



MINISTRY  
FOR NATIONAL ECONOMY

# Those pay who can afford it: the introduction of crisis tax in Hungary

## Focus

The 500-700bn HUF extra gap in the budget left behind by the Socialist government forced the new government to urgently introduce measures aimed at increasing revenues and cutting expenditure. To balance the budget, besides other measures the government has decided to implement a crisis tax. As the financial sector had already shared some of the burden of the crisis, now the same has been expected from telecom companies, the energy sector and retail companies. Because of their influence, market position and last but not least because of the advantages offered by the state these sectors have been accumulating profits enabling them to play a greater role in stabilizing the country's budget situation. At the introduction of the crisis tax the government has paid particular attention to making the tax proportional which would by no means negatively influence the operation of these sectors. Another characteristic of the tax besides being proportional is that it is temporary, so it will not dent the profitability of these sectors in the middle or long term.

## Background

Considering the measures of the previous government, one can conclude that their main objectives during the last eight years had been to financially constrain and tax people as much as possible. Parallel to this tendency, they had not met the targets set in their budget proposals.

The country has got into a downward spiral: in spite of fiscal tightening, the Socialist-Free Democrat governments have time and again implemented new spending cuts. The country has entered a dead-end street no more able to meet the expectations of the population, the European Union or investors.

The new government has got a completely different economic policy. Last year pension benefit for one month was taken away from pensioners, salary for one month was taken away from public servants, VAT was raised from 20% to 25% and the age of retirement was raised from 62

years to 65 years of age. This kind of government policy long on restrictions and short on budgetary concept has clearly failed.

Lately, one of the most important topics of public interest has been to kick-start and help the recovery of the Hungarian economy so that it can resume to growth as soon as possible. During the recovery from the crisis everybody must bear a proportionate share of the burden. The new government will not continue the economic policy of restrictions. It is fair and just **to turn to those having borne less up to now.**

The government requests the help of those sectors which have substantial profits and can therefore contribute to the budget.

## Cornerstones

The first step to stabilize the budget situation has been the publication of Action plan 1. As a result of this, the revenues from the extra tax on banks supplemented a part of the 500-700bn HUF extra gap of the budget of 2010. Action plan 2 including the extra tax on other sectors has been a continuation of the first plan.

The sectoral extra tax will only apply to companies of substantial profitability; it will not affect the country's population, the poorly-financed domestic small and middle-sized private companies of inferior market position or such others whom the previous government had routinely targeted.

The projected revenues from the introduction of this tax are 161bn HUF (588 256 787 EUR) for 2010, which are paid as follows:

- 30bn HUF (109 613 066 EUR) from retail companies,
- 61bn HUF (222 879 901 EUR) from telecom companies,
- 70bn HUF (255 763 820 EUR) from the energy sector.

Approximately similar revenues can be expected for 2011 and 2012.

The government firmly believes that balancing the budget and improving the macroeconomic situation have also been in the interest of the companies paying these taxes; as such developments would also strengthen their positions and increase profitability in the long run.

It has also been facilitated by the change in personal income tax, as it leaves more disposable income at taxpayers; they can spend more, among others, on the products and services of these companies. Additionally, from 2013 a flat-rate corporate tax will be implemented. The rate

of this tax will be 10% across the board, so in the year of abolishing the crisis tax the net income for taxpayers will be much higher.

There are three activities subject to crisis tax: retail activity, telecommunication activity and the energy supply services activity of energy companies under the LXVII/2008 law promoting greater competitiveness in the central heating sector.

The law provides definitions what retail activity and telecommunication activity mean for tax obligation. According to the law, *retail activity* means that a retailer sells products directly to a consumer. *Telecommunication activity* is subject to tax if it offers electric communication services, i.e. signal or data transmission through electric communication networks or network management services. For energy supply services companies the entire activity in this field is subject to tax if the turnover from it is at least 5% of the compound net turnover of the company for the year preceding the tax year.

The **tax base** is made up by the above sectors' **net turnover** from taxable activities. The reason is that a big company can shoulder heavier weight.

Theoretically, there are a number of factors to define how “big” a company is, like capital base, number of employees, turnover and market presence. From the above factors, however, net turnover is the most appropriate one to indicate the size and the subsequent financial capacity of a company. It has been proven that out of companies from the same sector the one with the greatest turnover has got a bigger market share too; as market leader its operation is more profitable.

In case of retail activity, from 2011 the turnover from services provided for suppliers and subsequent discounts by the supplier booked as revenues must also be added to the tax base.

At the elaboration of the **tax rate** the government has paid attention to the various fields of activity and, within that, to the different financial capacities of the individual taxpayers. In case of the energy sector almost devoid of small private companies, there will be a basically flat-rate tax. In case of the two other sectors, however, which incorporate companies of different market capitalization, the size of turnover determines the tax.

For the sake of fairness, a tax free category has been included in the crisis tax regulation of the retail trade and telecommunication sectors. Micro and small companies of low financial capacity and low turnover are exempt of tax, and they do not have to make an extra tax declaration either. Due also to the principle of fairness, within the energy sector the government takes also into consideration the obligation of the sector to pay the so-called Robin Hood tax. Therefore, their

proportion of crisis tax liability is lower, but taken as a whole their financial burden equals other sectors’.

### **The rate of tax of individual sectors:**

Retailers:

- On up to 500m HUF (1 826 884 EUR) tax base: 0%.
- On tax base between 500m HUF (1 826 884 EUR) and 30bn HUF (109 613 066 EUR): 0.1%
- On tax base between 30bn HUF (109 613 066 EUR) and 100bn HUF (365 376 886 EUR): 0.4%
- On tax base above 100bn HUF (365 376 886 EUR): 2.5%

Telecom activity:

- On up to 100m HUF (365 377 EUR) tax base: 0%
- On tax base between 100m HUF (365 377 EUR) and 500m HUF (1 826 884 EUR): 2.5%
- On tax base between 500m HUF (1 826 884 EUR) and 5bn HUF (18 268 844 EUR): 4.5%.
- On tax base above 5bn HUF (18 268 844 EUR): 6.5%.

For energy supply services companies the tax rate is 1.05% on the tax base (or the entire net turnover).

There is a separate measure regulating the tax liability of **affiliated companies**. The taxable net turnover of affiliated companies must be added up, and tax liability must be calculated on the basis of this sum. This method had to be implemented so that in 2011 and 2012 the sectors in question cannot evade paying taxes by breaking up into smaller operational units.

Tax is collected by the state tax administration and it is **part of budget revenues**. The tax base is made up by the net turnover of twelve months and during this period advance tax must be paid. Tax declaration must be filed until the 150<sup>th</sup> day of the year following the tax year when the settlement of advance tax and the payment of liabilities are also due. The advance tax must be paid

in two equal amounts, first on the 20<sup>th</sup> of the seventh month of the tax year, and second on the 20<sup>th</sup> of the tenth month of the tax year.

For the 2010 tax year some transitory measures apply to advance taxes: tax on the 2009 turnover must be paid until 20 December 2010, but this amount is booked as advance tax. The actual tax liability, however, will have to be calculated on the basis of the 2010 turnover.

As the crisis tax is in force only for the three years between 2010 and 2012, the law regulating it **will expire on 1 January 2013**.

## Conclusion

As a result of the crisis tax, the budget deficit relative to GDP will fall to a record low level in Hungary, stabilizing the budget, lowering public debt, and creating a stable economic background vital for current or would-be corporate investors.

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Ministry for National Economy