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COMMISSION STAFF WORKING DOCUMENT

Mind the Gap Report
Challenges and opportunities for tax compliance and tax expenditure in the EU
Hungary

Country fiche: Hungary

Summary box: Areas of Strength and Areas for Improvement

Areas of Strength

- **Hungary continues to invest into the digitalisation of its tax administration.** Structural reforms are ongoing with a comprehensive digital transformation strategy, including the development of a data asset management system. The authority has been using machine-learning algorithms and has been further rolling out the use of AI from data governance processes to data analytics. Hungary has high e-filing rates for VAT, PIT, and CIT returns. In addition, the Hungarian tax administration provides a variety of additional online tools and services to taxpayers reducing compliance costs.
- **Hungary performs relatively well in terms of value added tax (VAT) collection including in the fields of registration and identification of taxpayers, tax filings, compliance risk management, audit, payment and collection, and debt collection.** It has well-developed VAT administration practices. There are nevertheless some areas identified for improvement in the Commission's Ninth Report on VAT Administration including the automatic exchange of information between the tax administration.

Areas for Improvement

- **Currently, Hungary does not provide any official estimates of Personal income tax (PIT) or corporate income (CIT) tax gaps.** Hungary could consider introducing policies to monitor such tax gaps, which would help as a diagnostic tool to see where tax collection problems arise per tax type and to understand the underlying drivers of such collection issues.
- **Hungary could consider taking concrete actions to reduce tax expenditures also in light of the ongoing excessive deficit procedure.** Several existing tax deductions and exemptions have notable budgetary costs, while their effectiveness is not well substantiated in some cases. The Hungarian tax expenditure overall was estimated at about 2.1% of GDP in 2022. Reviewing and optimizing existing tax exemptions and incentives could also help targeting financial support and improve the efficiency of tax expenditures.
- **While Hungary has a flat rate system for both PIT and CIT, the Hungarian tax system remains complex due to the high number of tax incentives, exemptions, and sector specific taxes.** Simplification of the tax system could lower administrative expenses, make compliance easier for taxpayers, and enhance overall revenue collection efficiency. This simplification aligns with Hungary's commitment under the RRP to reduce the number of sector specific taxes. Hungary has already taken some steps toward this goal in recent years. The phasing out of the remaining sector-specific taxes could contribute to a more transparent and efficient tax system.

1. Snapshot of Tax System: Tax Revenues and their Sources

In Hungary, tax revenues as a percentage of the country's GDP are below the EU average. In 2023, total tax revenues amounted to 35.1% of GDP compared to the EU-27 average of 39.0% ⁽¹⁾. Having the highest standard VAT rate in the EU (at 27%), the Hungarian tax system relies relatively heavily on consumption taxes (38.5% of tax revenues vs. EU average of 26.9%). VAT revenue was 26.8% of total tax revenues (EU average of 18.3%) and 9.4% of GDP (EU average of 7.1%). Nevertheless, the largest source of tax revenues in 2023 were labour taxes including social security contributions (42.1% of tax revenues vs. EU average of 51.2%). Capital taxes were slightly below EU average (19.4% of total revenues vs. EU average of 21.9%). Among the latter, the use of recurrent taxes on immovable property is limited (revenues equivalent to 0.3% of GDP, compared to 0.9% on EU average).

The tax-benefit system only moderately contributes to reducing inequality in Hungary. The percentage of citizens at risk of poverty or social exclusion was slightly below the EU average in 2024 (20.2% vs EU average 21.0%) and has declined significantly over the past 10 years (30.6% in 2015) ⁽²⁾. The 2024 Gini Index for total disposable income (27.6%) is below the EU average (29.3%) ⁽³⁾. Nevertheless, the effect of the tax and benefit system on reducing the Gini coefficient is one of the lowest in the EU (4.6 percentage points vs EU average of 7.7) ⁽⁴⁾. Hungary is one of the few EU countries that imposes a flat rate tax on labour income. As a result, the tax wedge ⁽⁵⁾ remains at the same level for all levels of income (41.2%), which, combined with the high VAT rate, imposes a higher taxation burden on low-income earners. To ease this burden, Hungary provides several tax allowances for certain vulnerable groups, such as young people under 25, families and mothers.

Hungary's Recovery and Resilience Plan (RRP) ⁽⁶⁾ includes measures to simplify the tax system. Hungary committed to reduce the number of taxes, to decrease administrative costs associated with taxes and foster a more competitive and fair economy and improved business environment. A key goal of the RRP is to gradually eliminate six temporary tax measures that target specific sectors. Although Hungary has made progress with this initiative, some sector-specific taxes still exist, particularly those affecting financial institutions, energy, and retail sales. Overall, Hungary's public finances are in a difficult situation, with the country under an Excessive Deficit Procedure since July 2024, as a result of Hungary's 6.7% government deficit in 2023 ⁽⁷⁾. The Council recommended ⁽⁸⁾ that Hungary should put

¹ Data on tax revenues are based on European Commission: [Data on Taxation Trends](#), edition 2025 (reference year 2023). The 2026 edition (reference year 2024) will be published in the first quarter of 2026. Preliminary data point to a downward revision of tax revenue data for 2023 (to 35.0% of GDP), followed by an increase of total tax revenues to 35.3% of GDP in 2024. https://doi.org/10.2908/GOV_10A_TAXAG.

² European Commission, Eurostat [[ilc_peps01n](#)]

³ European Commission, Eurostat [[ilc_di12](#)]

⁴ European Commission, DG EMPL calculations based on EU-SILC survey data.

⁵ The tax wedge is defined as the sum of personal income taxes and employee and employer social-security contributions net of family allowances, expressed as a percentage of total labour costs (the sum of the gross wage and social-security contributions paid by the employer). Data are based on European Commission, DG ECFIN: [Tax and Benefits Database](#).

