

HUNGARY	2000	2001	2002	2003	2004	2005	2006	2007	2008	2008		
A. Structure of revenues										% of GDP	Ranking ¹	€ bn
Indirect taxes	16.3	15.3	14.9	15.7	16.2	15.8	15.3	16.0	16.0		5	16.9
VAT	8.7	8.0	7.8	8.2	8.8	8.4	7.6	7.9	7.8		13	8.2
Excise duties and consumption taxes	3.9	3.7	3.6	3.7	3.3	3.2	3.3	3.3	3.4		5	3.6
Other taxes on products (incl. import duties)	3.3	3.2	3.1	3.5	3.6	3.6	3.8	4.1	4.2		1	4.4
Other taxes on production	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.7	0.7		20	0.7
Direct taxes	9.7	10.1	10.1	9.6	9.0	9.1	9.4	10.2	10.6		16	11.2
Personal income	7.2	7.5	7.5	7.0	6.6	6.6	6.7	7.1	7.7		11	8.1
Corporate income	2.2	2.3	2.3	2.2	2.1	2.1	2.3	2.8	2.6		23	2.8
Other	0.3	0.3	0.3	0.3	0.4	0.4	0.4	0.3	0.3		21	0.4
Social contributions	13.0	12.8	12.8	12.6	12.2	12.5	12.5	13.5	13.8		8	14.5
Employers'	10.5	10.1	10.0	9.8	9.4	9.7	9.5	9.6	9.8		4	10.3
Employees'	2.0	2.1	2.2	2.2	2.3	2.3	2.4	3.3	3.3		12	3.5
Self- and non-employed	0.6	0.6	0.5	0.6	0.5	0.5	0.6	0.6	0.7		15	0.7
Less: amounts assessed but unlikely to be collected	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
TOTAL	39.0	38.2	37.8	37.9	37.4	37.5	37.2	39.8	40.4		8	42.6
Cyclically adjusted total tax to GDP ratio	39.3	38.5	37.8	37.5	36.3	36.0	34.8	37.7	38.5			
B. Structure by level of government										% of total taxation		
Central government	59.6	58.9	58.6	58.1	57.6	57.0	57.0	56.7	61.3		11	26.1
State government ²⁾	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.		n.a.	n.a.
Local government	9.8	10.3	10.5	11.4	12.0	11.6	11.7	11.1	6.4		17	2.7
Social security funds	30.7	30.7	30.8	30.5	29.9	30.6	30.6	31.3	31.4		13	13.4
EU institutions	n.a.	n.a.	n.a.	n.a.	0.5	0.8	0.8	0.9	0.9		15	0.4
C. Structure by economic function										% of GDP		
Consumption	15.5	14.5	14.1	14.7	14.9	14.5	13.9	14.5	14.5		4	15.3
Labour	19.0	19.0	19.0	18.5	17.9	18.3	18.3	19.8	20.8		9	22.0
Employed	18.3	18.3	18.7	18.2	17.6	18.0	18.0	19.0	19.9		7	20.9
Paid by employers	10.6	10.3	10.2	9.9	9.6	9.9	9.7	9.9	10.1		6	10.6
Paid by employees	7.7	8.1	8.5	8.2	8.0	8.1	8.3	9.1	9.8		10	10.3
Non-employed	0.7	0.7	0.3	0.3	0.3	0.3	0.3	0.8	1.0		14	1.0
Capital	4.5	4.7	4.7	4.7	4.6	4.6	5.0	5.5	5.1		23	5.4
Capital and business income	3.5	3.7	3.7	3.5	3.3	3.3	3.7	4.2	3.8		24	4.0
Income of corporations	2.2	2.3	2.3	2.2	2.1	2.2	2.4	2.8	2.7		23	2.8
Income of households	0.7	0.6	0.7	0.7	0.6	0.6	0.6	0.7	0.4		18	0.5
Income of self-employed (incl. SSC)	0.7	0.7	0.7	0.6	0.6	0.5	0.7	0.6	0.6		20	0.7
Stocks of capital / wealth	1.0	1.0	1.0	1.2	1.3	1.3	1.3	1.3	1.3		16	1.4
D. Environmental taxes										% of GDP		
Environmental taxes	3.0	2.8	2.8	2.6	2.7	2.7	2.8	2.8	2.7		9	2.9
Energy	2.4	2.3	2.2	2.3	2.0	2.1	2.1	2.0	2.0		9	2.1
Of which transport fuel taxes	:	:	:	:	1.8	1.8	1.9	1.9	1.9		5	
Transport (excl. fuel)	0.4	0.4	0.4	0.2	0.5	0.5	0.6	0.6	0.6		10	0.6
Pollution/resources	0.2	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.2		6	0.2
E. Implicit tax rates										%		
Consumption	27.5	25.6	25.3	26.0	27.4	26.3	25.7	27.1	26.9		4	
Labour employed	41.4	40.9	41.2	39.3	38.3	38.4	38.8	41.0	42.4		3	
Capital	17.1	17.4	16.8	17.8	16.8	17.4	16.9	18.7	19.2			
Capital and business income	13.4	13.6	13.2	13.4	12.0	12.3	12.5	14.3	14.1			
Corporations	28.7	25.6	20.1	19.3	17.4	18.2	15.6	18.1	19.9			
Households	6.7	7.3	7.8	8.1	6.9	7.3	8.6	9.4	7.9			
Real GDP growth (annual rate)	4.9	4.1	4.4	4.3	4.9	3.5	4.0	1.0	0.6			

