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ECONOMIC WHITENING IN HUNGARY

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The problem of corruption is, at varying intensity, practically continually present in Hungarian public discourse. As a result, Hungarians are inclined either to write off their country as irredeemably corrupt or to describe it as a “country of loopholes”. While not identical to the notion of corruption, the closely related problem of the informal and shadow economy also involves “searching for loopholes”. The spread and long-term subsistence of the informal and shadow economy is detrimental not only from the economic point of view but also take its toll on the country and its population in a moral sense. While one could say that this system looks back on long traditions in Hungary, research findings confirm that the majority of people dislike living in these conditions. Over the past years, the government has adopted important measures to push back concealed economic activity and thus reduce damages affecting society.

INTRODUCTION OF ONLINE CASH TILLS

Unlike traditional cash tills, online cash registers are equipped with a device that records and stores data produced by the cash register before transferring it to the National Tax and Customs Administration (NAV). In 2013, the government extended the obligation of using online cash registers to the following taxable persons and businesses: pharmacies, certain retail and hospitality industry units, taxpayers providing delivery depots or pursuing various leasing and repair activities, shops, mobile retail units and wholesale companies when engaging in small retail activity. Since its introduction, the scope of those obliged to use online cash tills has been expanded. Starting from 2016 and 2017, the regulation also covers the following taxable persons: those engaged in the repair and maintenance of vehicles, retail units selling vehicle parts, those engaged in the sale or repair of motorcycles and their parts, plastic surgeons, operations of dance halls and discos, dry cleaning establishments, masseurs, physical training service providers, taxis and currency exchange offices. According to figures released by the European Commission, the VAT gap (i. e., the difference between the potentially collectable and the collected VAT) fell from 22.24 percent to 17.95 percent as a result of the measure between 2013 and 2014.

INTRODUCTION OF THE “EKÁER” SYSTEM

Functioning since 1 January 2016, the Electronic Public Road Trade Control System, abbreviated EKÁER, aims to strengthen the position of law-abiding market actors, enhance the transparency of trade in goods, eliminate abuse involving food products which often endangers human health and filter out tax evaders. With the introduction of EKÁER, it has become possible to trace the actual path of goods; according to regulations, data involving transportation (designation and quantity of goods, sender's and recipient's data, registration number of the transporting vehicle, etc.) must be recorded in a central electronic database prior to delivery.

TIGHTENING REGULATIONS ON THE GAMBLING SECTOR

The cabinet has also taken against illegal online gambling websites. Previously, these websites caused the state budget a HUF 10-20 billion annual shortfall in tax revenue by failing to pay tax after the income they generated. Furthermore, these establishments did not participate in the Hungarian gamblers' protection system, failed to contribute to the treatment costs of Hungarian gambling addicts and were even unavailable to Hungarian gambling and anti-laundering authorities. Under new regulations, however, organisers of illegal online gambling face higher fines and the freezing of their bank accounts.

INTRODUCTION OF THE BASE AND SOCIAL ACCOUNTS

The simplest method of economic whitening is discouraging cash payments, the most effective method of which is encouraging electronic transactions. In order to address the fact that every fifth Hungarian resident does not possess a bank account, a government resolution issued in 2016 has obliged banks to introduce a new social base account product. Under the resolution, banks are obliged to provide a base account for no more than HUF 1575; however, depending on social situation, the base account also has to be made available free of cost.

INTRODUCTION OF THE FLAT INCOME TAX

The reduction of the personal income tax and the introduction of a flat tax rate contributes to curbing tax evasion, while the simplified tax system reduces the collateral costs of paying taxes (declarations and the interpretation of rules), which also has a stimulatory effect on tax payment. The single-rate, flat personal income tax also encourages the whitening of wages. While this measure is insufficient to eliminate tax evasion, it is no coincidence that state revenue deriving from income tax in 2017 could reach the level realised in 2010, the final year of the progressive income tax.

WHITENING THE ECONOMY

In Hungary, private enterprises often choose to register their employees as earning the minimum wage and pay them the rest of their salaries cash-in-hand. While raising the minimum wage is insufficient to fully eradicate this problem, the higher wage minimum increases tax revenue as a contribution to the state budget. Therefore, with the 39 percent increase of the net minimum wage and the 73.5 percent increase of the gross minimum wage, the government has encouraged the whitening of income earned by employees registered as earning the minimum wage.

INTRODUCTION OF REVERSED VAT

By default, the vendor invoices the VAT to the buyers, or asks for its countervalue, which it then declares to the state. In the case of reversed VAT, the vendor issues the invoice without VAT and has no obligation towards the state to declare it. If applied, the buyer is obliged to include VAT in the countervalue, make declarations towards the state, and in certain cases to cover its payment. Between transactions involving two Hungarian enterprises, the application of the reversed VAT is most common in the construction sector. The measure aims to eliminate abuse committed by fictitious taxable persons, as the invoice subject to reversed taxation is issued without VAT. Therefore, the buyer is unable to reclaim VAT, rendering the issuance of fictitious invoices pointless. The significant reduction of the VAT rate on some basic goods (such as pork meat from 2015 and poultry and eggs from 2017) also contributes to the fight against VAT evasion.

REDUCTION OF THE CORPORATE TAX RATE

Starting from 2017, the previous dual-rate corporate tax has been replaced by a flat, 9 per cent rate, making Hungary the country with the lowest corporate tax rate in the European Union. With the introduction of the measure, the tax burden carried by those paying both the lower and the higher rate have been reduced, resulting in an annual shortfall of HUF 150-170 billion to the state budget. The reduction of the corporate tax rate encourages enterprises paying profit tax to provide statement of their profit instead of exploiting loopholes to diminish it or conduct “non-official” business deals.