

Zoltán Pitti

The operational efficiency of the fiscal system in terms of key tax and contribution liabilities

Experts often point out that Hungary has a disproportionate distribution of tax and contribution burdens, slowing performance, and, at the same time, an inefficient fiscal system.. These opinions, however, are basically subjective in nature, supported by only a limited number of sound arguments. The author (the former president of the Hungarian Tax and Financial Control Administration [APEH] and researcher at CORVINUS University) makes an attempt to compare theoretically possible and actually realised tax and contribution revenues and to explore the phenomena that influence the degree of differences. The editor regards the present study as a polemical essay and is glad to give an opportunity to set forth opinions other than the author's.

In Hungary, experts participating in professional debates pay increasing attention to the changes of total taxation and the study of the structural composition of the related burden. Representatives of the business sector have emphasised the volume of tax and contribution liabilities, unpredictable changes and the growth of administrative burdens, while employee representative bodies and sociologists have protested against the disproportionate distribution of tax and contribution burdens. Both sides agree that the fiscal system fails to

function in the right direction and at a proper degree.

The present study has as its subject the latter subject. Completeness check – an internationally applied method – is used to make attempts to explore the level of efficiency of the Hungarian fiscal system on the basis of macroeconomic data and to determine those factors that hinder efficiency. The main point of the completeness check is that it compares the corresponding data of the national accounts (kept by the Central Statistical Office [KSH] and serving as the basis for GDP calculation) to the actual revenues of major tax categories – that is, the assessment is made not on a cash-flow, rather than a profit/loss basis. The survey deals with the functioning of value added tax, income tax, corporate tax schemes, and of the system of social contribution payments; however, as experience has shown, the same method can be applied to other tax categories, as well. It is only in the most inevitable cases that the completeness check of the period from 2001 to 2007 deals with the annual technical changes of equal fiscal treatment rules; our attention is focussed on the assessment of the results that can be detected at a macroeconomic level, as well as that of lost performance.

A COMPLETENESS CHECK OF VALUE ADDED TAX

In terms of the functioning of the fiscal system, a most important issue is that of the operational efficiency of the *VAT tax category*, which makes up almost two-thirds of the taxes related to business turnover (consumption). On the average of the period from 2001 to 2007, the VAT balance (net revenue) of the amount to be paid to the budget on the basis of business turnover and the amount to be deduced as production related spending (representing almost one-third of the tax and contribution revenues) was 8.0–8.2 percent of the annual GDP; that is, the functioning of the VAT tax category reflects the changes of economic performance and of final consumption, and essentially constitutes the secure basis of state revenues.

The basis of the completeness check of the VAT tax category is *an analysis of the gross national product in terms of major factors*. Simplified evaluations, for the sake of international comparability, compare the net VAT revenue realised by the central budget to the value of final consumption. In-depth analyses use the detailed data of the National Accounts and thus display a more complex approach to the determination of the basis of VAT assessment falling under the scope of VAT. Therefore, the annual final consumption data should be adjusted by the value of the benefits in kind allocated to households; the value of gross capital formation should be adjusted by the fixed capital formation of the governmental sector (not eligible for VAT deduction) and of households; and when determining the total basis of VAT assessment, the balance of foreign trade turnover should be taken into consideration either as an augmenting or a reductive factor.

The *theoretically possible amount of VAT revenues* (calculated VAT) can be calculated by multiplying the basis of VAT assessment

(summed up as described above) by the average VAT rate. Taking into consideration the fact that VAT rates and the content scope of the products and services falling into the scope of various rates underwent several changes in the period from 2001 to 2007 (the normal rate of 25% was reduced to 20%, then the preferential rate of 15% was abolished and a universal VAT rate of 20% was introduced), it is reasonable to calculate the average VAT rate as weighed according to consumption (See Table 1).

