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Reducing the Tax Burden and Whitening the Economy in Hungary after 2010

SUMMARY: Whitening the economy is a constantly recurring theme in the tax literature, which can have significant effects in a range of areas. Among them the reduction of the tax burden and in a lucky combination the growth of tax revenues and the effect on the increase in the level of competitiveness and tax morale are the most important. In Hungary a positive example of reducing the tax burden and whitening the economy can be observed. The constellation of high economic growth rate achieved in the last decade and a lower degree of government intervention in the Visegrád countries, especially in Poland, should be considered in terms of our domestic economic policy. My study deals with the tax structure, the reduction of the tax burden and, in connection and within this topic, with the whitening of the economy. After a brief overview of the literature I describe the main specifics of the Hungarian tax system by way of an international comparison. Next I examine the transformation of the domestic tax system by analysing the changes in the tax burden, within this I separately discuss the important elements of the post–2010 tax changes.

KEYWORDS: tax structure, tax reduction, whitening the economy, hidden economy, tax on labour

JEL CODES: H20, H26

THE REDUCTION OF THE TAX BURDEN AND THE WHITENING OF THE ECONOMY IN THE ECONOMIC LITERATURE

The methods of reducing the tax burden and whitening the economy is a recurrent topic in domestic and international literature. A study by *Logue and Vettori* (2010) estimated a 15% tax gap between the statutory tax liabilities and the actual tax payments in the US. Based on *Schneider*'s (2012) empirical research, *Balog* (2014, p.19.) concludes that “*according to the studies reviewed, the growth of the hidden economy is mostly influenced by the tax burden, but the quality of the state institutions and the tax morale also have a significant impact.*”

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Whitening the economy and concurrently reducing tax rates can have significant impacts in many areas, the most important of which include the reduction of the tax burden and in a lucky combination the growth of tax revenues, the improvement of the tax morale and the competitiveness. I agree with *Matolcsy* (2014), who considers that one of the key results of the post–2010 reform of the tax system was a shift in focus from tax on labour towards taxes on consumption, turnover and negative externalities.

In this paper I do not discuss the history of tax whitening in Hungary. I shall make a brief reference to this issue, but only in the context of the current situation. In his study *Lentner* (2015, p.356) provides the historic context of the impacts by reviewing Hungary's economic

policy shift of 2010 in comparison with three major changes in the economic policy trends of the past 50 years. The first was the New Economic Mechanism of 1968 and the second was the neoliberal shift to market economy from the late 1980s, “*which resulted in the rapid privatisation of state assets that overlooked Hungary’s national interests and simultaneously led to a sevenfold increase in public debt. The third shift in economic policy, after the 2010 parliamentary elections, was characterised by taking the state’s active role of influencing, regulating and monitoring the economy into overdrive.*”

Several names have been coined in the literature to differentiate grey and black economies and provide a terminology (Williams, 2004; Lackó et al., 2008). The most frequently used terms include: hidden, underground, second, black, grey and unregistered economy. Clearly illegal activities are not discussed here. The most widely used term for describing and analysing processes that include fully legal and also illegal elements is grey economy. In his paper Ambrus (2016, pp. 70–371) points out that “*by comparing the income distribution of taxpayers with other data it can be stated that declaring less than the actual income is one of the most popular ways of tax evasion.*”

In Hungary the positive tendency of whitening the economy has been observed for years. Reducing contributions and/or income tax may help Hungary to reduce the tax burden in the long term. By widening our perspective, the reduction of the tax burdens may have a considerable impact on improving competitiveness.¹ The aforementioned positive impact of the tax system on competitiveness is especially important when it comes to the taxation of SMEs (Csapó, 2011; Eurostat, 2014).

Apart from failing to disclose incomes, tax arbitrage can also lead to the reduction of national tax revenues. The TAFT (Tax Arbi-

trage Feedback Theory), developed by Eddins, examines the connection between the rise in CDS transactions and the growing number of tax arbitrage transactions. In their view “*this arbitrage is extremely powerful because it is purely based on tax differences and there is hence no market mechanism that can correct it.*” Hemmelgarn – Nicodeme (2010, p. 26)

In Hungary last year’s tax policy dilemma and the professional debate on the tax system focused on whether the reduction of the administrative regulations or the tax burden is more useful for whitening the economy. Based on a paper by Bíró and Vincze (2008), applying administrative instruments in itself is not enough, because smaller household income and larger wage costs lead to less consumption, export and thus less GDP, while increasing inflation.

