

Taxation and Corporate Governance: Analysing Hungary's Pro-Business Regulatory Framework for Economic Growth

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Introduction

Hungary has emerged as an attractive destination for foreign investment and business expansion, owing to a combination of factors that create a favourable business environment. This article explores the various aspects of Hungary's pro-business policies and best practices that can offer valuable insights for South Korean small and medium-sized enterprises (SMEs) seeking to establish their presence in Europe. The analysis focuses on Hungary's competitive corporate tax rates, streamlined administrative procedures, and commitment to transparency and accountability in corporate governance. Furthermore, the article highlights the strategic location, skilled workforce, and access to the EU's single market that make Hungary an ideal choice for South Korean companies. By examining these factors and their implications for business success, this article aims to provide South Korean SMEs with a comprehensive understanding of the opportunities and advantages offered by Hungary as a hub for their European operations.

The Power of Competitive Tax Rates: Understanding Hungary's Corporate Tax Structure and Its Implications for Business Growth

In recent years, Hungary has emerged as an attractive destination for foreign investment and business expansion, owing in part to its competitive tax rates. A key aspect of Hungary's pro-business regulatory framework is its favourable corporate tax structure, which has significant implications for both domestic and international businesses seeking growth opportunities within the country. This chapter seeks to examine the nuances of Hungary's corporate tax rates, comparing them to those of other countries, and analyse how these rates influence the country's ability to attract foreign investment and support domestic businesses.

Hungary's corporate tax rate, as of 2017, stands at a flat 9%, which is notably one of the lowest in the European Union and the Organisation for Economic Co-operation and Development (OECD) countries. This competitive rate has been a cornerstone of the Hungarian government's efforts to create a business-friendly environment and attract foreign direct investment (FDI). In comparison, other countries within the EU and OECD have considerably higher corporate tax rates, with the average rate in the EU standing at around 21.7% and the OECD average at 23.5% in 2022¹.

The lower corporate tax rate in Hungary can provide several benefits to businesses. For domestic companies, it can help boost profitability, stimulate investment, and support growth. As a result, domestic businesses are more likely to invest in research and development (R&D), expand their operations, and create employment opportunities, ultimately contributing to the overall economic growth of the country (Devereux & Griffith, 1998). Furthermore, the lower tax rate can also incentivise foreign businesses to establish or expand their operations in Hungary, leading to an influx of FDI, which can foster economic development, transfer technology and know-how, and create job opportunities².

Empirical studies have consistently shown that tax rates play a critical role in determining FDI inflows. For instance, a study by De Mooij and Ederveen³ (2003) found that a 1% decrease in the effective average tax rate could increase FDI by 3.3%. In the case of Hungary, the country has successfully attracted several multinational

¹ <https://www.oecd.org/els/soc/TaxBEN-Hungary-2022.pdf>

² <https://unctadstat.unctad.org/countryprofile/generalprofile/en-gb/348/index.html>

³ https://econpapers.repec.org/article/kapitaxpf/v_3a10_3ay_3a2003_3ai_3a6_3ap_3a673-93.htm

corporations (MNCs) and foreign investors, particularly in the automotive, pharmaceutical, and information and communications technology (ICT) sectors, partly due to its favourable tax environment⁴.

However, it is essential to consider that while low corporate tax rates can indeed create a favourable business environment, they are not the sole factor driving investment decisions. Other factors such as the overall ease of doing business, political stability, access to markets, availability of skilled labour, and quality of infrastructure also significantly influence investment decisions. As a result, it is crucial for Hungary to continue focusing on improving these other aspects of its business environment to ensure sustainable and inclusive economic growth.

Simplifying Regulatory Compliance: The Role of Streamlined Procedures in Hungary's Business Environment

A crucial aspect of fostering a thriving business environment is the ease with which companies can navigate regulatory requirements and procedures. In Hungary, the government has made concerted efforts to streamline administrative procedures and regulations, thereby reducing the burden on businesses and improving the overall business climate. This chapter aims to explore the various measures taken by the Hungarian government to simplify regulatory compliance and assess their impact on creating a more favourable business environment.

One notable example of Hungary's efforts to simplify regulatory compliance is the introduction of the “one-stop-shop” system for business registration, which enables entrepreneurs to complete the registration process in a single location⁵. This initiative has significantly reduced the time and complexity involved in setting up a new business, thereby lowering barriers to entry and encouraging entrepreneurial activity. As a result, Hungary has made significant improvements in the World Bank's Ease of Doing Business rankings, particularly in the area of starting a business.

Additionally, Hungary has made strides in improving its tax administration system by implementing electronic tax filing and payment systems, known as the Electronic Public Road Trade Control System (EKAER) and the Online Invoice System. These systems facilitate the submission of tax-related documentation and enable businesses to manage their tax obligations more efficiently, reducing the time and resources required for compliance. Consequently, Hungary has witnessed an improvement in its ranking for paying taxes in the Ease of Doing Business index.

Streamlining labour regulations is another area where Hungary has made progress. The government has introduced measures to simplify the process of hiring and firing employees, as well as implementing more flexible working hours regulations⁶. These reforms have made it easier for businesses to adapt their workforce to changing market conditions, ultimately promoting greater labour market flexibility and enhancing the overall competitiveness of the Hungarian economy.

Furthermore, the Hungarian government has taken steps to improve access to credit for businesses, particularly small and medium-sized enterprises (SMEs), which often face challenges in obtaining financing. Initiatives such as the Funding for Growth Scheme and the Széchenyi Venture Capital Fund have been implemented to provide low-interest loans and equity financing to SMEs, thus improving their access to capital and supporting their growth⁷.

