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The main points of the thesis

**ACCOUNTING AND TAXPOLITICAN CONNECTIONS IN HUNGARY
WITH A VIEW TO THE COMPANIES AND THE BUDGET FROM 1988
TO OUR EU-JOINING**

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I. Aims of the research:

The main course of my research is the examination of taxadministration-systems and taxreforms. The reason of I have chosen the efficiency of taxadministration as theme of my thesis is that steps must be taken to counter against tax evasion and other activities, which caues loss to the budget. It can be proved that tax forms a financial and dependency connection between the state and the taxpayers, the direct connection is forming between the local and central institutions of the tax office and the taxpayers. That's why taxadministration has important role.

The second object of my reserch was to present the tax-system of six EU member countries, to show the differences, the similarities and connection among them. It can be proved on the basis of comprehension of the EU 15 member countries's tax stucture that there is no so-called 'European Tax Model'.

I would like to show that companies of the world have the same target: they take advantageous of tax allowances to minimise their tax liabilities. . I present implements and role of internal taxation, the disadvantageous tax competition of governments and states for the capital and for the workplaces, and I show the collection activity of tax administration.

On the basis of my reseraches I draw the conclusion that On the basis of my researches I draw the conclusion that those big companies can realise the highest tax allowances, which have international and strong corporate system. For small and medium companies there are the back-stairs, or they are forced to do tax evasion, which is crime.

My third aim was to give proposals – based on my researches – to build up a better tax-system, to reduce the rate of the tax gap, to improve the efficiency of tax administration and tax collection, and to reduce cost of tax administration as result of the reforms.

II. Ancetendents and used methods

The author of the thesis has dealt with the dilemmas of tax administration and taxation for many years. He took part in tax actions, tax administration procedures, appeal ations and in court cases. So over theoretical sudies he is an expert with more decde experinence. He could use his knowledges for making his thesis. The author took part in many conferences, which were about finding and discussson of the dilemmas of taxation. He took part in many researches in these field, he worked with academic experts, and he could make discussions

about his standpoints with experts from the Ministry of Finances and from the Hungarian Tax Office.

The starting-point of the methodology was to find and analyse laws and rules. The main part of it was analysing data and information of tax authorities and the Ministry of Finances. These are completed with own opinions and critical comments. One part of the methods is to define and interpret definitions, to compare theory and practice, to create a model and comprehension.

III. Main points and new results of the thesis

The Hungarian economy is a small and opened economy, the development of it depends on the improvement of the world economy. Economy of the EU has the most relevant effect on it. That's why Hungarian close up process depends on external factors, but many other things have effect on it, for example competitiveness and capital-attractiveness of our country. Our EU joining helps to better these features, non-tariff barriers disappear, interest-rate premium is reducing, and our infrastructure can develop more rapid because of the help of EU's supporting policy.

1., Hungarian GDP per capita – the index, which characterises the wealth and the development of the countries – as far as back as 1998 has reached the half of the EU 15s average level. In these year it reaches the 54% of the EU value. Forecasts show that this value will reach 60% till 2006, so it will be higher than Ireland's value (59% in 1973) and Portugal's value (54% in 1986) in the year when they joined to the EU. The aim is to keep this rapid economical growth, which is now twice higher than the EU's economical growth. It could ensure for Hungary to reach the EU average GDP per capita level in short time.

When Hungary is joining to the EU, it will be the member of the European Monetary Union (EMU) automatically, but it will receive exemption from introduction of the euro till convergence criteria won't be fulfilled. The economic politician aim is to fulfill most of the criterias till our joining.

Tax is one type of redistribution of national incomes in the economical theory, it is the most relevant revenue of the budget, measure of the income-, fiscal and economical regulation. It

plays a very important role in the life of every taxpayer, because it is not the same to them how high the tax rate is, how much they have to pay to the government as tax from their incomes.

