

Benchmark on the Taxation Administrations in the EU: Competition for Capital Invested

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Abstract: In the year of 2007 Budapest Tech, Department of Enterprise Management in cooperation with Széchenyi István University, Department of Logistics and Forwarding started a project on the establishment of new transporting companies in Bulgaria and Romania. We focused on the differences between the countries newly joined the European Union on January 1, 2007 and Hungary. The latest enlargement of the EU was a good chance to examine the new countries what advantages and disadvantages they have. EU member countries are in free competition with each other because of the free flow of goods, capital, services and labour. Countries with different tax environment and policies open up new opportunities for companies. Data, tax rates, contributions and any fees mentioned in this working paper refer to the year of the project mentioned above.

Keywords: Bulgaria, Romania, tax environment, transportation, wages, contributions

1 Introduction

To create the model Hungary and two EU-countries, members since 2007, were selected, whereby the following factors have been investigated: the macro-economic environment of the single countries, national taxation policy, net costs components concerning transportation, potential advantages and disadvantages emerging from regional location, any other important market circumstances. We have selected transporting companies with a profile which is similar to a Hungarian company, so they are easy to compare. Three countries were selected for carrying out research and analysis. Managers of transporting companies established in Hungary, Bulgaria and Romania were supposed to provide useful information and experience based on personal interviews. In the followings, we would like to give a special overview from the selected countries taxation policy.

1.1 Cost Analyses

Based on personal interviews the study analyses and compares the special taxes for motor vehicles, the corporate taxes and the expenditure on wages.

Exchange rates were valid on January 2, 2007 according to the Hungarian National Bank (the central bank of Hungary).

Table 1
Exchange rates

Country	Type of currency		HUF
Bulgaria	BGN	1 лв.	128,48 Ft
Romania	RON	1 lei	74,14 Ft
EU	EUR	1 €	251,28 Ft

1.1.1 Special Taxes for Motor Vehicles

The charts below show the annual costs concerning vehicles of a company disposing of 60 freight vehicles. Average annual running of all vehicles is 4,800,000 km, fuel consumption of the vehicles takes 35 l/100 km.

Weight tax in Hungary is 1,200 HUF/year per 100 kg. The annual weight tax amount of 182,000 HUF is calculated for a freight vehicle weighing ca. 15 tons. We asked a company in Hungary, transporting new motor vehicles, about comprehensive insurance. Altogether 12 million HUF must be paid as comprehensive insurance for 60 vehicles each year. Beside comprehensive insurance the company has got other types of insurance, like CASCO, which have different fees every year of which amount depends on several factors. As there is a special method of calculating fees of the insurance Casco and it can be different even at companies in the same country, no charts are made about it.

Table 2
Special taxes for motor vehicles in Hungary

Hungary			
Unit of measurement		Ft	€
Weight tax	182 000 Ft	10 920 000	44 139
Comprehensive insurance	200 000 Ft	12 000 000	48 504
Fuel	241,6 Ft/l	404 880 000	1 587 764
Total		427 800 000	1 680 407

Fuel cost has been calculated from the annual running (km), consumption and price of gasoline. Fuel price does not include VAT, as it appears only as temporary extra cost for the companies.

Calculation results are expressed in Forint and Euro to make it comparable with the following charts. The last row of the chart is showing the annual vehicle costs of a company disposing of 60 freight vehicles, which is 427,800,000 HUF, to be spent on taxes and other types of costs.

1.1.2 Special Taxes for Motor Vehicles in Bulgaria

In Bulgaria, just like in Hungary, we examined the annual vehicle costs of a company disposing of 60 freight vehicles.

Table 3
Special taxes for motor vehicles in Bulgaria

Bulgaria			
Unit of measurement		BGN	€
Road tax	1 200	72 000	37 440
Comprehensive insurance	2 580	154 800	80 496
Fuel	1,85	3 108 000	1 486 964
Total		3 334 800	1 604 900

The table shows data about road tax, comprehensive insurance (based on annual tax of a 6-ton-semi-trailer and a 9-ton-trailer) and fuel price. According to the data, a 6-ton-semi trailer and a 9-ton-trailer have got vehicle costs of 1,200 BGN. The fees of comprehensive insurance: 7,200 BGN to be paid after trailers and trailed engine altogether. For calculating fuel prices the same methods have been applied, that is, VAT content has been ignored.

