



The Development History and Economic Characteristics of the Hungarian Local Tax System from the Change of the Regime until the Pandemic

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Abstract

The objective of the study is to present Hungarian local tax regulations from the change of the regime, in transition term until the period of COVID-19, with special attention in the light of changes in the legal system and their economic effects. We have divided the past three decades into three periods and, within these, we have examined local taxation item by item. In addition to the period from the change of the regime and the EU accession period, as well as the interval from EU integration to the state financial reforms of 2010, the study also pays special attention to the legislative changes introduced because of the pandemic. We are looking to answer how the local tax regulations affected the revenues of local governments and what kind of tax-mix developed in the decades following the change of the regime. The main conclusion of the study is that the changes in the local tax system have been significant since 2010, as some types of tax were phased out, while new tax types with an open list appeared. The analysis of the legal dynamics of the short period following the pandemic led to the conclusion that Hungarian local governments' room to maneuver decreased because of the measures affecting the local tax system, and the decision-making was mainly justified by the economic conditions caused by the pandemic.

Keywords

local tax system, regulatory dynamics, local government management, Hungary.

1 Introduction

Public tasks are performed at the central budget, regional and local government level. The local self-government subsystem of the Hungarian public finances in its current form was created after the change of the regime, in which economic independence is guaranteed by local tax

regulation. Like most European countries, Hungarian local government financing uses multi-channel financing. In the Hungarian system, state subsidies and contributions, ceded central taxes and local taxes had and continue to play a decisive role. The study focuses on the local tax system, presents the relevant tax literature, the local tax system created after the change of the regime, and on its main directions of change. The role of local taxation in the economy is presented with the development of local tax revenues and their proportional weight in the GDP. An important part of the research is the presentation of the tax changes following the pandemic, in chronological order, within the framework of legal dynamic studies. The study formulated the research question of how regulation fulfilled its economic role over the last more than three decades and in what ways it affected the function of the local governments. The nature of our research, spanning several decades, can have a significant and unique value.

2 Literature review

The public financial aspects of local tax regulation probably stem from the fact that the state is not able to implement certain tasks at the same level of service throughout the country, so it is necessary to delegate tasks. There are two ways to do this: one is deconcentration, while the other is decentralization (Csipkés & Veres, 2018). Fiscal decentralization theories first appeared in the United States, as the government structure there required cooperation between government levels, which arose from the federal state system (Horváth et al., 2014). In connection with the group of theories, Musgrave (1959) and Musgrave & Musgrave (1989) defined the economic functions of the state, in which, in addition to the classical three (stabilization, allocation, redistribution), the author considered the regulatory function to be decisive. It was also established that the public tasks to be performed, their level, and taxation are also assigned to them by cooperation with each other at the various government levels. Tiebout's (1961) mobility hypothesis applies to the latter, according to which, when choosing between different cities (and this line of thinking can also be applied to municipalities), the population considers the level of public services provided, the related tax burden, and makes a choice by comparing these costs and benefits and they choose their residence accordingly.¹ Oates (1972) highlighted the allocation function among Musgrave's economic functions as a task that can be delegated effectively to the local level. Dafflon (2006) opined, regarding the first-generation theory of fiscal federalism, that, according to the theory's assumptions, there are pure local public goods, there are no external effects, and a clear correlation can be shown between paying taxes and benefiting from public goods.² According to Lane (1995), the pure model of public finance cannot be maximally effective, since the division of tasks between government levels is strongly influenced by political factors. According to Bailey (1999), territorial allocation is a form of sharing public tasks, which is accompanied by freedom of decision and budget freedom (Horváth M. et al., 2014).

In addition to the economic soundness of the principles of local taxation, it is necessary to develop an appropriate taxation system and environment. According to Kitchen (2004), local tax policy plays a key role in local economic development, and therefore the predictability of taxes is extremely important. Since there are no clear patterns in local taxation per country, le-

¹ This kind of consideration for choosing a place of residence is increasingly coming to the fore in today's Hungary, especially during the strengthening of the flexibility of the workforce.

