D'ORNANO PARTNERS

July 2021

CEE LEGAL NEWSLETTER

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PROMOTING INVESTMENT

PREFERENTIAL REGIMES AND INCENTIVES

- RECOVERY PLANS TO RESTART THE ECONOMY
- INVESTMENT INCENTIVES
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- STATE AID FOR PRIORITY INDUSTRIES
- OTHER SUPPORT MEASURES TO ATTRACT SUSTAINABLE INVESTMENTS

In cooperation with

GEORGI POPOV & CO. LAW FIRM

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FRANCE

Investment is essential for economic growth. Whilst **French savings** hit the 160-billion-euro mark for the year 2020-2021, i.e., almost 50% of French GDP, Emmanuel Macron's government has put in place a plan to "**relaunch France**", the primary aim of which is **to boost business investment in the country**. This investment plan is aimed at VSEs and SMEs, which alone generate 33% of French companies' turnover, but also at the social and solidarity-based economy and French overseas territories.

Various texts provide for the implementation of the recovery plan:

- The third amending finance law for 2020;
- The finance bill for 2021 and the future investment programme (PIA4);
- The social security financing bill for 2021;
- The European recovery plan**.**

These texts set forth the three main strands of the recovery plan, namely ecology, cohesion and competitiveness. Investing in these sectors will boost economic growth, and then make it possible to repay the investment of 100 billion euros. The various forms of finance will notably include capital increases, tax reductions or funding earmarked for training and job-saving.

BOOSTING INVESTMENT TO MAKE COMPANIES MORE COMPETITIVE

Firstly, the government wishes to boost investment in competitiveness. 35 billion euros will accordingly be allocated for this purpose, i.e., 35% of the total budget, which will encourage companies to invest in new technologies, enabling them to reduce their production costs over the long term and, above all, to relocate the factories within France.

New technologies will not be the only way to achieve this competitiveness, since investment in training and research will make it possible to offer a more efficient, eco-friendly and, therefore, more competitive production system in the years to come.

Measures to effectively increase investment will, for example, include consolidating the equity capital of VSEs/SMEs, via "France recovery" labelled investment funds that are backed by a state guarantee, with a budget of 3 billion euros.

11 billion euros will also be earmarked for investment in new technologies, by supporting business investment in new, more efficient production units. However, it will also ensure that universities and colleges have substantial funding to invest in the training of talented young people, and thus increase the effectiveness of research and innovation.

Finally, 20 billion euros will be applied to decrease production taxes. The main reductions will be in the CVAE (Business value added tax), the TFBP (Property tax on buildings) and the CET (Territorial economic contribution), so that the income initially earmarked for these taxes can be invested by SMEs and ETIs (intermediate-sized companies), in order to improve their competitiveness.

BOOSTING BUSINESS INVESTMENT FOR TERRITORIAL AND GENERATIONAL COHESION

The second strand of the investment plan is cohesion, the main objective of which is to limit the inequalities that will appear at the end of the health crisis. The government will therefore invest 35 billion euros, i.e., 35% of the total budget, so that companies can invest in turn, enabling jobs to be saved and making it possible for students, young workers and the most vulnerable members of society (people with disabilities) to find a job or an internship.

The first measure to promote investment in this part of the recovery plan will be the allocation of 7.6 billion euros to preserve companies' human capital. This involves maintaining the furlough measures for employees at companies which have experienced a significant drop in activity. Companies will be able to preserve their human capital, which is essential for the proper functioning of the economy but will also be able to invest in training for employees on furlough. Companies will therefore be encouraged not only to maintain their workforce, but above all to invest in training, thanks to the aid provided by the recovery plan.

In addition, 3.6 billion euros will be injected to facilitate the recruitment of young people under 26 years of age and the most vulnerable groups. Accordingly, part of the wages for new employees in the designated category will be funded by the recovery plan. This will provide an incentive for companies to increase their payroll by focusing on young talent, while at the same time boosting their activity without the risk of having to bear an overly large wage bill.