The total sum is expressed in BGN, and converted into Euro. The sum includes road tax, insurance and fuel costs. Table 2 shows the sum in euros.

1.1.3 Special Taxes for Motor Vehicles in Romania

In Romania the following factors effect motor vehicle costs for companies disposing of 60 freight vehicles.

Table 4
Special taxes for motor vehicles in Romania

Romania			
Unit of measurement		RON	€
Road tax	4 228	253 680	63 889
Comprehensive insurance	9 513	570 780	143 750
Fuel	3 2767	5 537 963	1 394 729
Total		6 362 423	1 602 368

Road tax in Romania amounts to 4,228 RON/year/freight vehicle. Comprehensive insurance for one vehicle is 9513 RON/year/freight vehicle. In the table net fuel price is shown. The annual vehicle costs amount to 63,62,423 RON.

According to the data in the Table 4, it is obvious that the highest amount of weight and road tax occurs in Romania and it is the lowest in Bulgaria.

As well as the the amount of comprehensive insurance is the highest in Romania and the lowest in Bulgaria as it shown on Table 5.

Table 5
Vehicle taxes in the single countries

Country	Vehicle taxes	
	Ft	€
Hungary	10 920 000	44 139
Romania	1 5205 579	63 889
Bulgaria	9 360 000	37 440

Table 6
Comprehensive insurance in the single countries

Country	Comprehensive insurance	
	Ft	€
Hungary	12 000 000	48 504
Romania	34 212 553	143 750
Bulgaria	20 124 000	80 496

The fuel costs are the highest in Hungary and the lowest in Romania.

Table 7
Fuel costs in the single countries

Country	Fuel costs	
	Ft	€
Hungary	404 880 000	1 587 764
Romania	331 945 525	1 394 729
Bulgaria	379 176 000	1 486 964

1.2 Corporate Taxes

In this part an overview will be given on taxes and contributions which are due to be paid by distribution companies. Our analysis is based on a company having supposedly 500 million HUF profit and 2.7 billion HUF income. The analysis was carried out in the single countries.

1.2.1 Corporate Taxes in Hungary

A company in Hungary, described above, is obliged to pay several types of taxes and contributions. The first column of the table contains the type of tax, the second one the rates, the third and fourth ones the actual amount expressed in different euro.

Table 8
Corporate taxes in Hungary

Hungary			
Unit of measurement		Ft	€
Corporate tax	16,0%	80 000 000	313 725
VAT	20,0%	105 473 200	413 620
Real estate tax	700 Ft/m ²	4 282 600	16 795
Business tax	2%	54 000 000	211 765
Innovation contribution	0,25%	6 750 000	26 470
Total		250 505 625	982 375

Rates of corporate tax in Hungary amount to 16% which is due to be paid after 500 million HUF of profit. VAT calculation is based on the amount of profit and personal expenditure. In practice it is not calculated this way. In the present study we found it irrelevant to work with the amount of VAT which can be refunded, as it appears just as provisional cost. The whole amount of VAT must be paid after incomes from business activities, most part of it can be refunded. The amount of the difference emerging from pre-paid and due taxes is regarded to be equal with that of profit and personal expenditure.

The annual expenses of the companies were taken into account to fix the amount of real estate tax. In Hungary real estate tax must be paid according to ground of the real estate that is 700 HUF a square metre. The local government's authority is to fix the amount of business tax, which must not exceed 2%. In our calculation the maximum of 2% is taken into account since most local authorities usually fix 2% for business tax. The amount of local business tax is calculated on the basis of income. The base of fixing innovation tax is income, too, which is 0.25% of income. The amount of 250,505,625 HUF is the annual tax of a transporting company with 500 million HUF profit and 2.7 billion HUF income.

1.2.2 Corporate taxes in Bulgaria

Companies in Bulgaria are in a more convenient situation since they have to pay less tax to the state. The following table shows the different types of taxes:

Table 9
Corporate taxes in Bulgaria

Bulgaria			
Unit of measurement		BGN	€
VAT	20%	811 332	413 620
Corporate tax	10%	384 615	196 078
Real estate tax	local		
Total		1 195 947	609 698

In Bulgaria, companies are obliged to pay three types of tax: corporation tax, which is less than in Hungary, VAT and real estate tax. For calculation the same methods are applied like in Hungary, that is, taking a company with 500 million HUF profit and 2.7 billion HUF income into account. The amount of real estate tax is different in each town.

