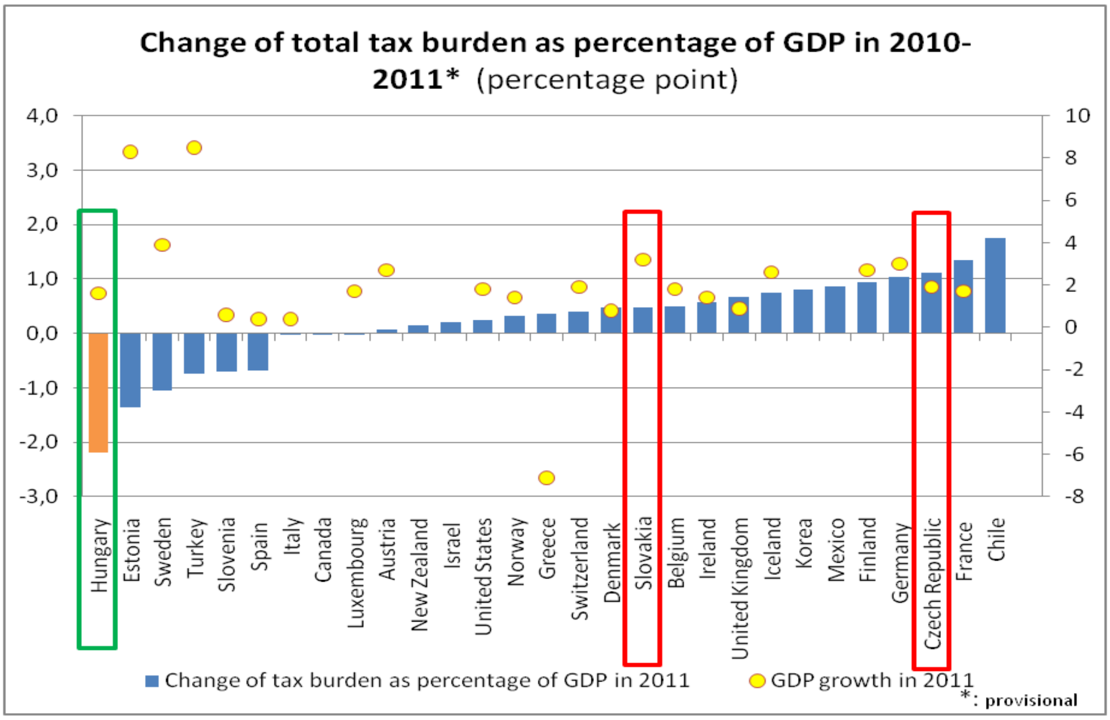
MINISTRY
FOR NATIONAL ECONOMY

It was Hungary where tax revenues as percentage of GDP declined to the greatest extent in 2011

According to an OECD study on taxation policies published recently, it was Hungary where total tax burden as percentage of GDP declined to the greatest extent in 2011 compared to the previous year, and with regard to cutting the tax burden on income and profit as percentage of GDP Hungary also tops the list.

