


## OUR MISSION

The Mission of APEH being the national tax authority of the Hungarian Republic is to assure resources for public expenditures of the society by effective and efficient collection of taxes, contributions and duties and to provide adequate information for shaping the economic policy of the government.

In order to do so it assists taxpayers with high level services to voluntarily comply with their liabilities, and simultaneously it consequently acts against behaviours that consciously get around provisions of the law by fair and correct application of administrative measures.

## OUR VISION

Our vision is that the Hungarian Tax and Financial Control Administration becomes an organisation operating on the standards of the leading tax administrations of the world which is:

- A service provider organisation developing tax awareness in the society, promoting voluntary tax compliance, aiming at lowering administrative burden on taxpayers and simplification of taxation;

- A tax collecting and controlling authority fairly and consequently applying the law enforcement measures in order to fight informal economy and cut back tax avoidance;

- A credible organisation that is trusted and honoured by the society, safeguarding the values of its organisational culture, adapting flexibly to economic and social changes, using the most up-to-date technical means and methods, cooperating with domestic parties, tax authorities of other states and with international organisations, capable of renewal;

- A community offering attractive career path, where individual performance contributes to the realization of the organisational goals, where it is a merit and meritorious to work, that offers moral and financial recognition and reliable career path for competent, adequately trained, committed and impeccable employees.



János Szikora, president of APEH

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# PREFACE

It is my honour to greet the readers on behalf of the Hungarian Tax and Financial Control Administration at the occasion of the publication of our annual bulletin for the 18th time.

In the life of the Tax Administration, 2008 was the year of organisational stabilisation and vision of the future. We have clarified the work processes re-organised as a consequence of the regional organisational re-structuring taking place in 2007 and we have completed the integration of the duty-related tasks, creating this way the possibility to focus in addition to the present tasks also to our future objectives. As a consequence, we have launched, in December 2008, our mid-term strategic plan for the period between 2008 and 2012, which was not given the title "SERVICE PROVIDING TAX ADIMINISTRATION" by chance, but because we intended to focus in this strategy both on the services offered to our clients and to the rapid, professional and efficient actions against tax evasion.

Within the framework of the implementation of our service providing strategy, we have made a fundamental break-through in expanding our electronic services in 2008. As of the beginning of 2008, the data sheets on reporting taxpayer registration and the changes thereof, together with the applications for tax, income and tax residence certificates can also be presented electronically. During the year, the scope of our database with information of public interested was further extended. Consequently, the most important data of the taxpayers opting for group VAT payment, of the legal entities and other organisations with tax number but not classified as subjects of VAT or simplified corporate entrepreneurial tax-payers and of the taxpayers under enforcement procedure can be inquired. As a new service, we facilitated for the preparation of a Personal Tax Calendar on our homepage. In order to improve the circumstances at the customer services, we have unified the opening hours of our customer service points, while at our central customer service points we made it possible to pay with credit card.

In order to strengthen authority actions, the Tax Administration received a number of new tasks and legal authorisations also last year. At this point I only would like to refer to the preventive audit of new taxpayers set up without legal predecessor, or to the clarification of the healthcare status of the more than 115 thousand "free rider" private individuals, and to a large number of additional measures implemented for the purpose to whiten the black economy.

The size of the work done is well indicated by the fact that as a result of our authority and service activities, the revenue realised on the accounts of the Tax Administration exceeded HUF 9290 billion last year, which is HUF 636 billion more than in 2007. The net tax difference verified during the post tax audits was HUF 111 billion more in 2008 than during the previous year. During the collection of tax debts, we succeeded to collect altogether HUF 295 billion, namely 13.5% more than before.

In my opinion, one of the most important events from the perspective of "the history of taxation" shall also be mentioned: according to our knowledge, the Hungarian Tax Administration was the first among the tax administrations of the world, where the possibility for electronic auctioning was created.

Based on the above-said, allow me to proudly present to you the latest issue of our Bulletin. I do hope that our publication will help you to get an insight into the very complex activities of the Tax Administration and to see, behind the results and achievements, the extraordinary work which was done by the staff of the Tax Administration in the course of 2008.



János Szikora
President of the Hungarian Tax Administration

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# INTRODUCTION

For the Hungarian Tax Administration, the year 2008 equally meant – in addition to performing the day-to-day tasks – confrontation with the past and preparation for the challenges of the future. Confrontation with the past was executed in two different ways. One of them was the closing and the evaluation of the mid-term strategic plan prepared in 2003, the other one was the opening of the permanent exhibition presenting the history of taxation in Hungary, which is the result of the co-operation between the Hungarian Tax and Financial Control Administration and the National Széchenyi Library. The preparation of the mid-term strategy for the period between 2008 and 2012 served the purpose to prepare for the challenges of the future, since this strategy defines the guidelines for the management and for all the staff of the Tax Administration on the realisation of the objectives and the goals. In addition to all these, the Tax Administration met the expectations in 2008, and successfully fulfilled its tasks, of which the following shall be emphasised:

- The Tax Administration met the revenue expectations defined by the law. At the end of the year, the amount of the revenue from taxes and contributions was close to HUF 9290 billion. During the last months of the year, the negative effects caused by the declining performance of the economy could be sensed, but the revenues collected by the Tax Administration have exceeded, even in this case, those in 2007 with HUF 636 billion. In total, the tax and contribution revenues, which are especially important for the state budget, met the target number set in the Act on Budget.

- The development of the services offered by the Tax Administration is increasingly in harmony with the requirements and the expectations. For this purpose, the scope of the cases which can be administered electronically was broadened, the possibility for payment with bank card was introduced, and the creation of information counters promoting the orientation and faster servicing of our clients was started at the customer service offices. The services offered by the telephone customer service (Contact Centre) are also of better quality and higher professional standards than before.

- The wide variety of the forms of information created the possibility for all to have adequate access to information. Besides the free leaflets, presentations, forums, the media and the other, different forms of information, the homepage of the Tax Administration has an increasingly important role, since it was visited by 27.6 million people, in other words, the number of people visiting this site was 38 percent more than in 2007.

- Close to 19.5 million tax returns were registered, of which 82.4 percent were presented electronically. In the case of personal income tax returns, 61 percent were filed with the help of the program available on the Internet, which indicates, also in this case, the spread and increased importance of electronic solutions.

- In addition to the more intensive audit of high-risk taxpayers, the network of interest of these taxpayers was also mapped, promoting the success of our audits. Besides increased sophistication of risk analysis, new audit methods were also adopted. Until the end of the year, altogether 280 thousand audits were completed; the verified tax difference was HUF 478.4 billion, which is significantly higher than the year before. Also the level and the amount of the fines levied in connection with the detected deficiencies were higher than during the previous years. The centralised audits performed during the year, where several authorities co-operated with each other to detect complicated cases, were followed with great interest.

- The audit of economic associations set up without legal predecessor, which was a new task for the year 2008, was in the focus of attention. The purpose of preventive audits was, on the one hand, to promote compliance, and on the other, to identify fraud right after the foundation of the companies.

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- Wealth gain audits focusing on the increase in the wealth of individuals were performed in accordance with the set rules of procedure and with IT support systems specifically developed to promote selection for audit. While the number of the audits declined, their success rate improved by 40 percent.

- During the audits aiming at the reduction of black economy – minimisation of tax payment, carrousel fraud, sales chains, etc. – considerable tax evasions were detected. More than one hundred thousand audits related to social security contributions were completed, and we have started the organisation of the registry of those entitled for healthcare services, namely we started to identify the so-called “free riders”.

- Stopping the increase of tax arrears represents a difficult task for the Tax Administration. As a result of the measures implemented to reduce the outstanding amounts, the previous dynamic growth slowed down in general, and reached a standstill among the operating economic associations. Thanks to the authority measures and the more intensive IT support, the revenue from arrear collection exceeded that of the previous year.

- In comparison to 2007, the number of applications for payment allowances increased. Of these applications, every second was presented on duty payment.

- As compared to 2007, there was an increase also in the number of complaints and the criminal activities thereof, and the same applies to the identified committed value. The share of fraudulent activities committed for taxes falling under the scope of authority of the Tax Administration and for central budgetary funding and that of the tax fraud increased.




- The Tax Administration performed its press and communication activities with an image renewed in the course of the year and via more intense communication campaigns.

- Continuation of IT development and the elaboration of the programmes promoting transparency contributed to better day to day operation and to our preparation for the IT challenges of the future.

- The international relations of the Tax Administration were further extended and its recognition constantly increased. An increasing number of the foreign partner organisations contacted the Tax Administration; there were regular bilateral and multilateral meetings, discussions and professional conferences.

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# THE ACTIVITIES OF THE TAX ADMINISTRATION IN THE MIRROR OF NUMBERS

## REVENUES AND TAX REFUNDS

In 2008, the amount of money administered and managed by the Tax Administration increased from HUF 8654 billion in 2007 to HUF 9289.8 billion. The increase is HUF 635.8 billion, namely 7.3 percent. The revenue also contains the tax refunds related to private pension funds, which do not represent part of the revenue of the state budget. The Tax Administration transferred HUF 352.5 billion to the accounts of the different private pension funds, which is HUF 66.5 billion more than in the previous year.

The revenue stemming from the core activities of the Tax Administration – without the private pension funds – was HUF 8937.3 billion, which was HUF 569.3 billion (6.8 percent) more than in 2007.

The vast majority of the revenue increase came from three types of taxes, namely personal income tax, social security contributions and VAT. The revenue realised from the above mentioned three types of taxes was HUF 491.4 billion more than in the previous year, which represented 86.3 percent of the total revenue increase.

In the case of VAT and social security contribution, the legislative environment of taxation has not changed to the extent that it could exert a significant influence on the revenues. In terms of personal income tax, the more stringent rules on applying allowances have increased the revenue in excess of salary increases.