BOOSTING INVESTMENT IN ECOLOGY

Finally, the last area of investment targeted by the recovery plan is ecology. The aim here is to help companies invest in production chain changes, or in processes, in order to achieve a more environment-friendly, economic recovery. 30 billion euros will be invested in this process, i.e. 30% of the total budget. For industry, 1.2 billion euros will be allocated to support business investment in manufacturing processes that use more environmentally friendly energy sources. The additional costs incurred through the use of cleaner energy will be borne by the State.

Obtaining aid under the recovery plan is quite straightforward, as the government has set up the https://www.economie.gouv.fr/plan-de-relance/profils/entreprises platform. To find out whether your investment is eligible, you simply have to specify your profile (SME/ETI, etc.), and state the company's sector of activity (culture/ecology, etc…).

In conclusion, the aim of the French State's recovery plan, in a total amount of 100 billion euros, is to promote business investment in key sectors, such as ecology, competitiveness and cohesion. Companies are therefore well-advised to invest their funds in these different sectors, as the incentives offered by the government guarantee a high level of financial security.

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HUNGARY

The Hungarian government is focusing on restarting the economy through a EUR 4.9 billion (1.700 billion HUF) state investment incentive program, particularly in light of the upcoming elections scheduled for the spring of 2022. In addition to policies which aim to achieve tangible social benefits for families and employees, there are also several incentives specifically aimed at businesses and investors. In this regard, Hungary is also relying on EU development aid – the Hungarian Government is anticipating EUR 8.6 billion (3 trillion HUF) of EU funds in the 2022 budget. Moreover, on 15 June 2021, the Hungarian Government established an Operational Body for the Relaunch of the Economy to support business recovery after the pandemic and achieve economic growth of 5.5% in 2021.

INVESTMENT INCENTIVES

One of the main incentives for investors in Hungary is the favourable tax rate, together with tax credits. Since 2017, Hungary has had the lowest corporate tax rate in Europe, with a flat rate of 9%. In addition, state aid is available to eligible investors in certain priority sectors, to foster both local and foreign investments. This includes ad hoc state aid awarded for certain significant investments, subsidies for investments in assets and business service centres, and subsidies for research and development projects, vocational training, etc.

The Hungarian Investment Promotion Agency is responsible for investment promotion and provides consulting and support services to facilitate the application process for investors and offer guidance throughout the project development and implementation phases. The agency currently supports 44 on-going investment projects, in real estate, green energy, agriculture and the food industry, manufacturing and innovation, with an average project budget of between EUR 1.5 million and EUR 150 million.

TAX INCENTIVES

On 9 June 2021, the government adopted a decree to implement tax relief worth a total of EUR 14,400 (5 million HUF) to mitigate the pandemic's negative impact. This is in addition to the discounts set out in the Act CL of 2017 on the Rules of Taxation. Individual taxpayers may apply to the Hungarian Tax and Customs Authorities for a payment deferral up to a maximum of six months, or a rescheduling of tax payments by means of instalments over a 12-month period if the taxpayer's payment difficulties are linked to the pandemic emergency.

For legal entities, the deferral option is also available until 31 December 2021, up to a maximum of 20% of the tax debt or EUR 14.400 (5 million HUF), whichever is less. The option can be exercised for only one type of tax. Applications are processed in 15 days, meaning that the system is relatively efficient.

STATE AID FOR PRIORITY SECTORS

One of the incentives is set forth in the Governmental Decree 210/2014. (VIII.27.) regarding the use of a dedicated scheme for the promotion of investments. This provides financial support to several industrial and economic representatives and prioritises certain sectors, namely clothing and design, food production and processing, pharmaceutical companies, biotech companies, innovation and research activities etc. Clothing and design companies can rely on a new investment resource to finance their development thanks to EUR 43 million (15 billion HUF) of state aid. This industry sector employs 100,000 people throughout the country, with an increasing number of typically small and medium-sized businesses which predominantly focus on export activities. The Hungarian clothing and design industry sells 80% of its products abroad, and is one of the sectors with the highest export capacity.

