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WORKING PAPER

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MEETING DOCUMENT

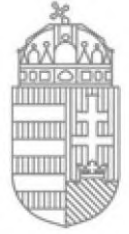
From:	HU delegation
To:	Working Party on Tax Questions (Digital Taxation)
Subject:	Presentation by the Hungarian delegation

Delegations will find attached a document in view of the Working Party on Tax Questions (Direct Taxation - Digital) on 11 October 2019.

HUNGARIAN ESTIMATIONS ON IMPACTS OF PILLAR 2

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PILLAR 2 – WHAT HAVE BEEN EXAMINED IN HUNGARY?

What have we examined concerning Pillar 2?

- the deviation of ETR supposing different combinations of profit adjustments
- extra tax liability arising from these different scenarios
- based on Hungarian tax return data of MNEs for year 2016
- individual companies' data (no blending)
- ETR based on Hungarian accounting standards

Hungarian CIT in 2016

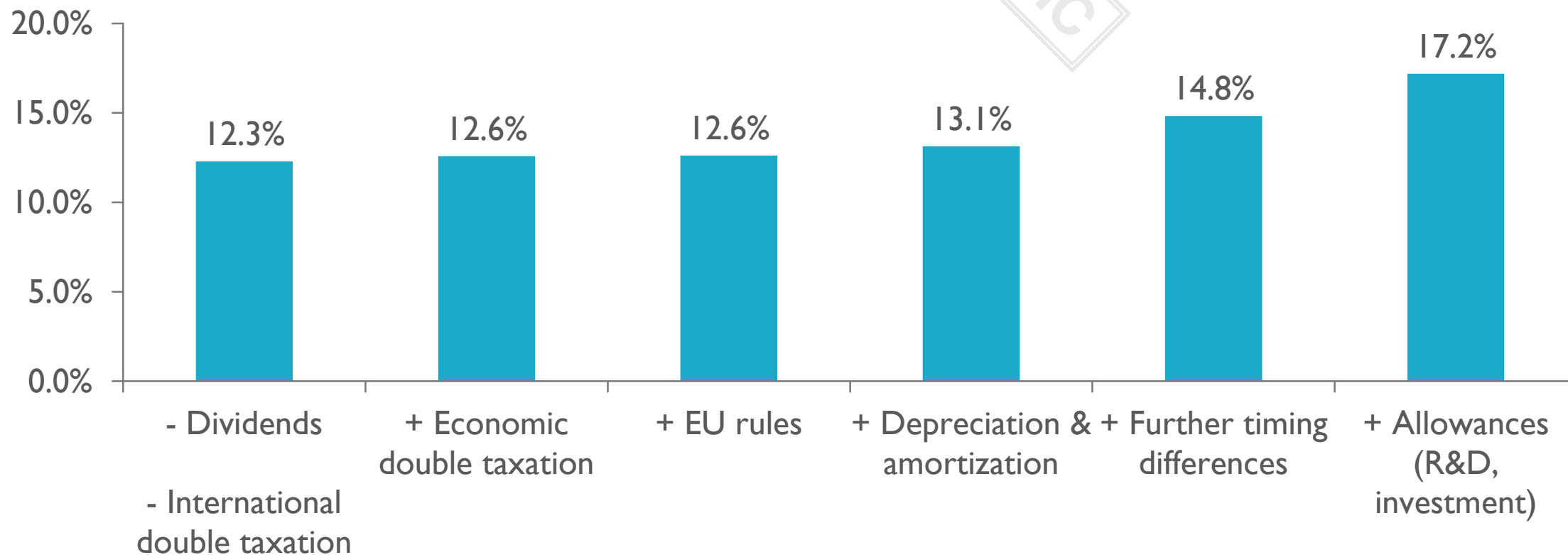
- progressive tax: 19% top rate & 10% up to ca. EUR 1.5 mn
- tax base: accounting pre-tax profit adjusted by several items

Examined adjustments:

- Dividends received
- Losses carried forward
- International double taxation

- Economic double taxation
- EU rules
- Depreciation & amortization
- Further timing differences
- Allowances (R&D, investment)