In total, 2008 was one of those years when the overall operational conditions of the enterprises had a greater role in terms of the achievable revenues than legislative changes.

Preliminary audits prevented the transfer of illegitimate claims for refund in the amount of HUF 28.2 billion (it is HUF 2.4 billion less than in the previous year). Out of withheld tax, 23 percent was identified during the audits made at foreign taxpayers. Similar to the previous years, the decisive part of the withheld amount was related to VAT.

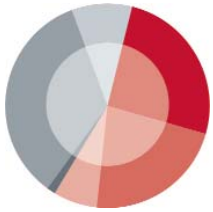
Out of the sanctions imposed during the tax audits and other authority measures, HUF 42.5 billion was paid into the budget during the year, which exceeds the respective revenue in 2007 with HUF 3.1 billion.

DISTRIBUTION OF REVENUES FROM TAXES AND CONTRIBUTIONS IN 2007



| | |
|---|---|
| Personal income tax | 21.5% |
| VAT | 23.7% |
| Corporate income tax | 6.1% |
| Healthcare contribution | 1.4% |
| Social security contribution | 34.8% |
| Others | 12.6% |

DISTRIBUTION OF REVENUES FROM TAXES AND CONTRIBUTIONS IN 2007



| | |
|---|---|
| Personal income tax | 22.4% |
| VAT | 23.7% |
| Corporate income tax | 5.5% |
| Healthcare contribution | 1.3% |
| Social security contribution | 34.3% |
| Others | 12.9% |

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TAX AND TAX TYPE REVENUES (HUF MILLION)

| | 2007. net | 2007. gross | 2008. net | 2008. gross |
|---|---|---|---|---|
| Corporate income tax | 510 780.8 | 604 278.7 | 487 524.4 | 592 810.0 |
| Special tax of credit institutions and financial companies | –1 665.8 | 1 938.5 | –793.6 | 410.8 |
| Credit institution annuity | 12 555.3 | 12 560.6 | 12 642.1 | 12 650.8 |
| Personal income tax (together with simplified contribution to public revenues share) | 1 798 863.0 | 1 921 284.3 | 1 998 721.4 | 2 109 007.9 |
| Repayment of investment tax credit | 1 125.2 | 1 206.1 | 129.1 | 156.6 |
| VAT total | 1 979 373.8 | 3 459 480.5 | 2 114 088.5 | 3 603 710.5 |
| Of it: after the purchase of import products | 297 748.8 | 300 815.7 | 326 654.0 | 328 122.6 |
| Special tax of companies | 178 598.0 | 186 384.5 | 200 492.5 | 213 843.8 |
| Special tax of private individuals | 20 837.0 | 21 459.7 | 27 642.1 | 31 217.7 |
| Voluntarily identified tax difference | –8 037.4 | 17 043.4 | –60.0 | 5 822.1 |
| Gambling tax | 71 461.4 | 71 510.3 | 72 734.0 | 72 798.5 |
| Employers' contribution | 201 363.9 | 202 795.9 | 211 480.1 | 212 327.7 |
| Employee's contribution | 92 063.9 | 93 000.4 | 97 608.0 | 98 323.7 |
| Simplified entrepreneurial tax | 152 812.3 | 153 512.3 | 166 537.0 | 167 208.1 |
| Average tax | 10.3 | 15.2 | –2.0 | 6.9 |
| Different funds and fund-type payments and repayments together | 125 308.7 | 134 207.8 | 117 075.2 | 126 882.5 |
| Of it: rehabilitation contribution | 13 646.4 | 13 994.4 | 14 684.0 | 15 130.0 |
| Cultural contribution | 8 768.6 | 9 294.2 | 8 612.6 | 8 880.7 |
| Vocational training contribution | 33 598.0 | 34 930.3 | 38 857.8 | 40 343.3 |
| Innovation contribution | 28 695.1 | 31 646.5 | 25 615.5 | 29 881.9 |
| Environmental protection product fee | 18 567.6 | 21 119.3 | 5 222.9 | 7 798.1 |
| Entrepreneurial contribution | 14 015.4 | 14 683.0 | 13 764.0 | 14 212.7 |
| Environmental burden fee | 8 017.6 | 8 540.1 | 10 318.4 | 10 635.8 |
| Social security contribution | 2 905 285.8 | 2 915 125.4 | 3 064 564.8 | 3 075 312.1 |
| Healthcare contribution | 113 483.0 | 117 045.3 | 118 968.1 | 123 122.3 |
| Simplified contribution to public revenues* | 10 716.5 | 11 132.2 | 12 592.5 | 12 959.4 |
| Revenues of private pension funds | 285 993.4 | 287 078.4 | 352 632.5 | 354 191.2 |
| Duties (without tax administration procedural duty) | 144 129.9 | 148 860.6 | 153 571.9 | 158 564.6 |
| Other payments, sanctions, together with fines, surcharges, and procedural duties | 69 645.6 | 76 018.6 | 85 094.8 | 97 498.8 |
| Of it: late payment fee and fines of social security contributions | 14 061.9 | | 14 702.6 | |
| Duties and fines related to the organisation of gambling | 5 179.6 | 5 243.1 | 5 034.9 | 5 083.0 |
| Arm's length price definition fee | 45.3 | 46.3 | 23.2 | 27.0 |
| Operation fee of television sets | 572.1 | 577.9 | 1 017.6 | 1 026.0 |
| Payments related to the distribution of pharmaceuticals | 22 522.0 | 22 601.5 | 35 320.2 | 36 309.4 |
| Total payments managed by the Tax Administration | 8 653 988.1 | 10 424 806.5 | 9 289 799.4 | 11 065 376.7 |
| Of it: Import VAT and consumption tax | | 300 815.7 | | 328 122.6 |
| Total amount of taxes and contributions collected by the Tax Administration | | 10 123 990.8 | | 10 737 254.1 |

* The revenue from simplified contribution to public revenues contains personal income tax (HUF 3 444 billion), social security contribution, and healthcare contribution payments.

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## SUBSIDIES

The total amount of the subsidies granted by the Tax Administration exceeded HUF 336 billion in 2008. This amount is close to HUF 12 billion less than the respective amount for the previous year. An increasing share, namely 60 percent of the subsidies consisted of individual production subsidies, and the amount transferred increased by about HUF 28 billion and exceeded the annual forecast for expenditure. The majority of these subsidies served the operation of inter-city personal transport public services and that of the railway network. The use of consumer price supplement was reduced by about 4 percent, consequently, the saving compared to the annual expenditure forecast reached HUF 9 billion. The fact that the items of consumer price supplement were reduced as of 01 July 2007, and its effects became manifest during the first half of 2008, while in the second half of 2008, the increase was more modest.

One of the most significant changes was caused by the fact that after Hungary's accession to the European Union, the scope of agricultural subsidies managed by the Tax Administration was reduced, thus the respective money transfers show a declining trend. The Tax Administration transferred HUF 12 billion under different agricultural subsidy titles from the funds granted by the Ministry of Agriculture and Rural Development, which is significantly lower than the respective amount was in 2007.

CASH FLOW OF SUBSIDIES (HUF MILLION)

| | Year 2007 | Year 2008 |
|---|---|---|
| Total amount of subsidies | 348 025 | 336 458 |
| Of it: individual subsidies | 175 390 | 202 893 |
| Normative subsidies | 21 741 | –58 |
| Consumer price supplement | 111 885 | 107 623 |
| Agricultural market subsidy, state procurement | 2 063 | 276 |
| Subsidy granted for the purchase and leasing of new agricultural machinery, | 515 | 169 |
| Agricultural production subsidy* | 991 | 396 |
| Subsidy for agricultural financing | 13 903 | 9 554 |
| Subsidy for animal husbandry and biological funds | 157 | 3 |
| Subsidies for animal welfare and keeping livestock | 13 013 | 1 069 |
| Subsidy for water management | 461 | 43 |
| Subsidy for the national agro-environmental programme | 3 | 0 |
| Professional consultancy | 293 | 15 |
| Call of state guarantee | 6 908 | 13 657 |
| Agricultural guarantee | 426 | 571 |
| Other subsidies** | 276 | 248 |
| Subsidies financed from the central budget *** | 309 257 | 310 706 |

* In 2007, together with subsidies granted for the prevention of damages in the forests.

** In 2007, subsidising young agricultural farmers and producers suffering natural disasters, interest subsidies of agricultural development loans, subsidies granted under other titles, in 2008, other corporate subsidies.

*** Without guarantees and agricultural subsidies.

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# MOST IMPORTANT STATE BUDGET REVENUE TRENDS

## PERSONAL INCOME TAX

The net revenue from personal income tax was HUF 1999 billion in 2008, which exceeded the respective data for 2007 by HUF 199 billion (11 percent). The increased dynamism typical of the years compared was caused – besides the increase in the wage level – by the lasting effects of legislative changes and the increase in the amount of certain items levied as tax at source.

The cash flow of the year 2008 was significantly influenced by the deferred amounts of the previous year related to the annual settlement of personal income tax, which, in cash flow terms, became more manifest in the first half of the year. In total, these items have improved, compared to the previous year, the position of the central budget with HUF 45 billion, which was shown partly in the increase of the amount payable at the time of presentation, and partly in the reduction of claims for refund.

The decline in the claims for refund was caused by the legislative changes coming to force as of 2007 which made the application of beneficial items more restrictive.

In comparison to the previous year, the different at source items have increased considerably, of which, the biggest was the tax on interest. The dynamic growth of the interest incomes was jointly caused by the increase of interest on deposits and the decrease of the number of items free from taxation on interest.

The legislative changes which came into force as of the beginning of 2008 did not affect the tax table of consolidated income and did not exert significant influence on cash flow.

