



ADMINISTRATIVE COSTS OF TAX COMPLIANCE IN HUNGARY

Project background & the details of the survey

- ▶ There is a political commitment to **ease the tax information and reporting burden** levied on Hungarian firms.
- ▶ As part of the project initiated by the Ministry of Finance and financed by DG REFORM, an assessment of the tax administration and compliance costs in Hungary was conducted, focusing on VAT, corporate income taxes and employment-related taxes and contributions.
- ▶ The assessment is based on a survey designed in line with the **Standard Cost Model (SCM)** approach.



Survey conducted:
November 2019 - February 2020



Survey participants:
2,087 responses from 1,117 companies

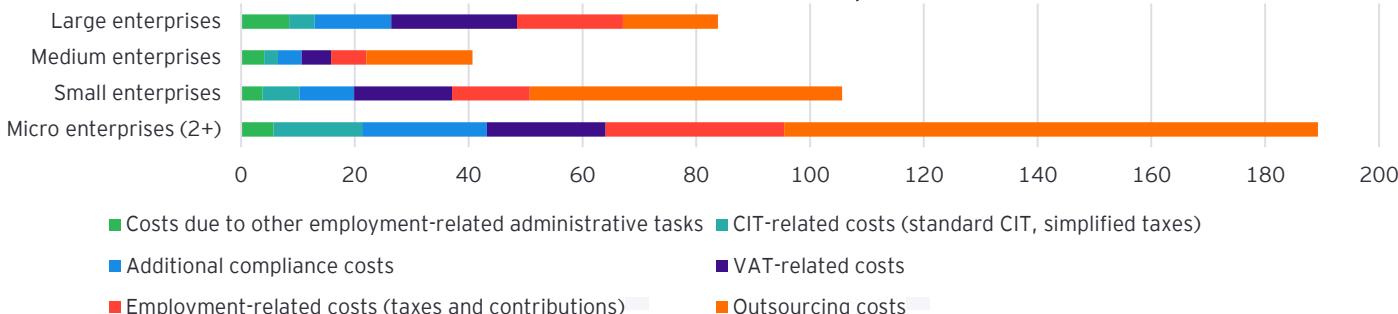


After data cleaning:
957 companies included in the SCM calculation

Main conclusions of the project

- ▶ Time spent on tax administration varies across tax types. The variation is smaller for CIT, but significantly larger for employment-related information obligations.
- ▶ The larger the company, the less time it spends on both VAT- and employment-related administration if measured in time either per employee or per firm.
- ▶ Companies indicated that they spend roughly the same time on various phases of tax administration.
- ▶ The larger the firm, the more it spends on tax administration and compliance, but the relative costs are smaller (in terms of costs per annual turnover).
- ▶ Companies with an **export-driven revenue share of over 50%** face higher costs.
- ▶ The sector and location of the firm are not significant influencing factors.

SCM-based macroeconomic calculation on total tax compliance costs in 2018, billion HUF



- ▶ The macroeconomic estimates for the relative tax compliance costs vary between **1.72% (median-based)** and **4.28% (mean-based)** for the sample of Hungarian companies with at least two employees. The median-based estimate can serve as the baseline for later surveys.

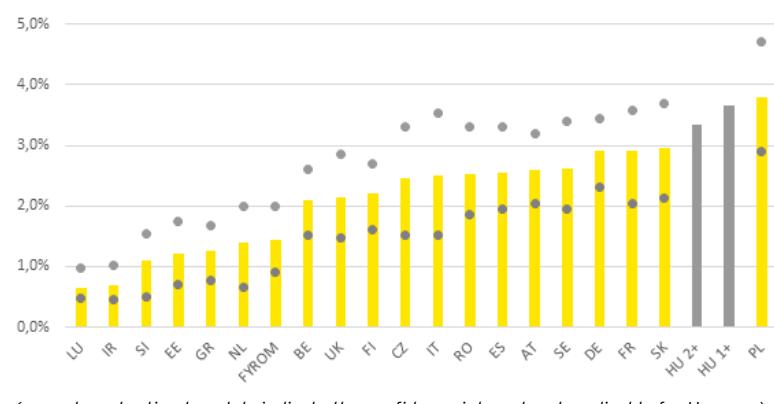
- ▶ Overall, this corresponds to between 1% and 1.3% of GDP (between 420 billion HUF and 554 billion HUF). **70% of costs are borne by micro and small enterprises. The largest share is generally related to outsourcing costs.**



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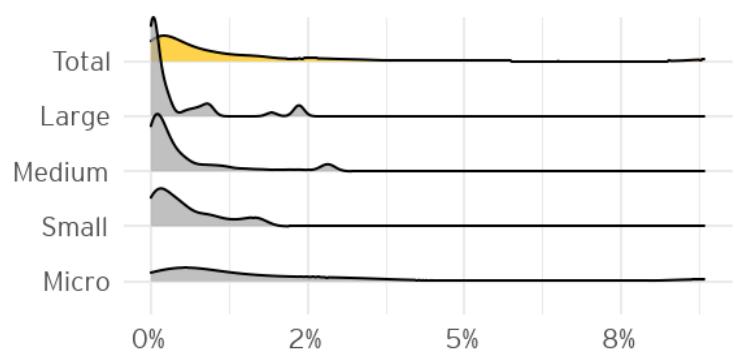
The Hungarian tax compliance costs in an international comparison

- The macroeconomic estimate of tax compliance costs per annual turnover in Hungary is 3.66% (mean-based, for all enterprises employing at least 1 person), above the EU average of 2.5%.
- The Hungarian calculation was made using payroll data from 2014 and data on administrative hours and turnover from 2018; direct comparison with the 2018 KPMG study is therefore only possible with these caveats.



Distribution of total tax compliance cost per turnover at firm level

- The total tax compliance cost per turnover at firm level varies significantly both across companies of different sizes and within size categories. Larger companies generally spend a smaller proportion of their annual turnover to comply with the tax administration rules than smaller ones, and the cost levels of the latter vary on a wider spectrum.



Practical aspects and business perceptions



37-40%
of firms fully
outsource
tax compliance
activities
(range based
on firm size)



42%
of CEOs /
entrepreneurs
are heavily
involved in tax
compliance
tasks



45.5 hours
a year are spent
by companies
on monitoring
rules changes
related to tax
compliance



60%
of companies
have completely
or partly
digitalised tax
administration



43-46%
of respondents
are 'not at all
irritated' by
different tax
obligations