See Annex B for explanatory notes. For classification of taxes please visit: <http://ec.europa.eu/taxtrends>

1) The ranking is calculated in descending order. A "1" indicates this is the highest value in the EU-27. No ranking is given if more than 10 % of data points are missing.

2) This level refers to the *Länder* in AT and DE, the *gewesten en gemeenschappen / régions et communautés* in BE and *comunidades autónomas* in ES.

n.a. not applicable, : not available

Source: Commission services

HUNGARY

Overall trends in taxation

Structure and development of tax revenues

As of 2008, with a total tax-to-GDP ratio of 40.4 % (including social security contributions), Hungary's tax burden is well above the EU average (37.0 %). Looking at neighbouring countries, Austria displays a higher tax ratio (42.8 %) but Slovenia has a lower ratio (37.3 %) and both Slovakia's and Romania's ratios (29.1 % and 28.0 % respectively) lie well below the Hungarian value.

Revenues from indirect taxes are substantial, their share accounting for 39.6 % of the total. Of those, VAT revenues yield 7.8 % of GDP which equals to the EU average. Other taxes on products are the highest in the EU (4.2 % compared to the EU average of 1.5 %) mainly because of local business tax revenues. In contrast, direct taxes are relatively low at 10.6 % of GDP. Social contributions in relation to GDP are clearly above the European average (13.8 % vs. 11.0 %); the majority of them fall on employers.

Tax revenues are divided between central government, local government and the social security system. While central government remains by far the largest recipient of tax revenue, with over half of the total, local government taxes are, at 6.4 % of total taxation, not negligible. Local taxes grew rapidly until 2004 since then they are showing a decreasing trend ⁽¹⁾.

The overall tax burden declined gradually between 2000 and 2006 from 39.0 % to 37.2 % then quickly reached 40.4 % in 2008, the eighth highest in the EU. The shares of the main categories of taxes evolved differently over the years, but social contributions paid by employees and the level of other taxes on products increased steadily from 2000 onwards. The cyclically adjusted ratios have developed roughly similarly to the unadjusted figures.

Taxation of consumption, labour and capital; environmental taxation

The high level of indirect taxation in Hungary leads to a correspondingly elevated ITR on consumption (26.9 % in 2008). This value is the fourth highest in the EU. The ITR on consumption shows a general decline up to 2002 in line with the reduction in indirect tax revenue, however it bounced back thereafter in line with the changes in VAT system.

