Tax taxonomy

Fidesz set out to turn Hungary into a low and simple tax country. Realising one of its central campaign promises, it introduced a flat income tax early in its term. With the reality of the declining economy and the budget crunch setting in, however, both low and simple are out the window. Fidesz is introducing tax hikes and new taxes at a rapid rate. Even the flat tax is gone, at least temporarily. One might argue with many specifics, but it is also important to recognise that to avoid a greater disaster, the government has no alternative but to rein in the looming deficit and debt crisis next year.

One of Prime Minister Viktor Orbán's most successful insights was to consistently embed his policy message in narratives. It is true that in opposition Fidesz was primarily known for behaving like a child in the phase of defiance, saying "nay" to pretty much anything emanating from the government benches. Fidesz went into the 2010 campaign as an empty slate, successfully emerging as the locus of all the hopes and projections that people vested in the government that would replace the Socialists they had come to loathe.

On a meta level, however, Fidesz was anything but empty. It offered carefully crafted and lofty visions and narratives of how a Fidesz-governed Hungary would be. While many outside Fidesz' core group of supporters did not take this particularly seriously, Fidesz managed to build a large and solid base precisely because it offered these appealing visions of a bourgeois' paradise. As in so many other things, the Hungarian left was wanting in this regard, too.

A nation of low taxes

A crucial component of this narrative was that Hungary would be a nation of low, simple and predictable taxes. The promise did not get much more specific than that. Orbán kept emphasising somewhat crudely that the best solution to the recurring debt crisis would be lowering taxes. He repeated that Fidesz in power would follow through on this promise. And in some sense it did: the flat tax introduced last year significantly lowered taxes for at least higher incomes.

A concurrent pledge was that taxes would be simple, which coined the proverbial "tax return on a coaster" pledge. That was also appealing, for apart from feeling financially overburdened by their taxes, many citizens and corporations also feel intellectually overwhelmed by their tax returns.

The brick wall of reality

Alas, neither low nor simple exists anymore, reality – as in the toxic mix of Fidesz' own failed economic policies and an international environment that is hardly conducive to growth – has rendered delivery on these promises impossible. Though the government perseveres in claiming that it is endorsing tax simplification, it is path-breaking primarily in the opposite direction: in raising existing taxes and creating new levies.

At this point, the recurring joke is that it would take a giant coaster to fit a tax return under Fidesz. Or, alternatively, that the simple tax return on a coaster would contain nothing but the overall income and a promise to transfer it all to the exchequer. Let's take a look at why the cynics have got it right by quickly reviewing some of the tax changes.

Small taxes

Sometimes taxes serving nothing but revenue collection are packaged as instruments of public policy in the service of larger goals, while at other times measures ostensibly geared towards raising money are in fact paternalistic tools of social engineering.

An example of the former, critics argue, is the infamous "crisps tax", which imposed a levy on a variety of unhealthy foodstuffs, including – in addition to its namesake – energy drinks, sweets, candy, artificial flavouring. Experts say it is highly unlikely that the tax is going to influence consumption patterns (or in some cases it might indirectly encourage the consumption of low-cost but even unhealthier alternatives), but though it is far below target for the time being, it will supposedly rake in billions that the government will turn into long overdue pay raises for physicians.

The slot machine tax, in contrast, appears to be about raising money by increasing five-fold the fixed rate of 100,000 HUF per month and slot machine to 500,000. This is not in fact a policy move designed to actually raise that kind of money. Even though most everyone agrees that even at a higher tax rate slot machines would have been profitable, for most that is no longer the case with the new tax.

As a result, operators are returning their licences by the thousands. While the effects of slot machine gambling are often pernicious, the drastic measure is an audacious bit of social engineering that constitutes a not so elegant interference with gamblers' personal choices.

Let us take a look at a non-exhaustive list of the tax measures Fidesz has or plans to implement.

Crisis tax	By levying a windfall tax – which burdens Hungarian companies less – on large corporations in several sectors of the economy, the government is also deftly exploiting a

	loophole in EU anti-protection policy.
Bank tax	As the government is fond of pointing out, the bank tax is widely used in Europe. While that is true, its rate in Hungary was unusually large in international comparison.
Crisps tax	See above.
Slot machine tax	See above.
Diesel tax	The additional tax on diesel has raised the price of the latter above that of standard fuel. Given that car buyers often paid a premium for diesel because of the lower cost of the latter, this move presumably made a fair number of them unhappy.
VAT	With 27%, VAT goes from highest in Europe tied with other countries to plain highest in Europe.
Real estate tax	This is a sneaky tax. Since Fidesz was vehemently against the introduction of a real estate tax, it can't well go and introduce one now. So it drains municipalities of funds and makes it easier for them to levy such a tax: it also leaves many of them no other option.
Income tax	The flat income tax was a tax increase for many, especially those with minimum wage who were previously tax exempt. More recently it was announced that those near and above the average gross salary would not have their taxes cut next year, as the government's plan originally envisioned.
Luxury tax	Though it is likely to fail, the government wishes to levy a 35% tax on luxury items.
"Accident" tax	A propagandistic misnomer since the tax does not penalise accidents but anyone with a mandatory car insurance, who will have to pay a third of their insurance payments in extra taxes.
Real estate speculation tax	Not yet adopted, this would tax windfall profits in real estate investments.
Pornography tax	Following its line of taxing everything in the sin department, the government is going after pornography, too.
Online gambling tax	This law addresses a legal loophole since online gambling should indeed be subject to taxation just as its offline

	counterpart is. Though the law has provisions requiring ISPs to shut off access to websites that do not meet the legal requirements, enforcement won't be easy.

Yet in spite of the flurry of new taxes and of rising rates among the existing levies, it must also be pointed out that in line with its employer-friendly approach, with the exception of those larger corporations affected by the crisis tax the government has been friendly towards its corporate subjects.

In addition to drastically reducing the rights of employees, the government has also abolished considerable administrative burdens and reduced the corporate tax rate for companies with turnover HUF 500 million and less from 19% to 10% (previously the favourable rate applied only to companies with a turnover under 50 million).

Reality wins again, unfortunately

A lot of fair and justified criticisms may be levelled against the government's fiscal and economic policies. It has, for example, substantially decreased the net tax burden of those well-off while it has effectively raised taxes on all but the child-rich among those who are, financially speaking, less fortunate.

At the same time it is also true that with the budget heading towards a cliff – which Fidesz rightly points out is in large part due to the spendthrift policies of the past decade, most of which were supported by Fidesz –, an unsavoury mix of tax increases and budget cuts had to be implemented. There was absolutely no combination of measures that would have made the majority – let alone everyone – happy.

Individual demographics, notably the poor and economists, should have been happier with the Matolcsy-mix, of course. Yet Fidesz is facing not only economic but political realities as well, and in much of the respective debate it appears as if the other world did not exist.

Clearly, depending on one's priorities some of the budget cuts should not have happened and some of the taxes mentioned should not have been raised. They would have to be replaced by others, however, and regardless of the party in government and the economic policy in place, the budget of 2012 would have been one of sorrow and disillusionment. Critical as we may be, this, too, bears reminding occasionally.