² Qiao et al. (2019) showed a correlation between fiscal decentralization and local democracy.

gal comparison is difficult. However, a common feature is that the levied taxes provide (partial) financial cover for the performance of public tasks, and, as a result, the local authorities must use an appropriate tax-mix. This is also important in the sense that it is a general characteristic that a significant part of public expenditure is financed with subsidies received from higher levels of public administration and with shared revenues, so local autonomy depends to a large extent on a well-developed local tax system (Bird & Slack, 2002; Holm-Hadulla, 2020). In addition to the appropriate tax system, the existence of trust in the local authority and in the functioning of the state is of decisive importance.³

3 Regulation of the Hungarian local taxes after the change of the regime

Plósz (2019) defines two patterns among the types of municipal financing. One is the expenditure-oriented model, while the other is the income-oriented model. The latter became naturalized in Hungary after the change of the regime, the consequence of which was that local governments were granted taxing powers, which was laid down in Act C of 1990 on local taxes, according to which local governments create a decree on the range of local taxes, possible discounts, and exemptions (Fábián, 2017; Fábián, 2020a; Fábián, 2020b).

3.1 Changes in the local tax laws from 1990-2019

The preamble of Act C of 1990 states that, with the establishment of local governments, in addition to the democratic exercise of public power, their important task is to provide public tasks and public services, for which the creation of a framework for independent management is essential. The first part of the law contains the general provisions that assert the right for local governments (community, city, capital, district governments (Article 1 (1) of the cited law) to levy tax. Section 13 of Act LIX of 2020⁴ made it possible for county governments to impose taxes, with the stipulation that they cannot introduce taxes on individual settlements. Regarding settlement taxes, Section 39 of Act LXXIV of 2014⁵ made their introduction possible. The right to impose taxes in relation to the capital and its districts could be regulated by a decree of the capital assembly, it was made more concrete in 2001, in that the capital city can introduce building tax, land tax, communal tax for private individuals and communal tax for businesses, and local business tax, which requires the agreement of most of the districts. This provision was amended in 2010, since when communal tax and tourism tax can be levied on private persons by the district municipalities, while business tax can be introduced by the metropolitan government (Section 24 of Act XC of 2010).⁶ Regarding the system of communal taxes, it can cover all tax objects that are not taxed by the central or the local tax. The tax is a targeted tax, as it can be used for development purposes and for the fulfilment of social tasks.

The local regulations are binding in nature, which means that they cover private individuals, legal entities, and unincorporated associations. Paragraphs (2–6) of Section 3 and Paragraph A

³ See the scientific correlations of trust in state and local public administration in more detail in the research results linked to the University of Public Service. Mainly: Kis (2018); Hutkai et al. (2019, 21); Parragh & Kis (2020, 344).

⁴ Act on the special economic zone and amending certain related acts.

⁵ Act amending certain tax laws and other related acts and Act CXXII of 2010 on the National Tax and Customs Administration.

⁶ This Act is no longer in force, but it was a live provision in 2011, when it was introduced.

of Section 3 respectively specify local tax exemptions, the scope of which was gradually expanded after the system change.

The law of local taxes (Act C of 1990) contains framework regulations, which means that it defines the range of taxes that can be introduced, as well as the related restrictions. Pursuant to Section 7, the taxpayer is obliged to pay only one type of tax in relation to wealth-type taxes, it must be determined whether the local governments apply a corrected sales value or a square meter proportional tax rate. The legislation also does not allow the application of a tax rate higher than the tax maximum, and an increase in the tax burden between years is also not possible. Section nine identifies the competent tax authorities; in this respect, the local government tax authority, i.e. the notary acts legally in the area in which the tax type has been introduced; its superior body is the government office.

The second chapter of the Act regulates the types of taxes, which it divides into property-type taxes, communal-type taxes, and business tax. Regarding the construction tax, there is a theoretical possibility for value-based taxation, since local authorities can also determine the tax base based on the adjusted sales value. In practice, local governments rarely use this solution, as it would have significant administrative requirements, and, on the other hand, the costs could also be considerable, which would result in damage to the principle of economy of tax collection. In practice, therefore, the value-based real estate taxation used in Slovakia and the Czech Republic did not develop. Regarding the building tax (as well as the municipal tax, land tax, and tourism tax), the legal upper limit did not change after 2010, which will later be valued by the Ministry responsible for public finances. This is calculated by multiplying the tax maximum of the year preceding the current year by the value of the consumer price index three years ago. This method ensures that the value of the itemized tax is preserved. In terms of building tax, the tax base is the useful floor area, with certain correction items. The upper limit of the itemized tax rate rose from HUF 100 per square meter to HUF 1,100 gradually until 2011 and has remained unchanged since then.

