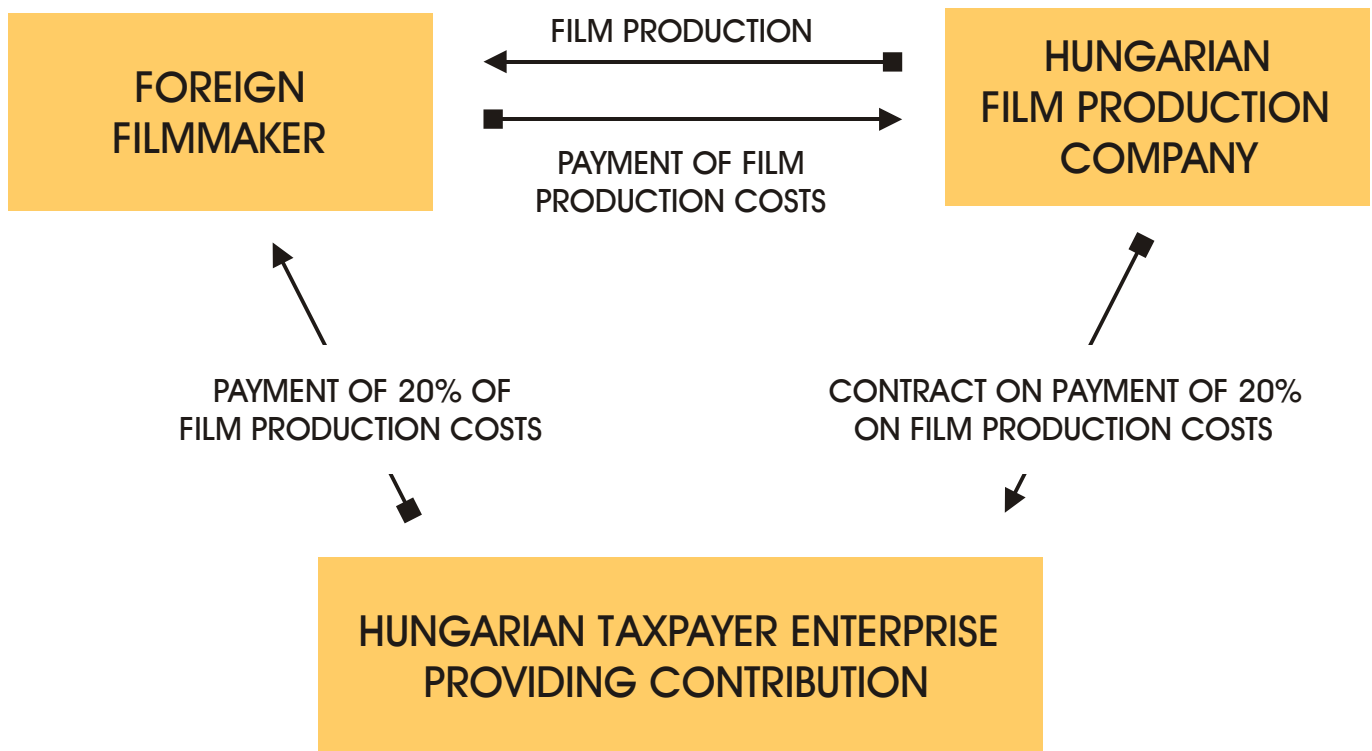


# MOTION PICTURE TAX INCENTIVE

In recognition of the importance of the Motion Picture Industry, Hungary has committed itself to becoming one of the most attractive and competitive film locations in Europe. To achieve this goal, the government initiated a new Act on Motion Pictures in April 2004, which provides exceptionally favorable conditions for all those who wish to shoot films on location in Hungary. In addition to offering incentives to local Hungarian producers, co-producers and investors, the Act also encourages foreign producers to shoot their films in Hungary.



With the new tax system foreign producers can effectively reduce their Hungarian costs by up to 20% by receiving a rebate/refund for 20% of the expenses incurred and paid for in Hungary after the Hungarian portion of filming has been completed. The financing of this 20% refund comes from Hungarian tax-paying businesses and corporations who are able to reduce their tax base and their eventual tax obligation by the amount of their contribution to a film. The refund is paid directly to the foreign producer from the Hungarian corporate tax-payer, who provides the contribution solely for tax-reduction purposes.



This means that a business's pre-tax profits are first reduced by the amount of its contribution (which equals up to 20% of the Hungarian production expenses of a given film); the company subsequently receives a tax credit for the amount of the contribution to offset its tax obligations as well. Corporate Profit Tax is currently 16%. So, effectively, participating corporations earn 16% on their contribution.

## The Basic Procedure

1. The foreign producer must contract with a Hungarian-based film production company (e.g. Laokoon Filmgroup) that is registered with the National Film Office.

2. Laokoon Filmgroup then applies to the National Film Office in order to register the given production so that it can be eligible to participate in the tax incentive system. Registration must take place at least 45 days before the start of shooting in Hungary.

3. Laokoon or a financial broker finds a tax-paying entity to participate in the tax-incentive system. Financial service companies currently charge a fee of around 2% for brokering the deal and administering the process.

4. A contract is drawn up defining the terms and conditions of the relationship and establishing the estimated amount of the contribution. The exact terms of the contract are determined on a case-by-case basis. However, as a general rule some corporations may charge up to a 2% fee for participating in the system.

5. The Hungarian portion of the production is completed. Laokoon receives total payment from the foreign producer for all Hungarian costs and its services. In turn, Laokoon pays all outstanding Hungarian expenses.

6. Upon Laokoon's request, the National Film Office audits the books of the production and defines the total amount of costs eligible to receive the 20% rebate. Only expenses paid to Hungarian tax-paying individuals or entities qualify. Laokoon's mark-up is not eligible. The National Film Office has 30 days to complete this process.

7. The National Film Office issues a tax credit certificate to the corporate tax-paying entity for the amount approved in step 6.

8. Upon receiving the tax certificate the corporate tax-paying entity pays the refund directly to the foreign producer as per the terms of the negotiated contract. Normally this transaction takes place within 12 weeks of receipt of the certificate, although terms may vary.

So, for example, if a foreign producer spends \$5 million in Hungary on expenses that are paid to Hungarian tax-paying persons or entities, and they follow the above procedures, they can be issued a tax-credit certificate for \$1 million within 45 days of having made all final payments and having closed the bookkeeping of the production. Once the certificate is issued and given to the participating corporate tax-paying entity, the foreign producer will be wired a refund of up to \$1 million\* within the minimum of another week.

TOTAL ACCEPTABLE HUNGARIAN BUDGET	\$5,000,000
-20% REFUND	- \$1,000,000
+0*4% FINANCIAL SERVICE FEES	Up to + \$200,000
FINAL TOTAL BUDGET	from \$4,000,000 to \$4,200,000
TOTAL SAVINGS	from \$800,000 to \$1,000,000

\*The exact amount of the final refund and the timing of its receipt depends on the terms of the contract as negotiated with the corporate tax-paying entity.