Recently, IT and telecommunication companies have also started investing in Hungary. Cloud Network Technology Kft. (part of the Foxconn Group) is launching an investment of over EUR 15 million (5.2 billion HUF) for its warehouse capacity expansion in Komárom, North-Western Hungary, and is creating 30 new jobs. The project received EUR 2.8 million (1 billion HUF) in state aid. Moreover, a joint project of DMG Mori, Japan, and Heitec, Germany made an investment of EUR 11.5 million (4 billion HUF), to which the Hungarian Government contributed EUR 2.87 million (1 billion HUF), for a software research centre in Budapest creating 55 highly skilled jobs.

State aid is also available for the food production and processing sector, in order to enure a high-quality food supply. The Economic Development and Innovation and Operational Program awarded a grant of EUR 2.5 million (900 million HUF) in respect of a recent EUR 4 million (1.4 billion HUF) investment by Halker Kft., aimed at eliminating inappropriate ingredients at its facilities. Similarly, the Hungarian company Agrosprint Hungary Kft. received state aid of EUR 17.2 million (6 billion HUF). It is the largest fruit and vegetable processing and quick-freezing company in Hungary and is the largest processor of quick-frozen sweet corn in Europe. The investment of EUR 41.6 million (14.5 billion HUF) has created 110 jobs in two facilities in Eastern Hungary.

FOCUS ON THE EAST

Another of the current government's long-term objectives is to build and expand relations with countries in the Far and Middle East. For example, South Korea has become one of the five largest investors in Hungary, following a significant increase in trade with effect from 2020. Pursuant to this policy, the state has extended non-refundable financial support of EUR 36 million (12.5 billion HUF) to the Turkish company Sisecam concerning its recent EUR 210 million (73 billion HUF) investment in Hungary. This investment has created 330 new jobs in Kaposvár, a town in the south-western region of Hungary. Similarly, a South Korean company, Hanon Systems Hungary Kft., which has invested EUR 51.7 million (18 billion HUF), creating 40 new jobs and expanding its existing personnel in Hungary by 2,000, benefits from state aid of around EUR 13.2 million (4.6 billion HUF).

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BULGARIA

Foreign investments are essential for the Bulgarian economy, given the country's size and resources. Incentives to attract investors and entrepreneurs have been implemented, with varying degrees of success, by governments over the past twenty years. Most recently, the caretaker government (in charge of the country until the elections on 11 July 2021) has announced new measures to relaunch the economy following last year's stand-still. It also replaced the management of most of the state agencies, including the Bulgarian Investment Agency, in an attempt to foster transparency and boost the country's profile as an investment destination. By next autumn, Bulgaria will have a new, fully operational government, eager to relaunch the economy by revisiting existing investment incentives and introducing new measures in line with its priorities for economic development. In the meantime, set out below, is an overview of the key incentives for investment in Bulgaria which currently apply.

TAX INCENTIVES

Bulgaria has a relatively low rate of income and corporate tax, namely a flat rate of 10%. It was introduced more than a decade ago, in 2008, one year after Bulgaria's much coveted accession to the European Union. It is particularly attractive for holding companies, enabling them to optimize revenue and profits. For companies with on-site operations (e.g. manufacturing facilities and numerous employees), its effect is less significant, as they need to factor in social security charges and labour costs.

INVESTMENT PROMOTION FRAMEWORK

The Bulgarian state supports investments through a variety of incentives which are implemented by the Bulgarian Investment Agency, in compliance with EU Regulation No. 651/2014 declaring certain categories of aid compatible with the internal market. The regulatory framework is laid out in the Investment Promotion Act (*Закон за насърчаване на инвестициите*), which was first adopted in 1997 and has been amended on an almost annual basis ever since, in order to adapt to the respective priorities of each incumbent government. It focuses on encouraging investments in greenfield projects that increase the competitiveness of the local economy and create sustainable long-term employment.

Eligible Investments

Currently, those investments promoted by the regulations are predominantly in the high-value and high-efficiency sectors, both for greenfield projects and for the renovation and modernization of existing facilities which are in operation. The eligible sectors include:

- Processing industries;
- High tech services – IT and programming;
- Research and development;
- Services related to education and healthcare;
- Logistics and transport services;
- Call centres and office services, engineering and architectural design.