2., With spread of monetary integration gave a push to the market and to the institutional harmonisation. Unfortunately *damaging tax competition* has been given a push, too. It probably will help on harmonising tax systems. But I think tax competition will hinder the harmonisation, if we take into consideration the fiscal situation of the member countries, it can be proved that autonomous measures are necessary. I mentioned the damaging effects of tax competitions (tax heavens), it is disadvantageous for the development of integrations. The market pressure can be more effective measure, but institutional harmonising is not the best method. What are the reasons:

- Member countries are sticking to the biggest sovereignty on fiscal fields,
- In tax questions unanimous opinion is necessary in the EU,
- Member countries need elastic tax systems,
- And they are afraid of capital withdrawal from the EU because of capital income taxes.

3., The Treaty of Rome obliges the member countries to make discussion about stopping the double taxation processes, the Maastricht Treaty contains that in the behalf of common market laws and rules should be neared, so it is evident, that tax laws so the *rules of excises should be harmonised*. Directives are the most common used rules in the field of tax regulation, it gives enough freedom for member countries for national regulations. (I examined in chapter two the connection of national and community tax regulations.) Bilateral and Multilateral agreements are popular, too, but European Court has not got control over them, so in community level use of them can't be obtained by force. There is such a multilateral agreement, which was signed in 1990 (Double Taxation Prevention Treaty). It aims to stop double taxation among the member countries.

4., Citizens of the EU can travel, stay and work free in any member countries. After our EU joining the former member countries can regulate on national level the Hungarians work mobility. Workers pay duty in those country where they work. But on the basis of bilateral agreements in many countries those people, who live near the board, and commute to another country, can pay tax in their home country.

The largest part of tax revenues of EU's member countries comes from income taxes (of wages and salaries). During the last decades the relevance of these type of income taxes and social contributions was growing.

The European Commission issued in 1993 the white book with the title of 'Growth, competitiveness, employment'. There was a proposal, which found advisable to reduce with 1-2 percent the level of non-wage-like costs in the rate of the GDP. In many countries social contributions were reduced, but the results are depressive. It is difficult to replace these revenues with other sources (increase of other tax rates), or to reduce expenditures, because workpower is the largest ratable value in the EU, and it is hard to find a substitutional basis of assesment. And it is difficult to change tax structures, because member countries are in close connection to each other and they are interdependence, so they have not got unlimited freedom for altering their tax systems. And every changes in tax system is a difficult process, which needs time.

5., There was a summit conference about employment in 1997 in Luxembourg. It was strengthen that *tax systems should alter to worker-friendly*. In some countries the government tries to reach this aim with decreasing salary and wage tax rates and in the same time increase other tax rates. Other countries try to lower all tax rates, including income tax rates of workers, too.

6., It can be proved that the *Hungarian VAT system is similar to the EU system*. Member countries can use one base tax rate, which can't be lower than 15%. They can use one or two preferential rate, which can't be lower than 5%. Those products and services which has preferential tax rate are listed in the communities laws. Formation of CLO offices can give a push for VAT harmonisation process, these office has the right to send information to the member countries directly. The trade within member countries means difficult tasks for tax administration, because VAT should be control. In the inner trade the VAT system differs from the normal taxation. If any products is bought from another member country, only the purchaser will pay VAT. In this case VAT revenue goes for those countries budget, which buys the product (on the basis of the purchaser country's tax law). Many control is necessary. One task of tax control is to examine if the taxpayer is a real taxpayer, if it has tax number or not. Other tax is to control if goods are frighted to the other country. The main authority of these is CLO office. With the help of VIES-technic they control continuously the validity of VAT-

numbers, which are part of the EU sale-list. They compare the sold and purchased quantities. There is a special form, which has to be filled in in every quarter. To form CLO offices new information technology is necessary.

7., Hungary *has good situation in the respect of administrative and suitability of law*. It means the harmonisation of the law and the development of the institutional system.

This work is finished, harmonisation process of the Hungarian tax system reached its end, our tax system is the most refined in the region.