It is evident from the survey of the completeness check data relating to the period from 2001 to 2007 that due to changes in legislation, *the relatively dynamic growth of the theoretical basis of VAT assessment* is due for the most part to the governmental sector (“not liable to deduction”), the investment allocations of the household sector and the final consumption of households, while the growth of in kind benefits, the decrease of weighted VAT rates and the deficit of foreign trade turnover (see years 2006–2007) reduced theoretically realisable VAT revenues.¹

One of the conclusions of the completeness check is that in the long run the value of theoretically realisable VAT revenues increases faster than the value of actually realised VAT revenues (hence the major difference between the theoretically performable and actually realised VAT revenues, at above 1500 billion HUF in the years 2006–2007); another important conclusion, however, is that revenue efficiency fluctuates between very diverse extreme values. This phenomenon is *a result of complex causes*; among others, the deficiencies of regulation, hectic movements of economic performance, the deterioration of the taxpayer basis and of law abiding behaviour, and, last but not least, the fact that control mechanisms improve slower than desirable, all contribute to this outcome. The factors to be noted are as follows:

Table 1

THE COMPLETENESS CHECK OF THE VAT LIABILITY OF THE TURNOVER OF PRODUCTS AND SERVICES

(billion HUF)

	2001	2002	2003	2004	2005	2006	2007*
Total value of final consumption	11,097.5	12,904.6	14,904.8	15,971.9	17,082.8	18,173.9	18,956.9
of which: final consumption of households	9,583.8	11,077.8	12,816.0	13,903.8	14,910.7	15,744.4	16,503.3
of which: benefits in kind**	1,717.4	2,104.9	2,500.0	2,568.6	2,785.9	2,996.3	2,978.4
community consumption	1,513.7	1,826.7	2,088.8	2,068.1	2,172.1	2,429.5	2,453.6
Total value of purchased consumption	9,380.2	10,799.6	12,404.8	13,403.3	14,296.8	15,177.6	15,978.5
Total gross capital formation	3,980.9	4,224.2	4,557.6	5,398.1	5,198.8	5,499.7	5,844.1
of which: gross fixed capital formation	3,493.0	3,916.9	4,156.0	4,650.7	5,016.7	5,169.5	5,304.5
of which: governmental sector	563.3	815.7	653.0	733.7	873.0	1,049.9	1,179.0
households	860.1	993.8	1,114.1	1,304.2	1,203.3	1,091.9	1,175.3
Capital formation serving as a basis of VAT assessment	1,423.3	1,809.5	1,767.1	2,157.1	2,198.8	2,247.0	2,540.0
Balance of foreign trade turnover	-228.6	-388.4	-811.7	-652.8	-239.2	121.7	572.9
of which: export sales	10,803.4	10,843.5	11,515.3	13,166.9	14,606.2	18,505.6	20,287.2
import procurement	11,032.0	11,231.8	12,327.0	13,819.7	14,845.4	18,383.9	19,714.4
Total value of theoretical basis of VAT assessment	10,574.9	12,220.8	13,360.2	14,907.6	16,256.5	17,546.3	19,091.4
Average VAT rate (Weighted average)	20.22	19.11	19.22	20.35	21.96	18.71	18.55
Theoretically realisable VAT revenue	2,138.2	2,335.4	2,567.8	3,033.7	3,569.9	3,282.9	3,541.5
VAT revenue according to the National Account	1,230.2	1,340.9	1,539.9	1,812.5	1,829.7	1,769.9	1,978.4
Fulfilment rate of VAT liability, %	57.5	57.4	60.0	59.7	51.3	53.9	55.9

*preliminary data

** As opposed to the practice of previous years - among market economy conditions - the final consumption does not need to be adjusted by the data of households and community consumption (on the basis of general features this category is also liable to VAT); however, the balance of in kind benefits and foreign trade turnover should be regarded as a correction item.

Source: the annual data of the National Accounts (KSH) and the "APEH Világa" annual report

■ *The difference that can be traced back to regulation:*

- the limit of values of taxpayer exemption and the great number of those who exercise this right (in the EU, the exemption limit is 10,000 EUR while in Hungary it is HUF 4 or 6 million);
- classification on the basis of exempt activity (if compared to the previous years, the number of those involved is definitely smaller yet still greater than the EU average);
- a great number of those activity ranges which do not fall under the scope of the

obligation to issue an invoice and into the scope of VAT application (agrarian primary producers);

- the growth of the number of enterprises falling under the scope of simplified entrepreneurial tax (EVA) and a particular accounting mechanism that does not break down the revenues generated on the basis of the general tax rate of 25% (formerly: 15%) into tax categories.

■ *The difference that can be traced back to the structural features of the Hungarian economy:*

- a dynamic expansion of businesses specialised in the further processing of

imported primary materials and semi-finished products, which results in the fact that on the budget level the balance of the VAT generated on the basis of imports and the VAT claimed to be refunded on the basis of exports, is invariably and progressively negative;

- the atomised nature of economic operators (98% of enterprises are categorised as micro or small enterprises);
- enterprises that fall into the same proprietor category often employ the practice of “carrousel invoicing”, which distorts both VAT results and corporate performance.