⁶ [Hungary's recovery and resilience plan - European Commission](#)

⁷ This figure was later updated to 6.8% of GDP in 2023. Government deficit decreased to 5.0% of GDP in 2024. For further information: <https://ec.europa.eu/eurostat/en/web/products-euro-indicators/w/2-21102025-AP>

⁸ Council Recommendation with a view to bringing an end to the situation of an excessive deficit in Hungary, <https://data.consilium.europa.eu/doc/document/ST-5896-2025-INIT/en/pdf>

an end to its excessive deficit by 2026. Hungary should ensure that the nominal growth rate of net expenditure does not exceed 4.3% in 2025 and 4.0% in 2026.

2. Monitoring of Compliance Gaps

2.1. Overview

Hungary is taking action with regard to tax gap estimations, in particular on the VAT gap. The Hungarian tax gap team was created in 2020. While it relies on third party support, the outcome of this work has not yet been made publicly available ⁽⁹⁾. To date Hungary has been conducting VAT gap estimations (including involvement in the EU VAT gap exercise), focusing on the compliance gap and its underlying components, the assessment gap, the collection gap, and distinct categories of policy gaps ⁽¹⁰⁾. Hungary reported using both top-down and bottom-up approaches, with both random and risk-based audits used for the latter. Hungary also relies on projections to balance timeliness with the quality of its estimations ⁽¹¹⁾.

As for the common estimation efforts at EU level, Hungary has been participating in all the four subgroups of the TADEUS/FISCALIS project on tax gaps that was launched in 2021 ⁽¹²⁾. The purpose of these groups is to work on common methodologies for the corporate income tax (CIT) gap, personal income tax and social security contributions (PIT/SSC) gaps, and the value added tax (VAT) gap resulting from missing trader intra-community (MTIC) fraud or related to e-commerce ⁽¹³⁾

2.2. Monitoring VAT Compliance Gap

While with a VAT compliance gap ⁽¹⁴⁾ of 7% of the VAT Total Tax Liability (VTTL) ⁽¹⁵⁾ Hungary remained below the EU average of 9.5%, its VAT compliance gap increased significantly in 2023 ⁽¹⁶⁾. The VAT compliance gap rose from over 2% in 2022 to over 7% of the VTTL. This marked one of the highest increases among EU Member States (+5 percentage points). Despite this, the 2023

⁹ Nor is it legally required to publish it; see Annex Table 11.A.1 in the OECD Tax Administration 2024 at https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/11/tax-administration-2024_5c4606e4/2d5fba9c-en.pdf

¹⁰ Based on Annex Table 11.A.2 in the OECD Tax Administration 2024 and clarifications by the Ministry for National Economy

¹¹ See Annex Table 11.A.3 in the OECD Tax Administration 2024

¹² This is exceptional as most Member States that have decided to join the project group participate in one or two groups.

¹³ European Commission (2025), Directorate-General for Taxation and Customs Union, *Towards a common approach to tax gap estimation in the EU – Fiscalis Project Group 008 – Final report*, Publications Office of the European Union, <https://data.europa.eu/doi/10.2778/3068071>

¹⁴ The VAT compliance gap is an estimate of revenues lost due to VAT fraud, evasion and avoidance, bankruptcies and financial insolvencies, or miscalculations.

¹⁵ The VAT Total Tax Liability (VTTL) is the theoretical tax revenue that would be collected in a situation of perfect taxpayer compliance, assuming an unchanged net VAT base.

¹⁶ See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., *VAT gap in Europe – Report 2025*, Publications Office of the European Union, Luxembourg, 2025, <https://data.europa.eu/doi/10.2778/7868422>.

gap remained below the pre-pandemic level of around 10% in 2019. The rise in 2023 followed a period of decline from 2019 to 2022. In nominal terms, the VAT compliance gap in Hungary was estimated at around HUF 600 billion in 2023 (around EUR 1.5 billion).

Several factors may have contributed to the observed increase in the VAT compliance gap. While the share of services declined overall (-1 percentage point), recreational services, restaurants, and accommodation were among the fastest-growing categories in nominal household final consumption (+22%). As these are typically more vulnerable to non-compliance due to the greater difficulty to tax them compared to traditional goods, this development is likely to have contributed to a higher VAT compliance gap. Similarly, demand for tourism, as measured by nights spent in tourist accommodations, saw some limited growth (+4%), further contributing to this trend.

The sharp rise in bankruptcy declarations (+155%) is likely to have further contributed to the increase in the VAT compliance gap. As bankruptcy declarations can complicate tax recovery processes, this can lead to higher uncollected VAT due, and therefore a higher VAT compliance gap.

In 2023, VAT losses due to Missing Trader Intra-Community (MTIC) fraud ⁽¹⁷⁾ were estimated at around EUR 1 billion in Hungary. While experiencing some fluctuations over time, the VAT losses due to MTIC fraud increased by around EUR 350 million between 2010 and 2023 ⁽¹⁸⁾.

The implementation of the VAT in the Digital Age (ViDA) package is an important step to address the VAT compliance gap and the revenue losses due to MTIC fraud. Currently, Hungary is receiving support under the Commission's Technical Support Instrument for implementing the ViDA Directive, with a focus on digital reporting requirements ⁽¹⁹⁾.

2.3. Corporate and Personal Income Tax Compliance Gaps, and Measures of the Shadow Economy

The European Commission is not aware of any CIT and PIT compliance gap estimation activities in Hungary at the time of writing of this document ⁽²⁰⁾. Estimating CIT and PIT compliance gaps could help policy makers understand the nature and magnitude of the problems related to CIT and PIT tax collection and can support tax administrations in assessing the effectiveness of their tax enforcement actions. Accordingly, Hungary is considering developing its CIT gap analysis and is participating in the above-mentioned TADEUS/FISCALIS project with this aim.

