

## “A concise review of taxation books”

*"The art of taxation is like plucking the goose so as to obtain the largest possible number of feathers with the least possible amount of hissing"*  
(Colbert)



The authors, who themselves are lecturers on the relationship between the budget and taxation, will gather a few thoughts on specialist taxation books in the columns below. What is offered to the reader is more than a review but less than a study. It is not restricted to merely presenting the contents of the works, but neither is it intended as a complete study on the “science” of taxation – which is after all the subject of all four chosen books. These four works of public interest are filled with information on the subject of taxation – the selection of them being nearly despotic, considering the vastness of specialist literature – and the authors will attempt to compare them from the user’s point of view. Thus instead of introducing the books in great detail, with each work attention is drawn to their unique aspects, their different depths and their differences in weighting.

The examined works are as follows (in alphabetical order):

- GALÁNTAINÉ MÁTÉ, ZSUZSANNA (2004): Tax(onomy): EU conform – Hungarian taxes, *Aula Publishing (Aula Kiadó), Budapest*
- HERICH, GYÖRGY (2007): Taxation, *Penta Unio (Penta Unió), Pécs*
- SZAKÁCS, IMRE (2007): The great taxation handbook, *CompLex (CompLex Kiadó), Budapest*
- VÉGHÉLYI, MÁRIA (2004): Application of European Union law in the area of value added tax, *KJK-Kerszöv Publishing (KJK-Kerszöv Kiadó), Budapest*

There is a considerable difference between the books, not only in the size of the subject matter covered, but also regarding the objectives declared by the authors. Personally, we have given top priority to educational value amongst the bases for comparison. How useful is the book as course material and what does it offer to its audience? Of course theories are

only as good as their potential for practical application, therefore we must not forget the professionals' points of view.

Essentially, the question we were trying to find an answer to in connection with these books was whether the Colbert quote we have chosen as a motto holds true. Is the purpose of taxation purely a matter of stripping taxable persons of their income in order to throw more money into the bottomless well of the state budget?

Regarding this aspect, the tax books written by *Zsuzsanna Galántainé Máté* and *György Herich* start to examine the subject from a further viewpoint than the other two strictly “tax” books. Beyond the professional description of each specific tax type, they also take on the task of placing taxation in a larger logical framework. It should be noted that this mindset is also typical of Western specialist literature, where they approach the subject of taxation from the public finances' point of view, as the foundation on which the budget is based. What is the reason behind this? The fact that public finances by definition mean none other than “financial activities carried out with the purpose of providing public services” (Herich, 2007, page 6). Undoubtedly, taxation is one of its branches, which wholly or partly finances the implementation of public services. It is not surprising then, that according to public opinion, the main objective of taxation is to provide the necessary funding needed for public services. The bigger problem is that legislators themselves also share this view. As stated in Section 1 Subsection 2 of Act CXVII of 1995 on Personal Income Tax, the “... purpose of the Act (...) (is) to provide the necessary tax amount needed to fund state services.”

However, we need to aim for much more than this. The general purpose of taxation cannot be made up of merely fiscal aspects, but it should also serve a larger group of objectives.

In *Taxation* Herich summed this up as follows:

- Distribution policy objective,
- Expansion policy objective,
- Motivational objective (for example export incentives),
- Employment policy objective,
- Allocation objective (from the general public and the budgetary institutions into the centralised budget) and
- Miscellaneous (Herich, 2007, page 21).

In other words, taxation is not merely the raking in of funds, but an important instrument of the economic policy.

It is especially valid to draw attention to this, as one of the most important challenges of our globalised world is for a nation to follow a fiscal policy, which makes it increasingly competitive and supports the dynamic expansion of its economy. Therefore it is increasingly common to “alter” tax legislation in the process or to “tailor” it (a good example being the so-called “*Lex Audi*” – a type of tax allowance on research and development expenses in Hungary – trans.), which can result in an increase in tax evasion tendencies. The exact difference between tax avoidance, tax evasion and tax fraud, by the way, can be found in the book titled *Tax(onomy)* (Galántainé, 2004, page 14).