The total sum of taxes to be paid is significantly different from that in Hungary. A company in Bulgaria, having the same qualities like a Hungarian one, is obliged to pay 372,677 EUR less tax than in Hungary.

1.2.3 Corporate Taxes in Romania

In Romania companies have to pay one additional type of tax (business tax) in compared to Bulgaria.

The base for calculating corporation tax is a profit of 500 million HUF, so the tax amounts to 971 370,7 EUR. VAT is calculated according to the above described methods.

Gauge of corporation tax is the lowest in Bulgaria, followed by Hungary and Romania with same results.

Table 10
Corporate taxes in Romania

Romania			
Unit of measurement		RON	€
VAT	19%	1 452 167	392 939
Real estate tax	local		
Business tax	2,5%	978 260,9	264 705
Corporate tax	16%	11 59 420	313 725
Total		3 589 848	971 370,7

Table 11
Corporation tax duties in the single countries

Country	Unit of measurement	Corporate tax	
		Ft	€
Hungary	16%	80 000 000	313 725
Romania	16%	80 000 000	313 725
Bulgaria	10%	50 000 000	196 078

Table 12
VAT duties in the single countries

Country	Unit of measurement	VAT	
		Ft	€
Hungary	20%	105 473 200	413 620
Romania	19%	100 199 540	392 939
Bulgaria	20%	105 473 200	413 620

Gauge of VAT duties are almost the same in the three countries. It is the highest in Bulgaria and Hungary.

Table 13
Real estate duties in the single countries

Country	Unit of measurement	Real estate tax	
		Ft	€
Hungary	700 Ft/m ²	4 282 600	16 795
Romania	local		
Bulgaria	local		

The gauge of real estate tax is determined by local authorities in Bulgaria and Romania, while in Hungary there is a flat rate (700 Ft/m²). It is calculated according to size of real estate (square metres).

Beside the above mentioned three types of tax, companies in Hungary are obliged to pay business tax and innovation contribution, which amount to ca. 60,750,000 HUF extra costs for a company with 500 million HUF profit and 2.7 billion HUF income.

EXPENDITURE ON WAGES

Many employees prefer calculating with net wage but in reality a gross wage is always paid. Gross wages are not the only cost of the company. There are additional charges because of the employment. Measuring both the employers' burdens in connection with employment and the employees' deductions from the gross wages we can easily detect the differences in the countries examined for this project. It is useful to make a comparison on the amount of minimum and/or average wages as well. These will exactly show us the differences and allow us to compare the countries.

1.3 Examination at the Minimum Level of Wages

First it is necessary to compare the level of minimum wages in the countries. Although these are away from average salaries but the tendency reflects the differences.

Table 14
Comparison of minimum gross wages

Country	Minimum gross wage in national currency	Minimum wage in euro
Hungary	65 500 Ft	260,7 €
Bulgaria	180 лв.	92,0 €
Romania	390 lei	115,1 €

1.3.1 Gross vs. Net Wages

If employers talk about wages we can be sure that gross wages are told. Employees' interest is focused on net wages because this will show them what products and services are reachable.

In Bulgaria the employers and the employees have the same type of contributions except the personal income tax. 65% of costs are paid by the employer and 35% of them are paid by the employee.

Table 15
Deductions from gross wages in Hungary

Hungary			
		Ft	€
Employees' contribution	1,5%	983 Ft	4 €
Employees' health insurance contribution	7,0%	4 585 Ft	18 €
Employees' pension contribution to state found	0,5%	328 Ft	1 €
Employees' pension contribution to pension found	8,0%	5 240 Ft	21 €
Personal income tax		11 790 Ft	47 €
Tax refund		9 000 Ft	36 €
Additional tax refund		2340	9 €
Total deduction	17,69%	11 585 Ft	46,10 €
Net wage		53 915 Ft	215 €

Table 16
Deductions from gross wages in Bulgaria

Bulgaria			
		лв.	€
Pension found (19%)	6,650%	12 лв.	6 €
Sick-list and pregnancy leave (3,5%)	1,225%	2 лв.	1 €
Employees' contribution to the unemployment found (3%)	1,050%	2 лв.	1 €
Additional pension security (4%)	1,400%	3 лв.	1 €
Health insurance contribution (6%)	2,100%	4 лв.	2 €
Personal income tax		0 лв.	0 €
Total deduction	12,425%	22 лв.	11 €
Net wage		158 лв.	81 €