Notwithstanding, if an investment qualifies as a priority investment project (*приоритетен инвестиционен проект*) under the Investment Promotion Act, then all economic sectors are eligible.

Qualifying requirements

Each investment has to comply with a number of requirements designated to ensure sustainability and a long-term impact on the local economy, including:

- At least 80% of the future revenues should derive from the implementation of the project (i.e. services rendered and/or products manufactured on site);
- At least 40% of the costs should be financed by the investor either from its own funds or through financing obtained by it;
- The assets acquired for the project should be new, and purchased at market price from third parties (i.e., not from connected parties);
- The investment is to be maintained on site, with a defined minimum number of employees, for at least 5 years (or 3 years for medium or small-sized companies);
- The project must be fully implemented within 3 years of its launch, except for a small number of exceptions, when this deadline can be extended.

Eligibility and compliance with requirements are assessed by the Bulgarian Investment Agency by means of a certification process, which is relatively streamlined and efficient. The necessary information for filing an application is available online and the agency's officers are happy to provide advice and support when approached by interested investors.

Classification of investments

There are several levels of incentives, based on the size of the investment. The most preferential treatment applies to priority investment projects (*приоритетен инвестиционен проект*), which are of regional or national significance and are considered key for the government. For such projects, the state, municipal and any other administrative authorities provide proactive support and guidance at all levels, to accelerate the regulatory and licensing process and enable the project to be launched as quickly as possible.

The classification of other investments will depend upon the amount at stake. An investment in high-tech services, in a total amount of EUR 750,000, will qualify for class B investment certification (*сертификат за инвестиция клас Б*); if the investment exceeds EUR 1,500,000, it then qualifies for the higher-level class A certification (*сертификат за инвестиция клас А*). The main difference between both levels is the possibility of state financial support for the new infrastructure that is to be built for the project. This might be a major advantage if the project site is in an undeveloped area. The related infrastructure (transport and utilities) can be a significant challenge in both time and costs; accordingly, institutional support may be a decisive factor for the successful implementation of the project.

Finally, investments of local significance qualify for class C investment certification (*сертификат за инвестиция клас В*), which entitles the investor to a relatively limited array of support measures provided by the municipality and local authorities.

Incentives

Depending on the investment classification, as outlined above, incentives include expedited procedures, preferential regulations concerning the acquisition of state or municipal property (when required for project facilities) and/or infrastructure, tax credits, partial reimbursement of social security charges, state aid for employee training, etc. For class A and priority investment projects, the Bulgarian Investment Agency will assign an officer to handle the regulatory formalities applicable to greenfield projects for the investor (e.g. gather and submit the necessary documents for a zoning permit). This measure is particularly appreciated by investors who have not yet established a place of business in Bulgaria and have no (or only limited) personnel on site to handle the project. In general, the incentives cover the development and implementation of the project, as well as the early years of its operation (up to 5 years from the launch).

COVID-19 RELATED INCENTIVES

For more than a year now, the state and municipalities have applied a variety of incentives to mitigate the effect of the pandemic on businesses in Bulgaria – from waiving leases on municipal property to funding social security contributions and part of the wage burden, in order to motivate employers not to lay off staff. The application formalities for these measures are relatively burdensome and given that they only apply for a limited period, they are unlikely to have a tangible effect on investment.

Given the above, the main incentives for investors in Bulgaria are aimed at attracting entrepreneurs by means of the low corporate tax rate and state support for the planning and development of greenfield projects in priority sectors. For businesses which already operate in Bulgaria, grants may be awarded for renovation and investments to improve competitiveness pursuant to the Investment Promotion Act. New policies to be adopted by the new government in the autumn are expected to go further than the interim measures which have been adopted in the context of the pandemic, both in terms of accessibility and efficiency.

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CROATIA

Measures to promote investment projects in the Republic of Croatia are regulated by the Investment Promotion Act and concern investment projects in production and manufacturing, development and innovation, business support, and high value-added services.