Besides varying the contents of the types of duty, the traditional practice of taxation is also under world wide scrutiny. The countries of the Central-Eastern-European region are leaders in the tax race that can be observed on an international level. In order to attract foreign working capital, before joining the EU, the tax benefits had an important role to play, while after joining the EU, the focus shifted onto lowering taxes and introducing simpler, more straightforward taxation systems. However, the constant changes in tax legislation, a fact further backed by the empirical research carried out in our region, seem to repel foreign investment instead of attracting it. Analytic studies have been carried out regarding the subject, which “besides the usual explanatory variables, also

included the indices detecting taxation system changes and measuring the consistency of tax legislation in their econometric models. The latter two areas were approached using the following variables: number of different tax rates, the length of the legislation describing the tax base, the clarity of the legal text, the number of changes in tax rates in the studied period and the highest gains tax rate. They reached the conclusion that inconsistent changes, the unpredictable nature of juridical control, as well as the ambiguity of the legislation had a significant negative impact on foreign investors.” (Katona, 2006, page 988) Could it be that the answer lies in the market driven harmonisation of the tax systems (tax race)<sup>1</sup> as opposed to politics oriented, cumbersome solutions?

This realisation is slowly but surely becoming the norm. In the meantime, however, juridical control remains unpredictable in this country, as the taxation system is constantly changing in order to “pluck the goose”; so much so, that even the professionals can sometimes get confused. Therefore specialist books filled with explanations and examples, such as *The great taxation handbook* (Szakács, 2007), which is also updated yearly, are an essential part of the book collection for any “user”.

From time to time though, throughout these changes, there is the odd comprehensive idea for reform, which touches on the philosophy behind taxation. The European Union itself has been considering the harmonisation of tax systems amongst membership states, however the process is still far from reaching its target.

Independent fiscal policy is an essential part of national independence. So many areas have become centrally controlled, it is no wonder, if the member states insist on making their own decisions about matters of taxation. After all the dissatisfied voters always end up blaming their own country's politicians responsible for economic policies; either for making the tax

rates too high and hindering competition or because there is not enough funding to finance new arrangements deemed essential to allocate spending to.

“In the area of direct taxation, the *requirement of unanimous votes*<sup>2</sup> would make the achievement of the desired level of harmony completely impossible, although the lack of it hampers the operation of the market nationally and stifles economic growth. (The suggestion of moving over to qualified majority voting has been put forward.) The Council has developed a number of recommendations in the past years (Code of Conduct for Business Taxation, Home State Taxation for SMEs, Common Consolidated Corporate Tax Base). Putting these into practice however, is a slow going process.” (Erős – Ivicz, 2006, pp. 203–204)

The situation is different in the areas of indirect taxation. However, “tax harmonisation is not aimed at creating a union tax system. The objective is to apply the required national treatment without fail when judging the movements of goods and services from a taxation point of view. (...) Tax harmonisation within the Union is therefore an approach to legislation, to help achieve common as well as separate state tax control needed for the proper operation of the common market. This was aided by the introduction of a common value added tax system and the unification of excise duty on a community level. (...) The obligation of harmonisation, on a community level, in the areas of turnover taxes, excise duties and other forms of indirect taxation, was declared in section 99 of article 93 of the Treaty of Rome. (...) At the time of signing the treaty, the founding member states, with the exception of France, used the so called cumulative, multistage (cascade) tax system, which typically taxes the product at each point of sale, making tax payable after each transaction. The accumulation caused has a competition distorting effect, and the desired tax exemption cannot be guaranteed either.”

(Véghelyi, 2004, pp. 50–52) To reduce the disadvantages in pricing and in the competition, the introduction of the common value added tax in every member state, was agreed back in 1967. The real breakthrough in the harmonisation of the member states' different VAT systems happened on 1st January 1978, when the Sixth Council Directive (77/388/EEC) came into effect.