The net personal income revenue for 2008 was realised from the payment of HUF 2109 billion and the refund of HUF 110 billion. The monthly average of the amount of payments was close to HUF 176 billion, but the respective amounts were extremely high in the months of January, May and December, while tax refunds concentrated on the months between March and June.

## VAT

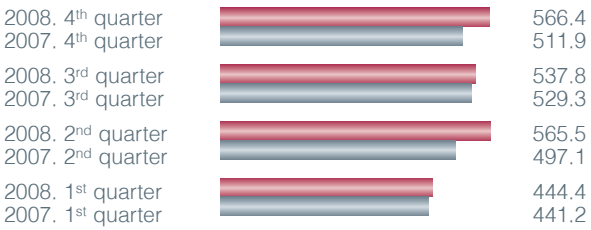
The changes in the VAT revenues during the year were largely influenced by the effects resulting from the legislative changes and the changing economic environment.

Some of the amendments in the Act on VAT, effective as of 2008 exerted notable influence on the distribution of the revenues in the course of the year. Of them, we should mention the change according to which those, who have to file their VAT return on annual or on quarterly basis shall be defined in the beginning of the year, based on the results of the second year preceding the year in question. Since fundamental organisational and structural changes took place in the economy during 2007 (for example: in the electric energy industry, in the distribution of gas), the distribution of the revenues during the first five months of the year differed significantly from their distribution during the previous years. Matching the conditions for refund to the frequency of filing the tax return and widening of the circle of parties with reverse charge – with the construc-

MONTHLY NET CASH FLOW OF PERSONAL INCOME TAX (HUF MILLION)




MONTHLY NET CASH FLOW OF VAT (HUF MILLION)

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tion industry, and real estate sales – were also changes which affected the revenues.

The amount of net VAT revenue reached HUF 2114.1 billion in 2008, which is HUF 134.7 billion (7 percent) higher than in 2007. The cash flow balance increased, because the payments grew more dynamically, and decreased less during the last few months as the applications for refund more exposed to the world market prices, the exchange rate of the HUF and the considerations of the companies and entrepreneurs. If we look at the whole year we find, that the payments increased by 4 percent, while the tax refunds have practically not increased, exceeding those in the previous year only by HUF 11.1 billion.

## CORPORATE INCOME TAX

The Act on corporate tax and dividend tax has changed at several points in 2008. The most important areas of these changes are the following:

Pre-tax profit can be reduced with the exchange rate profit settled at the sales of reported share if the taxpayer possessed the share at least for 1 year (in stead of the previous 2 years) prior to the sales.

For development purposes, 50 percent of the profit can be reserved (in stead of the previous 25 percent).

The corporate income tax – under certain conditions – is 10 percent up to HUF 50 million tax base (in stead of the previous HUF 5 million limit).

Tax allowance for development can again be applied for in the case of investments made in development activities executed to create food hygienic conditions, guaranteeing wide band Internet access and for basic, applied and experimental research activities exceeding, as a minimum, HUF 100 million at present value.

As of 01 September 2008, tax allowance for development can be requested by taxpayers introducing for the first time to the regulated market shares in the value of HUF 100 million as a minimum at present value after the increase of the registered capital.

In terms of tax allowances for development, the changes in the Act on corporations in 2008 affected mostly the large companies. Besides others, the definitions were worded more precisely, and the auxiliary stipulations were amended.

At the level of the national economy, the companies paid HUF 592.9 billion for corporate income tax, which represents 98 percent of the amount paid during the previous year. The revenue realised during the last month of the year decreased to 30 percent from 36 percent during the previous year.

Net cash flow, which is the balance of the payments and the refunds, was HUF 487.9 billion in 2008, representing 96 percent of the amount in 2007. Consequently, the corporate income tax paid into the budget was HUF 22.3 billion less in 2008 than in 2007.

MONTHLY NET CASH FLOW OF CORPORATE INCOME TAX (HUF MILLION)




## SIMPLIFIED ENTREPRENEURIAL TAX

In 2008, the simplified entrepreneurial tax payments exceeded the respective payments in 2007 by HUF 13.7 billion. Though the 9 percent increase is lower than the increase during the initial years, it was more than 2 percent higher than the more modest increase in 2007. Most probably, this positive change indicates that the reorganisation of the market following the changes in the tax rate was more or less completed.

The trend typical of the number of taxpayers paying simplified entepreneuriel tax remained unchanged. The number and the percentage ratio of the private entrepreneurs were on the constant decline. Until the end of 2008, their number was by approximately 2900 less than

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CHANGES IN THE NUMBER OF SIMPLIFIED ENTREPRENEURIAL TAX PAYERS AND IN THE CASH FLOW OF THEIR TAX PAYMENTS

| Characteristic features of simplified corporate tax | 31 December 2007 | % | 31 December 2008 | % | 2008/2007 (%) |
|---|---|---|---|---|---|
| Number of taxpayers (persons/number) | | | | | |
| National total | 98 222 | 100.0 | 96 260 | 100.0 | 98.0 |
| Of it: | | | | | |
| Individual entrepreneurs | 46 198 | 47.0 | 43 329 | 45.0 | 93.8 |
| Companies | 52 024 | 53.0 | 52 931 | 55.0 | 101.7 |
| Annual cash flow of tax payments (HUF million) | | | | | |
| National total | 152 812 | 100.0 | 166 537 | 100.0 | 109.0 |
| Of it: | | | | | |
| Individual entrepreneurs | 51 441 | 33.7 | 53 402 | 32.1 | 103.8 |
| Companies | 101 371 | 66.3 | 113 135 | 67.9 | 111.6 |

a year ago. The share of companies whose number increased by 900, continued to increase.

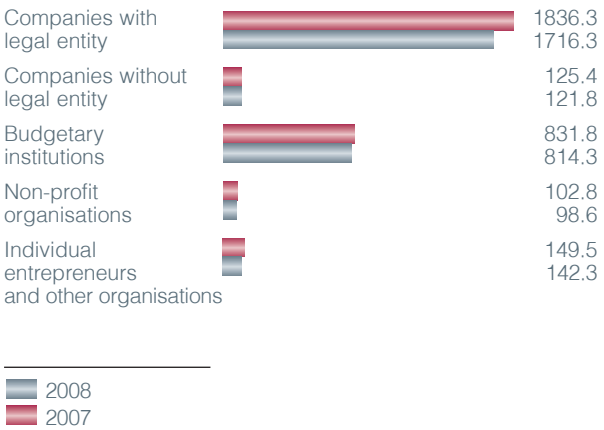
## SOCIAL SECURITY CONTRIBUTION AND HEALTHCARE CONTRIBUTION

The Act on social security provisions and on those entitled for private pension and on the financial coverage of these services has significantly changed the payment of contributions and of healthcare contribution during the past few years. The obligations of the ensured parties have increased, and those of the employers were regrouped between the two funds of social security. The employers are obliged to pay, altogether 29 percent, but the contribution payable to the Health Insurance Fund changed from the previous 8 percent to 5 percent, while the contribution payable to the Pension Fund increased from the previous 21 percent to 24 percent. The healthcare contribution payment obligations of the insured parties changed from 7 percent to 6 percent, the pension contribution payment obligation changed from 8.5 and 0.5 percent to 9.5 and 1.5 percent, respectively. The upper limit of the pension contribution payment obligation increased from HUF 18 490 to HUF 19 500, and its annual amount to HUF 7137 thousand.

In the case of the revenues of the Pension Insurance Fund, 83.8 percent, while in the case of the Health Insurance Fund, 46.3 percent originated from the payments of the employers.

In 2008, the amount of the revenues from contributions was HUF 3045.8 billion, which is HUF 152.5 billion (5.3 percent) higher than in 2007. Within the net revenues – due to the rearrangement of the tax rates – the proportion ratio of the payments made into the Health Insurance Fund decreased from 38.0 percent to 28.7 percent.

DISTRIBUTION OF REVENUES FROM CONTRIBUTIONS BY MAJOR FORMS OF ECONOMIC ACTIVITIES (HUF MILLION)




APPENDIUM

## REVENUES FROM DUTIES

In accordance with the stipulations of the Act on budget, the revenues paid to the duty accounts shall be divided between the central budget and the local governments, and a part of them shall be labelled as non-divided amount.

With the integration of the duty-related areas as of 01 January 2007, the distribution of revenues has changed to the extent that after 2007, only the payments made for legally enforceable order for payment shall be distributed.

In 2008, the Tax Administration collected and divided between the central budget and the municipalities altogether HUF 155 244 million.

In 2008, the Tax Administration sent, at national level, HUF 87 930 million to the central budget, which is 14.3 percent higher than in the previous year. During the twelve months of 2008, the total revenue due for the local municipalities was HUF 67 314 million at national level, while during the twelve months of 2007, this amount was HUF 58 532 million. This amount is HUF 8782 million (namely 15 percent) higher than in 2007.

## REVENUES FROM GAMBLING

During the year, the Tax Administration supervised altogether 5 casinos, 22 lottery and 5 betting games, and more than 16 thousand gaming rooms and 33 thousand gambling machines with gambling places. As a result of this activity, the amount of the net revenue exceeded HUF 5 billion, of which close to 90 percent came from licensing and control fees.

In addition to supervision, co-operation in the organisation of the 20-year term concession granted for betting at horse races and bookmaker betting was an especially important task. The Tax Administration co-operated as an expert in the evaluation of the applications for tender put up for the above activities. Besides this, in the concession procedure granted for the metropolitan city of Budapest – with the exception of district V – and for Pest county, for the operation of 1st category gambling casinos the area in charge of the Tax Administration acted as the Tendering Bureau, and also actively helped the work of the Tender Evaluation Committee.

