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The main differences between Slovakian and Hungarian tax system

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ABSTRACT

There is a huge need for tax reform, even the politics does not want to make it, the tax competition in East-Central- Europe and the world economy will put press on such a small country like Hungary. The question is how the tax reform in the near future will be harmonized with social security and cess reforms and the finances changes. Will it be able to guarantee stabile revenue for covering the government's expenses? The tax reform is not equal with cancelling of tax rates or contribution. Anyhow the tax reform is needed in Hungary or the process will speed up, which was generated by the Slovakian tax reform in 2004, along of this more and more Hungarian companies set up his seat or park in Slovakia because of the favourable tax system. Among other things a well planned and adapted tax reform should cure this tax revenue having been missing for more than 3 years. This article is summarizing a review about tax rates, employer's and employee's liabilities and contributions in Hungary and Slovakia. The difference does not only mean the simpler and more perspicuous tax system for Slovakia, but along of easier controlling it means higher effectiveness, cheaper administration and smaller bureaucracy.
(Keywords: tax reform, tax rates, more effective, cheaper)

A szlovák és a magyar adórendszer főbb különbségei
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ÖSSZEFOGLALÁS

A hosszú ideje elodázott adóreformra szükség van, ha politikai akarat nem is, de a környező országok adóversenye és a világgazdasági helyzet ki fogja kényszeríteni a váltást egy olyan kicsi gazdasági potenciállal rendelkező országtól világviszonylatban, mint Magyarország. A kérdés csupán az, hogy a közeledő és egyre kevésbé halogatható adóreform mennyire lesz összehangolt a társadalombiztosítási-, és illeték-reformokkal és mennyire fog építeni az államháztartási változásokra, változtatásokra. De legfőképp, képes lesz-e stabil bevételt garantálni az állami feladatok ellátására? Vagyis az adóreform nem egyenlő az adókulcsok egyszerű eltörlésével vagy a járulékteher eltörlésével. Adóreformra mindenképpen szükség van, ellenkező esetben felgyorsul az a folyamat, melyet a 2004-es szlovák adóreform indukált, aminek következtében egyre több magyar vállalkozás helyezte át telephelyét, vagy székhelyét Szlovákia területére a kedvező adózási feltételek miatt. Ezt a lassan 3 éve folyó adóbevétel kiesést hivatott orvosolni egy jól kidolgozott adóreform. Cikkünkben áttekintő képet adunk hazánk és

Szlovákia adókulcsairól, a munkavállaló- és a munkaadót terhelő adó- és járulékfizetési kötelezettségekről. A különbség nem csak az egyszerűbb és áttekinthetőbb adórendszert jelenti Szlovákia számára, de a könnyebb ellenőrzés következtében a nagyobb hatékonyságot, olcsóbb adminisztrációt és kisebb bürokráciát is.
(Kulcsszavak: adóreform, adókulcs, hatékonyabb, olcsóbb)

INTRODUCTION

One of the main reasons for the fast development of the Slovakian economy is the tax reform in 2004. A comprehensive, well planed and adapted in a good way tax reform is necessary but not enough to place the economy on growth course and keeping it on. Take a look at those factors in consequence??? Consequence!! Slovakia is said to be the tax paradise of European Union, which leads to a considerable functioning capital inflow to the country. There is a significant tax difference between the two countries, which is not the only one difficulty to get on with by the Hungarian entrepreneur. One of the main reasons that many business concerns and firms decided to put their park in Slovakia instead of Hungary is that the Slovakian tax system is simpler and more stabile than the Hungarian one.