The other property tax that can be levied is land tax, the object of which is a plot of land in the area of jurisdiction of the local government; the subject of the tax, similar to the construction tax, is the owner of the plot on the first day of the tax year. With this type of tax, there is also the possibility of a value-based land tax, but, for the same reasons as for the construction tax, local governments do not use this. Compared to 1990, the rate of the tax increased from HUF 100/m² to HUF 200/m² in 1996, which has not changed in law since then, but at the same time, the legislator applies valorisation to this type of tax as well.

Another well-defined goal of the framework regulations was to provide municipalities with a sufficient number of alternatives based on the population's ability to pay when developing the local tax system. The introduction of municipal taxes instead of property taxes provides an opportunity for this. Until 2010, there were three types of municipal taxes: municipal tax for individuals, municipal tax for entrepreneurs, and tourist tax. The communal tax on businesses was an alternative to the local business tax for local authorities, but it was withdrawn by Act XC of 2010. The latter type of tax was based on the average statistical number of employees, for which the upper limit was HUF 2,000/persons. In practice, however, it brought very little revenue to local governments, and its maintenance was not justified. The cessation was also facilitated by the state's additional support system, which preferred a local business tax to no tax. Individuals' communal tax is paid by those who are subject to construction tax, as well as by individuals over 18 years of age who have the right to lease property that is not owned by an individual in the municipality's area of jurisdiction. The introduction of no tax mainly benefits those local authorities responsible for areas where the population's ability to pay is low. The

amount of the tax, or its legal upper limit, gradually increased from HUF 3,000 per taxable item to HUF 17,000 in 2012, and has remained unchanged since then, but the tax maximum has been valorised. Since the tourism tax was introduced, it covers stays as non-permanent residents and holiday homes in the municipality's area of jurisdiction. The amount of the latter, introduced into law as Act XC of 2010, was HUF 900/m² at that time. The tax on tourism activities in the classical sense can be determined item-wise or value-proportionately; local governments mainly use the itemized tax based on statistics.

The backbone of the local tax system is the local business tax, which could be levied on permanent business activities as well as temporary activities until 2021. Due to the concept of the tax type, it defines the business activity, the concept of which is like that of the entrepreneur used in value added tax (VAT). Perhaps the calculation of the tax base of this type of tax has undergone the biggest transformation, since:

- Between 1991 and 1993, the net sales revenue of the product sold and the service provided was the basis of the tax;
- From 1993, the net sales revenue could be reduced by the purchase value of the goods sold or the value of subcontractors' performance;
- From 1998, the cost of materials also became deductible;
- Since 2001, due to a change in the accounting law, subcontractor performance has been replaced by the value of mediated services;
- costs of applied research and experimental development became deductible from the tax base;
- From 2011, subcontractor performance became deductible again;
- In 2013, the purchase value of the goods sold and the accountability of the value of the mediated services decreased progressively (Kecső & Tombor, 2020).

The concept of the local business tax followed the example of the Italian IRAP tax, and consequently it came into the crossfire of disputes during the accession to the European Union, but it did not meet the criteria for value added tax, and as a result, it could remain in the legal order. The upper limit of the tax rate increased gradually, from the 0.3 percent rate at the time of introduction to two percent in 2000⁷ and has remained unchanged since then. There have been many criticisms of this tax type:

- It is not a sector-neutral tax, as it affects the service sector to a greater extent;
- It is economic cycle-sensitive, which significantly worsens local governments' room for maneuver of in crisis years;
- In many cases, the use of low tax rates is the result of companies registering in a municipality to take advantage of the low tax rate, and therefore the tax sharing mechanism is typical, which may lead to the creation of local tax havens (Szabó & Kovács, 2018).
- It is unequal, as it largely depends on territorial development.

From 2015, the Hungarian local tax system resolved its framework-type regulation with the introduction of the open-list settlement tax. The essence of this tax type is that the local authority can tax taxable objects that are not subject to either central or local tax. As a result, the spirit

⁷ In 1998, for example, it was 1.4 percent, in 1999 it was 1.7 percent.

of the European Charter of Local Governments was transposed into local tax regulation. Of course, there are also limiting factors for this type of tax, so a business cannot be hit by the tax burden, and the application of local taxes is becoming increasingly common.

3.2 Development of the local tax revenues in the local government subsystem

For our analysis, we divided the development of local tax revenues into three stages. The data are available in the database of the Hungarian Central Statistical Office (hereinafter: KSH) from 1995, hence this represents the starting value. The end of the first stage is marked by the accession to the European Union in 2004. The analysis criteria are as follows:

- changes in tax revenues over time,
- composition of tax revenues,
- significant changes in tax types.