Table 17
Deductions from gross wages in Romania

Romania			
		lej	€
Social security contribution	9,5%	37 lei	11 €
Employees' contribution to the unemployment found	1%	4 lei	1 €
Health insurance contribution	6,5%	25 lei	7 €
Personal income tax	16%	62 lei	18 €
Total deduction	33,00%	129 lei	38 €
Net wage		261 lei	77 €

Table 18
Comparison of wages

Country	Minimum gross wage in national currency	Minimum gross wage in euro	Deduction on gross wage in euro	Minimum net wage in national currency	Minimum net wage in euro
Hungary	65 500 Ft	260,7 €	46,10 €	53 915 Ft	215 €
Bulgaria	180 лв.	92,0 €	11 €	158 лв.	81 €
Romania	390 lei	115,1 €	38 €	261 lei	77 €

The employees' cost on minimal wage is the lowest in Bulgaria and the loads are the highest in Hungary. If we take a look at the percentages the order somewhat change.

Table 19
Deduction on minimum wage (%)

Country	Deduction on minimum wage (%)
Hungary	17,69%
Bulgaria	12,425%
Romania	33,00%

The highest deduction is shown in Romania, and the lowest in Bulgaria.

1.3.2 Employer Burdens

The only opportunity to examine the expenditure of human resource in a right way is reached if we complete the gross wage with employers' contributions.

We can set down, that the most favourable conditions on the field of human resources considering the minimum wages can be found in Bulgaria. The level of costs is only the third than they are in Hungary and only 75% then in Romania.

Table 20
Employers' burden in Hungary

Hungary			
		Ft	€
Pension insurance contribution	21%	13 755 Ft	55 €
Health insurance contribution	8%	5 240 Ft	21 €
Additional health contribution (fixed)	1950	1 950 Ft	8 €
Employers' contribution	3%	1 965 Ft	8 €
Vocational contribution	1,5%	983 Ft	4 €
Total	36,48%	23 893 Ft	95 €

Table 21
Comparison Employers' burden in Bulgaria

Bulgaria			
		leva	€
Pension fund (19%)	12,350%	22 лв.	11 €
Sick-list and pregnancy leave (3,5%)	2,275%	4 лв.	2 €
Employees' contribution to the unemployment fund (3%)	1,950%	4 лв.	2 €
Disability insurance (0,4%)	0,400%	1 лв.	0 €
Employee's contribution (0,5%)	0,500%	1 лв.	0 €
Additional pension security (4%)	2,600%	5 лв.	2 €
Health insurance contribution (6%)	3,900%	7 лв.	4 €
Total	23,975%	43 лв.	22 €

Table 22
Employers' burden in Romania

Romania			
		lej	€
Social security contribution	19,5%	76 lei	22 €
Health insurance contribution	6%	23 lei	7 €
Contribution to the unemployment fund	2,0%	8 lei	2 €
Contribution to Employment Office	0,75%	3 lei	1 €
Disability insurance	2,05%	8 lei	2 €
Sick-list fund	0,85%	3 lei	1 €
Payment insurance fund	0,25%	1 lei	0 €
Total	31,40%	122 lei	36 €

Table 23
Total costs of employment

Country	Minimum gross wage in national currency	Minimum gross wage in euro	Employers' cost in euro	Total in euro
Hungary	65 500 Ft	260,7 €	95 €	356 €
Bulgaria	180 лв.	92,0 €	22 €	114 €
Romania	390 lei	115,1 €	36 €	151 €

Conclusions

The present study has shown us the advantages and disadvantages of taxation environment structure of Hungary, Bulgaria and Romania. The main consequences are as follows:

- According to the taxation systems the most favourable conditions for companies are found in Bulgaria.
- Business tax, a special kind of tax is collected only in Hungary.
- The cheapest manpower is situated in Bulgaria, and the most expensive ones are in Hungary.
- As a consequence it can be stated that a company registered in Hungary has several disadvantages compared to competitors from Bulgaria and Romania.
- If we employed 3 people for minimum wage in Hungary, we will have the same costs as if we employed 7 of them in Romania or 9 in Bulgaria. These data show us the differences in the field of the cost of human resources.

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