International Tax

Hungary to offer EU's lowest corporate tax rate

Viktor Orban seeks to lure foreign direct investment with 9% rate

Viktor Orban, Hungary's prime minister, wants more competititve tax rates since the country exited EU special measures in 2013 © AP

NOVEMBER 17, 2016 by: **Andrew Byrne** in Budapest

Hungary (https://www.ft.com/topics/places/Hungary)'s government is to cut its corporate tax rate to the lowest level in the EU in a sign of increasingly competitive tax practices among countries seeking to lure foreign direct investment.

Prime Minister Viktor Orban said a new 9 per cent corporate tax rate would be introduced in 2017, significantly lower than Ireland's 12.5 per cent.

Hungary currently taxes companies at a rate of 10 per cent on profits up to 500m forints ($1.74m) and 19 per cent above that level. The government said the new single band would apply to all businesses. "Corporation tax will be lowered to single digits next year: a rate of 9 per cent will apply equally to small and medium-sized enterprises and large corporations," a statement said.

Economists said the measure would mainly benefit midsized Hungarian and foreign-owned companies with more than €2m in revenue.

Tax rates for large foreign multinationals in Hungary, especially German carmakers, are already heavily reduced by subsidies and tax concessions. Small firms already benefit from a lower-band 10 per cent tax rate on profits and so would see little change, economists said.

Mr Orban has signalled a desire to reduce taxes since Hungary emerged from EU budgetary discipline measures in 2013. Hungary raised some taxes in 2010 to avoid an international bailout.

Public debt has fallen below 75 per cent of gross domestic product and the country's economy is forecast to expand by 2.1 per cent in 2016 and 2.6 per cent in 2017, above the EU average.

Mihaly Varga, economy minister, said government reserves up to Ft200bn ($688m) would cover the costs of the measures next year. An official said they hoped the impact on the budget would eventually be neutralised by increased investment.

Hungary's parliament has already approved the 2017 budget and it is unclear when a vote on the measures will take place.

Analysts said the measure would also affect decisions by larger firms seeking to aggressively reduce their tax burden by profit shifting and transfer-pricing.

"It could have an effect on tax optimisation rather than actual business activity, despite European efforts to combat this," said Gabor Bekes, senior research fellow at Hungary's Institute of Economics. "It is hard to predict how much additional tax payments they can attract into the country with this measure, but it may be coupled with very little change in business activity."

He said the measure would likely provoke complaints of unfair tax competition from western capitals. "If I was a French politician, for example, I could easily complain that western European taxpayers give eastern countries billions in grants and subsidies and then you offset this with tax cuts to lure away our companies," Mr Bekes said.

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