Beside the tax amount the differences between the company establishments is not negligible either, which gives benefits for the Slovakian entrepreneurs as well. In the near past one could establish a limited company in Hungary with minimum 3 million HUF authorized capital with negligible tax and by long bureaucracy. Unlike in Slovakia one could establish a firm for 33 000 – 35 000 SKK (250 000 – 265 000), which includes all of the costs. It is enough to declare that the necessary authorized capital is available. To tell the truth the Hungarian law has been changed favourably for the Hungarian entrepreneur on 1st of September 2007. The Act No. 4 in 2006 (later: AEC) about Economic Companies became operative on 1st of July in 2006. The 2007. year LXI. Act issued in the 75th Hungarian Bulletin made changes about the only 1 year old AEC. In consequence the 114.§ (1) of AEC says the authorized capital can not be less than 500 000 HUF. Thanks for the aforesaid Act, the Hungarian law makers made a significant step to make the Hungarian entrepreneur more competitive. In the same time it is worth considering what kind of guarantee a limited company with 500 000 HUF authorized capital can give to the residents of the new house or building. This problem was not solve during the 3 million HUF period either. In my opinion to build houses, flats there should be a stricter regulation for the limited company to give satisfying guarantee to the future residents.

There has been a tax competition for many years in the European Union; especially it is concentrated to the East-Central-European countries. Unfortunately our country is becoming an external viewer and endurer of this process. It is not accident that these countries are between hell and high-water. They started to create their tax system in 1989 without any routine or experience. They even did not have an adaptable foreign pattern. First of all this led to many mistakes, they still have been correcting them, secondly led to so brave changing and reforms that could have been very hard to make it in Western-European countries with considerable tax culture.

MATERIALS AND METHODS

In course of my work I used the literature about tax and the databases of Ministry of Finance of the Slovak Republic and databases of Ministry of Finance of Hungary. Beside the literature I used the relevant Acts from applied in both countries. As a primer research I made interviews with active accountants from both Hungary and Slovakia.

RESULTS AND DISCUSSION

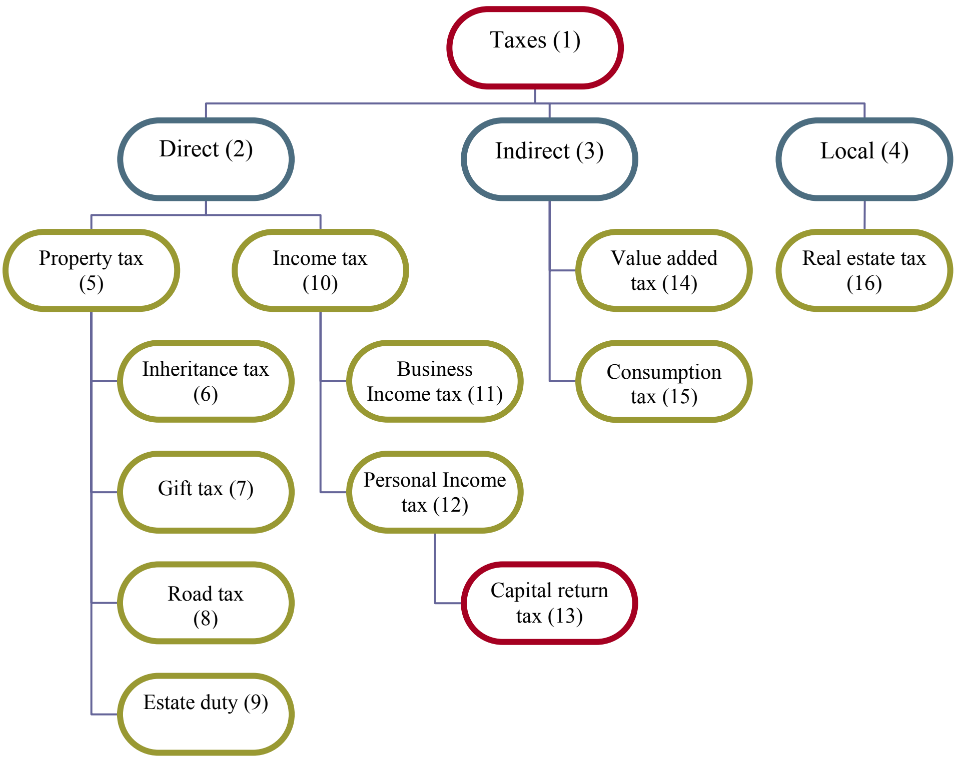
The Slovakian tax reform

The Slovak Republic has been joined to these brave tax reform countries and issued one rate tax system from 1st of January, 2004.

