

## **Basic Features of VAT**

### **Part One**

#### **Significance**

In Hungary, as in the other member states of the European Union (EU), sales tax is levied according to the principle of value added tax (VAT). VAT is a tax principle that can be found worldwide. VAT or similar taxes are currently in force in around 150 countries. The VAT receipts of the EU member states thus accounted for *21.4% of all tax receipts*. For many national budgets, VAT is the most important source of income. In this way, it has taken the foremost place in terms of tax revenue, ahead of income tax. Given the fiscal importance of VAT, measures aimed at securing VAT revenues are politically highly sensible.

When collecting taxes, the state largely relies on companies. VAT is an indirect tax that is intended to charge final consumption, but *is levied on companies through self-declaration*. The companies act as tax collectors for the account of the state and in the interests of the state treasury. They have to report the start of and change in their business activities without being asked, submit regular VAT returns and pay the tax liabilities to the tax authorities. In addition, they must keep books and evidence for the purposes of the tax audit. This makes VAT a source of income for the state with little bureaucracy; For companies that have to settle their VAT correctly in accordance with often complicated regulations, *VAT is associated with a lot of bureaucracy*, burdened with the *threat of painful sanctions*, if the VAT requirements are not precisely met.

Even in times of crisis caused by the recession, VAT is regarded as *a modern financial instrument* for the state. Because apart from the participation in the survey procedure, the VAT should not burden the companies, but the end consumption. Compared to corporate profits, private final consumption is relatively stable. In the cross-border movement of goods between companies, the country of destination principle is usually used. Imports are thus typically subject to VAT, whereas *exports are exempt from VAT*; this also applies accordingly to shipments within the EU. The more a state finances itself through VAT, the more it *strengthens its own exports* compared to the domestic domestic and import markets. In the EU at least, there has been a longstanding trend towards further increasing VAT revenues and decreasing income and corporate tax cuts. This trend is likely to continue in view of the *demographic shift in the age pyramid*.

As experts in VAT law we are ready to work with you. ***Get in touch!***

Budapest, 13. April 2021