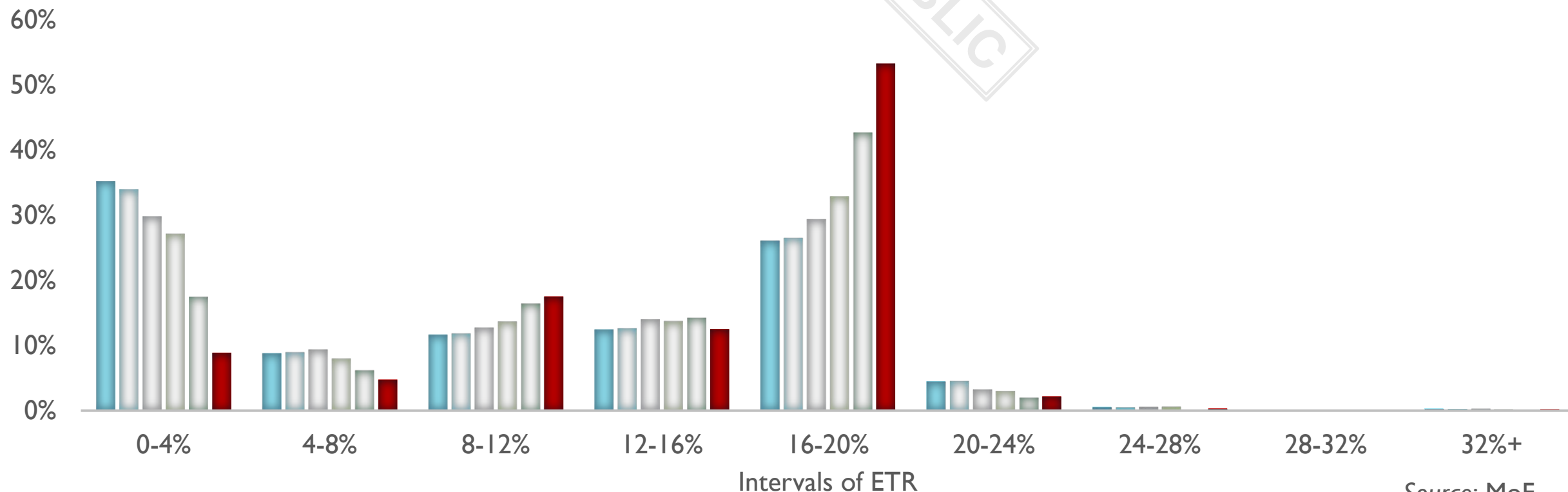
EATR OF MNEs IN HUNGARY (2016)*



*Including current years' losses but excluding loss carry-forward from the listed adjustments

Source: MoF

DISTRIBUTION OF MNEs' TAXABLE INCOME BY INTERVALS OF ETR (2016)



Source: MoF

- Dividends
- Loss carry forward
- International double taxation
- + Economic double taxation
- + EU rules
- + Depreciation & amortization
- + Further timing differences
- + Allowances (R&D, investment)

EXTRA TAX LIABILITY ARISING FROM DIFFERENT SCENARIOS IN PERCENTAGE OF ADJUSTED PROFIT

		minimum tax rate		
		10%	12,5%	15%
levels of adjustments	- Dividends			
	- Loss carry forward			
	- International double taxation	4.5%	6.2%	8,2%
	+ Economic double taxation	4.4%	6.1%	8,0%
	+ EU rules	3.8%	5.3%	7,1%
	+ Depreciation & amortization	3.4%	4.8%	6,6%
	+ Further timing differences	2.0%	3.1%	4,4%
	+ Allowances (R&D, investment)	1.2%	2.1%	3.1%

