The Tax Treatment of Company Cars in Hungary

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Clean Air Action Group (CAAG)

Is the tax treatment of company cars environmentally harmful in the European Union?

Green Budget Europe, European Environmental Bureau, in cooperation with DG TAXUD, European Commission

Brussels, 28 February 2011
Tax Evasion
by Accounting Car Use for Private Purposes as a Company Car Use

Study of the Clean Air Action Group in 2007

by
Lázár Pavics, economist, expert on macroeconomics, and ....................., economists, financial auditors

financed by
the Hungarian Ministry of Environment and Water and the European Commission’s Phare Access Program
This study has proved to be unique:

1. It described for the first time in written form the methods used for tax evasion and tax avoidance concerning cars.
2. It was the first study which ever showed the amount of tax evasion and tax avoidance related to company cars and „company use of cars”.
3. It made concrete recommendations to eliminate (or at least reduce) the tax evasion and tax avoidance.
At that time (in 2007) company car tax was quite high, but very few paid it, because there was no company car tax obligation, if the company car is not used for private purposes, or if the private person pays for such occasions – but the tax authorities practically could not control the purpose of the car use.
In 2009 the law was changed: now if a company pays a modest tax* for the company car, all costs of the car can be accounted for as a normal company expense without any restriction – independently of the purpose of the car use!

* The annual tax is EUR 300 for cars with less than 1600 cubic cm cylinder capacity, and EUR 660 for all other cars.
If a car owned by a private person is used for company purposes, the fuel costs and EUR 0.033 per kilometre can be accounted for as company cost.
In practice the tax authorities have no possibility to control whether the car is really used for company purposes...

Therefore very often private use is paid for as if it was company use.
The tax authorities cannot control even if the car was used at all. Therefore quite often money is paid to the employees for kilometers which have never been made (i.e. this money is paid as a wage – but without paying the taxes).

This is an incentive to at least own a car, even if it is not used much. However, if one already owns the car, s/he is inclined to use it, too.
The present system of accounting is an enormous incentive for purchasing and excessively using cars.
Expenditures for private car use in Hungary according to the National Accounts and the Household Statistics (billion HUF)

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Accounts</td>
<td>1373</td>
<td>1464</td>
<td>1658</td>
<td>1775</td>
<td>1822</td>
</tr>
<tr>
<td>Household Statistics</td>
<td>543</td>
<td>588</td>
<td>761</td>
<td>705</td>
<td>691</td>
</tr>
<tr>
<td>Difference</td>
<td>831</td>
<td>876</td>
<td>897</td>
<td>1070</td>
<td>1131</td>
</tr>
<tr>
<td>Tax evasion* (Difference X 1.2)</td>
<td>997</td>
<td>1051</td>
<td>1076</td>
<td>1284</td>
<td>1357</td>
</tr>
<tr>
<td>GDP</td>
<td>18 815</td>
<td>20 804</td>
<td>21 989</td>
<td>23 755</td>
<td>25 408</td>
</tr>
<tr>
<td>Tax evasion in % of GDP</td>
<td>5,3</td>
<td>5,1</td>
<td>4,9</td>
<td>5,4</td>
<td>5,3</td>
</tr>
</tbody>
</table>

* Revenue foregone. This sum does not include the tax evasion when kilometers driven are accounted on paper, but in reality the car does not move at all.
The revenue foregone* due to the tax evasion and avoidance concerning cars equals to about 5% of the GDP in Hungary.

* The public revenue in case the taxes for all private (personal) purpose purchase and use of cars would be paid as it is prescribed generally by law for private consumption.
The distribution of tax evasion by illegal accounting of car use in household income deciles in 2005

billion HUF

1. 2. 3. 4. 5. 6. 7. 8. 9. 10.
deciles

poorest richest
In 2005 the **richest 30 per cent** of Hungarian households was responsible for **70 per cent of total tax evasion** relating to cars.

In fact, the situation was even much worse because in the poorest household income decile the average number of persons was 4.1, while in the richest it was 2.6.

Unfortunately the detailed processing of household statistics fell victim to the government’s austerity measures, therefore no data is available for performing the calculations for later years. However the situation certainly did not improve, rather the opposite happened.
Would company cars be overtaxed if subsidies would be eliminated?
The Social Balance of Road and Rail Transport in Hungary

Study by the Institute for Transport Sciences and the Clean Air Action Group
The total state budget balance of road and rail transport in Hungary in 2006