But I think it is necessary to simplify the whole EU tax system – of course Hungarian tax system. A more transparent system should be built up, which can help taxpayers to keep rules and laws.

8., In my essay I present the tax systems of the EU member countries, and I lay stress on the fact that multinational companies take advantage of these systems's tax minimising ability. This happens in Hungary, too. *In Hungary tax rates are high enough, the government can't continue to increase any of the tax rates, so only tax collection can be tightened, hidden incomes should be found out more efficient, and hidden economy can be transformed into legal economy. These three methods can increase the tax revenues.* That's why I think it is very important to deal with tax administration processes, tax collection and with estimation methods.

In Hungary the modern tax system was formed in 1987/88 (there was a tax reform in these years) and right after this period there was a continuous law modernisation, too. And since 1989 our constitution has continued that every citizens and organisation should pay tax on the basis of their incomes. And it is obligatory to pay tax for everybody, who has incomes.

I show in my essay the legal measures and methods of this compulsory activity, I lay stress on the constitutional questions and barriers of these acts.

9., In my essay I presented the tax minimising behaviours, and *the spread of the hidden economy after the change of regime in Hungary*. Experts thought that the development of the

market economy will tighten up these problems, but right after the tax reform it was clear, that the problems won't disappear, and even now it is a very serious problem.

Declaration of assets had to be made in 1992 by every natural person who has realised incomes since 1st January 1988. The aim of these obligation was to make more transparent the incomes of taxpayers. But the Constitutional Court found these obligation anti-constitutional, it declared that declaration of assets isn't necessary and it infringes the the privat data defend rights. Unfortunately the method has been repealed.

The other good method to find out the hidden incomes is the estimation of incomes. It was look for the right estimation method during the last few years. I prove that this method can be very efficient – although it can't be used in every case – if the taxpayer makes a cheat.

In 1999 was introduced the *super revision* method. Tax office in many times received new information and it had to control agion the earlyer controlled period. That's why this new method was put into practice. So within the lapse but more than a year later the tax office can change its statement, even in those cases, if it is disadvantageous for the taxpayers. This change is very imortant, because earlier it couldn't be happen after passing a resolution to rectify it (principle of 'res iudicata' is changing).

The role of cash payments has effect on the economical growth. In those economies, where this role is relevant, there it is likely to have strong hidden economy, because the contracts and the real realisation can't be controlled. That is why in 1997 the right to tax deductible and tax loss was *restricted*. The Constitutional Court repealed these rules, too. Nowadays the tax law orders that over HUF 5 million, in the case of joint companies over HUF 1 million companies has duty of registration with the tax office their cash payments. This method was not efficient enough to avoid the cheats.

Forcing back of hidden economy and corrupption, bettering the taxpaying discipline, and the fact that *criminal methods* were introduced to stop tax cheats required tax offices to have investigation means. In 1998 a law was introduced, so a new investigation department was found at the tax office. These department was allowed to collect secret data. In spite of the organisation handled the information confidentially, the Constitutional Court pepealed the organisation, because it infringed the the privat data defend rights. Since 2003. the department

works as part of the Police. So it has the right to collect secret information. So Hungary – like other developed countries – has an investigation office, which deals with tax cheats. *It is a very important method and deterrent for many taxpayers to make tax cheats.*

10., In Hungary the taxpayers' ethics is changing in a good way. In 1995 the tax gap was 35%, today it is about 18-25%. (estimated value) In England this value is about 7-8%, in Switzerland 15-17%, in Germany about 15%, so the Hungarian value is very good. We are sensitive to the tax cheats, because the government will collect the missing tax revenues from the honest taxpayers. The government's expenditures are fixed costs, so it can replace the missing revenues with an increase in tax rates. If tax rates are high more people make tax cheats, so an average reduction in tax rates can better the taxpayers' morality (for example in England tax rates are low, and tax gap is low, too.) *Not only tax rates but culture, the government's judgement and penalties has effect on the taxpayers's ethics. But it is not enough to reduce tax rates, it is necessary to have a more simple tax system and an efficient tax control system.* And if taxpayers see, that the government gives them many services, it 'pays back' them the tax, and it uses its revenues efficiently, then more people will be honest taxpayers.