European Commission estimates suggest a slightly higher than average CIT compliance gap in Hungary. Based on a methodology developed by the Joint Research Centre which relies on a top-

¹⁷ Missing Trader Intra-Community (MTIC) fraud is a form of VAT fraud that exploits VAT-free cross-border trade within the EU. Fraudsters purchase goods VAT-free from another Member State, sell them domestically, charge VAT to their customers, and disappear before paying this VAT to the tax authorities.

¹⁸ European Commission, CASE, Poniatowski, G., Śmietanka, A., and Skowronek, A., *VAT compliance gap due to Missing Trader IntraCommunity (MTIC) Fraud – Final Report Phase II*, Publications Office of the European Union, Luxembourg, 2024, <https://data.europa.eu/doi/10.2778/6433841>.

¹⁹ Reference number 24HU10, to be found in the TSI database at the [Technical Support Instrument \(TSI\) | EU Funding & Tenders Portal \(europa.eu\)](#)

²⁰ According to the 2023 OECD/FTA survey on tax gaps estimations, captured in the previously referred OECD Tax Administration 2024.

down approach using national accounts data, the CIT compliance gap of Hungary was at around 12% of collected CIT revenues in 2017 ⁽²¹⁾. Based on the same methodology, the (unweighted) average for the CIT compliance gap is 10.9% of collected CIT revenues based on available estimates for 23 Member States ⁽²²⁾.

According to some available estimates, Hungary has one of the largest shadow economies in the EU. In 2022, the shadow economy in Hungary represented 25.4% of its GDP, according to estimates by Schneider, F. and Asllani, A. for the European Parliament ⁽²³⁾. This ratio is 7.8 percentage points above the EU-27 unweighted average and has shown an increasing trend in recent years (22.7% of GDP in 2018). The report indicates that indirect taxes, unemployment and self-employment are among the main drivers of the shadow economy in Hungary. Alternative estimates of the IMF suggest the size of the shadow economy to be at 18.7% in the period between 1990 and 2019 ⁽²⁴⁾.

2.4. Other Compliance Gaps

According to the information received from Hungary, their tax administration relies regarding tobacco excise gap estimates on YouGov, a non-governmental organisation commissioned by tobacco manufacturers. Twice a year the organization conduct what is known as the empty cigarette pack survey for the tobacco industry and share the results with the Hungarian Tax administration and other relevant stakeholders. According to those findings the combined share of legal non-domestic and counterfeit cigarettes in Hungary was 13.2% in 2023, 17.2% in the first 2024 measurement, and 14.9% in the second 2024 measurement. Based on these findings, KPMG further estimated ⁽²⁵⁾ the illicit cigarette market share in Hungary at 7.9% in 2023 and rising to 13.5% in 2024. During the same period, the EU average was 8.3% in 2023 and 9.2% in 2024. The illicit market is estimated to

²¹ European Commission: Directorate-General for Taxation and Customs Union (2025), The Corporate Income Tax Gap, A European approach to measuring losses in corporate tax revenues, Publications Office of the European Union, <https://data.europa.eu/doi/10.2778/0541549>. The JRC has recently developed a novel approach to estimate the CIT gap based on National Accounts and existing data on the undeclared economy, providing approximations of the CIT gap for a majority of EU Member States. JRC's estimations are based on the exhaustiveness adjustments made to Gross Operating Surplus (GOS), Gross Value Added (GVA) and Gross Domestic Product (GDP), that national statistical offices perform to account for non-observed economy. The JRC approach does not capture CIT gaps associated with tax avoidance and (international) profit shifting, which would require other estimation methods.

²² Regulatory and tax structure changes in Hungary since 2017 – including the substantial reduction and unification of the corporate income tax rate, the widespread adoption of the cash-flow-based Kisvállalati Adó (Small Business Tax), and the implementation of measures against international tax avoidance – as well as the introduction of anti-shadow-economy measures (e.g. mandatory online invoice reporting) could result in a recent estimate differing from earlier ones.

²³ European Parliament (2022), *Taxation of the informal economy in the EU*.

[https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL_STU\(2022\)734007_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/STUD/2022/734007/IPOL_STU(2022)734007_EN.pdf)

²⁴ See Nchor, Dennis (2020) Shadow economies and tax evasion: The Case of the Czech Republic, Poland and Hungary, Society and Economy, available at <https://www.imf.org/-media/Files/Publications/WP/2019/wpia2019278-print-pdf.ashx>

²⁵ Using a methodology that combines legal cigarette sales and travel data, key public indicators (such as smoking prevalence and average cigarette prices).

correspond to a EUR 179 million total tax revenue loss in excise and VAT, which would have been collected if the illicit volumes had been consumed legally in the country ⁽²⁶⁾.

3. Monitoring of Policy Gaps

3.1. Tax Expenditures

Hungary publishes a tax expenditure reports on an annual basis covering the previous fiscal year. In the report the most important provisions are discussed and quantified. Aggregate information on revenue foregone for specific types of taxes is provided. The Hungarian tax expenditure overall was estimated at about 2.1% of GDP in 2022 ⁽²⁷⁾.

The tax system in Hungary provides for multiple exemptions and deductions, and new measures have been announced in 2025. Several tax deductions and exemptions have notable budgetary costs. These include the personal income tax exemptions for workers under age 25 (0.2% of GDP), the deductibility of donations to sport clubs from corporate tax obligations, amounting to up to 80% of the total tax obligation (equal to 0.2% of GDP in 2022), the exemption of employed pensioners from social contributions (0.36% of GDP in 2022), and the personal income tax exemptions for women with at least 4 children (0.05% of GDP in 2022) and for mothers under age 30. In 2025, an exemption from personal income tax for mothers with at least 2 children has been announced.