While the previous five directives merely lay down the foundations of a unified VAT control system, the purpose of the sixth was to ensure the functioning of the internal market. Article 33 of the directive states, that the member states can only operate one type of turnover tax. At the same time, this mandate does not prohibit the introduction of other taxes similar to turnover tax. The European Court of Justice generally considers tax to be classed as turnover tax, if it satisfies all of the following criteria:

- the tax applies to all products and services,
- the value of the tax is based on the price of the product or service,
- the tax is applied at each stage of the production and the distribution, and
- tax subjects can deduct the tax paid in previous phases, and so the tax is charged exclusively to the end consumer.

“The Sixth Council Directive's many details have been modified since its introduction. The most significant amongst these is the directive stating the principles of the temporary system in place when joining the common market, which describes the framework of a system without tax thresholds. The overcomplicated nature of the system demanded the adoption of simplification processes. This happened on 18th December 1992, when a directive was put in place, which modified the Sixth Directive and introduced simplification processes for the temporary system. In 1994, as a result of economic and trade problems, the Council put forward further suggestions for simplification,

which were accepted by the Council on 20th March 1995.” (Véghelyi, 2004, page 58) So the process, that resulted in the member states having VAT systems, which can be considered harmonised in their foundations, took over one and a half decades. The effort was not in vain, if we take into account the not so insignificant fact that the member states are required to transfer a given percentage of their VAT income – which is the largest income of their budget – to Brussels.

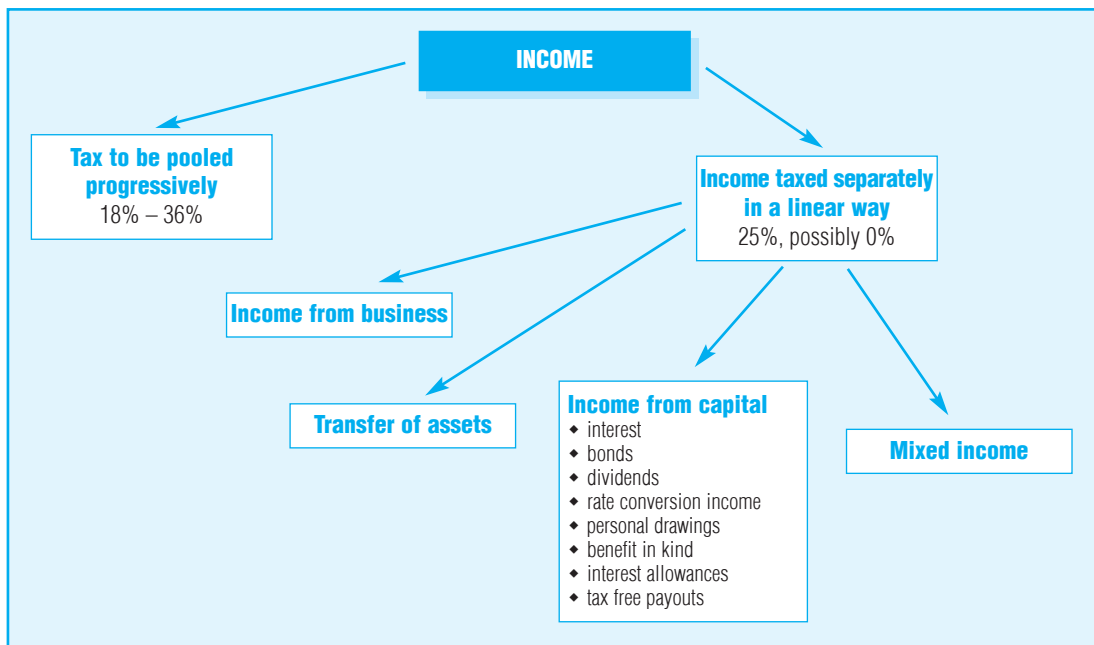
Beyond the economic dimension, taxation also has legal, social and political dimensions. Having declared this fact, our civilisation has recently become more open towards a socially fair form of taxation. There is strong demand to move the emphasis away from the over-represented income tax to a more balanced type of taxation, based on production factors; in other words, to stop labour as a production factor carrying more than the capital. Numerous member states, that joined the union in 2004 and in 2007, solved this with a taxation system working like value added tax. In our country, the rather differentiated taxation of natural persons remains for now, as it is illustrated by *Chart 1*.