Tax policy is gaining an increasingly significant role in the changes that occurred in the past decades. In my view, one of the crucial taxation problems in today’s globalised world is the absence of a global tax policy and control system. National tax policy measures have an increasingly strong impact on the national economies of other states. This impact worked both ways, generating a tax competition among the states, which then reduced the tax burdens of the individual countries. In an open economy such as Hungary’s, it is pivotal for the country to maintain its ability to attract capital, in which tax policy also plays an important role. Reducing the tax burden in such an economy can be instrumental in competing for working capital.

An excellent study by Hemmelgarn – Nicodeme (2010) demonstrates that the differences in taxation in various countries create a potential tax arbitrage, which means that national authorities lose out on tax revenues and this process prompts a tax competition between the countries. In this international competition investors primarily focus on taxes

levied on profit and capital, such as corporate income tax and capital gains tax (Rappaport, 2002), however the tax burden in general should also be examined. This includes all income and consumption type tax burdens (Csomós and P. Kiss, 2014). In their paper Csomós and P. Kiss showed that simultaneously with reducing tax on labour, the weight of consumption type taxes had been increasing gradually since 2010 within the European Union and also in the V4 countries.

It is the capital owner investors who are controlling the tax competition. Current tendencies suggest that transnational and multinational enterprises, which are organised based on a network principle and create worldwide networks, are set to become larger and stronger. This tendency is further strengthened by the interaction between tax policy and securitisation (Hemmelgarn – Nicodeme, 2010). Owners expect profitability, i.e. adequate dividends and the steady growth in the value of shares. That is why most such enterprises prefer countries where labour costs are relatively low, the tax burden is moderate and the economy is liberalised. This is the environment where they can best leverage the differences between the tax conditions of various nations.

They allocate their profits through various transfers. Consequently, it is crucial for national states, such as Hungary, to not only fulfil their traditional roles, but also create a tax and administrative environment that is more favourable for the local SME sector. As shown by Csapó (2011), in the chapter of his research paper discussing the financing of the SME sector, due to the concept of „use other people’s money”, obtaining capital is especially important for new small and medium-sized enterprises that lack capital, but have large growth potentials (“gazelles”). This process can be significantly aided by an environment that offers a lower tax burden, thus taxation becomes an

important factor within competitiveness and innovation.

The development of the post–2010 Hungarian economic policy is remarkable, because in many countries fiscal adjustments result in political instability, due to the austerity measures introduced, which then slows down the structural reforms. *“A course that applies a broader tax base and levies taxes on international companies will maintain internal political stability saving time for governments to introduce structural reforms and contributes to the establishment of a financial equilibrium that is sustainable in the long term.”* (Lentner, 2016, p. 221)

THE HUNGARIAN TAX SYSTEM IN AN INTERNATIONAL COMPARISON

Size of the tax burden compared to other countries

According to a study published by the European Parliament in 2016 and entitled Overview: the European Parliament’s Work on Taxation, the total tax revenue as % of gross domestic product is 39.2 per cent. Within this tax burden 18.5 per cent of the GDP comes from direct taxes, including income taxes and 7.5 per cent of the GDP comes from indirect taxes (VAT and excise duties). Taxes on consumption and on labour have roughly the same share within the total tax revenues.

In an international comparison Hungary’s tax burden is high. We pay too much tax, compared to the region (Szabó, 2016). While in Hungary this is 39.2 per cent of the GDP, the countries of the region are characterised by the following ratios: Slovakia 28.3 per cent, Romania 28.3 per cent, Czech Republic 35 per cent, Poland 32.5 per cent, Bulgaria 27.9 per cent. (European Parliament, 2016) Our tax burden is not only the highest in the re-

gion, but we also are ahead of such economically more developed countries as Germany, the United Kingdom, Ireland and the Netherlands.

