of companies applying for training support should be reduced.
- b. We recommend that records and documentation of training planning and delivery should be allowed to be managed in electronic training management systems of large corporations.
- c. Flexible training planning is needed to adopt to the quick changes of businesses and the needs of the labor market.
- d. We advise the consideration of providing training support on a 'de minimis' basis.

III. INNOVATION AND RESEARCH AND DEVELOPMENT



12. AMCHAM RECOMMENDS REVIEWING THE FINANCING AND MANAGEMENT OF THE R&D MODEL, ESPECIALLY FOR HIGH VALUE-ADDED R&D FIRMS.

WE RECOMMEND:

- a. identifying the particularly innovative, fast-developing and strategically important sectors and revision the grants system for these sectors;
- b. setting up and operating an efficient, reformed seeding system;
- c. encouraging events that bring together particularly innovative start-ups, university research centers, venture capitals, and large companies in the industry.

III. INNOVATION AND RESEARCH AND DEVELOPMENT



- 13. WE ADVOCATE FOR STRONGER INNOVATION-CENTERED APPROACH AND INCREASING SUPPORT AND INCENTIVES FOR INNOVATION, AND RECONSIDERATION OF THE EXISTING SYSTEM OF INCENTIVES.**
- a. We recommend redefining the concept of innovation and qualifying each activity accordingly (process and service innovation, new market and value creation).
 - b. We recommend that the definition of innovation target areas be based on extensive communication and, where possible, to conduct related impact assessments.
 - c. It is desirable to develop a system of incentives to support innovation that is tailored to the specifics of sector and provides a real, effective incentive for innovation. We recommend setting up a voucher system, especially for SMEs, while striving and maintaining consistency with EU aid rules.

III. INNOVATION AND RESEARCH AND DEVELOPMENT



14. THE GOVERNMENT SHOULD MORE EFFECTIVELY SUPPORT THE PRACTICAL IMPLEMENTATION OF THE COOPERATION AGREEMENTS BETWEEN THE HIGHER EDUCATION INSTITUTIONS AND BUSINESSES, AND ENOUGH FLEXIBILITY SHOULD BE LEFT FOR ADAPTATION TO ENVIRONMENTAL CONDITIONS.

- a. We suggest strengthening and providing targeted support for centers of excellence;
- b. We recommend recognizing the importance of expanding knowledge transfer; the process of market utilization of intellectual property transfers should be further simplified and supported, and procedures should be faster;
- c. There is a need for a digital platform and marketplace as an information, knowledge and competence center where companies can turn to their problem, their initiative, and which directs them to the right university. We expect and recommend that the government build or assist to build this infrastructure. This center could provide access to a database of best practices, legal advice to contract and find existing international practices;
- d. Making dual education more effective could offer great opportunities for innovation, but this would require a reform of business-university cooperation as the framework of the existing cooperation is rigid and inflexible with extra administrative burden.

III. INNOVATION AND RESEARCH AND DEVELOPMENT



15. WE ENCOURAGE TO EXTEND AND BROADEN THE INNOVATION INCENTIVES FOR SMEs.

- a. The SME sector should also be involved in innovation collaborations and become part of the innovation process.
- b. The development of a mentoring program for the next generation of family businesses should be considered.
- c. SMEs need to be effectively assisted and encouraged to apply and write applications.
- d. We recommend launching a tool rental service based on state-of-the-art equipment that allows SMEs (+) to perform measurements and tasks that would otherwise not be possible on their own and which support their efforts to innovate;
- e. In order to keep start-ups home, we suggest creating a more supportive start-up ecosystem with simpler regulation and fewer administrative requirements.

III. INNOVATION AND RESEARCH AND DEVELOPMENT



16. WE CONTINUE TO ADVOCATE FOR RECOGNITION OF THE CLINICAL RESEARCH INDUSTRY AS PART OF THE HEALTH INNOVATION ECOSYSTEM AND FOR SUPPORTING OF ITS DEVELOPMENT POTENTIAL IN THE R&D INCENTIVE SCHEME. WE RECOMMEND:

- a. modifying the R&D system that takes into account the importance of clinical trials and their potential for further development;
- b. investment in clinical research be recognized as an R&D expense and to make these expenditures eligible for deduction from the industry specific tax paid.

IV. DIGITALIZATION



17. WE RECOMMEND THAT THE GOVERNMENT STRIVE FOR MAKING HUNGARY BECOME A DATA-DRIVEN DIGITAL LEADER. THIS OBJECTIVE MUST BE ACHIEVED THROUGH APPROPRIATE COORDINATION BETWEEN REGULATORY POLICY AND INVESTMENT. AT THE SAME TIME, EFFORTS SHOULD BE MADE TO CREATE A WELL-STRUCTURED IMAGE OF A 'DATA-DRIVEN ECONOMY.
18. WE RECOMMEND REDUCING THE ADMINISTRATIVE BURDEN OF LABOR PROCESSES THROUGH DIGITALIZATION.

IV. DIGITALIZATION



19. WE RECOMMEND THE FURTHER REDUCTION OF CASH AND INCREASE THE DIGITALIZATION OF PAYMENTS IN ORDER TO REDUCE SHADOW ECONOMY.

- a. We consider it necessary to establish a comprehensive financial education platform.
- b. Incentivize electronic payments by obligation to provide electronic payment option for the followings:
 - i. companies with more than 5 employees should be required to pay wages electronically;
 - ii. companies with cash registers connected to NAV should be obliged to provide electronic payment option;
 - iii. It should be mandatory to provide electronic payment options for specific sectors (e.g. construction, automotive, hospitality, private medical practices, wholesale food trade and wholesale in general).
 - iv. It would be worth focusing on growing online commerce and obliging webstores to provide digital payment option.

IV. DIGITALIZATION



- c. NAV should pay special attention to the control of sectors or businesses where at least 80-20% of cash and electronic payments are consistently underperforming.
- d. We recommend limiting cash payments (raising the limit for B2B transactions to HUF 500,000, introducing a limit for B2C and C2C transactions).
- e. We recommend exploring areas of the public sector where electronic payment is still lacking and developing appropriate electronic payment infrastructure in these areas as well.
- f. It is recommended that the certificate printed by the POS terminals should be sufficient for cost accounting purposes for more services.
- g. We recommend linking various governmental programs and grants for business development and digitalization with measures to digitize payments.

IV. DIGITALIZATION



20. SUPPORT SMART CITY SOLUTIONS IN THE AREAS OF ADMINISTRATION, TRANSPORTATION, IOT INFRASTRUCTURE, HEALTHCARE, SUSTAINABILITY, UTILITIES, PUBLIC SECURITY, TELECOMMUNICATIONS AND THE DIGITALIZATION OF PUBLIC SERVICES.

- a. Integrated approach in creating smart city strategy
- b. More effective ICT infrastructure and digitalization of transportation
- c. Healthcare and analyzation of healthcare data
- d. We recommend using new regulations and technologies to make buildings more energy efficient and environmentally friendly.
- e. In the area of utilities and environmental sustainability, we recommend encouraging new technologies and smart grids for better water and wastewater management.
- f. We encourage the promotion of technologies that support public security.