LICENSING OF GAMBLING IN 2008 (NUMBER)

| Gamling types | Number of applications for licence received the previous year | Number of licence applications received in 2008 | Number of licences issued | Refused | Procedures terminated | Applications from the previous years and in progress |
|---|---|---|---|---|---|---|
| Lottery-betting | 4 | 39 | 37 | 0 | 4 | 2 |
| Casino | 0 | 139 | 135 | 4 | 0 | 0 |
| Gambling machines and gambling places | 2 344 | 34 168 | 33 079 | 495 | 290 | 2 648 |
| Total | 2 348 | 34 346 | 33 251 | 499 | 294 | 2 650 |

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# THE GROUPS OF TAXPAYERS

In 2008, the number of operating taxpayers, without private individuals, increased by 26 percent.

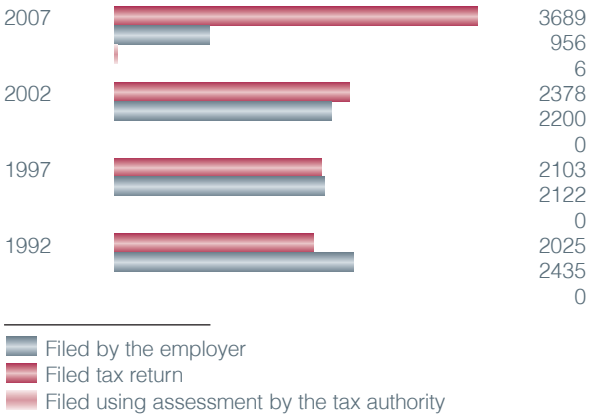
The number of taxpayers with Community tax number increased by 58 thousand. Consequently, altogether 186 thousand companies operate with this kind of tax number. The increase in this area is considerable, as this number is more than twice as high as in the previous year.

The number of private individuals with tax number, performing independent activities also increased, which, besides others, has a legislative explanation, since as of 01 January 2008 agricultural farmers shall possess a tax number.

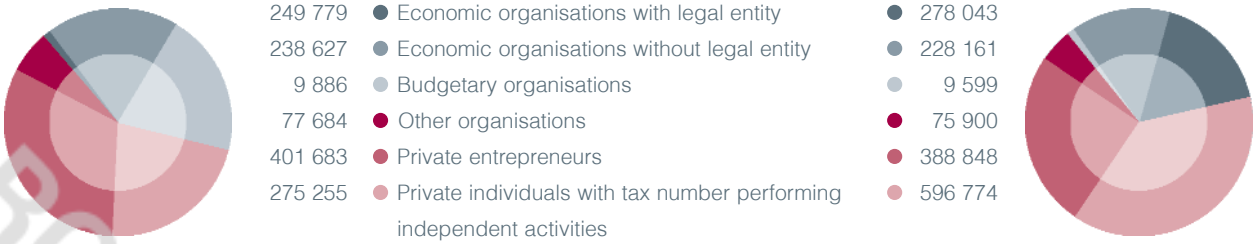
On-site examination of the company seats of new, and/or non-operating taxpayers who fail to meet their tax payment obligation was in the focus of our activities. As a result, 10 133 tax numbers were cancelled (this number is 72 percent higher than in the previous year). The number of those taxpayers who, in spite of deciding to terminate their activities in the course of 2007 or during the previous years, have not yet closed their budgetary relations (so-called technically terminated items) also decreased. The total increase was 10 percent among the private individuals with tax number and the companies.

In 2008, 4 million and 650 thousand private individuals reported their revenue and tax payment obligations.

NUMBER OF CITIZENS FILING THEIR INCOME TAX RETURNS BY THE METHOD OF FILING (PERSONS)




NUMBER OF OPERATING TAXPAYERS AT THE END OF THE YEAR, WITHOUT PRIVATE INDIVIDUALS, 2007–2008

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# TAX AND CONTRIBUTION ADMINISTRATION

## ELECTRONIC SERVICES

In addition to creating the IT background for the traditional tasks, the IT strategy of the Tax Administration for the period between 2008 and 2011 was prepared and approved at the beginning of the year. The document management system of the Tax Administration, after being tested, received the necessary certification in December 2008, being the first document management software developed by a government institution. The homepage of the Tax Administration had a leading role in the Hungarian public administration in the area of electronic services. The number of cases which can be presented via the Internet, and the database and taxpayer services published on the homepage of the Tax Administration continues to increase.

Already from the beginning of the year, it was possible to issue the electronic tax certificate and to present via the Internet the joint application for tax certificate.

Starting with the 1st of January, taxpayers can pay with bank card for the services, shortening this way the time spent on administration. Independent from their residence, taxpayers may pay with bank card in any customer service where bank cards can be accepted.

We have made a significant step forward in the auctioning of movable property confiscated during the enforcement procedures, because we set up the system of electronic auctioning in order to eliminate abusive conduct. The Electronic Auctioning Site is a virtual auction hall, were the movables confiscated and possessed by the Tax Administration are auctioned.

In 2008, out of 939 completed auctions, at least one offer was made in 571 cases. The estimated value of the auctioned assets (mostly vehicles) was HUF 933 million, and on an average, 73 percent of the estimated value was paid by the buyers as opposed to 25 percent of the estimated value, which is typical for the traditional auctions.

One of the most favourite services of the new homepage of the Tax Administration is the possibility to prepare the “Personal Tax Calendar”. Saving the Tax Calendar, requesting that an e-mail sent prior to the deadline of tax return filing, and notification on the changes are new options for the registered users. Simplified and faster administration is also promoted by




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the possibility to have access on the homepage, with individual identifier and secret password to the data of private individuals permitted by the law.

Since November, with the setting up of the Data Service Inquiry Surface Programme (MALP) the data forwarded to the private pension funds can also be inquired based on tax number and bar code, this way, additional data on contributions and the date of their forwarding to the private pension funds can be monitored and followed up.

However, it is still typical of the taxpayers to ask for information and to settle their administrative problems personally. For this reason, the Tax Administration maintains and constantly modernises its services offered via telephone and at the customer service points. In order to give information on the phone, the staff of the regionally organised Contact Centres answered successfully more than 757 thousand calls, which exceeded the number of such calls in 2007 by 10 percent.

During the twelve months of 2008, more than 2 and a half million customers visited personally the customer service points and the regional offices of the Tax Administration.



## TAX RETURNS AND DATA SERVICE

During the year, the Tax Administration registered close to 19.5 million tax returns and 7.5 million control data service sheets, and prepared 5.7 thousand tax assessments. Out of the tax returns, 82.4 percent, and of the control data service sheets 99.5 percent were presented electronically. With the spread of electronic filing of tax returns, the percentage ratio of tax returns presented on hard copy and electronically has changed fundamentally. Processing of tax returns received electronically became faster and easier, while electronic filing did not automatically result in the reduction of errors made by the taxpayers. Similar to the previous year, a significant part of the tax returns filed electronically had to be corrected by the staff members of the Tax Administration also in 2008.

Until the end of the year, the electronic filing system of the Tax Administration received altogether 26.1 million tax returns and data service sheets via the Central Electronic Service System (KR); of them, 51 percent was about contributions, 16 percent about VAT and self-assessment of VAT, and 33 percent was filed about personal income tax, control data and other data service. In this period, more than 5.4 million 0808 type sheets and close to 2.5 million 0858 type tax returns were filed by those who have to file their tax and contribution payment obligations electronically.

The Tax Administration paid special emphasis on co-operation with the professional and interest representation bodies. One of the most successful scenes of this co-operation since several years is the Tax Return Modernisation Forum.

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## 1 + 1 PERCENT DECLARATIONS

This year, a number of important legislative changes have influenced the tasks related to the one–one percent of the personal income tax. In addition to changes in the way and date of filing, the conditions for the utilisation of the one–one percent have become more stringent. The unfavourable effects were finally mitigated by additional amendments, facilitating for exceptional reasonableness. Before the deadline for filing, 1 million and 804 thousand private individuals made declaration on the 1+1 percent of their personal income tax. In their 2 million and 836 thousand valid declarations, the taxpayers offered HUF 16.4 billion to 28 905 beneficiaries which represents only 54.7 percent of the theoretical amount. In the valid declarations, HUF 9.5 billion was offered to 28 748 NGOs, HUF 4.8 billion to 155 churches, and HUF 2.1 billion to the highlighted state funds.

## IMPOSING DUTIES, DECISIONS ON TAXES AND DUTIES

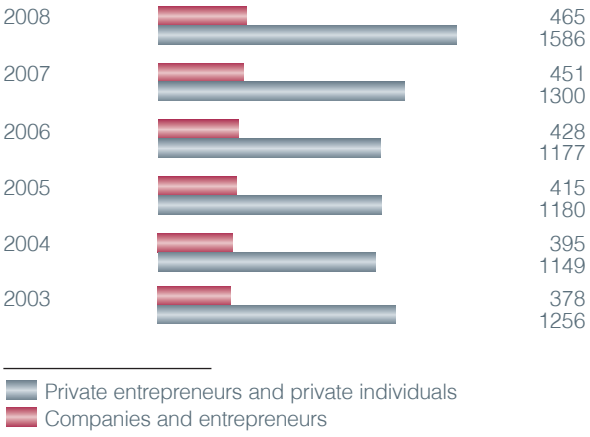
Until the end of December 2008, the regional directorates issued approximately 939 thousand first-instance decisions on duties (decision, order for payment, decree, claim for payment) at national level, prescribing the payment of HUF 175 billion and the debiting (annulment) of HUF 21.6 billion. Until the end of the year, altogether HUF 391.3 billion duty prescriptions and HUF 204.3 billion debiting were accounted to the tax current accounts in 4.3 million items.