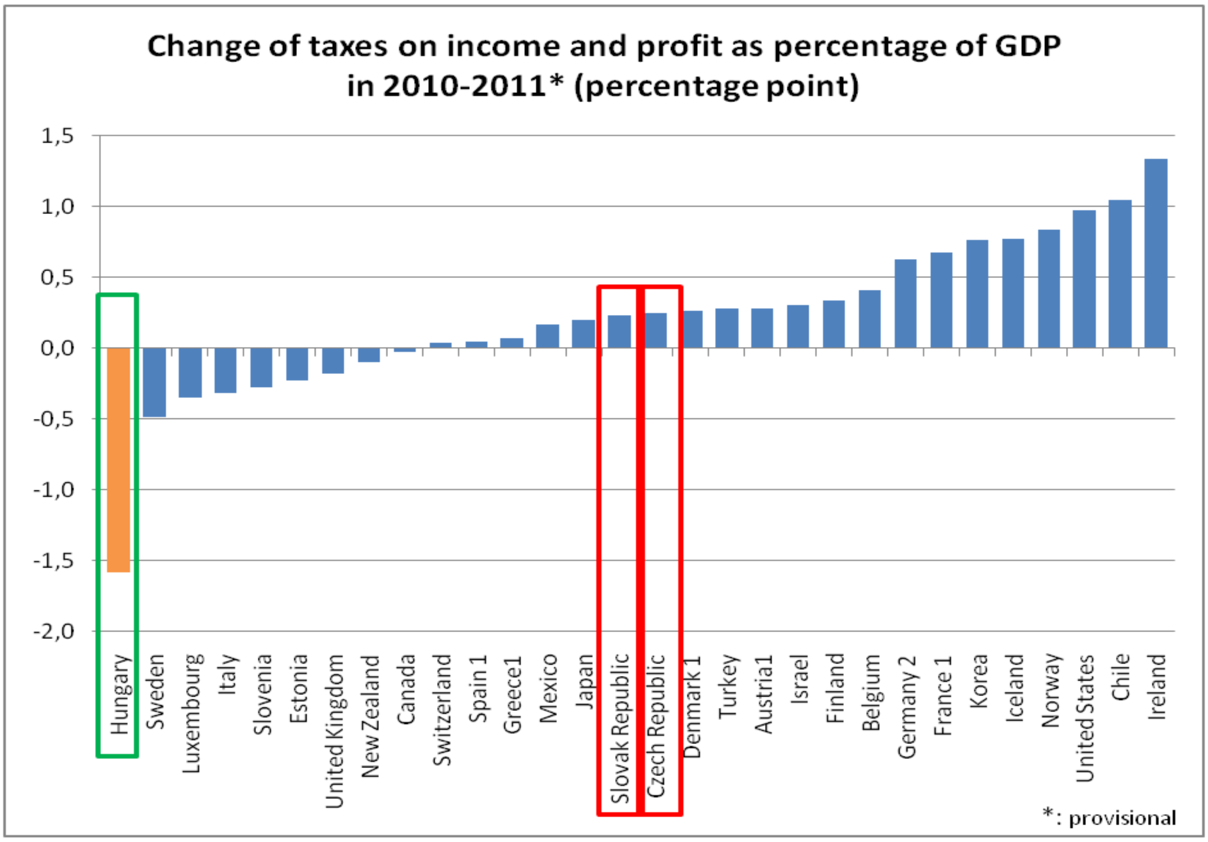
On 24 October the OECD published a study titled *Revenues rising slowly across the OECD*, which provides a **comprehensive overview of recent taxation policy trends** in OECD countries. Analyzing these trends it can be concluded that **the global recession prompted governments in general to reduce total tax burden as percentage of GDP, but as of 2010 a U-turn took place** and tax revenues as percentage of GDP have begun to rise slowly but steadily. According to the study, in **2011 tax revenues as percentage of GDP continued to increase** and in OECD countries these **figures as a whole were 0.2 percentage point higher (34 percent) in the observed year** in comparison to the previous year. Basically **two factors** could have been the driving forces of this upward trend: on the one hand **tax rates or the number of tax payers was increased and on the other hand total tax revenues increased faster than the GDP in countries with a progressive taxation system during the economic upswing.**