The ITR on labour amounted to 42.4 % in 2008. This value is the third highest in the EU and it is well above the EU average (34.2 %). Since 2000, the ITR on labour showed a gradual decline over time until 2004, but increased by 3.6 points in the last two years, mainly due to the changes in social contribution system. The revenues from taxes on capital are, at 5.1 % of GDP, one of the lowest in the EU, due notably to low business income taxation. For the first time this year ITR on capital is available for all years. The ITR on capital remained stable between 2000 and 2006 but it has increased significantly in the last years, reflecting the changes in tax policy; however it is still well below the EU average.

Environmental taxes represented 2.7 % of GDP. This share is slightly above the EU average (2.6 %) and has remained roughly stable between 2000 and 2008. As in most countries, taxes on energy account for the largest part of environmental tax revenues.

Current topics and prospects; policy orientation

In recent times the tax changes have been mainly driven by crisis management and simplification of the tax system. On 1 January 2010 personal income taxation was completely restructured. PIT allowances ceased to exist, the PIT rates were cut while the thresholds to the brackets increased, and the social contributions paid by employers are now included in the

⁽¹⁾ The decreased share of local taxes in 2008 is purely due to statistical reclassification

tax base. Employers' social contributions were reduced by 5 percentage points and the lump-sum health contribution was abolished. The 4 % solidarity surtax was also abolished. As a consequence of these changes the top marginal tax rate dropped from 40 % to 32 %. Moreover, from 1 July 2009 the standard VAT rate was increased from 20 % to 25 %. In 2010 a property tax was introduced on four different types of high value assets: housing property, water vehicles, airborne vehicles and high performance cars. A Constitutional Court decision in February 2010 abolished the part on housing property, after which the future of this tax is being debated. A company car tax was introduced in 2009 and since 1 January 2010 every company car has been subject to this tax. Companies have to pay HUF 7 000 (€ 25) per month per car below 1 600 cm³ and HUF 15 000 (€ 52) for cars over 1 600 cm³.

Main features of the tax system

Personal income tax

On 1 January 2009 the personal income tax bracket was increased retroactively to HUF 1.9 million (€ 7 500). As from January 2010 income up to HUF 5 million (€ 18 500) is taxed at a 17 % rate (roughly equal to 21.6 % with contributions), whereas above that threshold the rate is 32 % (roughly equal to 40.6 % with contributions). These rates decreased from 18 % and 36 % and the bracket increased to HUF 5 million (roughly equal to HUF 3.9 million without contributions) from a previous HUF 1.9 million. From 2010 on, the employers' social security contributions (27 %) are included in the tax base. The 4 % solidarity surtax was deleted.

In continuation of simplifying the tax system, as of 1 January 2010 personal income tax allowances in general ceased to exist. There are few exceptions for taxpayers entitled to a state family allowance, small-scale agricultural producers, disabled persons and long-term savings.

The employment tax credit is calculated as 17 % of wage income earned, with a monthly maximum of HUF 15 100 (€ 55). This tax credit is applicable to workers whose annual income does not exceed HUF 3 188 000 (€ 11 700).

A 30 % withholding tax is imposed on the dividends from resident companies paid to individuals. The 35 % rate has been abolished as of 1 January 2009. Foreign source dividends are also taxed at a 30 % rate. In order to secure a more equitable distribution of the tax burden between work and capital income, a tax on interest and a tax on capital gains from stock exchange transactions were introduced on 1 September 2006. The rate of these taxes has been set at 20 %. No portion of these incomes is exempted from tax. The tax on interest is withheld by the payer, and the tax on capital gains in stock exchange deals is declared and paid by private individuals in their tax return. Capital gains from immovable property are subject to tax at a 25 % rate.

Corporate taxation

In recent years there has been a strong tendency to reduce corporate tax rates, particularly in new Member States. In this context Hungary has an established position as a low tax country, given that it introduced a corporate tax rate of 18 % already in 1995, further reduced to 16 % in 2004. On 1 January 2010 a broader tax base was introduced and the tax rate was increased to 19 %, but at the same time the 4 % solidarity tax was discontinued with the result that the effective tax burden is lowered by approximately one percentage point. Under certain conditions a rate of 10 % is still applicable to that part of the tax base which does not exceed HUF 50 million (€ 184 500).