■ *Due to other conditions:*

- selling without invoices, which results in the fact that products and services trade as well as VAT liability falls outside the scope of business turnover registered in the market;
- the great number of instances of unjustified VAT deduction and VAT refund claims – “popular methods” include the issuing of fictitious invoices or accounting personal consumption as entrepreneurial expenses;
- when compared to the growth of the number of enterprises and market transactions, control capacity displays insufficient growth;
- instead of an analysis of macroeconomic processes and an evaluation of tax return information, the returns are summed up mechanically.

Theoretically, the VAT system could function more efficiently, and, among the present budgetary circumstances and in order to improve the fairness of fiscal treatment, this would be absolutely indispensable. This requires, among others, a re-consideration of the economic development strategy (What kind of future do we envisage for the processing activities related to imported primary materials and semi-finished products in Hungary? How long

will we build the maintenance of our competitiveness upon the mistaken concept of cheap labour supply?). In addition, *the modernisation of regulations* and, at the same time, the *improvement of the transparency* of VAT subjects and of the VAT accounting process must not be postponed. It is time to shift from data management to an analysis of information and to a deeper examination of economic correlations.

THE TAXATION OF PERSONAL INCOME; THE OPERATIONAL EFFICIENCY OF THE INCOME TAX SYSTEM

The system of income taxation plays a direct role in the tendencies of the revenues of the governmental sector, indirectly affects the gainful employment of natural persons (accelerates or slows down performance and determines labour costs), while the distribution of burdens among the major forms of gainful employment and major income owners is a significant factor of the enforcement of the principle of social fairness. As the data of the National Accounts show, *in the period from 2001 to 2007 the GDP-proportionate value of wages and salaries showed a tendency of growth*, while the index of actual income tax payments (calculated in GDP ratio) decreased from 7.2% to 6.3%.

The completeness check of income taxation (see Table 2) offers some interesting insights. It is well worth considering the fact the wages and salaries data of the National Accounts for the period 2001 to 2007 show *a growth more dynamic than that of the incomes subject to accumulation, registered on the basis of annual income tax returns*. According to the data of 2006–2007, the difference between the absolute values is 1500–1600 billion HUF; however, given that in conformity with the effective rules incomes subject to accumulation include

Table 2

**THEORETICALLY REALISABLE INCOME TAX REVENUES CALCULATED
ON THE BASIS OF GDP FACTORS AND REALISED INCOME TAX REVENUES**

(current price, billion HUF)

	2001	2002	2003	2004	2005	2006	2007*
Gross national product (market price)	14,849.8	16,740.4	18,650.7	20,717.1	22,042.5	23,795.3	25,373.9
Gross added value (basic price)	13,077.5	14,807.6	15,944.7	17,654.4	18,879.0	20,540.1	21,938.4
Employees' income	6,798.7	7,710.1	8,591.1	9,506.8	10,260.7	10,944.6	11,802.9
of which: value of wages and salaries	5,161.5	5,881.0	6,640.0	7,419.3	7,979.3	8,541.3	9,146.4
Wages and salaries in the ratio of gross added value calculated at market price (%)	34.8	35.1	35.6	35.8	36.2	35.9	36.0
Total value of incomes subject to accumulation in income tax returns in the reference year	4,424.9	4,935.5	5,507.4	5,853.4	6,390.5	7,000.9	7,736.0
Average income tax rate weighted by size of income (%)	35.04	35.73	35.28	32.25	31.49	30.15	30.03
Theoretically calculated tax payment liabilities	1,808.7	2,101.3	2,342.6	2,392.7	2,513.0	2,575.6	2,746.7
Value of actual tax payments	1,142.9	1,294.4	1,325.3	1,363.3	1,449.7	1,599.0	1,794.4
of which: Incomes subject to separate taxation	80.4	90.0	95.3	103.9	125.9	155.2	192.8
Value of corrected income tax payments	1,062.5	1,204.4	1,230.0	1,259.4	1,323.8	1,443.8	1,601.6
Fulfilment ratio of income tax payment liabilities	58.7	57.3	52.5	52.6	52.7	56.1	58.3

* preliminary data

Source: the annual data of Hungary's National Accounts (KSH), the non-financial accounts of the government and the "APEH Világa" annual flash report.

income items from taxation, the actual difference is even greater. Our research showed that *this difference – which makes up almost one-fifth* – is a result of the fact that the “wages and salaries” data of the National Account show a growth that is faster than the actual one, a consequence of the lower than actual willingness on taxpayers' part to include incomes subject to accumulation in their tax returns.