A high number of existing exemptions, tax incentives and sector-specific, windfall and financial transaction taxes in Hungary make the tax system complex and expensive to administer. Simplification of the system may reduce related costs and increase revenues. Hungary has already committed to this under the RRP by way of a reduction of a number of the sector specific taxes ⁽²⁸⁾ ⁽²⁹⁾.

Other publications also seem to endorse the finding that the efficiency of the PIT system in Hungary can be improved from a tax expenditure perspective. The IMF in the 2025 Article IV report for Hungary recommends measures such as (i) replacing existing family tax allowances and PIT exemptions for mothers with capped tax credits per child for both parents, or (ii) increasing marginal PIT rate for high earners to enhance progressivity ⁽³⁰⁾.

Hungary forgoes a significant part of PIT revenues to family related tax expenditures, though their impact on reducing inequality is moderate ³¹. Based on static EUROMOD simulations on tax

²⁶ [illicit-cigarette-consumption-in-europe-2024-results.pdf](#)

²⁷ European Commission, [Hungary In-Depth review 2025](#), Institutional paper 312, May 2025

²⁸ [Hungary's recovery and resilience plan - European Commission](#)

²⁹ As per information declared by Hungary, since 2023 policy decisions have been taken to simplify the Hungarian tax system by decreasing the number of taxes from 59 in 2023 to 52 in 2025. Most of the abolished taxes were sector specific including the ones on airlines, pharmaceuticals, utilities, telecommunication companies and energy providers.

³⁰ [Hungary: 2025 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Hungary](#)

³¹ As per Hungary's self-assessment, the family related tax expenditures contribute to increasing labour supply of secondary earners.

expenditures ⁽³²⁾, PIT related tax expenditures in Hungary equate to 11% of total PIT revenues, placing Hungary at 7th place out of 27 EU Member States. Around 98% of these tax expenditures are dedicated to family benefits. The estimated impact on average disposable household income is relatively low in aggregate (increasing by about 2%) but higher for below median households (increasing by about 5%). It contributes to reduction of income inequality which declines about 2.4% (measured by Gini coefficient).

The 2025 budget the Hungarian government introduced a 21-point Economic Policy Action Plan. This plan includes more stimulus measures, balanced by tax increases like higher financial transaction fees, a revised windfall tax on banks, and increased excise duties. However, a new personal income tax exemption for mothers with two children is expected to lower the tax-to-GDP ratio by about 1% by 2029 ⁽³³⁾.

3.2. VAT Policy Gap

The VAT policy gap ⁽³⁴⁾ in Hungary remained lower than the EU average between 2019 and 2023. The VAT policy gap in Hungary was estimated at 48% of the notional ideal revenue ⁽³⁵⁾ (HUF 7 trillion – EUR 19 billion) in 2023, while the EU VAT policy gap was 51%. This represents an increase of 1 percentage point compared to 2022, and of nearly 2 percentage points compared to 2019 ⁽³⁶⁾.

The VAT exemption gap ⁽³⁷⁾ was higher in Hungary compared to the EU estimate in 2023. It amounted to 40% of the notional ideal revenue (HUF 6 trillion – around EUR 15 billion), while for the EU-27 overall it was 38%. Despite limited regulatory changes, this constitutes an increase since 2022 (+1 percentage points.), and a slightly more pronounced increase between 2019 and 2023 (ca. +1.5 percentage points).

The national policy-driven VAT exemption gap ⁽³⁸⁾ was estimated at around HUF 2 trillion (around EUR 5 billion) in 2023, or 13% of the notional ideal revenue, while the overall EU estimate was 11%. This represents an increase compared to 2022 (+1 percentage point), and a slight marginal decrease since 2019.

³² [Tax Expenditures in the EU: Recent Trends and New Policy Challenges](#), 2024, Turrini et al.

³³ Hungary In-Depth Review, 2025, Institutional Paper 312 [2025 In-Depth Review Hungary](#)

³⁴ The VAT policy gap refers to the revenue lost due to the application of VAT exemptions and reduced, super-reduced, and zero VAT rates on selected products.

³⁵ The notional ideal revenue is the benchmark VAT revenue that assumes perfect taxpayer compliance in a situation where the current standard VAT rate is applied to all final consumption and household, government, and NPISH investment.

³⁶ See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., *VAT gap in Europe – Report 2025*, Publications Office of the European Union, Luxembourg, 2025, <https://data.europa.eu/doi/10.2778/7868422>.

³⁷ The VAT exemption gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of VAT exemptions on selected products.

³⁸ The national policy-driven VAT exemption gap represents the part of the VAT policy gap that can in principle be influenced by national policies on VAT exemptions. In practice, it consists of revenue forgone from services falling under Article 137 (such as real estate and certain financial services), from the SME scheme, and from national exemptions applied under standstill clauses or derogations.

The VAT rate gap ⁽³⁹⁾, which amounted to around HUF 1 trillion (around EUR 3 billion), was estimated at 9% of the notional ideal revenue in 2023 which is lower than the EU average of 12%. The VAT rate gap remained stable compared to 2022, with little fluctuation when looking at a longer horizon from 2019 (less than +0.5 percentage points). The extension in 2023 of the reduced 5% VAT rate on new residential properties is reflected in the relatively stable portion of the VAT rate gap attributed to accommodation and restaurant services.

4. Effectiveness of Tax Collection and Recovery Systems

4.1. VAT Collection

Overall, Hungary performs relatively well in terms of VAT collection. It has several strengths in its VAT administration practices in the field of (de)registration and identification of taxpayers, tax filing and assessment, compliance risk management, audit and enforcement, payment and collection, enforcement and debt collection. There are nevertheless some areas identified for improvement in the Commission's Ninth Report on VAT Administration ⁽⁴⁰⁾.