11., The rate of the whole tax revenue and the GDP was 41% in Europe in 2001 (EU 15 the same). In Hungary the value of this ratio was 39%. (In 2002 the value reduced in the EU it was 40.5%, in Hungary it was 37.7%.) But there are differences between the different cultures. In Scandinavian countries (FIN, N, S) the value is about 50%, in Central-Europe (F, G, B, A) is about 45%, in the Anglo-Saxon region (IRL, UK) it is 35%, in the Mediterranean region (GR, P, E) is 35% and in East-Central Europe (H, Cz, SL, POL) it is 35-40%. In Europe the tax rates increased around 1995-97, in Hungary they decreased in the same time. Since then tax rates are stable. A slow harmonisation started in Europe.

12., There are relevant differences between the Hungarian and the EU tax structure. The rate of income taxes and GDP is lower in Hungary than in the EU (14,6 and 10), the rate is higher in the case of consumption taxes and value added taxes (12,2 and 15), the rate of social contributions and GDP is lower than in the EU (12, 11) and finally property taxes are lower (2 and 0,7), too. But EU average values don't characterise the EU countries, because there are many differences among the countries because of history, culture and traditions. In the region of East social contributions are higher, north income taxes has higher value. The Hungarian

tax structure and the rate of tax revenues and GDP can be compared with Mediterranean countries.

We can use data very carefully because the member countries' tax structure are very different, there isn't any normal tax structure. For example percentage of personal income tax revenues and GDP is between 8-26%, social contribution is between 2-16%. Percentage of property taxes and GDP is about 0.5-4%.

13., Tax burdens usually are expressed in the percentage of personal incomes. *Those taxes and contributions, which are in connection with personal incomes are analysed by OECD regularly.* It concentrates on the wages of those workers, who work in processing industry. This analysis isn't simple, because there are many tax allowances, subsidies and financial aids. It is difficult to find the joint effect. In view of some ratios and some countries the results of the analysis are the followings:

- *If Hungary is compared with OECD countries in the field of income gap (it contains personal income tax, social contributions and transfers), then it is clear that in the case of an average personal income the ratio is high. In the EU 15 there are only 3 countries, where the burdens of families without any children is higher than in Hungary.*
- *Tax rates of low incomes mislead us, because in most countries people with low incomes receive tax allowance, they didn't pay any taxes. In Hungary it is so, too.*
- *The rate of personal income tax revenue and GDP is lower than the EU average, but higher percent of the amount of wages and salaries is paid to the budget as tax than in the EU. The reason of it is that the employment rate (number of employees/workable inhabitants) is low, and many people don't pay personal income tax, or pay less amount to the budget because of the tax allowance. (Many people are sole proprietors or deal with agriculture, are pensioners or earn minimum wage.) Tax rate reduction and employment rate is in close connection.*

14., Competitiveness and capital attractiveness of Hungary have to solve with other methods, tax policy is not the perfect implement for them. Such implements are stable and predictable financial and capital market, improvement of infrastructure, high qualified employees, R&D centers. In spite of what I mentioned tax system can help better our competitiveness and capital attractiveness, too. For example social contributions should be reduced, calculatable, stable and consistent tax system could help, and tax allowances for R&D activity could be advantageous, too.

Development, improvement, modernisation, proposals, new statements

1., Modernisation should help the increase of employment. There are problems with unqualified workers and people over 50, these areas should be handled. Those people, who have low personal incomes (2/3 of the average wage of a worker), needn't pay personal income tax, but social contribution is high, so it would be good to introduce a reduced contribution method.