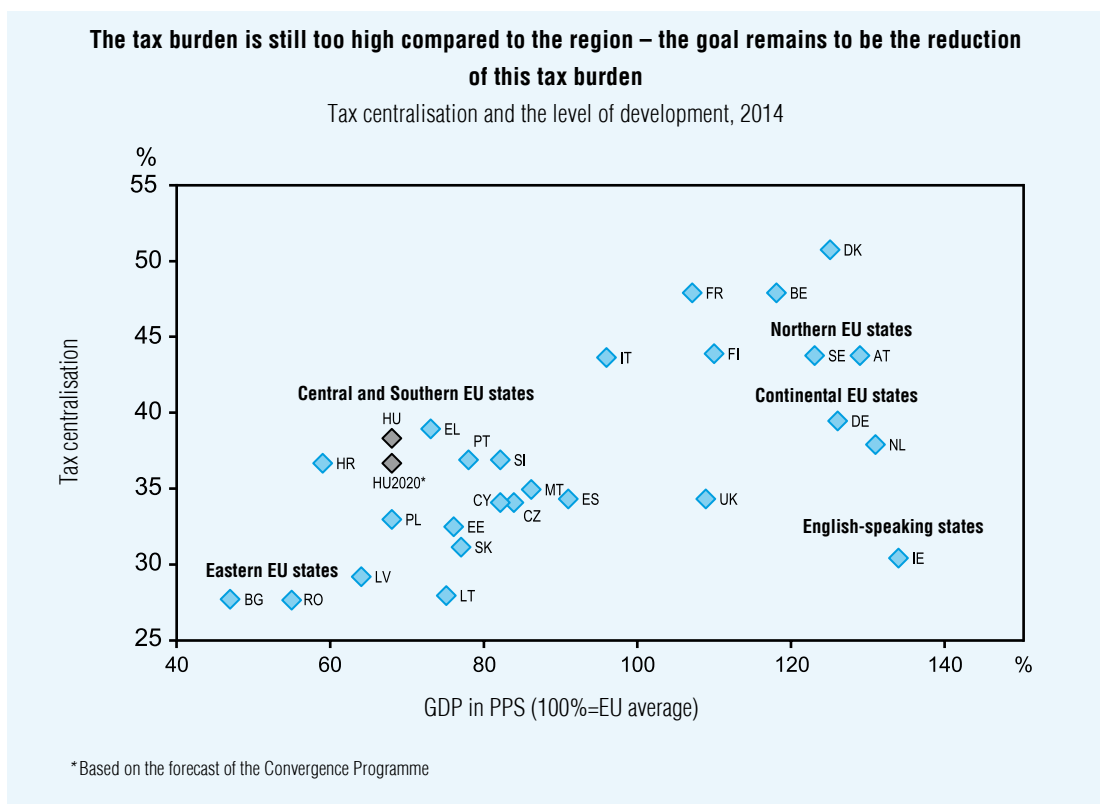
As shown in *Figure 1*, the tax burden in Hungary, which is 39 per cent of the GDP, is still high, compared to the region and the V4 countries. This is coupled with only 68 per cent per capita GDP in PPS (purchasing power standard), compared to the EU average. The tax burden in Poland and the Czech Republic, however, is 32–33 per cent and 35 per cent, respectively (with the same or much higher GDP).

In my view, Hungary should aim at reaching or at least coming close to the Polish level of tax burden in the short term. In the long

term our objective might be to reach the Czech living standards (in terms of the GDP) while maintaining a lower tax burden. Lower tax burdens presumably contribute to a better tax morale. An important element of improving the tax morale is when taxpayers are aware of the fact that the taxes they pay serve the right social causes, which they also support. This underlines the importance of spending public funds. As shown by *Domokos – Németh – Jakovác (2016, p. 25)* “the audit findings of the State Audit Office confirm that the control systems of both public entities and state-owned business associations need to be improved significantly in order to ensure good governance and public sector management. This calls for a paradigm shift; new horizons should be opened up in

Figure 1

CORRELATION BETWEEN THE TAX BURDEN AND THE SIZE OF GDP IN EUROPE



Source: Eurostat, Izer, 2016

the public sector management approach. It is indispensable to ensure the transparency, publicity and measurability of enterprises entrusted with the management of public funds or public assets, because this is the only way to ensure effective, efficient, cost-effective and sustainable public management and to increase social welfare.”

We continue the comparison of the Hungarian and the international tax systems by examining the tax wedge. The tax wedge is the ratio of all taxes and contributions on labour – paid by the employer and the employee – and all labour costs (gross wage plus contributions to be paid by the employer). *Figure 2* shows the tax wedge of Hungary and some neighbouring countries. Note that while before 2010 Hungary had the largest tax wedge among the countries included in the compari-

son, it shrank considerably in 2010, but still remains in the top two, alternating with Austria.

