



Hungary

Corporate tax relief for energy efficiency investments in industry

Responsible authority: Ministry of Finance

Managing Authority: National Tax and Customs Administration of Hungary

General information

Hungary declared in 2015 that it plans to fulfil the Art. 7 target of EED by implementing alternative measures for the period 2014-2020 (Energy Efficiency Act of 2015 and [3rd NEEAP of 2015](#)). In the [4th National Energy Efficiency Action Plan](#) of 2017, a revised target was determined for 2020. The cumulated energy saving target for the purpose of Art.7 for 2020 was calculated 167.5 PJ, equivalent to at least about 5 PJ new savings per year.

According to the [draft Integrated National Energy and Climate Plan](#) of 2019, Hungary's energy consumption in 2030 should not exceed the value for 2005 (gross final energy consumption of 27.6 Mtoe). In the new saving period of 2021-2030, an EEO scheme is envisaged to be introduced, based on the newly drafted long-term energy strategy for Hungary.

Scope and focus

The corporate tax relief for energy efficiency investments was introduced in 2017 for the implementation and operation of investments aimed at improving energy efficiency. It promotes energy efficiency investments all over the business sector at large, medium and small enterprises. From 2018, not only new energy efficiency investments, but energy efficiency refurbishment are also included. This may entail any purchase of new equipment, machinery or other asset, switching to a more efficient one or carrying out a refurbishment of existing assets or buildings.

The tax incentive can be up to 30% of eligible costs, but not more than the HUF equivalent of EUR 15 million at present value, which can be increased by 20% for small enterprises, and 10% for medium-sized enterprises. Also, a regional differentiation is possible in line with State aid rules. The tax relief was notified to the Commission for State aid approval. The scheme was declared compatible with the internal market regulations of the EU.

The tax incentive may only be claimed in connection with projects aimed at EE improvement. No tax credit can be applied with respect to investments aiming at fulfilling the mandatory environmental protection standards or minimum mandatory energy efficiency standards.

Key actors, roles and options

The Ministry of Innovation and Technology is responsible for Article 7 policy design and implementation of the various alternative measures, as well as monitoring and verification of the results.

The corporate tax relief measure, however, belongs to the Ministry of Finance. The Managing Authority is the National Tax and Customs Administration (NAV). The Hungarian Energy and Public Utility Regulatory Authority (HEA) is responsible for controlling energy audits.

Monitoring, Reporting and Verification

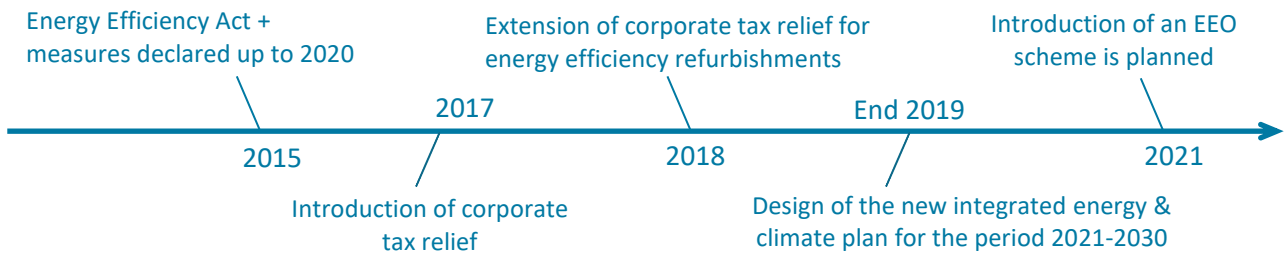
NAV controls requests for tax relief within 3 years by checking ex-post if all requirements for the tax relief were met. Large enterprises are required to register with HEA and annually provide data on energy consumption, implemented energy efficiency measures and savings.

It is necessary for the applicant to obtain a certificate from an auditor registered with HEA that proves that the investment aims at improving energy efficiency. The certificate should be based on the result of an energy audit.

Auditors and auditing companies are required to provide HEA with data on the certified energy efficiency investment and the projected savings within 30 days after issuing the certificate for the company applying for the tax relief. HEA controls and verifies 3% of the audits. The method used to calculate the energy savings are based on the energy audits.

Companies and auditors have to report data to HEA through an online template. Data are verified by HEA through plausibility check, and for a sample of 3%, a detailed review is performed by controlling invoices and documentation of the measure.





The tax relief was enforced through the Act on Corporate and Dividend Tax of Hungary and Government, and the related Decree No. 176/2017.