Between 2020 and 2025, it seems that while Hungary has been well advancing in digitalisation of tax administration and in terms of data use, some previously detected issues have not been completely addressed. As regards the registration of taxpayers for VAT purposes, Hungary may need to invest in maintaining a register specifically for e-commerce traders, given the fraud opportunities that e-commerce creates. Hungary may also increase its efforts to keep the (Mini) One Stop Shop ((M)OSS) database accurate. Further to ensuring the completeness and the accuracy of VAT databases, real exchange of information between national actors involved are essential also for compliance risk management purposes. Therefore, it is good practice to improve the automatic exchange of information between the tax administration and other national bodies. In addition, it is beneficial to ensure that legitimate VAT refund got promptly paid, while having procedures in place to prevent payment of fraudulent claims for VAT refunds; implement good practices if high values of VAT refunds are paid after the statutory date; link the refund process with the registration component (check taxpayers' identities to prevent fictitious traders from entering the VAT system) and integrate it with their compliance risk management system.

Hungary reported that by the regular use of the VAT Information Exchange System (VIES), Transaction Network Analysis (TNA) tool ⁽⁴¹⁾, the European car and driving licence information system (EUCARIS), and automatic exchange of information, the Hungarian tax authorities have more targeted information at hand. In addition, it sends fewer request of information; and can provide higher quality of response to the incoming requests for information.

³⁹ The VAT rate gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of reduced, super-reduced, and zero VAT rates on selected products.

⁴⁰ Commission's Ninth Report on VAT registration, collection and control procedures following Article 12 of Council Regulation (EEC, EURATOM) No 1553/89, [EUR-Lex - 52022DC0137 - EN - EUR-Lex](#). / Answers to the survey sent to the Member States in June 2025 in view of the Tenth Report on the same subject matter.

⁴¹ [Eurofisc - Taxation and Customs Union - European Commission](#)

4.2. Tax Recovery

Tax arrears in Hungary have been below the EU average in recent years. The level of outstanding tax arrears was stable between 2020-2023 and has not even reached one third of the EU average (at 9.5 percent in 2023) ⁽⁴²⁾. This is the closing stock of arrears at year end as percentage of the total revenue collected. However, Hungary only considers 27.4 percent of the closing stock of arrears to be collectible in 2023. This shows a slight increase in tax arrears assessed as non-collectible compared to previous years, as the potentially collectible arrears' percent was 28.9 and 33.3 in 2021 and 2022, respectively ⁽⁴³⁾.

Hungary has not reported data on the level of on-time payment ⁽⁴⁴⁾. At the same time Hungary has been increasing its efforts to enhance voluntary compliance via the ongoing RRP measures on the digital transformation of tax compliance procedures ⁽⁴⁵⁾ and the successful introduction and gradual extension of the real-time invoice reporting.

Hungary has been also extensively using official public databases for compliance purposes. This includes taxpayers under enforcement process ⁽⁴⁶⁾ or major tax debtors. Both individuals and legal entities can get published ⁽⁴⁷⁾ and the public can also consult the so-called KOMA database on companies with no public debts ⁽⁴⁸⁾. This database is considered as a valuable verifier for financial reliability of business partners. The possibility of being added to this database may incentivise taxpayers to request payment facility (deferred payment, instalments, tax reduction or waiver) if they fail to meet their payment obligations due to any legitimate economic or personal reason. The taxpayer classification in place provides certain advantages for taxpayers settling their tax liabilities voluntarily and in time ⁽⁴⁹⁾. On the other hand, there is a range of sanctions for non-compliance, including tax penalties, default penalties, late payment interest and self-revision fees.

Hungary applies the same recovery rules across VAT, income tax, excise and other national taxes, and the same authority is responsible for all tax claims. This uniformity ensures legal coherence and administrative simplicity. As regards the write-off of tax debts, Hungary applies strict rules ensuring that debts remain monitored until enforcement is definitively no longer possible.

For what concerns mutual recovery assistance between Member States, internal controls are in place, combining IT support with central management review. The system records the date of receipt, forwarding and reply, and these indicators are part of the evaluation of staff performance.

Recovery under mutual assistance remains very limited. Between 2022 and 2024, Hungary received requests amounting to EUR 8.88 billion, but only EUR 418 million was recovered, corresponding to an

⁴² Source: ADB, CIAT, IOTA, IMF, OECD, International Survey on Revenue Administration, Indicators: "Closing stock of arrears at year end as percentage of total revenue collected." and "Closing stock of collectable arrears as percentage of closing stock of arrears", <http://isoradata.org>

⁴³ Ibid.

⁴⁴ No data was provided for on-time payment in the OECD Tax Administration 2024, nor in the ISORA database

⁴⁵ the latest addition is the use of e-cash registers, starting as from July 2025

⁴⁶ [Végrehajtási eljárás alatt álló adózók listája - Nemzeti Adó- és Vámhivatal](#)

⁴⁷ [Taxpayers with arrears - Nemzeti Adó- és Vámhivatal \(gov.hu\)](#)

⁴⁸ [A Köztartozásmentes Adózói Adatbázis \(KOMA\) - Nemzeti Adó- és Vámhivatal](#)

⁴⁹ <https://nav.gov.hu/pfile/file?path=/en/taxation/Booklets/71-information-on-taxpayer-classification>

average recovery rate of 4.7% (3.8% in 2022, 5.3% in 2023 and 5.1% in 2024). Three main obstacles hinder the effectiveness of mutual recovery assistance for cross-border requests, mostly related to the EU framework: (1) the European mechanism is usually only put into motion once the domestic enforcement options have been exhausted, mostly concerning old, difficultly recoverable claims; (2) the often negligible amount of foreign assets and income compared to the total amount of the claim, not reflected in EU statistics (e.g. minimum balance in a financial account revealed by DAC2 automatic exchange of information); and (3) cross-border insolvency cases where recovery is no longer possible⁽⁵⁰⁾.