This structure is not suitable, as it does not satisfy *A. Smith's* conditions for a “good tax system”, which are as follows:

- *equity*: it is in proportion to solvency,
- *certainty*: transparent and predictable, clear and easy to understand,
- *convenience*: it is payable at a time and in a way, that is economically viable for the tax subject,
- *economy*: the cost of paying and collecting taxes is minimal. (Galántainé, 2004, page 19)

The principles laid down create a crystal clear system, that can only lead to success when applied as a whole, as the synergy of the tax system is only guaranteed, when all of the basic principles are used together. However, it is an undeniable fact, that unlike the contents of the

**HUNGARIAN NATURAL PERSONS’  
PERSONAL INCOME TAX SCHEME**



Source: Herich, 2007, pp 101, 118.

famous Code of *Hammurabi*, these principles are not set in stone. According to *Han Fei Tzu*<sup>3</sup>, law has to change with the times. New principles can be added, which further perfect the system. To give an example of the new demands modern taxation faces, there is the principle of efficiency (Herich, 2007, page 21) or the principle of reliability (Galántainé, 2004, page 21).

According to the previously quoted Han Fei Tzu, if laws (and principles – *an addition by the authors*) are not based on a constant authority, then their correctness can only be proven by their effectiveness; after all, “if something brings good results, then it must be good” (Kulcsár, 2007, page 14). And as far as the principle of reliability is concerned, this principle is probably best recommended to politicians. “Extortionate common charges hinder effective operation, and from a »psychological« point of view, an unreasonable tax burden could reduce

the willingness to pay taxes. (...) The phenomenon, whereby the doubling of taxes does not result in a doubling of income from taxes, but it can even fall due to the excessive tax burden, was christened »tax arithmetic« by Jonathan Swift” (Galántainé, 2004, page 21)

Therefore, above everything else, the taxation system must be just. “The Romans summed up the essence of legal justice with the word *aequitas* and not *iustitia*, and the term *aequitas* had a dual meaning. The first meaning of *aequitas* – and this is more common – is equality. (...) However, the Latin *aequitas* word has a second meaning too, and it is no coincidence, that legal terminology refers to both these meanings with the same word. *Aequitas* also means fairness. (...) Society, as a matter of solidarity, has to look after the weak; law provides protection primarily for this social section. The tools provided by the legal system, should be used – as stated in section 2 of article

70/A of the Constitution of the Republic of Hungary –, to legitimately lessen, or even balance out, the differences in opportunities that exist between people through circumstance.” (Zlinszky, 1998, pp. 60–61) Taxation theory refers to this as “vertical equality, which states that *people at different levels need to be taxed differently*, for example people on a higher income, in line with the desired level of redistribution, need to make higher tax payments.” (Galántainé, 2004, page 20) Let us not forget, equality and fairness can only provide overall justice together.

Besides legal justice, economists are searching for some sort of optimal scenario, the criteria of which may not even match the expectations of our politicians. We are all voters, who at the end of the day vote for the political force promising the optimisation of our situation. Politicians know this too, who therefore shape the “right taxation system”, at least at the time of making election promises, to suit their natural support base as much as possible.