2., When government want to share tax burdens among taxpayers, it have to defend people with lower-middle incomes. Probably employees with higher incomes won't lose the love of work because of the higher tax rates. Higher incomes can be reduced with lower tax rates, if the amount of the income is decreasing.

3., The tax burden of small companies because of the high risk of the company should determine on the similar incomes tax rates. It would be good to use simple methods (EVA=Simplified Taxations for Entrepreneurs). More and more company have to give the right to use EVA or flat taxation. In the case of SMEs hidden economy could be converted into legal economy. So less audit would be necessary. The costs of tax offices could reduce.

If the turnover limit would increase to HUF 50 million, then not only 100 thousand but 300 thousand organisation would chose the EVA. (These data are based on the calculations of the Ministry of Finances.) It means that 25% of all companies and sole proprietors would use these method. And it would be effective, if the institution of imposition of taxes would be introduced in the case of many tax categories. It is calculated that more than 200-300 thousand people would use these implement. Tax revenues would be more estimateable and collectable and planable. The free capacity of the tax office should deal with the large taxpayers – about 10.000 taxpayers – where they could six times higher tax revenues.

4., The taxes based on the types of incomes are not the best methods in every case, it would be practical to simplify the tax system, it is not good all incomes treat as contracted incomes. It is requirement to integrate the separately taxing incomes, but it can be fulfill in longer time.

5., It would be better if the saving and investment stimulating stopped – if the role of income taxes won't increase -, because its global effects isn't relevant. Portfolio changes needn't be stimulated.

6., In-flow of foreign capital should be stimulated with strengthening of legal security, reducing corruption and improvement of quality of working capacity. The best impelment for investment stimulation is development of infrastructure and give financial help to built up factories.

7., It would be practical to re-examine the maintenance of taxes with small amount and taxes with aims. It would be suitable to cancel or concentrate some of them, or reduce their tax rates. The now living 42 tax categories could decrease to about 20.

8., The improvement of local tax system would follow the development of the subsidy system. Taxes should be more service-like, and it should depend on the municipalities special tasks. The present system of local business tax should change as early as it is possible. Another local tax system should be formed with new tax categories.

9., Improvments – on the basis of cost benefit analyses - with the aim of environment protection or efficiency betterment should be emphasized. Unambiguous laws are necessary.

10., When we introduce new income and local taxation methods, we should take into consideration that if EU changes its taxation method, if EU will use the principle of origin country, and if it happens we must reduce or VAT rates or not.

11., Concret proposals can be discuss after cost and effect analysis. Very important factors are if the collection is ralizable and legal security is constant. The affected organisation should involved to the deceison making, but only those proposals can be accepted, which has cost and effect analysis. The requirement of them should be regulated in time.

12., The aim of the tax system development has to be the improvement and simplification of procedures and reduction of number of special rules, because these cause opportunities for back-stairs. (9. eclosure)

13., Systematic changes should be introduced after 12-18 month of their acceptance.

14., Nowadays it is an update question if one tax rate is enough in the case of personal income tax. The simplest method is if there is one tax rate, and there aren't any tax allowances. *In these case it isn't necessary to make a tax return of incomes – the employers can deduct the tax immediately from the workers' salary. HUF 1-1,5 million could be saved with these step, because pople shouldn't fill in tax return form, the tax office shouldn't work with them. Now 65% of all tax returns is tax return of personal incomes.* These tax could concern capital incomes and other corporate payments. (Payments in kind could be classed among incomes.) Tax allowances could be replace by increase of transfers, stimulating tax allowances wouldn't be necessary. The state could subsidize housing, education and voluntary pension funds with transfers. If tax allowances won't disappear, than tax returns are necessary, in this case it is the same situation if there are more tax rates or there is only one rate.

If more tax rate system stays, than a normativ system can form, a low rate is valid for 20% of the employees payss, a medium rate for 70% of them, and 10% pays high taxes. One type of the tax allowances is reducing opposite to the growth of the incomes, after a certain amount of incomes it can't be claimed, but it cause strange situation, because so people with medium incomes pax higher percent of their incomes as tax, than people with high incomes. It would be better, if the amount after a taxpayer can't claim the tax allownace would be higher.