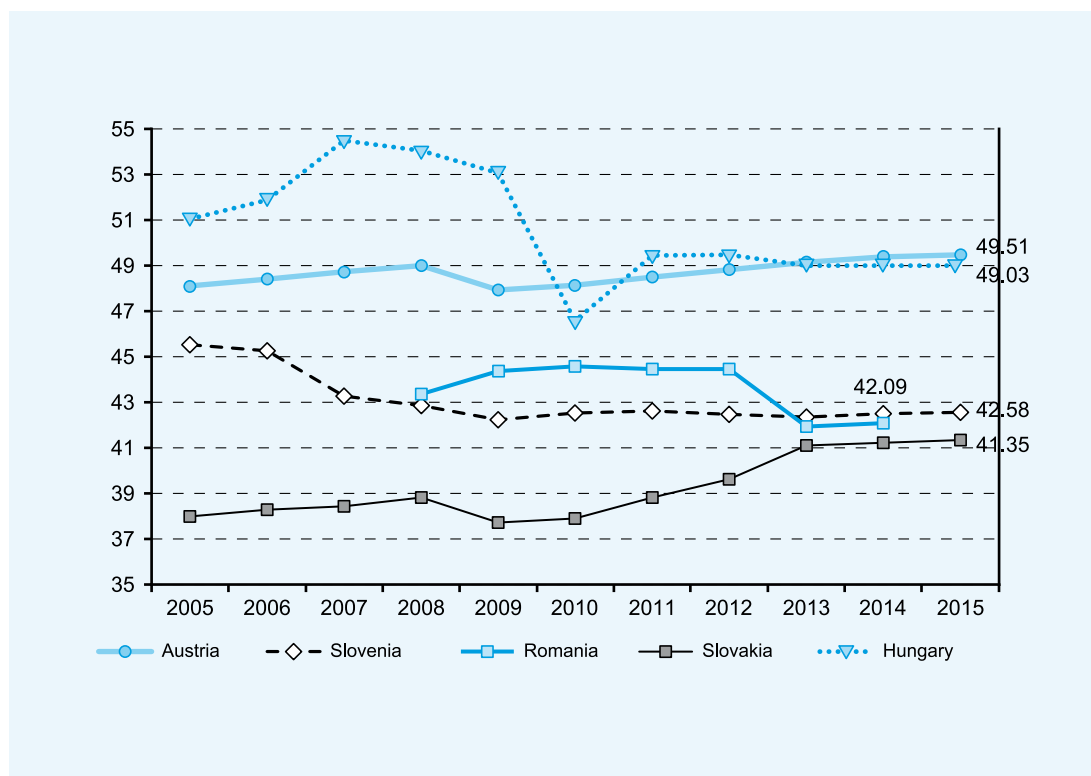
A unique characteristic, regarding Hungary, is that our tax wedge is way above that of the neighbouring countries, at 49.03 per cent in the period between 2013 and 2015, and currently at 48.25 per cent followed by a moderate reduction in 2016. This ratio placed Hungary at number 4 among the EU-27 in 2015.

The role of the hidden economy in Hungary

I wish to discuss the size of the hidden economy as the last area of Hungary’s international

Figure 2

TAX WEDGE IN TERMS OF THE AVERAGE GROSS WAGE BETWEEN 2005 AND 2015



Source: own editing based on OECD and Eurostat data

perception. The size of the grey economy as % of GDP was still 22–23 per cent in 2015 in Hungary (see Figure 3), therefore the continuous reduction of the tax burden of SMEs would be particularly justified, because according to *Schneider* (2012) the existence of the grey economy is explained to the extent of 35–38 per cent by the increase in tax and social security contribution burdens (Balog, 2014). When compared to our partners in the region, the ratio of the grey economy is 6–8 percentage points smaller in Slovakia and the Czech Republic and 1–2 percentage points larger in Poland.

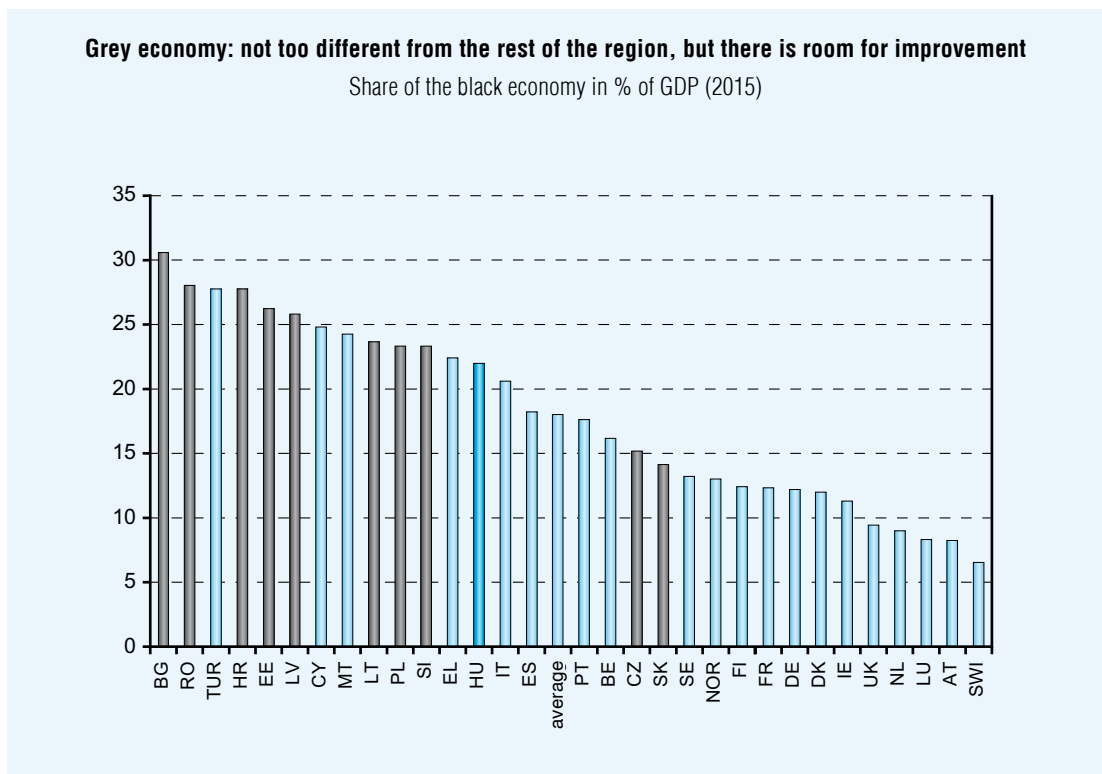
Based on the work of *Scheider – Raczkowski – Mróz* (2015) in his presentation *Izer* (2016) showed that the scope of Hungary’s hidden economy ranks in the middle within Europe.