1. Table: Evolution of the local tax revenues between 1995 and 2003 (in million HUF)

Tax name according to national classification	1995	1996	1997	1998	1999	2000	2001	2002	2003
Other remitted central taxes	6	10	23	125	8	10	10	12	11
Vehicle tax (local)	1 497	4 445	5,034	5,716	7 185	12,241	9,000	9 334	19,206
Building tax	4 144	8 313	10,752	13,056	16,629	19,215	26,259	29 178	34,098
Tourist tax on buildings	363	461	524	637	824	892	1 170	1 091	1 247
Communal tax for individuals	1 305	1 910	2 262	2,765	3 422	4,557	5,087	5,578	6 308
Local business tax	38 190	66 130	92 357	123 304	171,072	186,823	226,460	252,603	271,995
Tourist tax	859	1 571	2 185	2 622	2 182	2,943	3 277	3 224	3 316
Luxury tax	–	–	–	–	–	–	–	–	–
Land tax	813	1 296	1 717	1 811	2 262	1 983	3 242	3,943	4 476
Settlement tax (other types)	–	–	–	–	–	–	–	–	–
Residence tax (income type)	–	–	–	–	–	–	–	–	–
Settlement tax (property type)	–	–	–	–	–	–	–	–	–
Municipal tax for businesses	517	756	895	1 094	1 354	1 192	1 192	1 156	1 148
Total local taxes	46 191	80,437	110,692	145,289	197,745	217,605	266,687	296,773	322,588

Source: own editing based on the KSH⁸

Regarding the land tax, it can be concluded that it produced a significant increase between 1995 and 2003, since during this period the tax revenue increased 5.5-fold. From the data series, it can be concluded that there was a slight decline in 1999, but from 2000 there is a considerable increase again. The share of the tax type is low, starting from 1.76 percent of the total income in the examined time series, and despite the increase in the share, it closed at 1.39 percent in 2003. Regarding local tax regulations, it was possible to introduce not only a property-type tax, but also a communal tax. One of them was paid by private individuals, while the other was paid by businesses. The communal tax on private individuals was the second lowest source in the system, since on average two percent of all local tax revenue came from this revenue title between 1995 and 2003. The municipal tax on enterprises represented an even smaller share, only 0.67 percent. Regarding the construction tax, it can be stated that it increased dynamically in the examined years, as the income

⁸ Online: https://www.ksh.hu/stadat_files/gdp/hu/gdp0026.html

from this type of tax increased by a multiple of 8.2 times over the course of eight years. Examining the growth rate, it is noticeable that the most significant increase in tax revenue was in 1996, and in subsequent years the increase stabilized at over 20 percent. The year 2001 also showed a significant increase, when tax revenue increased by 36.6 percent, after which the tax rate stabilized at over ten percent growth. The proportion of non-taxable persons was the most significant in 1996 and in 2003, with a proportion exceeding ten percent; from 1997 the proportion began to decrease, but began to increase again from 2000. The KSH reports the tourism tax in two categories, that payable on buildings and classic tourism tax. The share of this type of tax represented a continuously decreasing share in the local tax mix during the period under review, even though the revenues from it increased in nominal value. Regarding the share of tax revenue, the share of tax was below 3 percent of all local tax revenue in each year under review. It is clear from the data that the backbone of the revenue sources is the local business tax. The income from this source increased 7.12 times over during the examined period, with continuous growth. At the macro level, the revenue from business tax accounts for 84.43 percent of local tax revenue on average.

It can be deduced from the results of the period that no significant changes occurred on the revenue side of the local tax system until 2003; a dynamic increase can be observed in this period, by when the determining role of the local business tax was already established, followed by the construction tax in the ranking (Table 1).

The milestone for the examination of the local system is the period following the accession to the European Union until 2010 (Table 2).