15., Widening of taxable incomes. One step is reducing the allowances, other is concentrating incomes and third is paying tax after payments in kind. And last is that people whose incomes origin is not employment, should pay tax, too. In 2001 3,6 million employes earned wages or salaries, and there are 204 thousand sole proprietors (data from Hungarian Tax Office). The annual average income of the first group was HUF 1 million, in the caso of the other group it was HUF 400.000.

16., International aim is that capital incomes should be taxed uniformly. Uniformity is necessary because there are many types of these incomes (interest revenues, dividends, etc.), which can cause tax cheats. The largeness of this tax rate is questioned (0% or the lowest rate of personal income tax). 0% means that only dividends would be taxed. But some pople say that companies use public services, so 0% is not good. It is easier to control if they pay tax

than inhabitants. It would be better if this tax would be a property tax or a registration fee and not an income tax.

17., In the case of personal income tax with more tax rates the difference between the highest rate and the tax rate of capital incomes could be the base of the corporate tax. For small companies lower rate could be used. In this case no more tax allowances for small companies is necessary.

18., In most countries most part of local taxes is property tax. In Hungary property taxes aren't popular. Ministry of Finances says that building tax should be increased.

- *The concentrated asset taxation is forced back in the world. It isn't used in Anglo-Saxo countries, and it disappears from Central-Europe, too. There are many practical problems with it, and it taxes the returns of the assets, and it is unwanted to reduce the returns. In Hungary the assets of the inhabitants is much lower than Europe, the role of incomes is high in Hungary. The difference will disappear only after many decades. And after the change of regime, when the state gave back assets, it would have been irreal to introduce property tax.*
- *The most natural implement of local taxation is property tax. The settlement gives such services, that it is fair to tax the inhabitants and the companies. So property taxes has future in Hungary.*
- *There are not only building tax and land tax in the group of property taxes. In most countries gift and inheritance taxes and duties are common. These two types of property taxes give 70% of revenues from property taxes. This value is in Belgium 90%, in Czech Republic 50%, and in Neatherland 60%. Only in UK is the most common property tax the regularly collected land and building tax.*

19., If the tax-advisers, bookkeepers, auditors would have right to take part in the tax control, because they have interest in working legally. So they have advantageous effect on taxpayers. They work on behalf of taxpayers, so they will take advantages of the law, and work legally.

The standpoint of the budget contrasts with experts' view and with the capacity of the tax office. These facts show that external sources are necessary for the perfect control. It is advantageous for the taxpayers to pay tax and work legally. So both partners – tax advisers and taxpayers – has the same interest.

Such problem solvings are necessary, which are suitable for the three groups.

- Preliminary control of tax returns

Tax advisers can be involved to the control process through making **tax returns**. It would be advantageous if tax advisers could control tax returns under a certain income:

- It could save capacities (money, time, working power) of the tax office,
- The risk of tax would decrease in the case of tax payers, less tax control should be enough,
- For tax advisers it would be a new working opportunity, they would be responsible for the tax returns and so legal activities would be typical. They know their taxpayers, so they could have the most relevant effect on them to pay tax regularly.

International practice use these method – to involve tax advisers to the tax control process.

The **first question** is: Why will tax adviser work legally?

1. Professional ethic and prestige,
2. They will be cancelled from the list of qualified tax advisors by the tax office,
3. They could lose the trust of taxpayers.

The **second question** is that what professional skill are necessary to make audits. The tax adviser profession is very heterogeneous. It is very mixed where they received their profession and if they have experiences or not.

The tax advisors would be registered by the tax office year by year, the tax office would control the quality and skills of them and would decide if it gives right to work them as tax adviser or not. If a tax adviser's work is trustworthy for long time, then he or she could receive the working permit for longer time.