In their comprehensive study, which reviews 17 hidden economy research areas, the authors address the scholarly community and the political decision-makers. Their conclusion is that the hidden economy cannot be reduced with an economic, legal, management or psychological approach only; it requires interdisciplinary methods.

In his interview in early 2017 *László Domokos* stressed that in recent years the black economy in Hungary had shrunk to 20–21 per cent of the GDP from a previous 24 per cent. This further 5 per cent whitening is expected to yield an extra HUF 500–600 billion of tax revenues. *Balog’s* (2014) study points out that a high tax morale clearly reduces the size of the hidden economy, because taxpayers in such a case would not gain anything by tax

Figure 3

SIZE OF THE GREY ECONOMY IN EUROPE



Source: Schneider (2015), Izer (2016)

fraud, so they do not take part in the black economy. (See Table 1)

HUNGARY'S TAX SYSTEM ON THE PATH TO CUT TAXES ON LABOUR

The reform of the Hungarian tax system after the 2008 global financial crisis: a decreasing tendency in the tax burden on labour

In an interview (2014) Matolcsy pointed out that with regard to taxes on labour, prior to 2010 Hungary had the most progressive tax system with the largest tax burden in the region. This, together with the generous social assistance system for economically inactive citizens, resulted in Hungary's labour market activity rate being among the lowest in the European Union. Recent years saw significant tax structure changes in the EU. There is no uniform tendency, however, when it comes to taxes on labour. The level of taxes on labour in Germany, which is a crucial country for us, has been declining, while it is increasing in the Netherlands and stagnating in Austria (Takács – Máté – Nagy, 2014).

The transformation of the Hungarian tax system is clearly illustrated in Figure 4, which shows that the system has been overhauled significantly in the post-2004 period. During 2004–2015 two separate cycles can be identified: the first was between 2004 and 2008, showing an increasing tendency in terms of the ratio of taxes on labour and a decrease in the ratio of taxes on consumption. These trends, however, reversed between 2009 and 2015, clearly showing a rise in turnover and consumption type taxes from 36 per cent around 2008 to as much as 45–46 per cent, while the ratio of taxes on labour dropped from 52 per cent around 2008 to 45–46 per cent by the end of the period. During this period a workfare society has been established in Hungary, quietly and slowly paving the way at the same time to a tax system that favours this society, thus implementing a real tax reform.

What could have caused the 2008 shift in the trends? Primary the fact is that by 2007 the Hungarian government was characterised by a fiscal policy of overspending, thus increasing the rate of public debt. Consequently, Hungary had to sign a EUR 20 billion aid deal with the IMF in 2008. However, one of the IMF's criteria for this deal was for

