

Car as a means of tax evasion in Hungary

Annually the Hungarian state loses revenues of more than HUF 700 billion (EUR 2.8 billion) from personal income tax and social security contribution because the private use of cars is often illegally accounted for tax purposes as company use, and because actually undriven kilometre distances are also accounted (i.e. in this manner in fact wages are paid unlawfully and exempt from taxes). This amount corresponds to 3 per cent of Hungary's GDP.

In the case of business travels by car, when company cars are used, all costs are borne by the company operating the car, whereas if cars owned by private persons (for the sake of simplicity, hereinafter: private cars) are used for business purposes, then all the fuel costs plus an allowance of HUF 9 (about EUR 0.04) per kilometre can be paid out free of taxes. However, the use of cars for commuting to work or for private purposes can be documented almost any time as if the car had been used for business purposes. Tax authorities are unable to control this. Today, for a price of HUF 10 to 20 thousand (EUR 40 to 80), anyone can purchase a computer program which will subsequently generate perfect fictitious travel records – you only have to input the company's customer database and the refuelling data.

Practically without any legal consequences, most enterprises can pursue a practice when they keep employees at the official minimum wage, and pay their wages above that level as refund of expenses for car running. Tax authorities can only detect this if some factual mistakes are made in the records of business travels, or if it can be proved that company cars are provided, or refunds of expenses for business travels by privately owned cars are paid, to such employees whose jobs would not justify making such business trips. The trouble with the latter category is that it is virtually impossible for the tax authorities to prove that this is the case.

For private cars, almost any number of kilometres can be entered in the travel records. As these cars are not company property, tax controllers do not have the right to check the cars or even to look at the kilometre recorder's reading.

Even when companies own company cars, it is simple to evade tax payment because the Hungarian Personal Income Tax Act contains a provision saying that no company car tax payment obligation arises upon such car use for private purposes which use was paid to the company by the private person involved. If, for instance, a company manager travels with his family to a seaside resort by that car and he pays for that trip to the company, then the company concerned is already exempt from the payment of the company car tax. So, the tax law even allows a loop-hole as if by saying: O.K., you do forge your travel records but when it comes to a situation where you cannot avoid entering a private-purpose use in the records, then you just pay something on one occasion, and this is enough to provide you with an excuse for your practice.

Hereafter we make some recommendations aimed at settling the above described situation or at least improving it considerably.

1. In the case of using private cars, the amount of expense refunding could be limited. Technically the simplest way to implement that is to abolish the HUF 9 per kilometre expense allowance. A possible further restriction could be if fuel would only be permitted to be accounted as an expense item up to a certain volume (e.g. at most 5 litres per 100 kilometres).

2. Within the system of expense refunds, only exceptional (i.e. very rare) use of private cars should be allowed. In the event of regular and continuous use, the enterprise concerned should rent the car from the private person and should operate it as a company car. This is also justified because the regular use of private cars for business purposes means that the company compels its employee to let the company use his/her privately owned asset for the purpose and benefit of the company, in a manner that the company using the car only

reimburses its employee partly, and by no means in accordance with market conditions, for the use of the car.

3. It should be made compulsory that if someone uses his/her private car occasionally for business purposes, then he/she should purchase the fuel for the name of the company concerned and should ask for an invoice which also indicates the registration number of his/her own car. Later on, when accounting the car's running performance, he/she should use this invoice to prove the incurred expenses.

4. The Hungarian Personal Income Tax Act's provisions concerning the company car tax should be cancelled, and instead of that a surtax should be imposed on company cars, connected to the running performance (practicably to the accounted fuel expenses) of the cars, regardless of whether it occurred during use for business or private purposes.

Clean Air Action Group already highlighted this problem several years ago. The Ministry of Finance, in its letter sent to Clean Air Action Group, acknowledged the importance of the problem; and Hungary's Central Statistical Office confirmed that it was indeed on the basis of correct data that Clean Air Action Group drew its conclusions. In spite of that, no effective measure whatsoever was taken to modify the applicable rules of law in order to curb the massive tax evasion committed by means of cars. Obviously, such measures would be extremely unpopular. The press is not willing to cover the issue either, which, again, is understandable, since first, a large part of their advertisement revenues come from car advertisements, and second, practically every journalist (and/or their family members and friends) make use of the mentioned illegal methods.

The most important task, therefore, would be to make the general public and decision-makers understand that the present system is both acutely unfair and also bad for the economy.. The attention should also be called to that the tax evasion here described did not only occur in a single year, but it has already been going on for many years. So, as a matter of fact, a just approach would be if the Hungarian state made those who committed tax evasion pay also for the tax amounts tricked away in the past years. Evidently, this is not possible any more; however, any further tax evasion should definitely be prevented.

In almost all sectors of the society and the economy – besides transport, especially in regional development – the prices which do not reflect costs cause damage that are extremely expensive, deteriorate Hungary's competitiveness, degrade the environment and will be very difficult to remedy later. This system is impossible to be financed; and so, sooner or later, it will collapse. A possible step towards avoiding that would be to severely restrict the refunding of expenses for car use.

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