A significant element of the completeness check was the breakdown of the wages and salaries data of the National Accounts according to income brackets and the annual determination of the average income tax rate. In this study, the income distribution processed by the tax authority (APEH) on the basis of annual personal income tax returns was considered as the basis of reference,² and the average tax rate was determined as a result of weighing by incomes under various income brackets.

In the period from 2001 to 2007, the ratio of realisable and realised tax revenues *fluctuated between diverse extreme values*. On the basis of an analysis of recent years' practice, *the major reasons* for the differences calculated on the basis of modelling and displayed in the tax preparations can be determined as follows:

■ *The difference that can be traced back to regulation:*

- The highest income decile is almost 8 times bigger than the lowest one, yet the effective regulations ignore different economic capacities;
- the enforcement of the tax exemption of the minimum wage (one-fifth of employees are registered as receiving a minimum wage);
- the number of enterprises falling into the scope of simplified entrepreneurial tax

(EVA) and a particular accounting mechanism that does not break down the revenues generated on the basis of the general tax rate of 25% (formerly: 15%) into tax categories.

- agriculture was taken out of the scope of normative regulation (primary producers).

■ *The difference that can be traced back to the structural features of the Hungarian economy:*

- incomes realised in the informal economy are accounted for on the basis of estimations;
- the low level of economic activity and the expansion of non-registered employment (according to the 2006 data, out of 7,720,000 economically active-aged persons only 3,930,000 persons are actually employed, out of whom only 3,300,000 persons made tax returns related to income resulting from employment);
- micro and small enterprises disburse owners' income not through "entrepreneurial handouts" (which are subject to income taxation) but by way of dividends and thus reduce their income tax liabilities and social contribution liabilities.

■ *Due to other conditions:*

- the expansion of the hidden economy (extensive use of "wage saving methods");
- the defencelessness of employees (feigned contracts remain an issue);
- a material and cultural differentiation of the society, which offers variegated opportunities to find employment that adopts to the changing market demands (regions specialised on agricultural activity now cannot offer jobs).

A seriously disproportionate feature of the income-proportional fiscal system is *that almost 90 percent of stated incomes comes from employment* while capital-derived incomes – in contrast to the actual situation – represent only a 10% ratio. As for incomes from work, one-

fifth of taxable persons pay taxes on the basis of zero income or minimum wage income (thus hardly making up 7.5 percent of the income tax paid); *those paying taxes on the basis of the average income represent 68% but carry more than 72% of the tax burden*; income owners with incomes significantly above the average bear just one-fifth of the total of income tax obligations. To sum up, the analysis of income tax data also give evidence that those with average income carry a larger burden than the average earner (therefore, there is a strong motivation to remove incomes from legal channels), while persons with incomes higher than the average participate in the financing of public expenditure at a degree lower than that which is allowed by their economic capacity.³

TAX OBLIGATIONS BASED ON ENTERPRISE PROFITS

As a result of the highly variegated entrepreneurial types of the Hungarian business sector, the profit-proportionate burden sharing practice of economic operators can be evaluated exclusively in the case of those enterprises that function as corporate bodies. Even in this narrowed-down field, problems are posed by the growing gap between registered and actually functioning enterprises, the fact that enterprises fluctuate between various corporate formations (joint stock companies [rt.] and limited liability companies [kft.], unlimited partnerships [bt.] and simplified entrepreneurial tax [eva]) and that tax rules are specified on the basis of enterprise types.

According to the economic theory, the drive behind the operation of the business sector is profit and the augmentation of entrepreneurial property. In Hungary, the taxation of corporate enterprises is fundamentally *based on the positive results of enterprises*. A basic data of the completeness check is the gross operating sur-

plus of the domestic product (GDP) calculated on an income basis; this is compared to the total value of realised entrepreneurial taxes. The result of the survey depends on several factors: the changes of entrepreneurial profit, exemption and allowance conditions, the degree of profit centralisation and the willingness to pay taxes. (See Table 3)

After a transitional deterioration, the ratio of theoretically realisable tax revenues calculated on the basis of GDP factors and realised tax revenues shows an improving tendency; albeit the improvement of total performance is also contributed to by the increase of tax burdens (4% surtax) and a significant restriction of allowance titles. The improvement of efficiency was also facilitated by a decrease of the number of enterprises that showed deficit; nevertheless, it is slowed down by the tax avoidance of “paper” enterprises, in other words, an absolute and a relative deterioration of the willingness to pay taxes.