GENERAL CONDITIONS

Incentives can be awarded to entrepreneurs registered in the Republic of Croatia who make a minimum investment in fixed assets of:

- EUR 50,000, in addition to creating a minimum of 3 new jobs for micro entrepreneurs,
- EUR 150,000, in addition to creating a minimum of 5 new jobs for small, medium-sized and large entrepreneurs,
- EUR 50,000, in addition to creating a minimum of 10 new jobs for centres developing ICT systems and software,
- EUR 500,000, for projects concerning the modernisation and improved productivity of business processes.

The amount of incentives will be calculated as a percentage of the investment value, determined on the basis of eligible investment costs. Eligible investment costs are either tangible assets (value of property/buildings and equipment/machinery) and intangible assets (rights to patents, licenses, know-how), or two years' gross salary – whichever is the larger of these two amounts constituting the baseline for the calculation of incentives

The minimum period for maintaining the assets and associated new job creations for a specific investment is 5 years for large enterprises and 3 years for micro, small and medium-sized enterprises, and in any event no less than the period of utilisation of the incentives.

Entrepreneurs who wish to obtain grants under the Investment Promotion Act will have to submit an application for approval of their status, i.e. an application for incentives to the Croatian Ministry of Economy and Sustainable Development before the start of the investment project.

INCENTIVES

According to the Investment Promotion Act, the following incentives are available to entrepreneurs in the Republic of Croatia:

Tax incentives

Tax incentives reduce the corporate income tax rate, depending on the amount of the investment and the number of new jobs created. Tax incentives for micro entrepreneurs require a minimum investment of EUR 50,000 and take the form of a 50% decrease in the tax rate over a period of five years, subject to a minimum creation of three new jobs, while tax incentives for small, medium, and large entrepreneurs may result in a 100% decrease in the corporate income tax rate over a period of 10 years, subject to a minimum investment of EUR 3 million and a minimum creation of 15 new jobs.

Employment Incentives

Employment incentives are intended to create new jobs linked to the investment project. Non-refundable grants to cover the eligible costs of new job creation will depend upon the unemployment rate in the region where the investment is made (maximum of EUR 9,000 per employee).

Incentives for labour-intensive investment projects

Labour-intensive investment projects concerning fixed assets are projects which will result in the creation of at least 100 new jobs within a three-year period from the start of the project. Initial employment incentives (see point ii. above) can be increased by an additional 25% for up to 300 new jobs, 50% for a minimum of 300 new jobs, and up to 100% for a minimum of 500 new jobs.

Incentives for development and innovation activities

Investments in technological development and innovation activities are eligible for non-refundable incentives for the purchase of equipment/machinery of up to 20% of the eligible costs, subject to an overall limit of EUR 500,000 and provided that the equipment/machinery purchased is classified as high-tech.

Incentives for education and training

These non-refundable incentives are limited to 50% of eligible training costs. However, they may be increased to a maximum of 70% of eligible costs, depending on the size of the enterprise, if the workers are disabled or disadvantaged.

Incentives concerning the capital costs of the investment project

These incentives can be granted for an investment project, subject to a minimum investment in fixed assets of EUR 5 million and the creation of 50 new jobs within a three-year period from the start of the project. Depending on the unemployment rate in the region where the investment is located, these projects can benefit from additional, non-refundable incentives of between 10% and 20% of eligible investment costs concerning the construction of a new factory or industrial plant, or the purchase of new machines (i.e. production equipment).

Incentives for investment projects based on the utilisation of inactive property owned by the Republic of Croatia

This incentive is available in the form of a free lease of inactive property owned by the Republic of Croatia for up to ten years from the start of the investment. The conditions for this aid include an investment of at least EUR 3 million in fixed assets and the creation of 15 new jobs within a three-year period from the project commencement date. In addition, the investor must achieve a 50% increase in the value of the inactive property within three years by comparison with its estimated value on the commencement date of the lease.

Incentives for modernisation of business processes – automation, robotization and digitization of production and manufacturing processes

These incentives require an investment in fixed assets in a minimum amount of EUR 500,000, together with the preservation of the original number of employees throughout the whole period of use of the investment. Under this incentive, the corporate income tax rate will be reduced by 50% for investments amounting from EUR 500,000 to EUR 1 million, 75% for investments amounting from EUR 1 million to EUR 3 million, and 100% for investments of over EUR 3 million for a period of ten years from the investment start date.