In the course of 2008, the directorates issued close to 1.9 million first-instance tax and duty related decisions/decrees/orders for payment, which in comparison to the previous year, is 16 percent more. Close to 19.4 percent of the decisions were related to imposing healthcare contributions, while close to 50 percent to duties. The number of tax default fines was 26.5 percent, higher while their amount was 65.5 percent higher than in the previous year. The majority of them affected the taxpayers failing to file their tax returns (66 percent), who were levied by the Tax Administration with close to HUF 9.5 billion fines in 82 thousand decisions. The significant increase in the sanctions related to tax returns was caused, in the first place, by the fact that the number of the decisions made on default fines was three and a half times higher than in 2007, but the tax administrations levied fines more frequently in 2008 than during the previous years due to the failure to file the tax returns and to meet the advance tax payment obligation.

## SENDING THE TAX ACCOUNT STATEMENTS

Due to the spread of electronic filing of the tax returns and the related legislative changes, the process of sending the tax account statements has changed fundamentally. The two-phase notification by the type of taxpayers sent by mail was replaced with the one-time notification before the end of October. This year, those who filed their tax returns electronically have not received statements, but the Tax Administration – in order to strengthen its servicing feature – informed the interested parties about the fact thereof. Consequently, the number of hard-copy based notifications declined.

SENDING TAX ACCOUNT STATEMENTS IN ACCORDANCE WITH THE ACT ON THE RULES OF TAXATION (THOUSAND PIECES)




APPENDIUM

In 2008, the cash flow management system processed 55 million items. In terms of payments, both the number of payments via the banks and the post offices are almost the same as in the previous year. The number of refunds and the transfer of subsidies reached 4.6 million. Close to two-fifth of the payments were made for social security and healthcare contributions, while close to half of the refunds were related to personal income tax.

## DATA SERVICE REQUIREMENTS

Based on legal requirements, at co-operation agreements and individual applications there was a great demand for data service by the Tax Administration. Among the reasons we should also mention that, for example, the reports of the employers and insured parties and also the payments into the private pension funds are first received by the Tax Administration and then the necessary information is forwarded to the government organisations in charge, to the funds and to the pension funds. The Tax Administration serviced data, in accordance with the international obligations, on the settlement of the VAT-based payments of the EU on public undertakings and statistical data on Community trade in relation to VAT returns. Besides this, a number of external agencies received, within the framework of co-operation agreements, the data, including, for example, the National Bank of Hungary, the Hungarian Statistical Office, research institutes, Universities, the Hungarian State Treasury, etc.



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# AUDITING

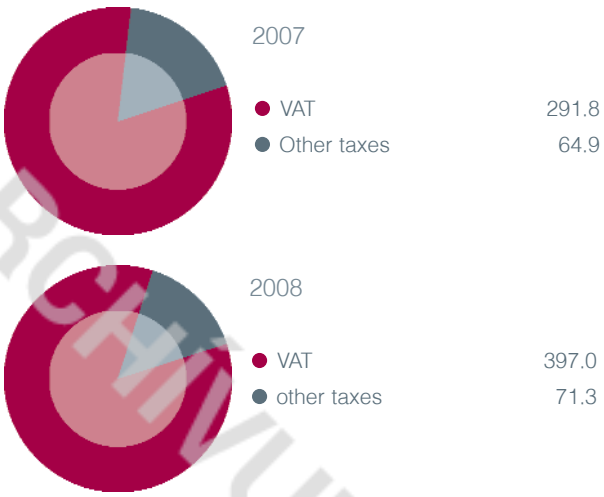
## EFFICIENCY AND RESULTS

The special audit tasks of the year 2008 were fulfilled by the regional organisations of the Tax Administration with the application of a number of new audit methods.

Compared to the previous year, the number of the audits increased, which was accompanied with a significant increase in the findings, thus their success and efficiency ratios improved considerably. With the amendment of the Act on the Rules of Taxation, the practice of imposing default fines became stricter and, simultaneously, the limits of fines were also augmented. During the year, the Tax Administration continuously improved its risk assessment activities, improving this way the selection methods creating the basis for the efficiency of the audits, making their use more common, and also showing their effects in the increased number of findings per audit. These activities, however, required strong IT support.

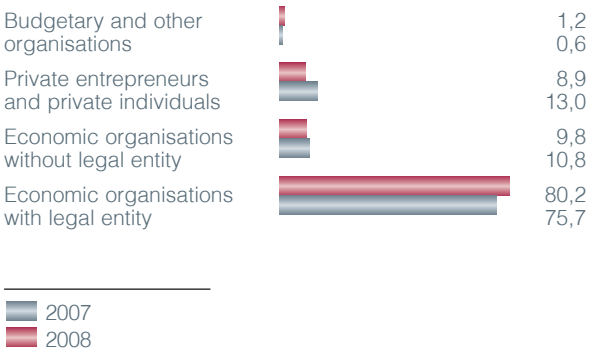
The HUF 468 billion net tax difference identified as a result of completed audits is close to one-third more than in 2007. This decisive part of the findings was made, also this year, in relation to VAT. The tax difference which became legally enforceable by the end of the year was close to HUF 387 billion, namely one-third higher than in the previous year.

NET TAX DIFFERENCE IDENTIFIED DURING POST-AUDITS OF TAX RETURNS BETWEEN 2007–2008 (HUF BILLION)




Compared to the previous year, the distribution of identified net tax difference has somewhat rearranged by taxpayer groups. The results are proportionate to the weight of the different taxpayer groups. Consequently the vast majority of the findings were related to the audit of economic organisations with legal entity, while the proportion ratio of the economic organisations without legal entity, and that of the private entrepreneurs and private individuals was around 8–10 percent.

IDENTIFIED NET TAX DIFFERENCE BY TAXPAYER GROUPS, %




The number of audits closed during the year exceeds 317 thousand, which represents a close to 30 percent increase compared to the previous year. The capacities used for emphasized audit types, in the majority of the case, in accordance with the plans. Certain changes can be detected in the audits of large taxpayers and in the wealth gain audits. The latter one is basically due to the increasingly complicated nature of the audits. At the same time, the number of audits of certain tax payment obligations increased, contrary to the plans, during 2008 due to the introduction of new audit types – preventive audit of companies set up without legal predecessor and the audit of the companies below revenue (profit) threshold.

In accordance with the audit guidelines issued in the beginning of the year, close to 60 percent of all the audit capacities were used for the post-audits of tax returns by the Tax Administration.

Close to 1 percent of the private entrepreneurs and 1 percent of the companies did not undertake even the

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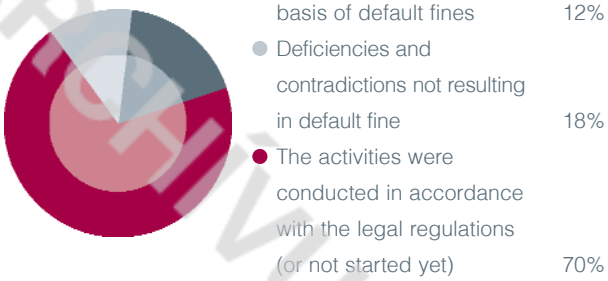
CHANGES IN THE CAPACITY REQUIREMENTS OF THE DIFFERENT AUDIT TYPES IN 2008 (PROPORTION RATIO, %)

| Audit types | Capacity ratios in % | |
|---|---|---|
| | Annual plan | Fact |
| Audits of tax returns (including simplified audits) | 61.9 | 57.9 |
| Of it: | | |
| – audits of large taxpayers | 10.0 | 12.7 |
| – wealth gain audits | 10.7 | 17.7 |
| – audits ordained based on tax return corrections | 0.1 | 0.0 |
| – immediate audits | – | 0.1 |
| – audits of transforming companies and companies terminating tax payment | 12.7 | 15.6 |
| – audits before tax refund | 8.3 | 10.4 |
| Audits related to the exchange of government guarantee | 0.1 | 0.1 |
| Audits of different tax payment obligations | 29.4 | 33.3 |
| Audits performed to collect data | 8.4 | 8.3 |
| Repeated audits of periods closed with audit | 0.2 | 0.2 |
| Other audits outside of the scope of the Act on the Rules of Taxation | – | 0.2 |
| Total | 100.0 | 100.0 |

payment of minimum tax base, thus in their case, the individual tax payment obligations were controlled during the audits. In the majority of these cases, the returns from sales and the costs were accounted properly, and only audit of the tax types had to be initiated at one-fifth of them.

The number of wealth gain audits completed by the end of the year (6061) is just a little bit more than 50% of the wealth gain audits made during the previous year. At the same time, their success rate improved significantly (with about 40%), as the net tax difference per audit reached HUF 8 million. The tax evasion techniques and the explanations of the taxpayers are more and more inventive and complex, thus these audits are increasingly time consuming and complicated.

AUDIT OF COMPANIES SET UP WITHOUT LEGAL PREDECESSOR (%)




The verified net difference in contribution and healthcare contribution payments was HUF 13.9 billion. During 2008, the contribution payment obligations of those private individuals were specifically audited who – according to the registry of the National Health Insurance Fund – are not entitled for healthcare services. At the beginning of the year, the National Health Insurance Fund asked the identification of the so-called “free-riders” in the case of 133.7 thousand private individuals, of which 55 thousand could only be done by means of audits. In 21.8 thousand cases, the entitlement was established. In 32.0 thousand cases, the entitlement could not be settled for different reasons, including staying abroad in 6.8 thousand cases.