The **third** important **question** is the responsibility. It can be financial, moral and criminal responsibility. Moral and criminal responsibility could be taken on by the signature. The financial responsibility because of the lack of insurances can't arise. In this question tax advisers and taxpayers should agree. This agreement is important with a view to avoid the consequences. It is important for both member. For this double responsibility two signature would be necessary on the tax returns. The now valid limited financial responsibility of tax advisers could be usable for the future.

- Initiation to the control process: **control based on commission**

There are two main aims of initiation to control process:

- a) enlarging the capacity of tax controls,
- b) there are many good experts of special fields.

a) enlarging of capacity could be solved by introduction of controls based on commission. In this method every member's interests are fulfilled. Tax office can enlarge the number of audits without using more capacity. The budget could receive more revenues. Taxpayers are interested in legal activity because of the consequences. Experts are interested in correct audits because of their criminal and moral responsibility.

b) In the case of special tasks tax office could request experts with special knowledge.

For example:

- international taxation,
- transfer prices,
- judicial experts, and so on.

In these cases the audit could be faster, cheaper, more professional, because registered external experts could be requested to these tasks.

- Advantages and disadvantages of the proposal:

- for the budget and the tax office:
 - less experts are necessary,
 - time saving
 - cost saving
 - more audits, tax risk is reducing,

- more revenues
 - change of taxpayers' behavior
 - those make audits, who know the taxpayers, so tax control could be more efficient
 - the connection between tax office and tax advisers could strengthen
- for the taxpayers:
 - preliminary professional control
 - reduction of tax risk
 - less audits by the tax office, if they work legally
 - reduction of consequences
- for the tax adviser:
 - appreciation of quality work
 - they are forcing power to be legal
 - professional prestige
 - wide range of commission opportunities
- Disadvantages:
 - for the tax office and the budget:
 - tasks and costs of a tax advisor registration office
 - taxpayers:
 - expensive services
 - advisers who has double interests
 - for the tax advisers:
 - more responsibility (moral, criminal and financial)
 - higher level of knowledge
 - need of continuous and full-scale professional audit
 - reducing flexibility, and compromise skills

20., Tax office should use its free capacities after the simplifications (EVA, flat rate taxation, levied tax, less tax returns, etc.) for controlling the 10.000 largest taxpayers. 75% of all tax revenues comes from them. Qualified expert are necessary for this audits, most of these taxpayers are big companies or multinational companies. (there is only 73 people who is sole proprietor.) These companies can take advantages of tax planning (they pay tax in those country where tax rates are lower) and transfer prices. These taxpayers can bring their profit there,

where the tax burdens are the lowest. They can plan which country when gives tax allowances, which is the right date for paying tax, which is the right country to pay tax. They minimalise their tax burdens. So with qualified experts tax audits could be very efficient in the case of these taxpayers.

21., *For joint companies it would be necessary to introduce the group taxation.*

The aim of it is:

- improvement of fiscal competitiveness (adapting the EU countries' practices)
- ensure neutrality of competition for companies
- stimulate companies to be legal
- reduction of companies' administration
- simplification of controlling processes, less tax returns
- disappearance of tax cheats

Features:

- tax payers: consolidated companies
- object: on the basis of request taxation of consolidated taxable incomes

There is a question: Can be taken into consideration the loss of foreign subsidiaries.

- International practice shows that now the loss arise from inland activity can be taken into consideration. But the tendency shows, that the loss of subsidiaries in foreign countries became more and more relevant. But if loss in another country can be accounted in our country, then our budget's revenues reduce. But it improve our fiscal competitiveness. (The accountation of loss is characteristic in countries with high tax rates. A low inland tax rate would mean that it's not worth accounting here foreign losses of companies.) The European Court will declare a decision in short time, which will restrict the account of loss from another country. (case of Marks&Spencer) Austria with the aim of capital-attraction spread the use of group taxation in 2005. It would be practical to analyse and introduce this process in Hungary.

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