Table 1

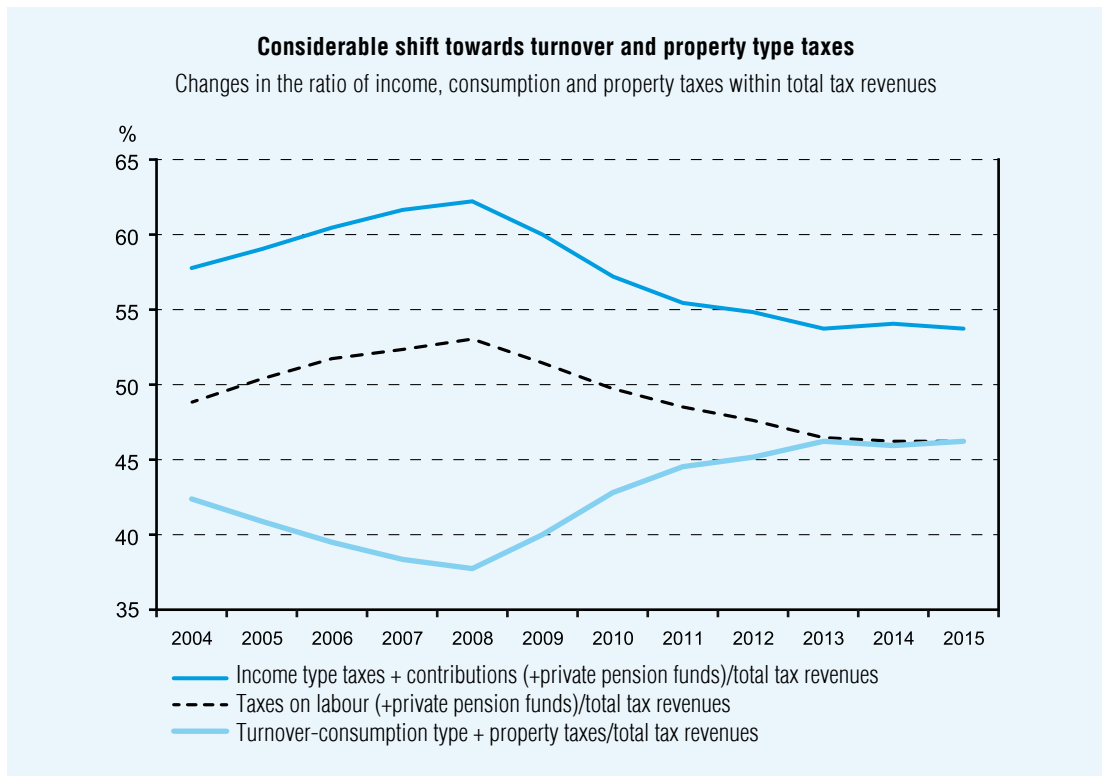
FACTORS EXPLAINING THE SIZE OF THE HIDDEN ECONOMY

Factors influencing the hidden economy	Percentage (%) of the changes in the hidden economy due to this factor
Increase in tax burdens	35–38
Quality of state institutions	10–12
Grants and aids	5–7
Labour market regulations	7–9
Government services	5–7
Tax morale	22–25
Combined effect of the above factors	84–98

Source: Balog (2014)

Figure 4

THE RATIO OF VARIOUS TYPES OF TAX IN % OF TOTAL TAX REVENUES



Source: Calculation by the Ministry for National Economy of Hungary (NGM) Izer (2016)

the Hungarian government to curb pensions and wages. As early as in 2008 the corporate income tax rate was reduced to 10 per cent – if certain conditions were met – applicable up to the tax base limit of HUF 50 million, while instead of the previous 25 per cent, 50 per cent could now be placed into a reserve for development purposes. These, however, were only initial changes.

The reform process accelerated from 2010, when personal income tax was reduced to 17 and 32 per cent (from 18 and 36 per cent previously) and the tax bracket ceiling was increased threefold. A 29-point action plan was also put together, raising the profit threshold for the preferential corporate tax rate to HUF 500 million, introducing a flat personal income tax rate of 16% and eliminating sev-

eral so-called small taxes. These changes were offset by increasing taxes on turnover, which eventually resulted in a 27 per cent VAT and higher excise taxes, as well as special taxes levied on certain segments (banking, energy sector etc.).²

After 2010 taxes on labour were transformed in several steps:

- In 2010 the rate of personal income tax was reduced and the income ceiling was raised.
- In 2011 a flat rate (16 per cent) income tax was introduced, together with a wider scope of family tax allowances.
- In 2012 super-grossing, tax credits and the tax base adjustment (in the lower tax bracket) were eliminated.
- From 2013 super-grossing was abolished

in all income categories and tax reliefs were introduced for groups that were at a disadvantage in the labour market.

- From 2014 the scope of family tax allowances was widened and now they could be claimed against healthcare and pension contributions as well. (Csomós – P. Kiss, 2014)

Further changes in the tax system after 2016

In 2016 the government continued its tax reduction policy (Varga 2016). Personal income tax was cut from 16 to 15 per cent. Family tax allowance for parents with two children was raised considerably (by 25 per cent). Tax cuts were also introduced in other tax categories from this year: VAT on pork and newly built or purchased residential properties fell to 5 per cent and the special tax levied on financial institutions was also slashed. Environmentally-friendly vehicles became exempt from motor vehicle tax. Also, in order to reduce tax administration, a taxpayer qualification system of reliable and risky taxpayers was introduced.