The new tax system is simpler and more understandable than the old one. It is hard to show this advantage with numbers, but it is doubtless that with cancelling the exceptions the economy disfiguring effect of the tax system is significantly reduced. The 1st and the 2nd graphs (*Figure 1* and *Figure 2*) make a good demonstration about the differences between the Slovakian tax system in 2003 and 2004.

Figure 1

The Slovakian tax system 2003



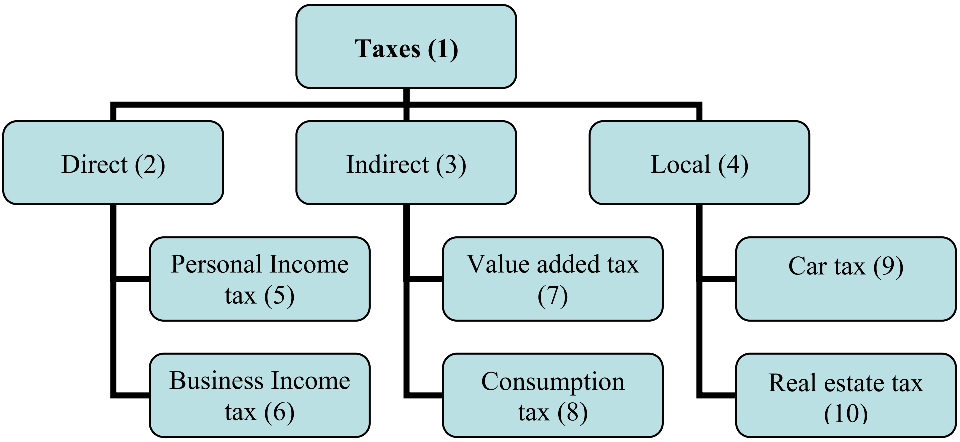
Source (*Forrás*): Ministry of Finance of Slovak Republic (*Szlovák Köztársaság Pénzügyminisztériuma)*

1. ábra: A Szlovák adórendszer 2003-ban

Adók(1), Közvetlen adók(2), Közvetett adók(3), Helyi adók(4), Vagyont terhelő adók(5), Örökösödési adó(6), Ajándékozási adó(7), Útadó(8), Ingatlan átírási adó(9), Jövedelem adó(10), Vállalati jövedelem adó(11), Személyi jövedelem adó(12), Osztalékadó(13), Általános forgalmi adó(14), Fogyasztási adó(15), Ingatlan adó(16)

Figure 2

The Slovakian tax system 2004



Source (*Forrás*): Ministry of Finance of Slovak Republic (*Szlovák Köztársaság Pénzügyminisztériuma)*

2. ábra: A Szlovák adórendszer 2004-ben

Adók(1), Közvetlen adók(2), Közvetett adók(3), Helyi adók(4), Személyi jövedelem adó(5), Társasági nyereségadó(6), Általános forgalmi adó(7), Fogyasztási adó(8), Gépjármű adó(9), Ingatlan adó(10)

Personal Income tax

In the case of personal income tax the new tax act made significantly simpler and more clear the taxation: there are no more than 21 ways of the income tax, including the 5 personal income tax rates (10%, 20%, 28%, 35%, 38%), which were valid during the old tax act (*Zákon č. 366/1999 Z. z.*).

In the tax reform in favour of the compensation of the disadvantageous group with lower income they increased significantly the deductible amount of income from the tax base (person/year) from the amount of 38 760 SKK valid in 2003 to 80 832 SKK in 2004, which is the living wage multiplied by 19.2. The tax payer can deduct his tax with 80 832 SKK (*Zákon č. 595/2003 Z. z., 11§*), if his spouse without taxable income lives in his household. In 2003 this amount was only 12 000 SKK (*Zákon č. 366/1999 Z. z.*) (*Table 1*).

In Slovak Republic to get your profit out from the company takes much less cost, than in Hungary. After one paid the 19% corporate tax there is no other tax liability (*Table 2*). In Hungary after one paid the 16% corporate tax further 25% capital return tax need to be paid as well until the 50% of the capital. If you want to take out more money from the company than 50% of the capital you have to pay 35% capital return tax and 11% health contribution beside the 16% corporate tax.