<table>
<thead>
<tr>
<th></th>
<th>Road Total</th>
<th>Road Cars</th>
<th>Road Trucks</th>
<th>Road Interurb. Buses</th>
<th>Rail Total</th>
<th>Rail Passenger</th>
<th>Rail Freight</th>
</tr>
</thead>
<tbody>
<tr>
<td>State revenues (bn HUF)</td>
<td>790,8</td>
<td>540,6</td>
<td>230,1</td>
<td>12,6</td>
<td>1,0</td>
<td>0,6</td>
<td>0,4</td>
</tr>
<tr>
<td>State expenditures (bn HUF)</td>
<td>1034,9</td>
<td>547,9</td>
<td>358,5</td>
<td>92,5</td>
<td>183,9</td>
<td>142</td>
<td>41,9</td>
</tr>
<tr>
<td>State budget balance (bn HUF)</td>
<td>-244,1</td>
<td>-7,3</td>
<td>-128,4</td>
<td>-79,9</td>
<td>-182,9</td>
<td>-141,4</td>
<td>-41,5</td>
</tr>
<tr>
<td>Transport performance</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(million tkm, pkm)</td>
<td>39290</td>
<td>36887</td>
<td>11784</td>
<td></td>
<td>9584</td>
<td>10167</td>
<td></td>
</tr>
<tr>
<td>Specific balance</td>
<td></td>
<td>-0,2</td>
<td>-3,5</td>
<td>-6,8</td>
<td></td>
<td>-14,8</td>
<td>-4,1</td>
</tr>
<tr>
<td>(HUF/tkm, HUF/pkm)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>External effects (bn HUF)</td>
<td>-1307,8</td>
<td>-737,1</td>
<td>-364,3</td>
<td>-14,4</td>
<td>-26,8</td>
<td>-21,6</td>
<td>-5,1</td>
</tr>
<tr>
<td>Expanded balance (bn HUF)</td>
<td>-1551,9</td>
<td>-744,4</td>
<td>-492,7</td>
<td>-94,3</td>
<td>-209,7</td>
<td>-163</td>
<td>-46,6</td>
</tr>
<tr>
<td>Expanded specific balance</td>
<td></td>
<td>-18,9</td>
<td>-13,4</td>
<td>-8,0</td>
<td></td>
<td>-17,0</td>
<td>-4,6</td>
</tr>
<tr>
<td>(HUF/tkm, HUF/pkm)</td>
<td></td>
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</tr>
<tr>
<td>Other factors distorting the</td>
<td>-1761,1</td>
<td>-1485</td>
<td>-276,1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>market (tax evasion, tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>avoidance, etc.), (bn HUF)</td>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>Total balance (bn HUF)</td>
<td>-3313,0</td>
<td>-2229,4</td>
<td>-768,8</td>
<td>-94,3</td>
<td>-209,7</td>
<td>-163,0</td>
<td>-46,6</td>
</tr>
<tr>
<td>Total specific balance</td>
<td></td>
<td>-56,7</td>
<td>-20,8</td>
<td>-8,0</td>
<td></td>
<td>-17,0</td>
<td>-4,6</td>
</tr>
<tr>
<td>(HUF/tkm, HUF/pkm)</td>
<td></td>
<td></td>
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</tbody>
</table>
Concrete recommendations are made by CAAG’s study.

If implemented, these proposals would greatly reduce the tax evasions and tax avoidance concerning car purchase and car use.
CAAG sent many letters to and had discussions with the Finance Ministry on high level. Finally, in 2007 the Ministry put forward a bill to the Parliament which could have at least alleviated the problem to a certain extent. The Parliament voted down the bill.

No politician dares to raise the issue.
The issue can hardly be publicized in the Hungarian press:

- the press depends very much on car advertisements,
- it does not wish to publish something which might evoke discontent among most of its readers,
- the journalists, members of their families, etc. also widely use this method of tax evasion.

CAAG appears in the press almost every day, but could get almost nothing in the press about this issue...
Proposals submitted to the Parliament by the Clean Air Action Group in October 2010

The proposals were voted down by the Budget Committee.

However: the Deputy State Secretary for Taxation announced that the government agrees with the aims of the proposal, but it needs more time to work out an optimal solution.

http://levego.hu/sites/default/files/adotv_mod_1010v.pdf (in Hungarian)
1 500 milliárdba kerül a céges autók magánhasználata

Az eddig kiszívárgott elképzelések szerint a kormány hamarosan elkészülő stabilizációs csomagjának az egyik elem a zöldadók emelése lenne. A megkérdezettek úgy válik, van tér erre a lépésre, annak mértékéről azonban megosztanak a vélemények.
Finally...

I would like to thank the European Commission for
- ordering the study on company car taxation, and
- organising this conference.

I hope that DG TAXUD will have the possibility to
- continue the investigation on company car taxation,
- work out proposals for improving the situation,
- and communicate all this properly to the national
governments and the general public.
Köszönöm a megtisztelő figyelmüket!
Multan dankon pro via atento!
Thank you for your attention!
Merci beaucoup pour votre attention!
¡Gracias por la atención!
Спасибо за внимание!
Vielen Dank für Ihre/Eure Aufmerksamkeit!

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