As pointed out by Domokos (2016), the high income centralisation in 2015 and 2016 was the result of larger than planned growth in tax and contribution revenues. According to Domokos this is partly due to the effect of measures taken for whitening the economy. In his view, there are more options to whiten the economy and increase the efficiency of tax collection. He says that *“increasing the efficiency of tax collection is not an end in itself, but a means for reducing tax rates and thus improving economic competitiveness”* (Domokos, 2016, slide 8)

In 2017 we have seen a continuing tendency of tax reduction. Major changes include the reduction of the corporate income tax rate to

9 per cent from the previous 19 and 10 per cent. *“From the beginning of 2017 a 9 per cent flat rate corporate income tax is introduced, reducing central budgetary revenues by HUF 150–170 billion a year. This change will increase the competitiveness of the Hungarian tax system, however it will have a different impact on the various companies. Close to 70 per cent of the reduced tax burden will be retained by large companies, 14 per cent by medium-sized companies, while the rest is shared between small and micro companies.”* (Mosberger, 2017, page 1).

The same process is seen with private entrepreneurs, whose income tax rate has also been reduced to 9 per cent. Social contribution was also cut from 27 to 22 per cent. This year another HUF 2,500 is added to the family tax allowance, while VAT on fresh milk, poultry meat and eggs is reduced to 5 per cent and the provision of internet and restaurant services will be taxed at a rate of 18 per cent.

As a result of tax policy measures the tax burden of the SME sector decreased from 57.5 to 48.4 per cent between 2010 and 2015 (György – Veress, 2016). The tax burden of SMEs has also dropped significantly in 2017, due to the indirect tax reduction entailed by KATA (small taxpayers’ itemised lump sum tax), because the same amount of tax is levied on the HUF 12 million income cap as was in case of the previously applied HUF 6 million cap (see Table 2).³ In the KIVA (small business tax) category the tax burden has been reduced from 16 to 14 per cent by 2017 and the calculation of the tax base has also changed.

On a macro level, an important element is that the 2016–2017 tax changes in Hungary can significantly reduce tax burdens as % of GDP and may also cut the ratio of taxes on labour. Future changes are also in line with the conscious trend of tax wedge reduction. Due to the 5 percentage point reduction of social contributions in 2017, the tax wedge is expected to shrink to 46.2 per cent (Izer,

Table 2

COMPARISON OF THE 2016 AND 2017 INCOME-RELATED TAXES AND TAX BURDENS OF A FULL-TIME KATA ENTREPRENEUR

Income in HUF	Amount of tax in 2016 in HUF	Tax burden as a %, 2016	Amount of tax in 2017 in HUF	Tax burden as a %, 2017
1,000,000	600,000	60	600,000	60
2,000,000	600,000	30	600,000	30
3,000,000	600,000	20	600,000	20
4,000,000	600,000	15	600,000	15
5,000,000	600,000	12	600,000	12
6,000,000	600,000	10	600,000	10
7,000,000	600,000	–	600,000	8.5
8,000,000	600,000	–	600,000	7.5
9,000,000	600,000	–	600,000	6.7
10,000,000	600,000	–	600,000	6
11,000,000	600,000	–	600,000	5.5
12,000,000	600,000	–	600,000	5

Source: own editing based on the tax laws

2016a). If we take into account a further 2 percentage point reduction, planned for next year, and assume that – 2018 being an election year – the promised one-digit, i.e. 9 per cent, personal income tax rate is introduced, the size of the tax wedge may become considerably smaller. In such a case the tax wedge in Hungary will amount to only 40.3 per cent by 2018. This could take us to a number one position among the neighbouring countries. Naturally, it will be coupled with a large cut in taxes on labour, expected to be close to the dream threshold of 40 per cent within the total tax revenues.

Possible ways to whiten the economy

Whitening the economy is closely linked to the process of reducing the tax burden. During the whitening process the amount of taxed incomes and/or assets will grow,

thus enabling the economic policy to reduce tax rates. There are several ways to do this. *“Whitening the economy has been a priority objective for Hungary in recent years, for which several measures have been introduced by the government. These measures attempted to shrink the hidden economy through several channels.”* (Balog, 2014, p. 24)

It becomes more difficult to conceal income if the tax authority has more information on transactions and/or their financial settlement. Grey employment could be reduced by limiting the burdens of employers to only include obligations that they can be expected to meet under the given social conditions. Employment conditions must be checked regularly. Grey employment will be reproduced unless legislation removes all the aforementioned incompatible elements from the system. At first we need to create an economically fair environment, then the rigour of the authorities can be applied.

Balog (2014) also highlighted the importance of concealed incomes by explaining that measures aimed at improving the efficiency of tax audits, mainly focused on preventing the concealment of incomes. In his view, the most efficient of such measures include the migration to cash registers capable of online data communication, the tax registration procedure, the capping of cash payments between companies and the system of tax summaries.