2. Table: Development of the local tax revenues between 2004 and 2010 (in million HUF)

Tax name according to national classification	2004	2005	2006	2007	2008	2009	2010
Other remitted central taxes	29	21	22	36	38	38	51
Vehicle tax (local)	29,403	31,636	32,934	41,657	42,251	40,468	45 118
Building tax	38,240	44,440	47,895	54,556	61,916	66,683	71,025
Tourist tax on buildings	1 188	1 257	1 278	1 412	1 491	1 450	1 515
Communal tax for individuals	7 161	7,954	8,275	9,069	9,739	10,077	10 124
Local business tax	310,535	334,077	380 158	427 134	465,075	472 155	443,093
Tourist tax	3 549	3,858	4 357	4,935	5,468	5 481	5,798
Luxury tax	–	–	104	134	171	3	–
Land tax	5 346	5 184	5 705	6,900	8,328	9 114	9,861
Settlement tax (other types)	–	–	–	–	–	–	–
Residence tax (income type)	–	–	–	–	–	–	–
Settlement tax (property type)	–	–	–	–	–	–	–
Municipal tax for businesses	1 164	1 153	1 268	1 261	1 325	1 291	1 170
Total local taxes	367 183	397,923	449,040	505 401	553 513	566,254	542,586

own editing based on the KSH⁹

Even after joining the European Union, the structure of local tax revenues was not radically transformed, given that the lowest revenue came from the luxury tax,¹⁰ followed by the communal tax of businesses, then land tax, and tourism tax. The two most significant tax sources were the building tax and local business tax. Compared to the reference year of 2004, the larg-

⁹ Online: https://www.ksh.hu/stadat_files/gdp/hu/gdp0026.html

¹⁰ Act CXXI of 2005 introduced the luxury tax as a local tax, which was levied on high-value real estate.

est increase can be observed in the construction tax, with a growth rate of 86% in 2010. The second largest increase was produced by the local business tax, followed by the communal tax on individuals. Taking all types of taxes together, the most significant increases in relation to local tax types were in 2005 and 2007. The examined period is also affected by the impact of the economic crisis that hit Hungary in 2008. Looking at these three years separately, it can be concluded that the growth of tax revenues did not stop during the years of the crisis. A 6.26% drop between 2009 and 2010 can only be observed in the local business tax. This therefore clearly shows that the local business tax, which forms the backbone of the local tax system, is significantly sensitive to cyclical effects. As such, based on the figures, it can be concluded that property-type taxes are more crisis-resistant than the local business tax, but at the same time they are limited, so they are not able to make up for the tax losses resulting from lost turnover.¹¹

Compared to the previous examined period, the consistency of tax revenues did not change radically. The share of construction tax increased compared to the 1995-2003 period, by 1.8 percent, while the share of other taxes fell. A decrease of 0.6 percent can be observed in the local business tax. Based on the data, it can be concluded that EU accession did not significantly transform the local tax system, although there were serious disputes regarding the local business tax. However, the impact of the crisis was already clearly visible with the decline in local business tax revenues. The effect of this factor on total tax revenues is already indicated in 2010, since it was the first year, except for 2001, when total local tax revenues decreased.

From 2011, a significant change took place in the local self-government system, as the structure of tasks, the previous decentralized system, and their financing were significantly transformed (Table 3).

3. Table: Development of the local tax revenues between 2011 and 2020 (in million HUF)

Tax name according to national classification	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Other remitted central taxes	64	63	85	24	23	26	21	20	18	15
Vehicle tax (local)	46,576	46,488	16,004	16 173	16,660	16,620	17 401	18 192	19,224	125
Building tax	80,987	96,318	102,719	105,022	111,963	117,521	123 130	126,277	127,594	130,529
Tourist tax on buildings	58	30	21	198	26	8	8	–	–	–
Communal tax for individuals	11,099	13 161	13 175	13 002	13,451	14,589	14,765	14,621	14,566	14,770
Local business tax	457 308	471 031	500,868	523 125	584,380	608,982	638,731	711 276	788 308	729,000
Tourist tax	6,761	7,682	8 411	9 126	10,475	11,676	13,602	14,863	16,249	3,953
Luxury tax	–	–	–	–	–	–	–	–	–	–
Land tax	10,310	17,523	19,395	17,938	19 102	22 112	24,018	23 165	24,095	26 168
Settlement tax (other types)	–	–	–	–	227	743	816	534	453	443
Residence tax (income type)	–	–	–	–	14	5	6	–	–	–
Settlement tax (property type)	–	–	–	–	217	269	273	281	224	178
Communal tax for businesses	102	16	2	–	–	–	–	–	–	–
Total local taxes	566,625	605,761	644,591	668,411	739,855	775,905	815 349	891 017	971 489	905 041

own editing based on the KSH¹²

¹¹ A good example of this is the luxury tax, which was not originally imposed to relieve the business tax, but it fulfilled the expectations placed on it.