However, it is essential to acknowledge that there remains room for improvement in the Hungarian business environment. For instance, the country continues to face challenges in areas such as enforcing contracts, dealing with construction permits, and registering property⁸. Addressing these issues will require ongoing efforts by the government to further streamline administrative procedures and strengthen the legal and regulatory framework.

⁴ <https://hipa.hu/>

⁵ <https://www.doingbusiness.org/content/dam/doingBusiness/country/h/hungary/HUN.pdf>

⁶ <https://www.oecd.org/employment-outlook/2022/>

⁷ <https://www.mnb.hu/en/monetary-policy/funding-for-growth-scheme-fgs>

⁸ <https://data.worldbank.org/country/HU>

Promoting Transparency and Accountability: Hungary's Corporate Governance Best Practices for Sustainable Business Development

Corporate governance plays a critical role in promoting transparency and accountability in the business environment, which in turn fosters sustainable business development. In Hungary, the government and regulatory authorities have taken several steps to ensure that businesses adopt best practices in corporate governance. This chapter seeks to explore these initiatives and assess their impact on creating a transparent and accountable business environment in Hungary.

One significant step towards promoting transparency and accountability in the Hungarian business environment is the adoption of international accounting standards. Hungarian businesses, particularly those listed on the Budapest Stock Exchange, are required to prepare their financial statements in accordance with the International Financial Reporting Standards (IFRS)⁹. This requirement ensures that financial information is prepared and presented in a consistent, reliable, and transparent manner, allowing investors and other stakeholders to make informed decisions.

In addition to financial reporting, Hungary has also taken steps to improve corporate governance through the adoption of the Hungarian Corporate Governance Recommendations, which were developed by the Budapest Stock Exchange and the Central Bank of Hungary (MNB)¹⁰ (Budapest Stock Exchange, 2021). These recommendations provide a framework for companies to adopt best practices in areas such as board composition, remuneration, risk management, and shareholder rights. By adhering to these guidelines, Hungarian businesses can enhance their transparency and accountability, thereby contributing to sustainable business development.

Moreover, Hungary has introduced legislation to strengthen the independence and effectiveness of the supervisory boards of companies. The Act on Business Associations requires that supervisory board members must not have any conflicts of interest and must possess the necessary skills and expertise to fulfil their roles effectively¹¹. These requirements ensure that supervisory boards can provide robust oversight and hold management accountable, thus promoting good corporate governance.

Furthermore, the Hungarian government has taken measures to combat corruption and promote transparency in public procurement processes. The introduction of the Electronic Public Procurement System (EKR) has made it mandatory for public procurement processes to be conducted electronically, increasing transparency and reducing the risk of corruption¹². These efforts not only promote good governance in the public sector but also send a strong message to the private sector regarding the importance of transparency and accountability in business practices.

However, it is worth noting that despite these efforts, Hungary still faces challenges in ensuring a fully transparent and accountable business environment. According to Transparency International's 2022 Corruption Perceptions Index, Hungary ranks 77th out of 180 countries, indicating that further improvements are needed¹³. To achieve this, the Hungarian government must continue to strengthen its legal and regulatory frameworks, as well as ensure that these measures are effectively enforced.

Conclusion

In conclusion, Hungary offers a unique combination of advantages that make it an ideal destination for South Korean companies looking to establish their European presence. As demonstrated throughout this analysis, Hungary's pro-business regulatory framework, streamlined administrative procedures, and commitment to

⁹ <https://www.pwc.com/hu/en/kiadvanyok/assets/pdf/Invest-in-Hungary-2022.pdf>

¹⁰ <https://www.bse.hu/Issuers/corporate-governance-recommendations/Corporate-Governance-Recommendations>

¹¹ <https://net.jogtar.hu/jogszabaly?docid=a1300005.tv>

¹² <https://www.kozbeszerzes.hu>

¹³ <https://www.transparency.org/en/countries/hungary>

transparency and accountability have fostered a favourable business environment that can support the growth and success of foreign enterprises.

One of the key factors contributing to Hungary's attractiveness as a business destination is its competitive corporate tax rate. As previously discussed, Hungary's corporate tax rate of 9% is one of the lowest in the European Union and OECD countries, allowing businesses to enjoy greater profitability and encouraging investment. This competitive tax environment is particularly appealing to South Korean companies seeking to maximise their returns while expanding their European operations.

Additionally, the Hungarian government's efforts to simplify regulatory compliance, such as the introduction of the one-stop-shop system for business registration and the implementation of electronic tax filing and payment systems, have reduced the administrative burden on businesses. This streamlined regulatory environment can enable South Korean companies to establish and operate their businesses more efficiently, allowing them to focus on their core competencies and achieve their strategic objectives in the European market.

Moreover, Hungary's commitment to promoting transparency and accountability through the adoption of international accounting standards, corporate governance recommendations, and measures to combat corruption can provide South Korean companies with the confidence that they are operating in a well-regulated business environment. This assurance can enhance the reputation of South Korean businesses and contribute to their long-term success in Europe.

Furthermore, Hungary's strategic location in the heart of Europe, combined with its well-developed infrastructure and access to the EU's single market, offers South Korean companies a gateway to the wider European market. The country's skilled workforce and emphasis on vocational education also ensure that businesses can access the human capital necessary to drive their growth and innovation.

In summary, Hungary's pro-business policies, streamlined regulatory environment, commitment to transparency and accountability, strategic location, and access to a skilled workforce make it an ideal destination for South Korean companies seeking to establish their European presence. By capitalising on these advantages, South Korean businesses can thrive in the Hungarian market and leverage the opportunities offered by the wider European landscape.