‘Expected Tax’ Bill Doomed to Failure by Experts?
STRASBOURG COURT INVOLVMENT LOOMING
By Andras M. Badics

Hungarians have always been burdened with heavy taxes throughout the centuries, and this year it is not going to be easier for them. But in an attempt to avoid unjust taxation, many small and medium sized enterprises (SMEs) have pulled down the blind, gone into the black economy, reestablished themselves, and even relocated across the border to Slovakia. To sanction unjust taxation, The Hungarian Constitutional Court (AB) declared the recently proposed legislation usually referred to as the ‘expected tax’ bill as unconstitutional. Despite the ruling, the government recently submitted amendments to Parliament to introduce the proposal as of July 1.

“This bill is going to fail in the long run,” Laszlo Csaba, Professor of International Political Economy at Central European University (CEU), told Diplomacy and Trade. The professor explained that the current proposal to parliament, is too similar to the previous one. The former was declared unconstitutional because tax paying companies had no means to prove they were indeed making losses. The new format of the legistlation, also known as the ‘minimum tax bill’, states that a company reporting a profit below 2% of total revenues, must either pay the expected tax, or file a report containing an explanation on why it was unable to reach the profit threshold.

“Eventually, the bill will be taken to the European Court of Justice (ECJ) by entrepreneurial interest groups, because companies cannot be compelled to prove their loss making,” Csaba said, highlighting the fact that such an 'expected tax' law has no precedent in the EU. “In a similar case of conflict the ECJ has already once annulled a German environmental law proposal,” he said, adding that German Government had no chance for veto.

According to Csaba, modern democracies are based on the system of checks and balances, and constitutional
court decisions are treated with utmost respect. He suggested that the same bill, once repelled, should not be resubmitted in a different way.

Previously, government officials spoke about cracking down on catch tax-evading companies, broadening the tax base and performing a complete overhaul of the tax system. The ‘expected tax bill’ was to part this reform. “Broadening the tax base should be done by 'ruthless' inspection of both the average tax-payer and the ‘big fish’” Csaba said. “However, I don’t see enough political will in this direction as the latter are important public figures.” Currently, tax evasion in Hungary does not necessarily come with a jail sentence. Csaba believes it should be otherwise, "Then people would be more reluctant to forget tax payments.”

Current Hungarian Tax Agency (APEH) regulations state that companies must prove that their expenses were spent in the interest of their activities. If firms cannot prove this, their tax base are will be determined by APEH. The organization says it will also perform spot tests as to whether a company’s cash flow and its owner's private lifestyle are in proportion to each other. If not, APEH will begin an in-depth investigation and eventually hopes Hungary's taxation morale will meet EU standards.