In 2008, special importance was given to fight against black economy, rapid reaction to and reduction of tax evasion techniques. The regional directorates constantly used their power to initiate the suspension of tax

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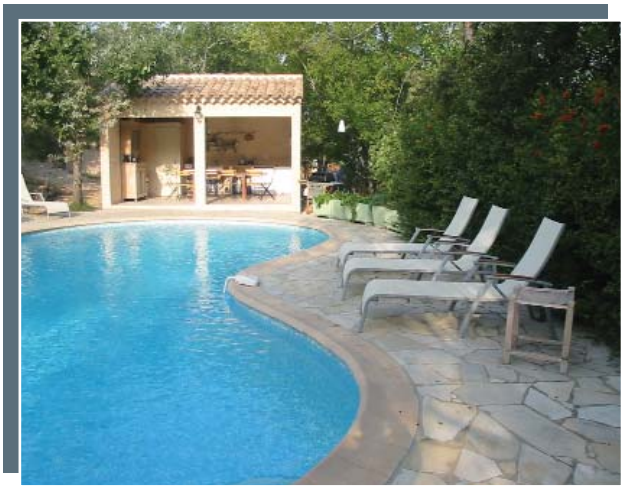
numbers. In order to identify the economic procedures and forms of behaviour representing high risk for the collection of tax revenues, the Tax Administration focused on the audit of the companies which frequently changed owners and company seat, were unprofitable for a long period of time, used tax allowances, implemented high tax base reductions, employed people and made payments against the law, regularly failed to file the tax returns, accepted fictitious invoices, and/or whose inventory was not in compliance with the company's purchasing and sales activities.

During VAT audits, the Tax Administration controlled, in the first place, the companies suspicious of carrousel fraud causing significant damages and losses, or engaged in sales chains, verified the legality of inter-Community deals, and audited the companies minimising their tax payments, or making profit from non-performed or partially performed and/or unrealistic activities. Audits executed together with other EU Member States have become increasingly important. The Hungarian Tax Administration took part in 9 such activities during the year, which basically focused on auditing the sectors – first of all, trading in IT spare parts, vehicle trade – affected by and suspicious of the most severe types of tax fraud.

Until the end of the year, audits were initiated in 5360 cases based on notification of public interest and one-fourth of them ended with findings. As a consequence of the sanctions applied on the basis of audit results, 2170 shops were closed and the activities were suspended in 378 cases.

In connection with gambling, a number of professional agreements and audits were held during the year in close co-operation with the police, the customs authorities, and the metrology authorities. As a result of the close to 16 thousand audits, 3 thousand decisions levying fines were issued, of which 97 percent affected the operators of gambling machines and gambling rooms. The amount of fines levied exceeded HUF 886 million.



APERITUM

# COLLECTION OF ARREARS

In 2008, one of the highlighted objectives of the Tax Administration was to prevent, by all means available, the increase of arrears. Though unfavourable economic trends hindered the realisation of this objective, the efficiency and the quality of the professional work improved. Thanks to the efforts, the Tax Administration collected 14 percent more arrears in 2008 than a year before. Among the operating taxpayers, we succeeded to keep the previous amount of capital debts, while there was a slight decrease among the companies, and entreprenuars.

In order to avoid further accumulation of the arrears, the Tax Administration initiated the liquidation of the companies with unenforceable arrears. Managing the cases of the insolvent companies, or of those which had no assets, or whose tax number was suspended represented a significant task for the Tax Administration.

## ENFORCEMENT

The organisational units in charge of enforcement initiated 485 thousand enforcement cases for the collection of HUF 828 billion debts. The number of cases transferred for enforcement increased by 44 percent, and the amount of debts exceeds that of the previous year by 33 percent. In the case of small debts, which were typically related to duties, we have issued more than 227 thousand orders for payment, which is one and a half times higher than in the previous year. At the end of the year, enforcement procedure was in progress against more than 241 thousand taxpayers.

In the course of its enforcement activities, the Tax Administration confiscated assets in the value of HUF 103 billion (25 percent higher than in 2007). In comparison to the previous year, there was a 70 percent increase in the garnishment of wages, and a 59 percent increase in the confiscation of property. The number of wage garnishments, of mortgage registrations and of vehicle confiscations based on the registry was twice as high, while the number of property enforcements was one and a half times higher than in 2007.

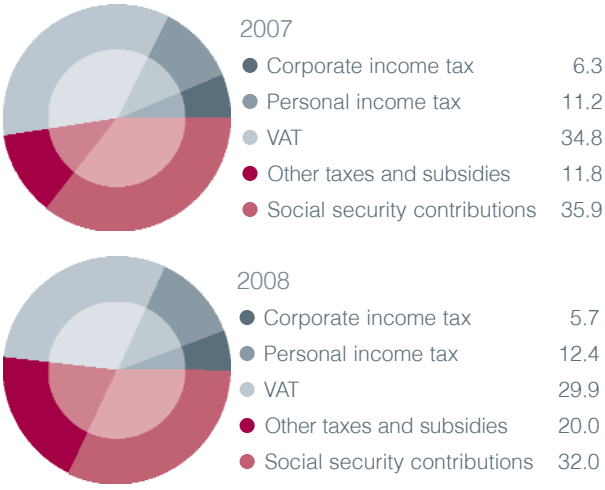
Based on the new agreements concluded with the independent court bailiffs, claims exceeding the value of HUF 6 billion were satisfied in connection with 3518 cases. Thanks to the activities of the bailiffs, the Tax Administration realised, after the deduction of bailiff's costs, HUF 74 million revenues.

Within the enforcement revenue, the share of contributions and VAT was more than 60 percent share, but it is smaller than in 2007. The proportion ratio of personal income tax and corporate income tax hardly changed, while that of the other taxes and subsidies almost doubled.

Continuing the increasing tendency of the previous years, the 10 594 liquidations ordered by the courts represent a 16 percent increase in comparison to 2007. The Tax Administration initiated 6841 liquidation proceedings in relation to HUF 253 billion debts. The outstanding amounts of the Tax Administration, affected by liquidation, are HUF 607 billion. The courts have terminated altogether 8227 cases (26 percent more than in 2007) in one year.

Based on the new assignment agreement concluded with MKK Zrt. at the end of July, altogether HUF 216 billion claims were assigned. The HUF 1.3 billion received after the assignments in 2008 and during the previous years represents more than half of all the revenues collected from liquidation.

DISTRIBUTION OF TAX AND CONTRIBUTION REVENUES FROM ENFORCEMENT IN 2007 AND 2008 (%)

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CORE INDICATORS OF ENFORCEMENT MEASURES (NUMBER.)

| Name | Year 2007 | Year 2008 |
|---|---|---|
| Enforcement | | |
| Cases launched | 336 561 | 484 977 |
| Cases in progress (at the end of the year) | 214 059 | 241 436 |
| Procedures initiated for the request of third parties | 162 236 | 93 349 |
| Liquidation | | |
| Initiated procedures | 4 644 | 6 841 |
| Started procedures | 9 147 | 10 594 |
| Finished procedures | 6 525 | 8 227 |
| Procedures in progress (at the end of the year) | 19 500 | 22 000 |
| Voluntary dissolution | | |
| Started procedures | 8 130 | 8 167 |
| Finished procedures | 6 326 | 5 606 |
| Procedures in progress (at the end of the year) | 13 500 | 15 400 |

In 2008, the number of voluntary dissolutions was almost the same as in 2007. During the year, 8167 companies decided to terminate their activities without legal successor, and the debts identified in these cases exceeds HUF 10 billion. More than one-third of the 5606 procedures continued with voluntary dissolution.

Of the procedures initiated for the request of third parties in relation to 85 different titles, those sent by private pension funds already show a declining trend as the number of cases was one-third of those a year ago. The number of requests sent by the Customs and Finance Guard decreased by 7 percent, while the cases of the Student Loan Centre Zrt. increased by 58 percent. The Tax Administration collected close to HUF 3 billion public debt enforceable as taxes, which are hardly more than two-thirds of the amount collected in 2007.

## PAYMENT ALLOWANCES

In 2008, the taxpayers sent to the Tax Administration 276 thousand applications for payment allowances for debts in the amount of HUF 286 billion. Close to half of the applications were related to duty payments. Of the 215 thousand decisions, 190 thousand became effective by the end of the year. In the case of 65 percent of the enforceable decisions, payment allowances were granted, or the applications were at least partially accepted. Decisions on the refusal of the application were made in 45 thousand cases. The risks assessor executed compulsory debtor classification in 14 percent (altogether at 160 occasions) of the applications for payment allowances affecting HUF 41 billion.

Since May 2008, the Tax Administration offers the possibility for the taxpayers to file their application for payment allowance electronically. Until the end of the year, 80 percent of the 1199 electronically sent applications for payment allowance were sent by companies and entrepreneurs.



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# AUTHORITY AND LEGAL CASES

In order to follow the changes in the legal regulations on taxation and to apply the valid regulations correctly, extensive and multiple public information activities were performed by the Tax Administration. Altogether 38 thousand written answers were sent to the letters of the taxpayers written in tax-law related matters, and close to 70 percent of them were sent by e-mail. In order to promote uniform interpretation of the law, 91 professional opinions and 23 external presidential measures affecting the taxpayers were published in the Tax and Control Journal, and the number of information published on the Internet was 172.

Legality supervision controls were executed regularly and in a targeted manner to control whether the legal and the internal regulations were respected. The summary report closing the four nationwide legality controls contain concrete proposals and guidelines as well as local and Tax Administration wide measures. In addition to strengthening legality, the controls promoted efficient co-operation and obtaining more information about the different organisational units of the regional tax administrations.

## DECISIONS, APPEALS AND LEGAL REMEDIES

Since the tasks of the Tax Administration were extended, the number of first-instance decisions/orders increased by 16 percent. At the end of the year, the number of first-instance decisions was close to 2.3 million and 85 percent of them became effective. If we look at the numbers, the area in charge of taxes and duties issued the largest number of decisions/orders/orders for payment (1892 pieces). This year, there was a 10 percent increase in audit-related decisions, altogether 215 thousand first-instance decisions were issued in payment allowance related cases, and the number of decisions related to gambling supervision was 55 thousand.