4.3. Use of Directive on Administrative Cooperation (DAC)⁽⁵¹⁾ Instruments and Data⁽⁵²⁾

Hungary makes a thorough use of DAC1⁽⁵³⁾ and DAC2⁽⁵⁴⁾ data for assessing taxation on individuals. DAC1 (categories of income)⁽⁵⁵⁾ and DAC2 (financial accounts) data is currently used for voluntary compliance programs, notification to generate disclosure, domestic risk assessment analysis⁽⁵⁶⁾, tax assessments and audits that may focus on specific categories of incomes or capital. Data is mainly used in the field of personal income tax, leading to increase in tax revenues. Hungary uses also the information from DAC1 and DAC2 for tax recovery purposes, which is particularly relevant to reduce the tax gap, including in criminal proceedings, where allowed.

DAC data matching rates concerning individuals⁽⁵⁷⁾ are under the EU average for DAC1, and DAC2 For the year 2024, the average matching rate measuring success in identifying taxpayers with DAC data is around 66% for DAC1⁽⁵⁸⁾, and 77% for DAC2, the EU-average which being at 84% and 87% respectively. To improve the identification of taxpayers concerned, Hungary developed a project

⁵⁰ European Commission's survey 2025 for the preparation of the report on the use of recovery assistance (Directive 2010/24/EU)

⁵¹ Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC, as subsequently amended

⁵² Source: Yearly Assessment 2025; EU AIAC statistics 2024 – Subject to confidentiality clause on DAC art. 23a

⁵³ Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC

⁵⁴ Council Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation

⁵⁵ Income from employment, Director's fees, Pensions, Immovable properties

⁵⁶ Risk assessment: tax risk assessment is a key element of modern tax administration. It allows tax authorities to identify indicators that suggest specific taxpayers or arrangements may pose an increased risk to their jurisdiction and require further actions in terms of compliance. In general, EU tax authorities use automated methods based on domestic data and information received from other jurisdictions. Yet, a manual element may remain, as (i) tax authorities vary in terms of whether tax risk assessment is conducted centrally by a specialist risk assessment team incorporating input from the compliance function, or locally by the compliance team (or tax inspector); (ii) some data types remain challenging to be automatically processed, e.g. literal summaries.

⁵⁷ The matching rate indicates to what extent a Member State has been able to identify their taxpayers in their national tax databases with information received from other Member States under the DAC. Such matching is necessary to ensure that the data can be used for tax compliance purposes. The matching rates mentioned in this report are based on the metrics approved by the tax authorities in the TADEUS meeting of December 2024

⁵⁸ Average rate for Income from employment, Director's fees, Pensions, Immovable properties

based on a second-round analysis of unmatched data, supplemented by manual processing where necessary.

Hungary uses DAC3⁽⁵⁹⁾ (rulings), DAC4⁽⁶⁰⁾ (country-by-country report) and DAC6⁽⁶¹⁾ (potentially tax harmful cross-border arrangements) data for risk-analysis purposes in the field of corporate income taxation. The percentage of reports identified successfully in 2024 is high: 81% for DAC3 and 98% for DAC4, leading to efficient use of information. To achieve the objective of systematic use of data, Hungary tax and customs administration have developed a dedicated domestic IT tool to process data on a wider scale and crossmatch DAC3, DAC4 and DAC6 information with other information which is in their databases. The reports are used for assessing risks on transfer pricing and tax-harmfulness of arrangements reported, base erosion and profit shifting matters, economic and statistical analysis, and audits limited to specific categories of transactions (e.g. transfer pricing).

Hungary makes regular use of the advanced instruments provided for in the DAC to facilitate cooperation on specific cross-border cases, such as simultaneous audits. The synergies between participating Member States derived from these coordinated activities usually lead to an increase of the tax assessed and therefore contribute to reducing the tax gap. Looking at the past three years, Hungary initiated two simultaneous audits and was involved in five other cases initiated by other Member States.

In conclusion, Hungary uses the data obtained from the automatic exchange of information in coherence with the objectives of the DAC, with better results in terms of data matching for DAC3, DAC4 and DAC6, compared to DAC1 and DAC2. Hungary should continue its efforts to improve the matching of data concerning individuals, in order to maximise the impact in terms of revenues increase stemming from information exchange and to monitor the outcome of the use of data, to better estimate the increase in tax assessed. The efforts for improvement of data matching, data analysis and risk assessment of the received tax data have been supported with external expertise under the Commission's Technical Support Instrument⁽⁶²⁾.

5. Digitalisation and Compliance

Hungary has been establishing a robust digitalisation practice within its tax administration. It has high adaptation rates of digital indicators and has also implemented a digital transformation strategy.

⁵⁹ Council Directive (EU) 2015/2376 of 8 December 2015 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation

⁶⁰ Council Directive (EU) 2016/881 of 25 May 2016 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation

⁶¹ Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements

⁶² Reference number 23HU06, to be found in the TSI database at the [Technical Support Instrument \(TSI\) | EU Funding & Tenders Portal \(europa.eu\)](https://ec.europa.eu/eu-funding-tenders-portal/en/)

5.1. Digital Transformation, Skills, and Culture

Digitalisation has been a cornerstone of the Hungarian Tax and Customs Administration (NTCA), implementing measures such as the Electronic Public Road Transportation Control System (EKÁER) ⁽⁶³⁾, online invoicing, and automated tax returns. The NTCA has developed strategies both for digital transformation and to build a digital culture within the administration. However, the tax administration reported to not yet identified the future skills required for a successful digital transformation ⁽⁶⁴⁾.

