

# 3 Special Report



## Taxes & Accountancy

### Market Talk: 'Radically Different' tax System Making Good Digital Progress

Károly Radnai, the managing partner of Andersen in Hungary, and András Szalai, CEO and managing partner of Process Solutions, are two of the best-known tax and accountancy experts in Hungary. The *Budapest Business Journal* asked them to give their assessment of the market situation in the country.



**BBJ:** What are the significant tax and accountancy changes in 2022?

**Károly Radnai:** There have been very few changes from a regulation or procedural point of view, at least compared to the average of earlier periods, but there have been very significant tax cuts implemented on employers' tax burdens in particular. Also, a unique, not necessarily tax change is the one-off refund of the personal income tax liability of individuals paid in 2021. What is changing, however, is the concept of auditing and collecting taxes by the authorities. More and more

emphasis is placed on digitalization and the experience is quite positive.

**András Szalai:** We believe that the major change is the further reduction of employer's charges. In addition, there are various other changes but we do not consider these to be significant.

**BBJ:** Does Hungary follow any "unconventional" tax and accountancy policies, or is it broadly in line with global market norms?

**KR:** The tax system of Hungary is radically different than most other members of the European Union; there

is much more emphasis on indirect or consumption taxation and less on income taxation, corporate income tax in particular. This latter may change as a result of the global minimum tax initiative proposed by the OECD and the EU and to be enacted as of 2023.

**ASz:** In general, there is a high VAT and low corporate income tax rate compared to other EU countries. There is good progress with online data submission: almost all issued invoices are sent to the tax authority in real-time. On ad-hoc measures: There has been a one-time personal income tax refund in 2022 to parents (at quite a material amount). Due to COVID, there were temporary changes in tax legislation. It was not fully clear, or at least not so straightforward, who was eligible to use certain allowances and donations.

**BBJ:** What Hungarian tax or accountancy regulations do you think most need changing?

**KR:** There are still a very significant number of tax types. There are almost 50 different taxes in effect, although 90% of the tax revenues are derived from just eight taxes, so the rest are relatively insignificant. However, they still cause a lot of administrative burdens, both for the authorities and the taxpayers. So, the number of tax types should be reduced drastically and kept to only 20 to 25 at the maximum.

**ASz:** Predictability of tax legislation would be welcome, with more time to introduce tax changes. Although Hungarian law intends to provide exact instructions (not like the International Financial Reporting Standards, which tends to provide guidance), we still

Continued on page 14 >>>

Continued from page 13 >>>

think that, in some instances, these instructions are difficult to follow in a straightforward manner.

**BBJ:** We have seen pre-election tax rebates once again this year. Beyond the obvious potential for a change in government, does a general election have an effect on your business?

**KR:** In the short term, the change in government would not cause either a positive or negative impact. However, if there was not a stable government after the election, or if the new government started to invent unconventional and disrupting tax rules, it would have a rather negative effect. It is a common stereotype that tax advisors love tax rule changes, but this is not true; we do not like them as they create a lot of uncertainties that can have a business risk factor also on our business and products already developed (and especially tax technology products).

**ASz:** No, not in general, although a change in economic growth and the interest of foreign investment towards Hungary may have an indirect impact.

**BBJ:** How is digitization continuing to shape the tax and accountancy business?

**KR:** Hungary has made massive progress in this regard and we expect rather a consolidation and fine-

tuning than further drastic changes. There was a big plan for automating VAT filings that finally was dropped by the government, most likely due to IT difficulties and I am not sure

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if that plan will ever come back to life. The focus will most likely shift to improving tax audit techniques using the data the tax authority collects every day. The tax advisory market has also been changing and tax technology is becoming a more influential part of our business.

**ASz:** Going digital from paper-based processes has been a must in recent years. This is partly driven by the pandemic to enable remote work and partly by client and employee expectations to streamline operations. Even if already digital, a process may still need to be improved by eliminating manual tasks and introducing automation to the extent possible. Certain clients and state authorities are still progressing with digitization, so it will be a joint effort from all the players of the industry to continue this journey.

See also our response about the changing daily tasks of accountants and the need for the education system to follow the change below.

**BBJ:** Is your profession still appealing to Gen Z candidates (and beyond)? Do you have any concerns about finding suitably skilled talents to power your business?

**KR:** Honestly, I do not really get this concern about Generation Z. The fresh graduates applying for jobs with us have pretty much the same skills as those five or 10 years ago. We hire primarily legal and financial graduates (50–50%); possibly other industries have different experiences.

**ASz:** Yes, we believe so. We are running internship programs and recruiting fresh graduates. The general labor market situation impacts accounting businesses as well.



**András Szalai**, CEO and managing partner of Process Solutions, graduated from a Spanish-Hungarian bilingual school. He studied economics, accounting and business valuation at university, and started his professional career as an assistant at Process Solutions in 2000. Szalai has been working there ever since, and is now one of the partners managing the Hungarian office.

In order to remain competitive, we have to continuously improve our career proposition to the talent we work with, just as we must do the same with our service offering to our clients.

**BBJ:** Looking toward the mid- to longer-term, how would you change the education system to ensure it is fit for purpose for your needs?

**KR:** A lot should be improved already in the basic education system, especially in terms of language and digital skills. Not only for the pupils but also for the teachers. But the most critical issue is the lack of teachers. This profession

is very much underrecognized, which is a shame and shows us perilous prospects for the future. The education should also be much more practice- and real life-oriented. Digitalization could make learning much more motivating if appropriately used.

**ASz:** More practical elements are essential. Digitalization requires a more adaptive higher education, with a strong focus on practice and technology. In other words, more efficient teaching of accounting systems, coupled with practical development of “business thinking” through real-life case studies. The other crucial issue is teaching the skill-level use of international accounting standards such as IFRS. Partly because globalization requires using uniform methodologies and systems, and, secondly, because several financial SSCs have been set up in Hungary. Students need to acquire up-to-date knowledge that will make it easy for them to fit into international business life. In addition, this helps the faster development of domestic companies as well as their expansion outside of Hungary.

The fresh financing and accounting graduates no longer perform precisely the same tasks as they did even two or three years ago. The daily routine of an accountant is now not limited to just recording data, but it increasingly involves tracking automated processes and analyzing their results.

In addition, it is essential to significantly increase the number of state-funded students in high economic education, as this would help the financial sector and would be a long-term investment into Hungarian economic growth and competitiveness.

*Editor's note: A number of other firms were approached by the Budapest Business Journal to contribute to this piece but were unable to meet our tight deadline.*



**Károly Radnai**, the managing partner of Andersen in Hungary, has more than 20 years of experience in various fields of taxation and is chairman of the taxation committee of the American Chamber of Commerce in Hungary. He started his professional career at Arthur Andersen in 1997, then joined EY in 2002 where he worked as a senior manager and led the division of professionals specialized in corporate income tax until he left the firm in 2009 to set up OrientTax. It took on the Andersen brand name in 2020.



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