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SERBIA

Thanks to the far-reaching economic reforms recently implemented, Serbia has positioned itself as one of the most important investment destinations in Central and Eastern Europe. The legal framework regulating this area notably includes the Law on Investments, as well as numerous decrees setting forth the criteria for awarding subsidies. The Development Agency of Serbia was established to promote and support both national and international investments. It is a government organization that offers a wide range of services, including direct investment support, and the promotion of competitiveness and export, together with the implementation of projects that aim to improve Serbia's attractiveness and reputation and have a positive impact on economic and regional development. Since 2007, Serbia has attracted over 34 billion euros in direct foreign investment. Some of the companies that have successful operations within the country include Bosch, Michelin, Siemens, ZF, Panasonic, NCR, Microsoft, Brose, Continental, Magna, Cooper Tires, Johnson Controls, Johnson Electric, Leoni, Fiat Chrysler Automobiles, Yazaki, Eaton, Swarovski, Aunde, Calzedonia, Mei Ta, Schneider Electric, Geox, Tarkett, Ling Long, Minth, Toyo Tires, MTU, Barry Callebaut and many others.

MOTIVES FOR INVESTORS TO INVEST IN THE REPUBLIC OF SERBIA

Similar treatment of foreign investments

In general, foreign investors benefit from the same status and have the same rights and obligations as domestic investors, unless provided otherwise by certain regulations.

Highly qualified workforce

In Serbia, around 65% of the labour force is qualified or highly qualified. The number of engineers, technologists and other experts is sufficient to meet the growing needs of international companies. The available workforce continues to increase, thanks to the 45,000 students who graduate every year from higher education institutions, about 30% of whom are students from technical universities. It is also worth noting that Serbia has a Law on Dual Education, in line with European standards.

Competitive operating costs

Moderate fiscal burdens and tax rates also make Serbia an attractive investment destination. The tax regime in Serbia is well-suited to business activities. Income tax is among the lowest in Europe, whilst value added tax is among the most competitive in Central and Eastern Europe. The standard VAT rate is 20% (for most taxable products), while the lower VAT rate is 10% for certain essential products (e.g. some food products, medicines, daily newspapers, utilities, etc.). Corporate income tax is paid at a flat rate of 15%. Non-residents are only taxed on the basis of profits made in Serbia.

Free market access to 1.3 billion consumers

Thanks to free trade agreements, duty-free export has been made possible to markets in CEFTA, EFTA, Russia and the EAEU, as well as Turkey. If preferential terms of trade with the EU, the USA, Japan and Australia are also taken into account, Serbia's total export potential amounts to 1.3 billion consumers. The duty-free regime covers most key industrial products, subject to a few exceptions and annual quotas for a limited number of goods.

Optimal geographic position

Positioned between East and West, Serbia is an unavoidable crossroads. The most important routes linking Europe and Asia, Corridor VII (the Danube River) and Corridor X (the international highway and railway), intersect within Serbian territory. Its advantageous geographic position will facilitate the development of land, river and air traffic and also attracts transit traffic. The Government of the Republic of Serbia is prioritising the construction of new highways, the modernization of the railway and investment in the development of river transport infrastructure.

INCENTIVES

State investment aid

Various forms of state investment aid exist to motivate investment in the economy, including: (i) the grant of incentives, (ii) tax reliefs and exemptions, (iii) customs privileges, (iv) the system of compulsory social insurance, (v) the lease and disposal of state-owned real estate, and (vi) other forms of state aid, pursuant to the laws governing the control and grant of state aid.

Incentives

The most financially significant and mediatised forms of state incentive are those granted by the Serbian Development Agency and the Serbian Ministry of Economy for direct investments and job creation. The primary source of regulation is the Decree which determines the criteria for awarding incentives to attract direct investment, based on which investors submit a letter of intent and a description of the investment project to the Serbian Development Agency, together with other necessary documentation.