Structural reforms are ongoing in terms of a comprehensive digital transformation, including a new IT strategy and developing data asset management. It is supported by a current TSI flagship project, to be completed by May 2026 ⁽⁶⁵⁾. The aim is to integrate the fragmented digital platforms and previous partial improvements and overcome digital solutions that still follow the logic of paper-based processes, while taking into consideration taxpayers' very heterogeneous IT literacy level.

Hungary requires both individuals and businesses to use an approved digital identity to access secure digital services ⁽⁶⁶⁾. This can be done either via the "Client Gate Plus", a two-factor identification system or via the DÁP Mobile Application to connect with Hungarian State Organizations offering electronic administration services.

5.2. Front end Digitalisation

5.2.1 Pre-filling

The availability of pre-filling and electronic filing point to a generally favourable tax compliance burden. However, taxpayer's perception may differ, as according to a recent Eurobarometer survey, only 35% of citizens in Hungary find it very easy or fairly easy to complete their tax return, placing them 22nd among EU Member States ⁽⁶⁷⁾.

As for personal income taxation, the NTCA pre-fills PIT returns ⁽⁶⁸⁾. Thanks to the Flat Rate Tax Wizard Web Application, the tax return is pre-filled with data content based on answers given to questions and the data available in the registers of the NTCA relevant for the taxpayer's tax and social contribution returns. In addition to easier fulfilment of obligations, the platform also helps to determine the quarterly personal income tax in advance ⁽⁶⁹⁾.

Hungary also provides this option for VAT returns. In this respect, it was one of the pioneer Member States preceding the gradual roll-out of the 'VAT in the Digital Age' package. The 'eVAT'

⁶³ [EKAER EN - Information](#)

⁶⁴ OECD Inventory of Tax Technology Initiatives 2024. <https://data-explorer.oecd.org/>, Note that data is self-reported by tax administrations and therefore not 100 % objective or comparable.

⁶⁵ Reference number 24HU13, to be found in the TSI database at the [Technical Support Instrument \(TSI\) | EU Funding & Tenders Portal \(europa.eu\)](#)

⁶⁶ OECD Inventory of Tax Technology Initiatives 2024, <https://data-explorer.oecd.org/>

⁶⁷ European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, <https://data.europa.eu/doi/10.2778/6066713>

⁶⁸ ECD Inventory of Tax Technology Initiatives 2024, <https://data-explorer.oecd.org/>

⁶⁹ OECD Tax Administration 2024

platform, launched in January 2024 as one of the RRP commitments, enables VAT-registered taxpayers in Hungary to access their pre-filled VAT returns⁽⁷⁰⁾. There are several improvements foreseen to enhance the uptake of this service.

However, like the majority of EU Member States, Hungary does not offer pre-filing for CIT returns.

5.2.2 E-filing

In 2022 Hungary scored highly on electronic filing and recorded an increase across all tax types, compared to previous years. This indicates that Hungary is well advanced in the digitalisation process.

Hungary has e-filing rates for CIT returns at 100% in 2023. This figure is high and above the EU average of 97.1% for the same year and represents an increase of 0.5 percentage points from the 2018 figure⁽⁷¹⁾.

Hungary's e-filing rates were also above the EU average for PIT returns in 2023. At 99.5%, e-filing in Hungary was 12.4 percentage points over the EU average of 87.1 %. This represents a notable increase of 19.8 percentage points from 2018⁽⁷²⁾.

Hungary is one of the Member States reporting a 100% e-filing rate for VAT returns, 0.8 percentage points above the EU average in 2023⁽⁷³⁾. This has been the case since 2019 in Hungary.

5.2.3 Provision of other online Services

The Hungarian tax administration provides a variety of additional online tools and services to taxpayers to reduce compliance costs. These include tax calculators, payment arrangements and secure communication services (video, phone and message). Taxpayers can also upload files onto the administrations system, access a personalised taxpayer portal and use the tax administrations mobile application⁽⁷⁴⁾. All these facilities can foster tax-compliant behaviour, as well as allowing administration resources to be allocated more effectively indicating that the Hungarian tax administration is using digital services to their advantage. According to a recent Eurobarometer survey, 46% of citizens in Hungary believe that support for filing tax returns provided by the tax administration is either fully adequate or mostly adequate, placing them 14th among EU Member States⁽⁷⁵⁾.

⁷⁰ The system is foreseen to reach a penetration of at least 40% of all VAT taxpayers using at least one service offered by the system by 31 March 2026.

⁷¹ International Survey on Revenue Administration data.
https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB

⁷² Ibid.

⁷³ Ibid.

⁷⁴ [Taxpayer service - ISORA – tabs "Online services 1" and "Online services 2"](#)

⁷⁵ European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, <https://data.europa.eu/doi/10.2778/6066713>

5.3. Back-end Digitalisation

5.3.1 Use of Artificial Intelligence by the Tax Administration

The NCTA has been using machine-learning algorithms since 2016 and been leveraging them in an ever-evolving way ⁽⁷⁶⁾. In 2022 a dedicated Artificial Intelligence Working Group was set up within the administration. The NTCA has been using AI in an ever-widening range, from data governance processes to data analytics, tax rule and management ⁽⁷⁷⁾. Hungary has been also learning from its European peers in terms of the relevant IT infrastructure and methodological knowledge to support the application of AI solutions ⁽⁷⁸⁾.

The Hungarian tax administration relies on a wide range of data. Data sources include European tools such as DAC or VIES data or data derived from other Hungarian public administration databases, or from the previously mentioned e-invoicing system and the Electronic Public Road Trade System (EKAER). These all feed into the risk analysis system, enhancing a differentiated, risk-based approach. Machine-learning algorithms perform various tasks, such as risk detection or risk scoring enabling targeted audit selection, coupled with nudging tools to enhance voluntary compliance ⁽⁷⁹⁾.