According to the above mentioned reasons if you have 1 000 000 HUF profit before tax in your company and you want to take it out after paying tax liability you will receive 810 000 HUF in Slovakia and only 590 000 HUF in Hungary. This comes out in ideal case in Hungary, because taking out more money than 50% of the capital the state will charge you extra 21% more tax.

Table 1

The main changes of the Personal Income Tax

Taxrates (1)	**2003**	**2004**
	10%, 20%, 28%, 35%, 38%	19%
Tax base reducer, not taxable income (2)	38 760 SKK	80 832 SKK
Reduction because having children (3)	16 800 SKK which reduces the tax base	4 800 SKK tax bonus, which reduces the tax
Reduction because having spouse without taxable income(4)	12 000 SKK	80 832 SKK

Source (*Forrás*): Zákon č. 366/1999 Z. z.; Zákon č. 595/2003 Z. z., 11§ (*366/1999. évi jövedelemadóról szóló törvény; az 595/2003. évi törvény az adóbevételről*)

1. táblázat: A Személyi Jövedelemadó fő változásai

Adó kulcsok(1), Adóalapból leírható, nem adóköteles bevétel(2), Gyermek utáni kedvezmény(3), Adóköteles jövedelemmel nem rendelkező házastárs utáni kedvezmény(4)

Table 2

Corporation tax in Slovak Republic

	1993	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**
Corporate tax rate (1)	45%	40%	40%	40%	40%	40%	40%	29%	29%	25%	25%	**19%**
Capital return tax (2)	25%	15%	15%	15%	15%	15%	15%	15%	15%	15%	15%	**0%**
Total tax of Income (3)	58,8%	49,0%	49,0%	49,0%	49,0%	49,0%	49,0%	39,7%	39,7%	36,3%	36,3%	**19%**

Source (*Forrás*): Inštitúte fiančnej politiky, www.finance.gov.sk (*Pénzügy Politikai Intézet*)

2. táblázat: Társasági adó Szlovákiában:

Társasági adó(1), Osztalék adó(2), Teljes adóteher a jövedelmen(3)

I am going to show the differences between the two countries in the *Table 3* considering the period before the 2006 – 2007 safety package in Hungary, since our competitiveness has not progressed.

Table 3

The difference between the profit after tax in the case of dividend in Hungary and Slovakia

	Hungary (1)	Slovakia (2)	Difference (3)
1 000 000 HUF profit before tax in case of 3 000 000 HUF capital the dividend will be (4):	610 000 HUF	810 000 HUF	- 220 000 HUF
4 000 000 HUF profit before tax in case of 3 000 000 HUF capital the dividend will be (5):	2 040 000 HUF	3 240 000 HUF	- 1 405 000 HUF

3. táblázat: Az adózás utáni eredmény közti különbségek osztalék esetén Magyarországon és Szlovákiában

Magyarország(1), Szlovákia(2), Különbség(3) 1.000.000 Ft eredményből kivehető összeg 3 Millió forintos sajáttőke esetén(4), 4.000.000 Ft eredményből kivehető összeg 3 Millió forintos sajáttőke esetén(5)

Tax reform

The planning and the transaction of a tax reform always had been a complicated and sensitive exercise. In economically developed, stabile countries the electors are especially sensitive for the changes and reforms. In the last decade East-Central-Europe is the reform centre of Europe. The first country in this region was Estonia, who introduced the one rated personal income tax (29%) in 1994. The Baltic States followed the pattern of Estonia and in consequence in 1995 there was a tax reform in Latvia and Lithuania as well. The big surprise was produced in 2001 by Russia, who introduced a one rated personal income tax, which was only 13%. The neighbouring countries have latched on to the tax competition and in the region started to form a tax avalanche. The following countries latched on to this procedure Serbia 2003, Ukraine, Slovakia 2004, Georgia, Romania 2005, Czech Republic 2007 and unfortunately Hungary does not have a plan to introduce a tax reform in the near future let's say in 2009.