Source: OECD

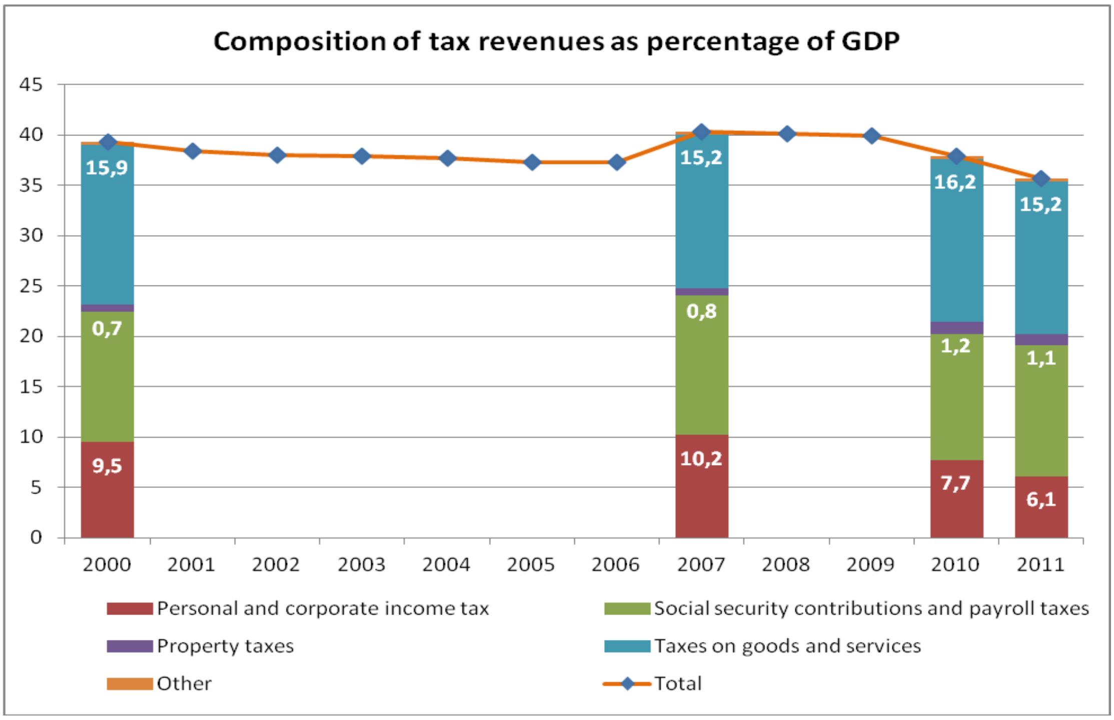
With the exception of Greece, GDP volumes in 2011 were higher in every European country observed compared to the previous year, **consistently with the ratio of tax revenue growth as percentage of GDP**. The reason for this phenomenon is that tax revenues in a **linear taxation system** tend to increase at least at the pace of GDP expansion, whereas in a **progressive taxation system** they grow more speedily than the economy. **In six countries**, however, tax revenues as percentage of GDP declined in spite of parallel GDP growth which could be the consequence of more **widespread tax evasion**, a **rising number of taxpayers in income brackets of lower tax rates** and the **decline of tax rates in general**.

Hungary has been one of those few countries where tax revenues as percentage of GDP declined in 2011 compared to the previous year **dodging the general trend** prevalent in other OECD countries. **In 2010** this indicator was **37.9 percent of GDP** which after a decline of 2.2 percentage points moderated last year to **35.7 percent** which amounts to **the greatest decline** in tax revenues as percentage of GDP among OECD countries. The main reason for this has been the **decline of tax rates**. Among the countries where data were available there were **only five countries other than Hungary** which had managed to reduce total tax burden as percentage of GDP. The second **largest reduction was seen in Estonia**, where decline was 1.4 percentage points. Among regional peers tax revenues as percentage of GDP were up by **0.5 percent in Slovakia** and in the **Czech Republic even more, by 1.1 percent**. The observed indicator regarding developed countries in Western Europe, according to OECD statistics, was **higher by 1 percentage point in Germany** and **1.4 percentage points in France.**



Source: OECD

Within the total tax burden, it was also **Hungary** where **proceeds from levies on income and profits as percentage of GDP recorded the largest decline** last year. According to preliminary OECD data for **2011**, state revenues from these taxes corresponded to **6.1 percent of GDP**, while **one year ago** the observed indicator was **7.7 percent**, therefore the **decline totaled 1.6 percentage points.** The corresponding data for regional peers signaled an increase of **0.2 percentage points** for **Slovakia** and the **Czech Republic** respectively in the observed period.



Source: OECD

Analyzing **tax revenues as percentage of GDP over time** it can be concluded that **beginning with the year of 2000** the observed indicator was **the lowest in 2011 with 35.7 percent**, whereas it **peaked with 40.3 percent in 2007.** A structural analysis reveals that according to available OECD statistics **tax revenues from income tax and corporate tax as percentage of GDP were the lowest in 2011** (6.1 percent), and compared to data of 2007 this corresponds to a **decline of 4.1 percentage points**. **Tax burden on products and services** as percentage of GDP moderated from **16.2 percent in 2010** to **15.2 percent** on the basis of preliminary data for **last year.**