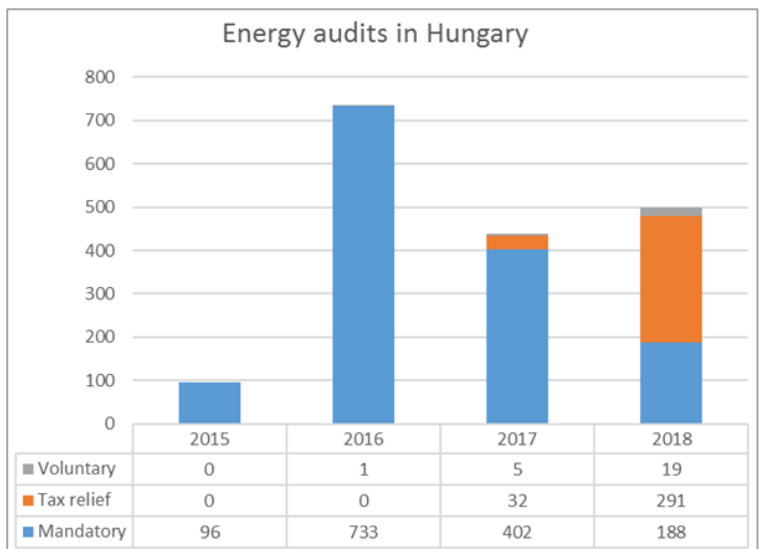
Costs for stakeholders

Market participants are required to carry out an energy audit as a pre-condition for the tax credit.

Results of the corporate tax relief in 2018

Measures in 2018	Energy savings (GJ/year)	CO ₂ savings (kt/year)
Transport	436	15,6
Industrial processes	153 189	2 849
Building	109 071	3 763
Other	6 159	109
Total energy savings	268 846	39 338.5

- 323 data provision on implemented investments up to the end of 2018
- 269 TJ/year energy savings
- 39 kt CO₂ saved/year
- energy efficiency investment volume of HUF 7 billion (21 million euros)
- average life time of measures: 15 years



Newest data for 2019 show exponential increase of the audits prepared for taking advantage of the tax incentive.

Overview of the policy mix reported by Hungary for Article 7

Transversal / cross-cutting

European Structural funds financed **Operational Programmes (OPs)** that provide a wide range of - mostly - non-refundable support for various target groups, including SMEs, public buildings, and local authorities to implement energy efficiency investments or improvements. Almost ten different OPs provide support for various action types.

Services

Corporate tax relief for energy efficiency measures
Mandatory application of an **energy manager** at large enterprises

Industry

Corporate tax relief for energy efficiency measures
Mandatory application of an **energy manager** at enterprises with high energy consumption (threshold defined by law). 0.6-0.7 PJ saving were reported in 2017.

Residential

Green Investment System and Green Economy Financing Scheme, financed from CO₂ quotas, providing non-refundable support for residential actions (e.g. heating modernization, replacement of appliances).

Zero-interest residential loan scheme, funded through an OP, to finance energy efficiency improvements and renewable installations for homeowners, apartments, multi-family buildings, cooperatives.

Transports

Support to **electro mobility** financed from CO₂ quotas (Jedlik Ányos plan)

Bicycle infrastructure development

Interview with Anikó Pálffy

energy efficiency policy officer
HEA (Hungarian Energy and Public Utility Regulatory Authority)



What have been the main changes in the policy in the recent years?

There has not been much change in the policy package. Hungary intends to meet Art.7 requirements through various alternative measures. As savings are behind what is projected and required for 2020, the introduction of an EEO schemes is envisaged for the next saving period (2021-2030).

What about MRV?

MRV is not streamlined for alternative measures. Energy efficiency support programs financed through Operational Programmes (EU funds) are the major measures in terms of volume and savings – but monitoring of the savings is not properly implemented.

What success factors have you identified?

The corporate tax relief is a relatively new measure introduced in 2017. Monitoring and verification of the savings for this measure is well documented and properly implemented.

Are there interactions with other policies?

For large enterprises there are three different measures that may overlap. There is the energy audit obligation based on Art 8 of EED for large enterprises as defined by EU law (non-SMEs). There is a somewhat larger circle of companies that are required by law to hire an energy manager. The energy manager is responsible for counselling on energy efficiency improvements. For the purpose of this measure high energy consumption matters: a threshold is defined by law for the volume of electricity, gas and heat

consumption. The third measure is the corporate tax relief for energy efficiency investments and refurbishments. This incentive is open not only for large enterprises, but for SMEs as well.

Auditors and energy managers are required to provide HEA with data on yearly energy consumption, measures and savings. There is a different reporting template for auditors and energy managers. Auditors are required to indicate if the purpose of the audit performed was to take advantage of the tax relief. Auditors also have to indicate if the company benefitted from any other type of financial support to avoid double counting.

Are there any expected modification under discussion?

An EEO scheme is envisaged for the next saving period. Background studies are under preparation.

If you could go back in time, what would you do differently?

- More governmental support would have been necessary for energy efficiency in the last decade, especially for the improvement of energy efficiency in the residential sector through building retrofits. A well-functioning, less bureaucratic institutional background is a necessary requirement for the proper implementation of the measures enacted by legislative documents.
- Make timely decision on streamlining M&V for Art 7 measures