The tendency displayed by the difference between corporate tax revenues calculated on the basis of modelling and actual corporate tax revenues is positive yet the amount of the rev-

enues which are “lost” from the perspective of the budget is still significant. Taking into consideration the practice of recent years, the phenomenon can be attributed to the following facts.

■ *The difference that can be traced back to regulation:*

- the upward valuation of the items that increase and decrease earnings before tax and an unfavourable change of the balance (cca. –2500 billion in 2007);
- an incentive to split enterprises (under a given limit of value the opportunity of a 10% profit tax is offered);
- the relatively high level of the previously granted tax allowances (secondarily, its disproportionate distribution);
- a growing mass of losses carried over from previous years, and the annual “setting-off” effectuating the decrease of earnings before tax (in 2007 318.2 billion HUF);
- the low efficiency of support policies and its “no consequence” practice.

■ *The difference that can be traced back to the structural features of the Hungarian economy:*

- the extension of the informal economy;
- the decrease of the specific capitalisation

Table 3

THEORETICALLY REALISABLE AND REALISED TAX REVENUES BASED ON ENTREPRENEURIAL PROFIT

(at current prices, billion HUF)

	2001	2002	2003	2004	2005	2006	2007
1. Gross national product (GDP)	14,849.8	16,740.4	18 650.7	20,717.1	22,042.5	23,795.3	25,373.9
2. Gross added value (basic price)	13,077.5	14,807.6	15,944.7	17,654.4	18,879.0	20,540.1	21,938.4
3. Gross operating surplus	6,303.0	7,144.0	7,399.1	8,251.9	8,737.7	9,738.4	10,614.9
4. of which: operating surplus of businesses	3,166.8	3,815.3	3,967.5	4,401.9	4,658.5	5,465.9	5,997.4
of which: corporate enterprises	2,363.7	2,744.6	3,356.7	3,503.7	4,240.1	4,583.6	4,960.6
5. Corporate tax liabilities (%)*	18.0	18.0	18.0	16.0	16.0	17.0	20.0
6. Calculated tax payment liability (4*5)	570.0	686.8	714.2	704.3	745.4	929.2	1,199.5
7. Actual profit tax payments	351.9	396.6	413.7	438.0	465.6	596.2	835.4
8. of which: performed by corporations	282.9	308.9	351.4	336.1	367.6	414.3	606.8
9. Fulfilment ratio of profit tax obligations (%)	61.7	57.7	57.9	62.2	62.5	64.2	69.7

* augmented by the solidarity tax and the surtax of financial institutions

Source: Hungary's National Accounts (KSH), “APEH Világa” annual flash report (APEH-SZTADI)

of enterprises (undercapitalisation) and the high cost of loan capital (the average interest is higher than the profit rate of capital investments);

- enterprises have shifted from fields that used to offer high income and reasonable results (processing industry) to fields with lower efficiency (service);
- the atomisation of economic operators and the consequences of ignoring economies of scale;
- an increasing level of circular indebtedness and a consequent deterioration of results (construction industry, trade, agriculture).

■ *Due to other conditions:*

- the high annual rate of replaced enterprises and the fact that enterprises with built-up debt to the central budget are liquidated with no consequences;
- the phenomenon of selling without invoices (well-known in the field of VAT) reduces the basis of VAT assessment and, at the same time, accounting for fictitious invoices as expenditure decreases the incomes reported by the enterprises;
- the method of saving wages – i.e. substituting staff costs by other expenditure elements – brings about a dynamic increase of other expenses and a further decrease of the basis of tax assessment.

The practice of corporate tax policy is shaped by contradictory influences. From a budgetary point of view, incomes should follow the improvement of performance, yet the importance of the acquisition of additional resources and the intensification of the international tax competition (the demand for the improvement of capital attraction and capital retention abilities) calls for a reduction of business-related withdrawals.⁴ Furthermore, the EU has initiated a community-level unification of the determination of the basis for the assessment of the corporate tax base (with a content narrower than now).