¹² Online: https://www.ksh.hu/stadat_files/gdp/hu/gdp0026.html

In the period after 2011, many changes took place, which are well presented in the data in Table 3:

- From 2010, the communal tax on businesses was phased out, which had largely lost its importance even before that;
- From 2010, the tourist tax paid upon buildings, which taxed holiday homes, was also abolished;
- From 2015, settlement taxes were introduced.

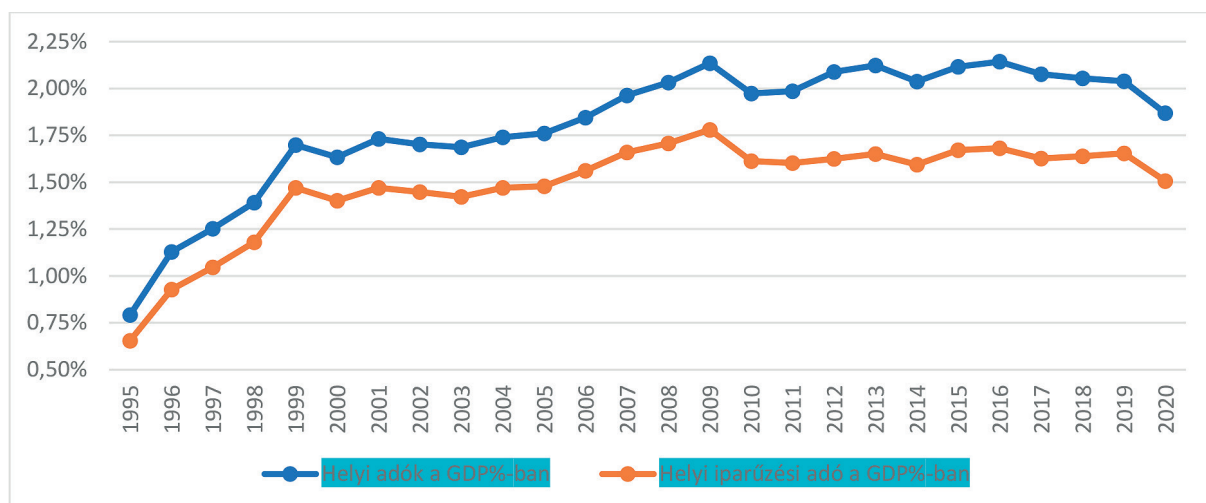
In the examined period, the role of the local business tax in the composition of taxes further decreased, to an average of 80 percent in the examined period, while the proportion of the construction tax increased to 15 percent in parallel; however in the last three years the share was already below the average value. The share of land tax increased to 2.7 percent, the share of tourism tax increased slightly. The role of local taxes remained marginal in the local tax system. If we look at the change, it can be concluded that the local business tax and the tourism tax had the highest growth rate until 2019. In terms of property taxes, the growth rate of the land tax was higher than that of the construction tax; both types of taxes showed a stable but increasing trajectory. Although it increased compared to the beginning of the examined period, the income from the communal tax stagnated in relation to the examined years.

The economic sensitivity of the tourism tax, but especially of the business tax, can still be detected, since it increased significantly during the period of prosperity, but in the first Covid year, 2020, it decreased considerably, partly due to economic policy measures.

The tables also include some shared taxes, the importance of which has steadily declined over the three periods. Table 3 clearly shows the considerable decline resulting from the termination of the division of the vehicle tax. It can be seen from the data series that the decrease in the sharing ratio was already felt after 2013.

1. Figure: Local tax revenues and local business tax in percent of the GDP

Local taxes as % of the GDP (blue) and Local business taxes as % of the GDP (orange)



own editing based on the KSH¹³

The first figure shows how local tax revenues have changed in proportion to GDP, and the local business tax, which has the most impact on it. The figure shows that, from 1995 to 1999, local tax revenues as a proportion of the gross domestic product were characterized by a very

¹³ Online: https://www.ksh.hu/stadat_files/gdp/hu/gdp0026.html

dynamic expansion; from 2000 the rate of growth decreased slightly, and after the crisis it did not return to the 2009 value. It can be seen from the figure that the role of the local business tax decreased slightly from 1999 within the total GDP-proportional tax revenue, but it still had a decisive role.

4 The effects of the COVID-19 pandemic crisis on the local tax system

In relation to the legal dynamic examination, we identified the following main legal areas:

- Tax administration,
- Building tax, land tax,
- Local business tax,
- Tourist tax,
- Municipal budget.