5.4. Compliance Risk Management

5.4.1 Compliance Risk Management Strategy

In reply to the 2025 VAT collection survey conducted by the Commission, Hungary reported having a compliance strategy in place. It describes the most significant compliance risks identified in the tax system (including risks for VAT compliance); explains how the tax administration intends to respond to tax compliance risks; links with the audit strategy/annual audit programme; includes planned mitigation actions in respect of VAT compliance risks; contains dedicated actions addressed to the key taxpayer segments; and makes use of a cooperative compliance approach towards taxpayers.

In line with its RRP commitment, Hungary has taken steps to improve the communication activities of the tax administration based on behavioural insights. In this vein, the NTCA has been putting more and more emphasis on 'softer' approaches compared to the 'harder traditional audits, including nudge letters e.g. reminders and pre-emptive warnings. Based on the information shared by Hungary to the Commission, the NTCA and the Ministry for National Economy are finalising internal guidelines and a handbook on applying behavioural insights.

⁷⁶ The ISORA database, that is based on self-reporting, does not seem to be up to date

⁷⁷ ECD Inventory of Tax Technology Initiatives 2024, <https://data-explorer.oecd.org/>

⁷⁸ [IOTA Peer-to-Peer Technical Assistance Project "Assisting in building IT infrastructure and acquiring relevant methodological knowledge to support... - IOTA](#)

⁷⁹ [Hungary - AI Country Report - AI Tax Administration](#) and 'Risk Management in order to enhance compliance of taxpayers in Hungary' (IOTA Report 2019) <https://www.iota-tax.org/ngsite/content/download/1423/29493>

5.4.2 Audit Types

The Hungarian tax administration performs a large variety of intervention processes such as desk audits, limited scope audits, single issue audits, comprehensive audits and avoidance and evasion investigations ⁽⁸⁰⁾. According to the NTCA's recently published audit plan for 2025 ⁽⁸¹⁾, the new data reconciliation procedure would allow taxpayers to correct inconsistencies between control data available to the tax authority and the data reported by businesses. As an additional tool on the "soft-hard" spectrum, this new procedure targets cooperative taxpayers. However, non-cooperation also has legal consequences. The NTCA continues to refine its audit selection process through the application of its vast data assets and artificial intelligence, allowing the administration to apply the appropriate intervention based on the perceived risk reported by their systems.

5.4.3 Staff Dedicated to Audit, Investigation and Other Verification Functions

In Hungary, the percentage of full-time employees (FTEs) assigned to audit, investigation and other verification functions has decreased slightly in recent years. 32% of FTEs worked in these functions in 2023, slightly below the EU average of 32.2% and 2.9 percentage points below Hungary's share in 2018 ⁽⁸²⁾. Although this figure is not a concrete indicator of the strategy of the tax administration, it indicates that Hungary has a moderate approach to audits with approximately one third of their staff allocated to the function. While revenue generation is important to the tax administration, they also place value in fostering voluntary tax compliance. Another explanation for the decrease in FTEs in audit related functions is the longstanding use of AI systems in the tax administration.

5.4.4 Additional Revenue from Audits as a Share of Total Revenue

In Hungary, the additional revenues raised from audits was equal to 1.85% of total net revenue in 2018 and 0.73% of total net revenue in 2023, which is considerably below the EU average for both years (respectively 2.77% and 1.6%) ⁽⁸³⁾. However, the decrease from 2018 to 2023 follows a similar trend to the EU average. Given the advanced level of digitalisation in Hungary, the fact that these figures - such as also the tax arrears in Hungary - are below the EU average, may indicate that the steps taken for voluntary compliance have borne their fruits. This is also evident in the reduction (- 2.9 percentage points) in FTEs dedicated to audit functions between 2018 and 2023, as outlined in the previous subsection.

⁸⁰ <https://data.rafit.org/regular.aspx?key=74180916> – tab "Post filing enforcement actions" and "interventions after filing, intervention effectiveness"

⁸¹ [NAV-ellenőrzések 2025-ben - Nemzeti Adó- és Vámhivatal](#)

⁸² Own elaboration based on ISORA data

⁸³ Ibid.

5.5. Tax Complexity

Hungary ranks 9th out of the 27 Member States in the Tax Complexity Index (TCI), where a higher rank corresponds to lower tax complexity ⁽⁸⁴⁾. The TCI is based on the Global MNC Tax Complexity Project, a joint research project of Deborah Schanz (LMU Munich) and Caren Sureth-Sloane (Paderborn University). The TCI 2024 places Hungary 10th among the Member States with regards to Tax Framework Complexity, and 13th with regards to Tax Code Complexity. This suggests a performance of the country close to the average, though the authors identify some areas among the tax processes carried out by the tax authorities with clear room for improvement (notably, regarding enactment), as well as among the structure of the tax regulations (particularly with regards to additional taxes).

However, the proliferation of tax expenditures adds complexity to Hungary's tax system. The TCI by construction does not capture some features that likely increase the complexity of national tax systems like complexity induced by tax expenditures. Hungary has a flat rate tax system for both personal and corporate income tax purposes with relatively low tax rates as compared to other EU countries. However, the availability of multiple tax incentives, exemptions, special regimes and sector-specific taxes make the system fairly complex. As indicated also in the section on tax expenditure, Hungary committed to reduce the number of sector specific taxes under the RRP.

⁸⁴ See: <https://www.taxcomplexity.org/> The aim of the Global MNC Tax Complexity Project is to identify the determinants of tax complexity, to develop and maintain an index measuring the level of tax complexity across countries [Tax Complexity Index, TCI] and to examine the effects of tax complexity. The Tax Complexity Index measures the complexity of a country's corporate income tax system as faced by multinational corporations. The closer a country is to the first position of the ranking, the lower level of complexity it exhibits, and vice-versa.