The rate of the simplified corporate tax (EVA) was increased from 15 % to 25 % in 2006, and it further increased to 30 % in 2010. Besides the corporate income tax, municipalities may levy a local business tax (up to 2 %). From 2004 onwards companies are also required to pay an innovation tax, in 2007 at the rate of 0.3 %. The innovation tax is levied on the same base as that of the local business tax, but an amount equal to R&D expenditure carried out directly by the firm is deducted from the tax. To encourage R&D activities, as from 1 January 2010 these costs are deductible from the local business tax base. Micro and small enterprises are exempted from paying the innovation tax.

Capital gains are generally included in the company's total ordinary income. However, 50 % of capital gains on transactions on a recognised stock exchange by a company other than an insurance or financial institution is exempt, subject to limitations. As from 1 January 2010, capital gains of foreign companies without a permanent establishment in Hungary are subject to taxation at the level of the private person owner if the person's ownership/voting share reaches 25 %. Dividends paid to Hungarian companies are generally deductible from the corporate tax base.

VAT

After the VAT rate cut from 25 % to 20 % in 2005 and 2006 the standard VAT rate was increased again to 25 % in July 2009, while milk, milk products, bread, bakery products, and accommodation services are subject to a reduced 18 % rate. VAT rate on district heating services was first cut to 18 % on 1 August 2009, and on 15 January 2010 it was set to 5 %. This preferential reduced rate of 5 % applies also to a few other products such as specific medicines and medical materials, books, newspapers, etc. The Act on VAT (No 127/2007) which has come into force on 1 January 2007 follows much more closely the structure of Council Directive 2006/112/EC and has also introduced a relevant new measure, the reverse charge scheme for waste commerce. In 2008, the sectoral reverse charge system was extended to various services linked to immovable property as well. In accordance with Council Directive 2008/8/EC the place of supply of services to taxable persons was changed on 1 January 2010.

Other taxes

From 1 January 2009 to 1 January 2011 a new tax is to be levied on energy suppliers — the Special Energy Tax. The tax base is the pre-tax profit subject to certain tax base adjusting items. On January 2009, due to harmonization with EU legislation, the application of energy tax was extended to coal products as well. On 1 January 2010 the rate of energy tax was generally increased by 17 %.

On 1 January 2010, the duty payable on acquisition of assets was reduced from 10 % to 4 %.

From 2007 banks have to pay a surtax on interest revenue from loans related to state subsidies at a 5 % rate.

Municipalities may levy a real estate tax on building and land. The maximum tax is either a fixed amount (HUF 900 per year per square metre for buildings, HUF 200 per year per square metre for land) or 3 % of the market value.

In 2009 and 2010 the excise duties on tobacco, alcohol and fuel were further increased. As of 1 July 2009, the rate of increase was 5.3 % for petrol, 6.5 % for diesel, between 6-7 % for alcoholic beverages and an average 5 % for tobacco products. As a second step, from 1 January 2010 an additional increase in excise duties took place: by 10 % for petrol, by 7.6 % for diesel, by 10 % for alcoholic beverages and an average 9 % for tobacco products.

Social contributions

On 1 July 2009 there was a 5 percentage points reduction up to double the minimum wage and in 2010 there was a general 5 percentage points reduction (3 percentage points from the social security contributions). Social security contributions consist of pension insurance contributions and health insurance contributions. In the case of pension contributions paid by employees, a ceiling applies. Additionally, health care charges are payable. The lump-sum health contribution was abolished on 1 January 2010.

Social security contributions include employers' social security contributions of 27 % (up to a certain threshold) and employees' social security contributions of 15.5 % (health contribution 6 % plus pension contribution 9.5 %; in the case of private pension fund members the health contribution is 6 %, the pension contribution is 1.5 % and 8 % is paid to private pension funds). The health care tax charge of 11 % is generally assessed on those items of income that are not subject to the social security contributions, but are included in the aggregate taxable base. As from 1 January 2010 employers and employees pay contributions (1 % and 1.5 % respectively) to the employment fund.