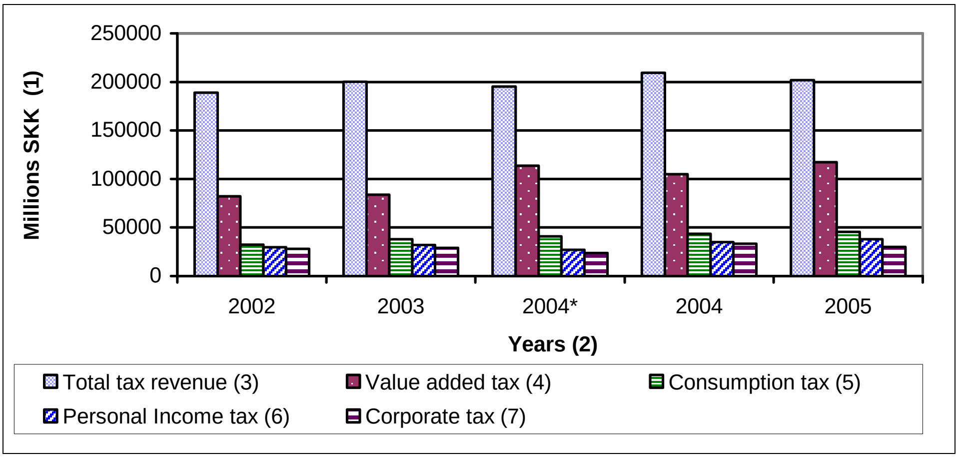
The aim during planning of a tax reform beside the ideal and utopian being fair is that the return of the budget should not be reduced in short period, the goal is during a long period to increase the revenue, balance the budget and make, keep up stability. The Slovakian tax reform passed the test in short period. The *Figure 3* gives us a short review about the Slovakian revenue from 2002 to 2005.

The effect of the tax reform to the revenue is positive. In spite of brave and hard intervention the revenue did not change drastically. The difference between planned and the real revenue was in 2004 14.2 billion SKK (+ 7,2%, 102 billion HUF). To tell the truth the revenue was planed very carefully and conservatively. The biggest differences were between value added tax and income tax. In the case of income tax there were a + 18.2% increasing thanks partly to under planning.

Some elements of the Slovakian tax system could be adaptable in Hungary. While in Hungary the local governments have a low separateness to determine some tax rates and these revenue goes to the state budget till then the Slovakians introduced a well working system in which 70% of the personal income tax revenue goes to the commune, 24% goes to the regional government and only 6% stays in the state budget. There is a need to separate the tax politics from the social politics. In that moment, when the tax system will be cleaned off from any other social politics, we will have a simpler and more effective system. By reducing the preferences there would be the introduction of one rate linear tax system available. As a result of economy whitening a wider tax base would cover the missing revenue occurred along with tax reduction. At the same time we have to find the way for the social groups without taxable income not to put them into disadvantageous situation by increasing the indirect tax rates.

Figure 3

The effect of the Slovakian tax reform to the revenue



Notice (*Megjegyzés*): 2004* = plan for 2004 (*2004-es tervezet*); Source (*Forrás*): Ministry of Finance of Slovak Republic (*Szlovák Köztársaság Pénzügyminisztériuma)*

3. ábra: A szlovák adóreform hatása a bevételekre

Millió SKK(1), Évek(2), Teljes adó bevétel(3), Általános forgalmi adó(4), Fogyasztói adó(5), Személyi jövedelem adó(6), Társasági adó(7)

Tax reform in Hungary?

There is a huge need for tax reform, even the politics does not want to make it, the tax competition in East-Central-Europe and the world economy will put press on such a small country like Hungary. The question is how the tax reform in the near future will be harmonized with social security and cess reforms and the finances changes. Will it be able to guarantee stabile revenue for covering the government's expenses? The tax reform is not equal with cancelling of tax rates or contribution.

Anyhow the tax reform is needed in Hungary or the process will speed up, which was generated by the Slovakian tax reform in 2004, along of this more and more Hungarian companies set up his seat or park in Slovakia because of the favourable tax system. Among other things a well planed and adapted tax reform should cure this missing tax revenue having been for more than 3 years.