This year, the number of taxpayers making use of their right for legal remedy increased, but the share of the appealed first-instance decisions, of which there were many, was only 0.65 percent. Close to half (46 percent) of the 14.7 thousand appeals presented by the end of the year were filed in audit, one-fifth in tax procedural, one-tenth in payment allowance and 14 percent in duty related cases.

In the second-instance, 14.6 thousand cases were finished, and 78 percent of the decisions issued affirmed the decisions made in the first-instance. High professional standards are highlighted by the fact that in the tax procedural and payment allowance related cases the above ratio was 95 percent. The Tax Administration had to refuse the claim in 924 cases, because the clients presented their appeal after the legally defined deadline.

In gambling supervision related cases, the president of the Tax Administration received 517 appeals against the decisions levying fines. This number is more than four times higher than a year ago. In 98 percent of the cases received before the deadline and judged in merit, the decision of the president affirmed the decisions made earlier. Altogether 36 appeals were refused without examination in merit, because they were received by the Tax Administration after the set deadline.

This year, the number of those taxpayers was more than twice as high as in 2007 who applied for extraordinary legal remedy. Against the decisions which became effective on the first-instance, 1 106 while against those becoming effective on the second-instance 428 applications for supervision measures were presented. The increasing number of the applications for extraordinary legal remedy can, on the one hand, be explained by the wealth gain audits, and on the other, by the fact that the duty payable for the examination made by the Tax Administration is smaller than that of the court examination. The majority of the applications was unfounded, and measures were initiated only in 323 cases (of them, 68 were presidential measures). Decision about starting a new procedure was made only in 8 percent of the applications.

Court cases initiated against the Tax Administration on the payment of damages caused in administrative power require considerable skills in representation before the court. In the course of 2008, 17 such civil court cases were initiated and the value disputed in these cases exceeded HUF 748 billion. These court cases protest against the findings of the decisions made by the Tax Administration and presume the violation of procedural rules. Both the number and the disputed amount of the court cases show a declining trend in comparison to the previous year. During 2008, altogether 27 cases were

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closed with enforceable court decisions. The courts refused the claim in 18 cases, and decided about the termination of the procedure in 8 cases.

Simultaneous with the previous civil court cases, other types of civil court cases (for example: violation of personal rights) were also initiated against the Tax Administration. In 2008, similar to the previous year, altogether 11 such new cases were started against the Tax Administration. Together with the court cases not finished during the previous years, 56 civil court cases of different types were in progress. Of them, 8 court cases were finished with legally binding decisions, in 3 cases, the court decided in favour of the Tax Administration, in one case, the court accepted the claim, and in 4 cases, the termination of the court case was ordained.

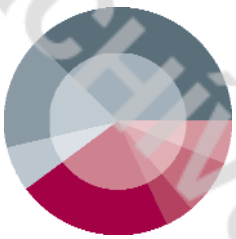
Before the Supreme Court, 446 supervision procedures were started, and this number is significantly (by 65 percent) higher than in the previous year. Of the cases in progress, 35 percent were closed before the end of the year. In 82 percent of the cases finished with judgment, the Supreme Court affirmed the decisions made by the Tax Administration, which again means that – similar to the previous years – the ratio of favourable results in lawsuits continues to be very high.

## CRIMINAL CHARGES

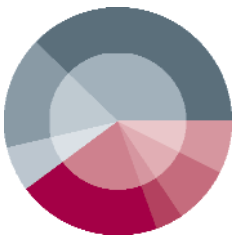
The areas of the Tax Administration in charge of audit and collection revealed 1963 criminal cases during their activities in 2008. As more than one crime might be connected to one criminal charge, the employees of the directorates made criminal charges in 1260, and those of the Gambling Supervision Department in 16 cases. In comparison to the previous year, the number of criminal charges, the value of the offences and the identified criminal cases increased. The number of frauds and tax frauds committed against taxes falling into the power of the Tax Administration and against the central budget subsidies continued to increase, and their share was close to 50 percent. The Criminal Co-operation Team was set up to promote co-operation with the investigation authority based on the updated co-operation agreement concluded between the commander of the Customs and Excise Administration and the president of the Tax and Financial Control Administration.

The value of the revealed criminal cases was close to HUF 82 billion, which represents a significant (157 percent) increase compared to 2007. The amount per one criminal charge is HUF 64 million, which is 116 percent higher than the previous year. Altogether 84 percent of the identified amount was related to the crime category committed in the largest number, namely tax fraud. The average value of commitment was especially high in tax fraud cases (HUF 92 million), fraud cases (HUF 62 million) and embezzlement cases (HUF 15 million). As to the composition of the perpetrators, more than one-third of the denounced perpetrators were unknown, 47 percent of the known perpetrators were representatives or members of economic associations, 7 percent were private entrepreneurs, and 9 percent were private individuals.

IDENTIFIED CRIMES BY THE MOST IMPORTANT FACTS OF THE CASE IN 2007 AND 2008 (NUMBER)



| | | |
|---|---|---|
| 665 | Tax fraud (Paragraph 310 of the Criminal Code) | 751 |
| 238 | Fraud | 206 |
| 130 | Forgery of official documents | 135 |
| 382 | Forgery of private documents | 415 |
| 78 | Breaking of seals | 77 |
| 148 | Violation of the order of accounting | 193 |
| 107 | Others in total | 186 |



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Visit of the chief managers of the Tax Administration in Brussels in May 2008 (from the left to the right)

János Kesjár, director
László Nagy, director
Vince Bocskay, director
János Veres, finence minister
Ferenc Kiss, finance and logistics manager
Edit Varga, vice-president
Ferenc Tóth, director
Hajnalka Mogyorósiné Gábor, director
Csilla Tamásiné Czinege, director
János Szikora, president
Erzsébet Wurdits, interpreter
Ferenc Umenhoffer, director
István Juhász, director

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# MANAGEMENT, OPERATION

## STAFFING AND PHYSICAL CONDITIONS

By the end of 2008, the staff number limit (15 635 persons) permitted for the Tax Administration during 2007 due to the increase in the tasks could be fulfilled up to 97 percent. In the meantime, however, some of the newly hired people have already left the Tax Administration. The fluctuation rate is close to 10 percent. During the year, altogether 1362 persons left the Tax Administration, close to half of them due to retirement. The diverse labour-market situation of the regions is well reflected by the fact that filling up the vacancies in the capital is still problematic.

The budget of the Tax Administration for 2008, increased via amendments continues to cover – with savings-oriented management – the payment obligations and the fulfilment of the professional tasks. As a result of the amount remaining from 2007 and the permitted overspending of budget, the Tax Administration could spend HUF 17.5 billion more than planned on institutional investments, the vast majority of which – similar to 2007 – were made in IT and on the allocation of new employees. More than 70 percent of the public procurement procedures conducted during the year were successful, and ended with contracting. Close to two-thirds of the procedures were initiated by the regional directorates, and most of these procedures were necessitated to obtain the rental rights of properties in order to give offices for the new staff members.

COMPOSITION OF THE STAFF OF THE TAX ADMINISTRATION BY PROFESSIONAL AREAS AT THE END OF 2008 (%)



| | |
|---|---|
| Audit | 35.4 |
| Liquidation and enforcement | 18.0 |
| Tax matters | 27.6 |
| IT | 4.5 |
| Operation | 14.5 |

## INTERNATIONAL RELATIONS

Since the Hungarian Tax Administration is internationally recognised, the number of partner organisations contacting and visiting us is increasing each year as they wish to learn from our experiences. During the year, the bilateral and multilateral meetings, conferences and exchanges of experiences were regular with the organisations operating inside and outside of the EU. The Tax Administration maintains international relations to better monitor the activities of cross-border economic actors.

In 2008, the Hungarian Tax Administration signed co-operation agreements with the tax administrations of two more countries: with the Check Republic, on information exchange on direct taxes, and with Romania on information exchange on direct and indirect taxes.

For promoting the flow of tax-related and other tax-professional information, the cross-border and the regional relations, and the contacts between the central and the regional offices were further strengthened.

Besides these, the Tax Administration continues to have an intensive role in the work of the international professional organisations (IOTA, OECD, DG TAXUD, Fiscalis).

After the professional screening in 2007, the representatives of IMF FAD visited Hungary several times in 2008 and followed up the process of preparation of the implementation of the strategic plan.

## AUDIT IN THE TAX ADMINISTRATION

In order to promote fight against corruption and to perform audits for crime prevention, the security area of the Tax Administration made considerable efforts during the year, since the number of objections against the auditors increased, which was partly the consequence of the increased number of wealth gain audits. These reports, in the majority of the cases, referred to the suspicion of fraud, the violation of confidence of the tax data, to the suspicion of tax fraud committed during the contacts of the economic associations and private individuals with the Tax Administration, and to avoid audits performed for the inter-

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vention of public servants. In addition to these, we also put special emphasis on creating the necessary security conditions in the new premises and offices of the Tax Administration, on pubic procurement procedures initiated to purchase the security equipment for the IT and data systems, on the introduction of the new service pass with better security features, and on the creation of the legislative framework for the performance of psychological suitability tests. In the beginning of the year, due to media highlights, the security check of the new Electronic Auctioning Surface introduced as part of the new electronic services represented an especially important task. The new technology had to prove that it is secure enough to prevent the intervention of the "auctioning mafia" characteristic of traditional auctions.

Of the 7 audits initiated by the State Audit Office during the year, 6 were closed, and the reports on the findings are published on the homepage of the State Audit Office. Besides these, the Tax Administration takes part, for the request of the State Audit Office in answering the questionnaire assessing the "anti-VAT fraud strategies" of the EU Member States.