The reliability of the efficiency index – calculated from the results of entrepreneurial activity – is deteriorated by the fact that *in the GDP calculation the performance of the informal economy is undervalued*, and thus the value of gross operating surplus (basis of reference) is by cca. 23–25% lower than the actual level. As a result, the “average” fulfilment ratio (between 67% and 69%), compared to the “official” data, is nothing more but a result of a calculation – the real level is significantly lower.

SOCIAL CONTRIBUTIONS (EMPLOYERS' AND EMPLOYEES' OBLIGATIONS)

Among market economy conditions, *the social responsibility shouldered by the state, the rules of contribution liabilities and the changes of contribution payment discipline play a paramount role*. It is a positive change that by linking eligibility for services to the fulfilment of contribution liabilities – and as a result of the development of IT systems – the willingness to pay contributions has visibly improved since 2007. (See Table 4)

As a basis of measuring the efficiency of the contribution system, we use the wage and salary data of the gross domestic product (GDP) calculated on the basis of income⁵, which then is compared to the volume of realised social contributions – irrespective of whether the payer is an employer, an employee or a self-employed (self-insured) natural person.

The completeness check carried out on the basis of official statistical data, if compared to the VAT revenues, shows a relatively acceptable result; however, the reliability of the calculation is brought into question by the fact that cca. 450,000–500,000 persons “eligible for social insurance service” are still not present in the contribution payer system. Other problematic issues are raised by the fact that a relative-

Table 4

CONTRIBUTION PAYMENT LIABILITIES CALCULATED ON THE BASIS OF THE WAGE AND SALARY COMPONENTS OF ADDED VALUE

(billion HUF)

	2001	2002	2003	2004	2005	2006	2007
1. Gross added value (market price)	14,849.8	16,740.4	18,650.7	20,717.1	22,042.5	23,795.3	25,373.9
1. Gross added value (basic price)	13,077.5	14,807.6	15,944.7	17,654.4	18,879.0	20,540.1	21,938.4
of which: wages and salaries serving as the basis for social contribution assessment	5,161.5	5,881.0	6,640.0	7,419.3	7,979.3	8,541.3	9,146.4
basis of contribution assessment of households and assistance institutions	438.0	478.5	500.8	581.9	637.5	717.2	765.7
2. Value of incomes subject to contribution payment	5,599.5	6,359.5	7,140.8	8,001.2	8,616.8	9,258.5	9,912.1
3. Average contribution rate to be paid after incomes (weighted on the basis of earnings) (%)	44.2	43.6	41.9	40.6	43.1	43.1	44.5
4. Performable contribution according to modelling	2,475.0	2,772.7	2,992.0	3,248.5	3,713.8	3,990.4	4,410.9
5. Total value of actually performed social contributions (KSH–Ministry of Finance)	1,961.3	2,202.5	2,368.6	2,538.7	2,760.0	2,974.9	3,454.9
6. Fulfilment ratio of contribution payment, (%)	79.2	79.4	79.2	78.1	74.3	74.6	78.3

Source: Hungary's National Accounts (KSH), Magyar Statisztikai Évkönyv ["Statistical Yearbook of Hungary"] (KSH), annual flash report (APEH-SZTADI)

ly large number of subjects pay social contributions not on the basis their actual income (cf. 750,000–800,000 employees are registered as receiving a minimum wage) and that there is also a large number of people eligible for the service even if no one pays their contribution.⁶ As a consequence of the above-mentioned facts, *the social insurance funds obtain 550–600 billion HUF less than the revenues they are eligible to.*

■ *The difference that can be traced back to regulation:*

- the maintenance of the contribution exemption of certain fields violates sector neutrality (agriculture)⁷;
- the eligibility for services and the fulfilment of contribution payment liabilities have long been independent of each other; even today there is but a partial connection between the two;

- since 1998, the revenues of social security have been continuously distorted by a redistribution of contributions to the advantage of private pension funds, while the effects that decrease the expenditure commitment of the pension fund will not be perceptible until 2020;
- capital-derived income (dividend) has become a basis for contribution (health contribution [EHO]) only recently and to a limited degree.

■ *The difference that can be traced back to the structural features of the Hungarian economy:*

- employers and employees have interests that mutually strengthen each other to be involved in undeclared employment and to apply methods that save wages – the former does so in order to get exemption from social contributions, while the latter intends to avoid income tax liabilities and

- get exemption from social contributions;
- in spite of the economic model shift and in contrast to international practice, *enterprises continue to pay the majority of social contributions* (employers' rate is 29% while the liability of employees was increased to 15.5% as late as in 2007), yet the process of burden redistribution is significantly slowed down by employees' traditionally low income and by the fact that the income reform failed to be introduced.