The type of funds that may be allocated, in order to attract direct investment, include: (i) grants for eligible gross payroll costs concerning the creation of new jobs related to the investment project, (ii) grants for eligible fixed investment costs, and additional incentives for labour-intensive investment projects.

The incentives are, of course, subject to certain conditions which must be met by investors. Accordingly, investment projects must be implemented within a certain period of time, and the number of new employees will have to be maintained over a specified timeframe (e.g., five years for large companies or three years for small and medium-sized companies).

ATTRACTING INVESTMENT IN TARGETED SECTORS AND COVID-19 PANDEMIC

The Serbian Development Agency has set up a support program to attract foreign investment in targeted sectors, as a response to the economic challenges encountered as a result of the COVID-19 virus pandemic. Pursuant to this program, the Serbian Development Agency seeks to maintain the current trend of attracting direct foreign investment, while also encouraging domestic investment through the establishment of cooperation between local suppliers and multinational companies, in response to the negative effects of the pandemic crisis. Since this is a relatively recent program, it has yet to be seen how it will be implemented.

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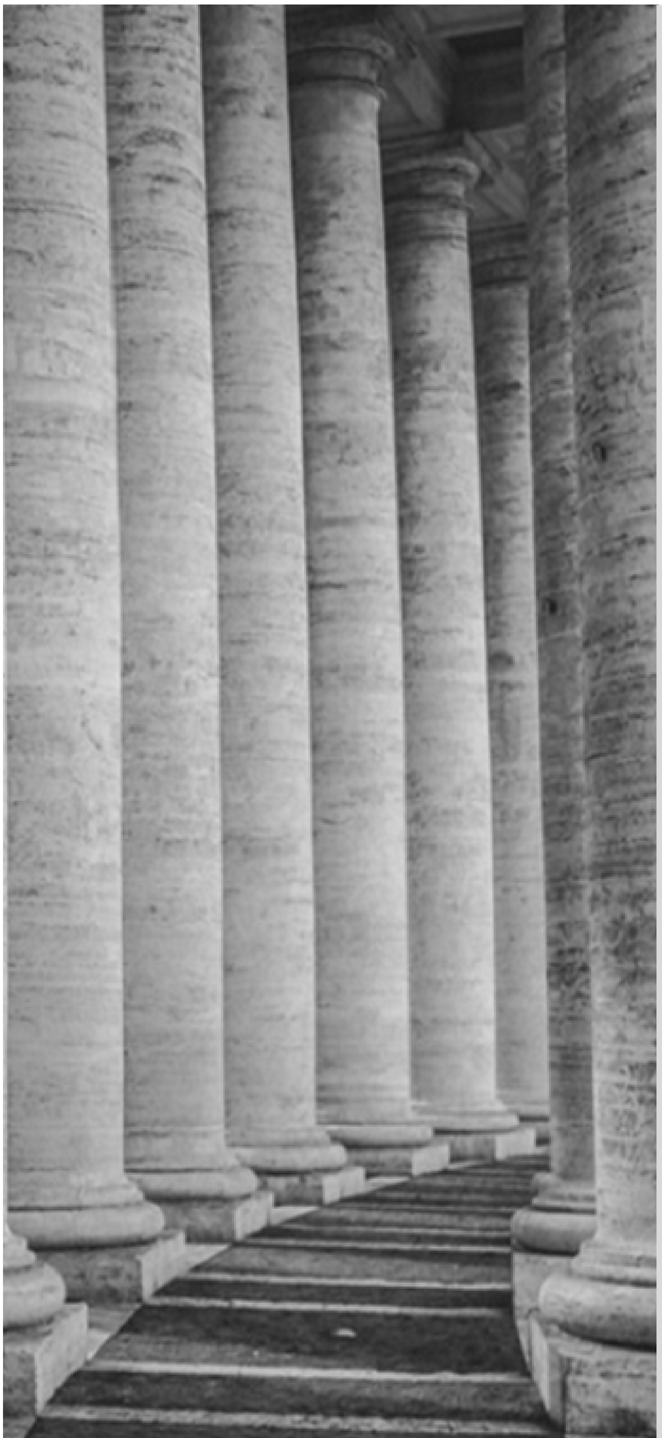

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