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All four books we examined closely are of very high standard. It should not come as a surprise that the two books on taxation, Galántainé (2004) and Herich (2007), follow a similar structure, as the two authors had similar objectives. Before moving onto the subject of budgetary income (tax, duty, excise), they define precisely the necessary taxation terms, lead their reader through the tax jargon, the basic principles of taxation, the order of taxation et cetera. Galántainé’s book has an advantage in being written in a plain, clear style, and the readers can test their knowledge with the Questions at the end of each chapter. Herich’s Taxation on the other hand describes the often complicated taxation structure in a way that is easy to visualise. He provides help for tax planning, and explains how the thorough and precise knowledge of tax regulations is just as important when planning a business’ optimal operations, as the logistical

processes of production management. The book is therefore also deservedly popular amongst hands on experts.

The great taxation handbook (Szakács, 2007) complements both taxation books rather well. It is rightfully carrying the adjective “great”, as besides including the 32 different types of “tax extraction”, it even houses Act XCII of 2003 on the Rules of Taxation (ART). The author helpfully adds ART’s relevant sections to the chapters on each tax type and other similar forms of income. Furthermore, he demonstrates the links to Act C of 2000 on Accounting Principles, as every chapter includes the tax type’s general accounting treatment. As such, the book is essential not only for accountancy students, but also for accounting professionals, who are tired of “turning the pages of new legislation back and forth until they get to grips with a certain regulation...” (page 9). In its structure, the book is similar to the digital legal library, CompLex, but the experience of reading from paper and also the no frills citation of legal and customs definitions, make it superior. What is also incredibly useful, is that *Imre Szakács* indicates for each type of tax, if there was a mid year change in legislation, and the book is also made complete with a “Tax Return Calendar”, turning the book into the professionals’ bible. Including helpful tips with the legislation is a grey area, it advises of loopholes which can be exploited legally. After all it is another way of optimising the tax burden, taking the taxable person’s micro-economical targets into consideration.

Last but not least, we need to evaluate the undertaking that resulted in a script (Véghelyi, 2004), which compared with the other three, seemingly tackles the smallest segment in the studied area. Here only one type of tax, VAT was put under the magnifying glass, but the author placed it within a European context. The book analyses the most important legal source of value added tax harmonisation, the



Sixth Council Directive (77/388/EEC), with a surgeon's precision, and illustrates throughout with plenty of important legal cases. Undoubtedly it is indispensable to know the financial and procedural rules in the complex world of taxation, but seasoned professionals and students only just getting to know this area of financial law can both find it useful to learn about the near enough complete list of legal cases regarding value added tax, which were tried in the European Court. To be more specific, the cases that are described are ones following joining, which are now considered "everyday" cases, but can still cause a lot of headache. To give an example, in the economy the scenario often occurs where the product does not reach the customer directly, but through a third party. Although there are three parties involved in the trade, it is not necessarily considered triangular trade. To help understand triangular trade and its types, the author presents a whole list of cases. And then we have not even mentioned another typical case of

serial or chain trading, the transaction series also called square trading. But you do not need a multiple party deal to pick up the book. Nowadays forwarding electronic invoices is as much part of everyday business, as courier services or property marketing, to name just a few specific examples. The book's academic significance is enhanced by the list of cases relating to the articles of the Sixth Directive, the reason why we think that within the wider circle of people applying legal principles, the book's primary target audience is law students.

It is apparent that taxation – that we all experience as a burden – shows its many faces to the analyst. The choice in taxation publications is vast. You are lucky if you pick up a book / books, which goes beyond the dry text of the official gazette, and explains the lawmakers' reasons, and also points out the evolution of the tax system and tax types, and may even reveal connections with other areas.

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## NOTES

<sup>1</sup> 60 per cent of the twenty five EU countries have a lower standard VAT rate than ours. (Véghegyi, 2004, page 272)

<sup>2</sup> Treaty Establishing the European Community, Article 94.

<sup>3</sup> Han Fei Tzu legalist philosopher, ca. 280–233 BC – China

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