■ *Due to other conditions:*

- a material and cultural differentiation of the society, which offers different opportunities to find employment that adapts to changing market demands;
- the constant modifications of social insurance rules and the elusive communication of the content of the service one is eligible to in return for contribution payment have a harmful effect on payers' discipline.

A future increase of contribution revenues may be brought about by a growth of economic activity (employment), the introduction of a personalised records system, the concentration of enterprises and the strengthening of control.

On the other hand, *the willingness to pay contributions may be further weakened* by the constantly growing amount of contributions to be paid, the elusive communication of service contents and – besides the increasing contributions – the extension of the so-called “created” fee liabilities (consultancy fee, bed fee, etc.)

ALL IN ALL, the difference between the theoretically realisable and actually realised tax revenues (and the differentiated changes in terms of tax categories) is a *consequence of the interplay of several conditions that decrease efficiency*. Yet it can also be reasonably stated that the operational efficiency of the fiscal system and the conditions that influence efficiency (along with legislative changes) are going to have a long-term decisive impact on the operation of the governmental sector and the business sector alike, and, above all, on the change in the population's quality of life. It would be positive if decision makers paid attention to this fact and considered the saying often quoted in literature on the subject: “That which is not measured either grows worse or makes something worse.”

NOTES

¹ This is basically due to the fact that products and services resulting from imports (purchases within the Community) bring about an import VAT liability, while the right of VAT deduction can be exercised in connection with the value of exported products and services (products and services sold within the Community). In the case of certain international enterprises, this phenomenon reaches such a volume that “as a result of the setting-off option” they are exempted from the payment of other tax categories, as well.

² See the processing of VAT preparations in the “APEH Világa” yearbook

³ These ratios refer to the 2005 income tax preparation; once the preparations of year 2006 have been processed, the data should be updated.

⁴ In 2008 Germany – in order to retain capital and protect employment – started to reduce corporate tax burdens by cca. 10 percentage points; neighbouring countries also have similar initiatives.

⁵ On the basis of the data of the National Accounts broken down into years

⁶ This is an interesting fact, as after a possible privatization of the insurance system (in international practice) it is the budget that is obliged to fulfil contribution payment liabilities.

⁷ Albeit the legislation scenario changed in 2008, the resulting revenue increase is yet to be perceived.

LITERATURE

A kormányzat nem pénzügyi számlái 1996–2006, [The Non-financial Accounts of the Government 1996–2006] (2008): *KSH, Budapest*

APEH Világa éves beszámolójelentések [The World of APEH. Annual Reports], *Adó- és Pénzügyi Ellenőrzési Hivatal, Budapest*

Government finance statistics, *EUROSTAT, edition*

Magyar Statisztikai Évkönyvek [Statistical Yearbooks of Hungary], *KSH, Budapest*

Nemzeti Számlák éves adatai [The Annual Data of the National Accounts], *KSH, Budapest*

Taxation trends in the European Union, (2008): *EUROSTAT, edition*

Dear Author,

Thank you for contributing with your article to the achievement of the objectives of our professional journal, which is being renewed. Hereby we would like to call your attention to our expectations regarding the publication of manuscripts.

The articles and studies to be published in the Public Finance Quarterly shall be no longer than 50,000 characters, including spaces. There is no minimum limit.

Please divide your text appropriately (with headings and subheadings).

Please make sure to accurately compile the list of the used literature and references. The list shall contain:

- the author's name (authors' names),
- the year of publication,
- the full title of the referred work,
- the name of the publisher and the place of publication.

If the referred work was published in a journal, after the author's name, the year of publication and the title of the work please indicate

- the full title of the journal,
- the month of publication, and
- the number of the page where the referred work can be found within the journal.

Please provide all tables and figures with titles and subsequent numbering (please include the reference in the text, too), and indicate the units of measurements of quantitative values. Please enclose the data series of figures and diagrams in Excel files. Please write the source of the data, as well as your notes pertaining to the tables and figures immediately under the table or figure.

Please indicate the author's profession, workplace or possibly position, scientific degree and other professional activities or title that you require to be published in the “Authors of this issue” section.

We can accept publications via e-mail, in Word files.