To summarize the *Table 4* and *Table 5* give us a short review about tax rates in the case of Hungary and Slovakia in 2004, 2005.

Table 4

Tax rates of Hungary in 2004 and 2005

	2004		2005	
Corporate tax (1)	16%		16%	
Personal income tax (2)	Minimum wage is tax free Striped 18, 26, 38%		Minimum wage is tax free Striped 18, 26, 38%	
	0 – 800. 000 HUF	18%	0 – 1. 500. 000 HUF	18%
	800. 001 – 1. 500. 000 HUF	144. 000 HUF 26%	1. 500. 000 HUF +	270. 000 HUF + 38%
	1. 500. 001 HUF +	326 000 HUF + 38%		
Value added tax (3)	25, 12 and 5%		25, 12 and 5%	
Capital return tax (4)	20% 0% In that case, if the paid dividend goes to the parent company in the EU states or its park, if the shareholder at least owns 25% constantly for 2 years		25% 0% Change: the per cent of ownership reduces	
Course of exchange profit tax (5)	20%		25%	
Interest tax (6)	-		-	
Local industry tax (7)	Maximum 2% of net income (25% of this is deductible from corporate tax base)		Maximum 2% of net income (50% of this is deductible from corporate tax base)	
Real estate tax (8)	-		-	
Employer's contribution (9)	33,5% (health insurance contribution: 11% pension insurance contribution: 18% employer's contribution: 3% vocational training contribution: 1,5% + 3450 HUF/person/month +rehabilitation contribution		(health insurance contribution: 11% pension insurance contribution: 18% employer's contribution: 3% vocational training contribution: 1,5% + 3450 HUF/person/month (to 2005.10.31.) 1950 HUF/person/month (from 2005.11.01) +rehabilitation contribution	
Employee's contribution without personal income tax (10)	13,5% (pension contribution 8,5% health insurance contribution 4% employee contribution 1%)		13,5% (pension contribution 8,5% health insurance contribution 4% employee contribution 1%)	

Source (*Forrás*): www.hproduct.hu/documents/aktualitasok/ado.pdf

4. táblázat: Magyarország adókulcsai 2004-ben és 2005-ben

Társasági adó(1), Személyi Jövedelemadó(2), Általános forgalmi adó(3), Osztalékadó(4), Árfolyamnyereség adó(5), Kamatadó(6), Helyi Iparűzési adó(7), Ingatlan adó(8), Munkaadói járulék(9), Munkavállalói járulék SZJA nélkül(10)

Table 5

Tax rates of Slovakia in 2004 and 2005

	2004	**2005**
Corporate tax (1)	19%	19%
Personal Income tax (2)	19%	19%
Value added tax (3)	14-20%	19%
Capital return tax (4)	-	-
Course of exchange profit tax (5)	19%	19%
Interest tax (6)	19%	19%
Local industry tax (7)	-	-
Real estate tax (8)	There were 3 types (land, building, flat)	It got into local scope of authority as local tax
Employer's contribution (9)	35, 2%	35, 2%
Employee's contribution without personal income tax (10)	13, 4%	13, 4%

Source (*Forrás*): www.hproduct.hu/documents/aktualitasok/ado.pdf

5. táblázat: Szlovák adókulcsok 2004-ben és 2005-ben

Társasági adó(1), Személyi Jövedelemadó(2), Általános forgalmi adó(3), Osztalékadó(4), Árfolyamnyereség adó(5), Kamatadó(6), Helyi Iparűzési adó(7), Ingatlan adó(8), Munkaadói járulék(9), Munkavállalói járulék SZJA nélkül(10)

CONCLUSIONS

The *Tables 4* and *5* give us a summarizing review about tax rates, employer's and employee's liabilities and contributions in Hungary and Slovakia. The difference does not only mean the simpler and more perspicuous tax system for Slovakia, but along of easier controlling it means higher effectiveness, cheaper administration and smaller bureaucracy. To put it in a nutshell it gives us the answer to our former question: yes, Hungary needs a complete tax reform.

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