## COMMUNICATION

Since May 2008, the Tax Administration communicates with a new image. The more intensive communication activities are indicated by the more than 30 thousand media appearances during the year.

In the beginning of the year, in connection with the campaigns organised on filing the personal income tax returns, the Tax Administration called the attention of the taxpayers to the necessary information also with new sound-spots and posters. The communication style of the Tax Administration also went through a fundamental change, and showed the Tax Administration at the Home Fair and the TAX-EXPO as a customer-friendly and service providing public administration, and took part with great success at the Sziget Festival. As part of the strategic objective to increase taxpayer awareness, the Tax Administration launched a national competition for the secondary school children called RangAdó, where the young people, at competitions organised in several rounds, compared their knowledge on taxation matters.




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Board members of the Head Office of the Hungarian Tax Administration:
Ferenc Kiss (finance and logistics manager), János Szikora (president),
Edit Varga (vice-president), Hajnalka Mogyorósiné Gábor (vice-president)

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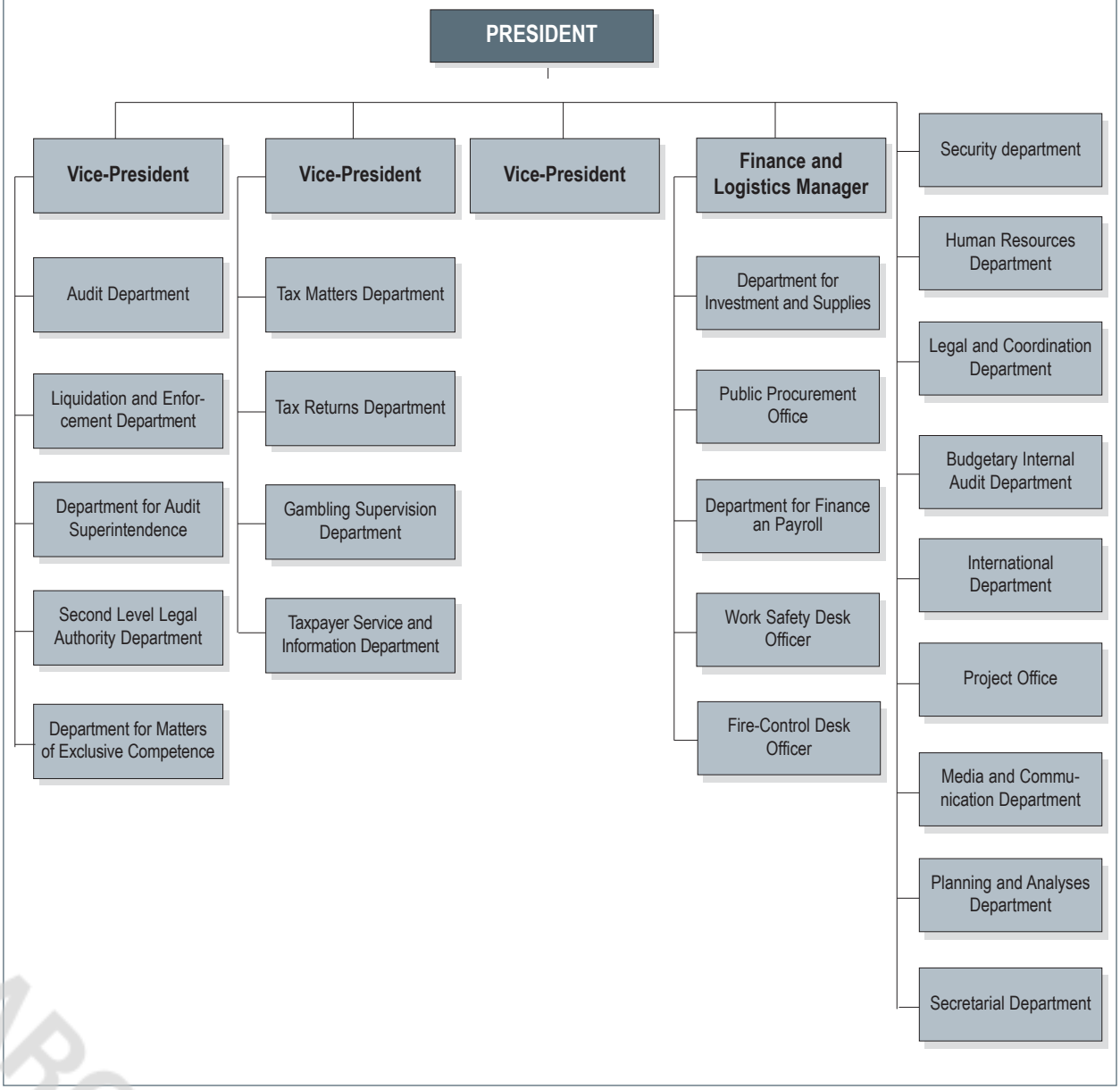
## ORGANISATIONAL CHART AND MANAGEMENT SYSTEM OF THE HEAD OFFICE OF THE TAX ADMINISTRATION AS OF 1 MAY 2008

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Top management of the Head Office of the Tax Administration (from top to bottom):
Krisztián Molnár, József Nagy, Attila Komor, György Lovas, István Papp, Miklós Kok,
Béla Hazai, János László Szabó, Erzsébet Kocsis, Csaba Kriskó, Dezsőné Csillag,
Eszter Ágnes Balázs, Zsuzsa Horváthné Pados, László Mandzák, Márta Sibinger,
Erzsébet Czirjákné Tóth, Judit Ferenczy, Erika Szilágyiné Debreceni,
György Várszeghi, Ágnes Bakonyi, Vilmos Lucza, Marianna Dávida

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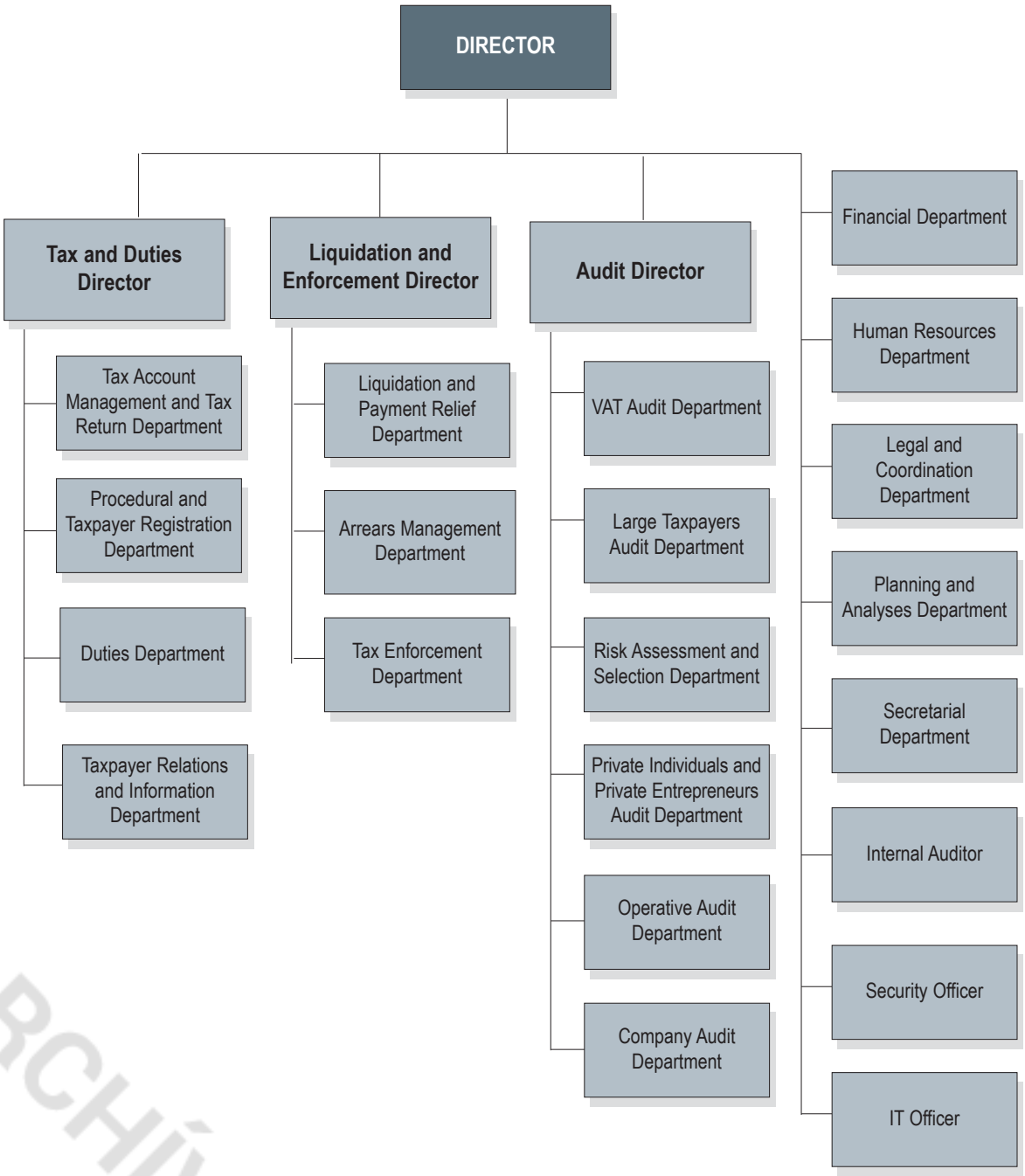
## TYPICAL ORGANISATIONAL STRUCTURE OF THE REGIONAL DIRECTORATES IN 2008

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