With a view to curbing the concealment of incomes, the tax authorities' work was also made more efficient by the support of the legislation and the government. The measures can be classified into several categories: structural changes, tax system reform, enabling the tax authority to collect information, the ability to focus tax audits on risky activities and taxpayers.

Structural changes also included the merger of the tax and customs authorities, thus making the collection of public dues more efficient (Act CXXII of 2010 on the National Tax and Customs Administration). The advantages of the useful synergies of the joint management have been demonstrated in recent years. Customs officials with law enforcement expertise can prove very useful during the tax audit of transactions that involve large taxes.

The European Union, national legislation and the government all have to work towards creating a good tax system. Establishing the right framework for taxation is more difficult at EU level, due to the different interests of the member states. The EU also realised that the flow of goods within the community and the related insufficient documentation is a hotbed of VAT fraud. The EU was unable to introduce a uniform system for the submission date and contents of VAT returns. Currently a standardised VAT return form is being established that can be adopted by the member states on a voluntary basis. The preferred targets of VAT fraud are countries with a high tax rate, such as Hungary. A study by *Kenyeres* and

Varga (2016) explored the possibility of creating a system of special national taxes. The authors proposed a model for the sale of goods. A similar solution should be developed for the sale of services.

In the current VAT system the VAT content of declared incomes often disappears. This is prevented by the introduction of the reverse charge system, especially in areas where fraud is highly prevalent. In this system VAT is not passed on by the issuer of the invoice. The buyer will be liable to pay and also entitled to deduct VAT. This way no budget deficit will arise from the VAT system. It can work efficiently when supported by proper controls. The more products are included in the reverse charge system, the less value added nature will be retained by VAT. (Act CXXVII of 2007 on Value Added Tax).

The tax authority can only set up its data collection activities if the legal environment is established first. Legal mandates must be supported by IT developments. These legislative and IT preparations can be carried out simultaneously. An efficient tool in fighting concealed incomes was the introduction of domestic itemised VAT summary statements. This requires taxpayers to submit an itemised statement on the data of invoices containing VAT over a certain value limit. Technically this statement is attached to the tax return, to be submitted electronically. When it was introduced, the threshold for the reporting obligation was HUF 2 million, currently it is HUF 1 million and from July 2017 it will be HUF 100 thousand. These reports must be submitted both by sellers and buyers (https://www.nav.gov.hu/nav/ado/art/A_teteles_belfoldi_os20150219.html).

Apart from the domestic VAT summary statements, for the purposes of preliminary checks on the obligation of VAT declarations an Electronic Trade and Transport Control System was established, which is designed to

track the actual movement of goods on public roads. Road cargo of a certain size or value must be registered in a central electronic system before starting the transport activity within Hungary. Most movements of goods on public roads can be detected, and if necessary might be made subject to preliminary checks in accordance with Act XCII of 2003 (<https://ekaer.nav.gov.hu>).

An efficient way to whiten the economy is to introduce online cash registers. While the previously discussed systems concerned B2B trade, the objective of online cash registers is to whiten B2C trade. Since its introduction the scope of activities checked in this way has been widened. The tax authority can initiate data enquiry from cash registers without the involvement of the taxpayer (Mizsányi – Szabó, 2016). The newly proposed online invoicing system is expected to yield similar results to that of online cash registers. According to one version, the data of invoices issued on a given day would have to be reported online.

Another version suggests that direct data connection should be set up with the national tax authority during the issue of invoices, so that the authority can check the issuer and the addressee of an invoice in its database. This requires considerable IT investments and infrastructure from businesses. The new regulation must also take into consideration the special situation of certain businesses, such as mobile outlets and services (Csíki, 2016).

The amendments of Act XCII of 2003 on the Rules of Taxation now ensure that tax audits can be focused on risky activities and taxpayers. Financial institutions are required to provide data to the tax authority in a certain format. This means that input data are available in an electronic format already, so they can be also processed electronically. These data are then analysed by the tax authority using data mining techniques and tax evasion risks can be eliminated. The system also enables data collection during audits, which can be used to expand the database used for selection.

NOTES

¹ For reasons of limited space I cannot explore the relationship between taxation and competitiveness in this paper.

² I cannot discuss these special taxes in detail here. A thorough analysis of the special taxes on banks was provided by Pesuth (2014).

³ My table is based on the assumption that taxpayers do not exceed the cap and pay the legally required minimum amount. Anything above that will be taxed at 40 per cent or there is an option to pay HUF 75 thousand, but it is only advisable for those who have just 1 or 2 years left until retirement. Note that those in full time employment are required to pay HUF 25 thousand only.

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