4.1 Tax administration

In terms of tax administration, Government Decree 135/2020 (IV. 17.) on the establishment of special economic zones was decisive. The tax administration aspects of this are that it assigns tax matters in special economic zones from local governments to the state tax authority. The primary reason for this is that the right of taxation and ownership has been transferred to the territorially authorized county self-government.

The 2020 autumn tax package also significantly affected the local tax system. Act CXVIII of 2020¹⁴ abolished the temporary business activity in relation to the local business tax. As a direct consequence, if there is construction industry activity in the settlement for more than 180 days, a site must be established in the given settlement. This measure is a means of facilitating administration.

Due to the COVID19 pandemic, pursuant to Act LX of 2020, the motor vehicle tax became a central budget revenue in its entirety, thus tax authority competence was transferred from the local authorities to the state tax authority. This measure is an adaptation related to the change in regulation. With it, the institution of shared central taxes has almost been abolished, as the remaining items are marginal compared to the former PIT, or motor vehicle tax. The Act XC of 2020, and the 2021 budget will make the full deduction of vehicle tax continuous, so only fines, surcharges and enforcement costs will be paid to local governments.

In relation to 2021 and 2022, a ban on tax increases came into effect for local governments, as a result of which they could levy property and communal taxes on the valorised value of itemized taxes, with the maximum tax amount due in 2020, in accordance with the local tax law

4. Table: Tax maximums from January 1, 2020

Building tax	1,951.65	HUF/m ²
Land tax	354.8459	HUF/m ²
Communal tax of an individual	30,161,907	HUF/tax item
Tourist tax after length of stay	532.2	HUF/guest night

Source: PM/23098/2019. Information no. _ 51/P. Pursuant to Section (1), they are also effective in 2022

¹⁴ Act amending certain tax laws.

Although serious development has taken place in the self-governing system (ASP), the elaboration of forms used at the local level has also begun at the state tax authority. As a result, in addition to the business tax, it is possible for taxpayers to use the central form for construction tax, land tax, and municipal tax. This factor can be a relief mainly for minor local governments. It is also a relief that visitors from third countries can register electronically in the tourist tax.

4.2 Building tax, land tax

Pursuant to Act LXXVI of 2020,¹⁵ property rights related to state property are exempt from building and land tax. Subsequently, Act VII of 2022¹⁶ was also supplemented by the law for state-owned companies performing public tasks. The previously effective regulation also sought to exempt public organizations from paying construction tax and land tax. The system of settlement taxes follows this logic, so the measure mainly serves adaptation related to the economic environment.

4.3 The local business taxes

Government Decree 140/2020 (IV. 21.)¹⁷ enabled the subjects of the local business tax to fulfil the local tax declaration and tax payment obligation due on May 31 by September 30. This measure is in line with the deadline for the preparation of the accounting report, as well as with the postponement of the corporate tax return, as these obligations are consistent with each other.

Pursuant to Government Decree 639/2020¹⁸ (XII. 22.), in the 2021 tax year the local business tax will be reduced to one percent for companies classified as small and medium-sized enterprises up to a HUF four billion threshold, if the local government has levied a higher tax rate. The tax advance will also be automatically reduced by 50 percent if a statement is made to the local government by February 25, 2021. To take the value limit into account, the report of the last closed year was used as a basis for enterprises subject to the accounting Act. It qualifies as *de minimis* aid under the EU regulations. This measure was implemented in Act CXXXI of 2021, which was extended to 2022 under the same conditions.

4.4 The budget's direct effects on the local governments

Government Decree 140/2020 (IV. 21.) ordered the suspension of the tourist tax payment that can be charged by local governments until December 31, 2020, as a result of which the taxpayers and those obliged to collect taxes did not have to pay the tax, but they had to fulfil the declaration obligation. In connection with this, the central budget does not disburse central budget support to local governments on unpaid tax.

¹⁵ Law on the foundation of the 2021 central budget of Hungary.

¹⁶ Act VII of 2020 amending Act CLXXXIX of 2011 on Local Governments in Hungary.

¹⁷ Government Decree on the tax relief measures necessary to mitigate the economic impact of the coronavirus epidemic in the framework of the Economic Protection Action Plan.

¹⁸ Government Decree on certain measures necessary to mitigate the impact of the coronavirus pandemic on the national economy.