EATR*
12.28%
12.58%
12.62%
13,13%
14.82%
17.19%

*Including loss making companies

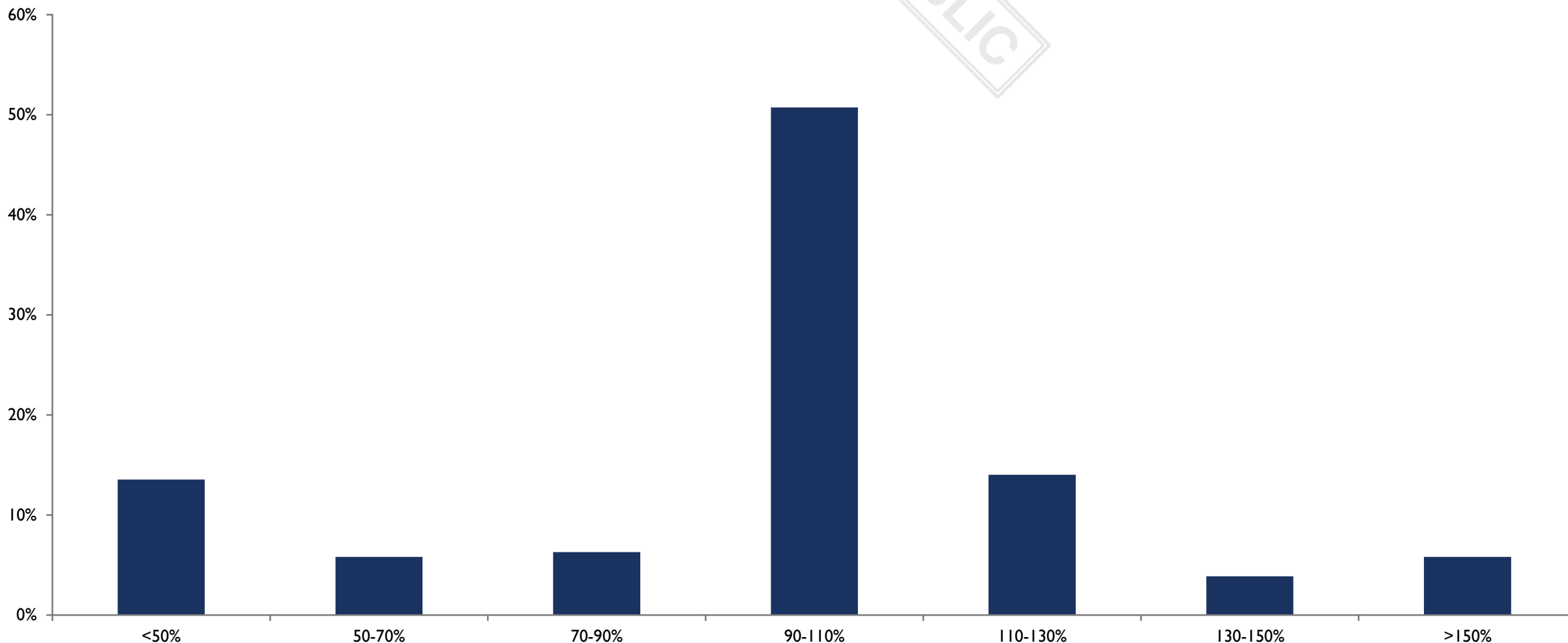
Source: MoF

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What have we learnt from this analysis?

- The deviation of enterprise-level ETR within a country can result significantly higher extra tax burden than the deviation of country-level ETR. Thus, **the distribution of enterprise-level ETR has to be taken into consideration in the analysis.**
- **Countries with high** (statutory and effective) **tax rate also have to calculate with significant extra burden on their companies as** even a relatively low minimum tax rate can cause proportionally high extra liabilities for them.
- Several adjustments have to be handled. Beside applying all the above listed adjustments the deviation of ETR remains still significant. Different countries may have different priorities when listing these items.
- **Not solving the problem of technical differences highly increases burden on international investments and trade.**
- Our calculation is based on Hungarian accounting standards. Establishing the calculation method on the basis of accounting standards of parent entities obviously increases the deviation and the significance of its implications.

BONUS: HUNGARIAN ACCOUNTING PROFIT AS % OF IFRS PROFIT (COMPANIES SWITCHING TO IFRS STANDARDS, NO. OF COMPANIES)





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Thank you for your attention!