Based on Government Decree 603/2020 (XII. 18.),¹⁹ local government fees have been fixed until December 31, 2021, according to which local governments, budgetary bodies and local government companies cannot increase prices. They cannot introduce new fees or modify existing ones. An exception to this is if the amount of the fee increase has been determined in advance.

Pursuant to Government Decree 61/2022 (II. 28.),²⁰ local authorities will receive compensation due to the 2022 business tax discount.

5. Table: Amount of compensation in connection with the local business tax

Settlement size	Amount of compensation
Under 25 thousand people	An amount equal to the lost tax
Over 25,000 people	lost tax revenue is 100% if the tax capacity is below 70% of the average.
	lost tax revenue is 75%, if the tax capacity is above 70% of the average.
Not supported	If the business tax capacity exceeds the average
	Capital and district municipalities with a population of more than twenty-five thousand people

Source: 61/2022 (II. 28.) Own editing based on the government decree

4.5 Tourist tax

Based on Government Decree 140/2020 (IV. 21), until December 31, 2020, taxpayers are exempt from the tourist tax paid for guest nights, but at the same time, the person obliged to collect it does not have to collect it and pay it, but the declaration obligation remains. The provision of the Government Decree 498/2020 (XI. 13.) on certain economic rules applicable during the state of emergency, extends the exemption from the tourist tax until the end of the emergency on January 1, 2021. Government Decree 319/2021 (VI. 9.)²¹ specifies the period of suspension of the tourist tax as until June 30, 2021. Government Decree 87/2022 (III. 7.)²² exempts citizens of Ukraine from the tourist tax in view of the state of emergency.

5 Conclusion

During the creation of the local tax system, it was modern and consistent with the regulations of the European Charter of Local Governments, and essentially enabled the legislator and the local governments to adapt flexibly to economic challenges, and on the other hand to create a tax-mix that considers the economic and social characteristics of the settlement. In addition, it created the basis for the performance of local public duties, and the role of local taxes in financing

¹⁹ Government Decree on the economic measures necessary to mitigate the impact of the coronavirus pandemic on the national economy.

²⁰ Government Decree on the 2022 business tax for micro, small and medium-sized enterprises on municipal aid in connection with the 2022 tax relief for small and medium-sized enterprises.

²¹ Government Decree amending Government Decree No 498/2020 (XI. 13.) on certain economic rules applicable during an emergency.

²² Government Decree on the different application of the rules of Act C of 1990 on Local Taxes on Tourism during a state of emergency.

increased significantly. In the three decades before the pandemic, the local tax system was characterized by relative predictability; the changes mainly included the valorization of tax rates and changes in the range of exemptions and discounts. The most variable type of tax was the local business tax. More significant changes were mainly implemented starting in 2010, when there was the appropriate political mandate to implement the necessary changes. The changes meant the elimination of some types of taxes, at which time the communal tax for businesses and the tourist tax paid for holiday homes were abolished. These changes did not represent a radical change in the system; the principle of the economy of tax collection was mainly kept in mind. From 2015, the concept of local taxes appeared, which introduced open-list taxation in the local tax system. It did not directly affect the system of local taxes, but, from 2013, the personal income tax division was eliminated, and the vehicle tax division was reduced to 40%, however, these types of taxes were divided central taxes.²³

After the pandemic, the legislative process accelerated significantly, considering that many new measures were introduced to the legal order. According to Hoffman (2021), the centralization process strengthened in the Hungarian local government system after the COVID19 pandemic. After the COVID19 period, special economic zones were created, which created the right of county governments to levy taxes. The rate of the local business tax was maximized at 1 percent and was also suspended during certain periods of the pandemic. The room for manoeuvre of local governments has also been narrowed by fixing itemized taxes at the 2020 tax maximum. These factors significantly influenced the financial scope of the local governments, since, during a period of temporary economic downturn, their own revenue capacities were severely limited, which adversely affected the freedom of management and the quality parameters of the tasks to be performed. The economic policy justified taking these measures by the need for local governments to play their part in the crisis management as well.

The Hungarian local tax system fulfilled its role, as it ensured the revenue independence of local governments, and their role became stronger after the system change. This indicates that adaptation to economic conditions has been achieved. The Hungarian system is made up of tax types that are also used in international practice, but are applied differently, adapted to the domestic environment. However, the problems of external origin that have appeared since 2020, and the government's responses to them, raise the need for a general transformation of local tax regulation, and with it, the enhancement (restoration) of the autonomy of local government management.

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