DEVELOPMENT OF THE MAIN FEATURES OF HUNGARIAN TAX POLICY BEFORE AND AFTER THE PANDEMIC PERIOD

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ABSTRACT: *In this paper, we have reviewed some of the most important measures taken to restore the competitiveness of the Hungarian tax system, mainly in the areas of consumption taxes, environmental taxes and sustainable taxation. We have examined the pre-pandemic situation of Hungarian tax policy, the most typical action plan, changes in consumption taxes and environmental taxes. Since 2010, Hungarian tax policy has undergone significant changes, with the aim of increasing the competitiveness of the economy. The COVID 19 epidemic in 2020 brought new challenges, numerous changes and setbacks at both social and economic level, which needed to be responded to effectively and in a short time. Measures such as simplifying tax administration, increasing the competitiveness of businesses, enhancing the role of consumption taxes, strengthening green taxation and linking taxation and sustainability through the fight against tax avoidance. The increase of the VAT rate to 27% in 2012, shifting the focus to the consumption tax, has had a positive impact on economic growth, while reducing taxes on labour, but new challenges have been faced in the aftermath of the pandemic. This paper summarises the challenges and the steps taken to address them.*

KEYWORDS: *Hungarian tax policy; pandemic Covid 19; consumption tax; value added tax; environmental taxes; State Audit Office; sustainability taxation; tax avoidance; fighting against tax evasion.*
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The law on the 2023 central budget [1]was amended by the Parliament in March this year, as the prolonged war in Ukraine and the energy crisis caused by the EU sanctions have radically changed the economic and financial conditions of the country. The key long-term objectives of the Hungarian government's tax policy remained unchanged during the Russia-Ukraine war: to support economic growth by reducing direct taxes, especially on labour, to simplify the tax system reduce the administrative burden of tax returns, and to support families.

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[1] The Act about Hungary 2023. Budget 2022. évi XXV. https://net.jogtar.hu/jogszabaly?docid=a2200025.tv

The financial characteristics of the current situation can also be assessed as the result of a longer process, in which the economic challenges of the recent events of the COVID-19 pandemic and the tax policy response of the Hungarian government have played a very important role. The epidemic situation has caused several changes at both social and economic levels, which have required an effective response in a short time.

1. HUNGARIAN TAX POLICY BEFORE THE PANDEMIC

A study compiled by the Ministry of Finance provides a comprehensive picture of the competitiveness of the Hungarian tax system, covering the trends and characteristics of the 2010s.[2] According to this study, the Hungarian tax system underwent a significant transformation in the 2010s, to increase the competitiveness of the tax system. This was undoubtedly a complex task. Previously neglected reforms were necessary and inevitable, while the complexity of the economic environment, including the tax system, increased. From an economic policy perspective, the period under review can be divided into two parts. The first half of the 2010s was characterised by particularly high public deficits, external indebtedness and low labour market activity. These problems have improved over time, and the focus has shifted towards a work-based society and, in line with this, towards stimulating investment.

In the years from 2010 to 2020, there have been changes in 5 key priority areas of the tax system. (1) Tax cuts. Reduction in the high level of tax deductions, which initially meant maintaining tax deductions as a share of GDP, and then by the end of the decade there were significant tax cuts. (2) Increased role of consumption taxes. Over time, reductions in taxes on labour and capital income also became a feature. (3) Reduction and simplification of taxes on labour. In addition to a significant reduction in the tax burden on labour income, the structure of taxes on labour income has also changed, with the introduction of a single-rate family tax system in 2011. The reform aimed to eliminate incentives for inactivity and income concealment, to improve the targeting of employment incentives and to mainstream family policy into the tax system. The six-step tax reduction agreement concluded in 2016 also allowed for a significant, predictable long-term reduction in the tax burden on labour income, resulting in a reduction of the tax burden on labour to a competitive level in the region. (4) Reducing taxes on businesses and making them competitive. In the area of business taxation, the focus has been on reducing the burden and encouraging investment, with a particular focus on SMEs and key growth exporting sectors. The corporate tax rate has been reduced in two steps to 9%. Significant changes have also been made to the tax structure, to encourage investment and increase competitiveness. The creation of the KATA and Kiva[3] has also significantly improved the tax environment for SMEs. Over the decade, the taxation of companies has also been significantly affected by changes in the international tax environment, which have

[2] A magyar adórendszer versenyképességének helyreállítása a 2010-es években, Pénzügyminisztérium Adópolitikai és Nemzetközi Adózási Főosztály 2021. június https://ngmszakmaiteruletek.kormany.hu/download/6/fa/c2000/adorendszer0610v2.pdf

[3] 2012. évi CXLVII. Act about the small enterprises taxes /törvény a kisadózó vállalkozások tételes adójáról és a kisvállalati adóról

provided tax authorities with several new tools to combat international tax avoidance schemes. (5) Simplification of tax administration and whitening of the economy. Finally, in the area of tax administration, the focus was on making extensive use of the opportunities offered by digitalisation. The various tools enabling real-time data collection (online cash registers, online invoicing, e-commerce, etc.) contribute significantly to a more efficient selection of risky taxpayers and the whitening of the economy.

Of the 5 main areas mentioned above, in this paper, I will discuss in more detail the increased role of consumption taxes and the role of environmental taxes.

1.1 The role of consumption and environmental taxes in the years 2010-2020

Shifting the focus of taxation within the tax system towards sales taxes can help the economy grow. These taxes also tend to reduce distorting effects on consumption and saving decisions, as they are levied on individuals' earnings once at a uniform rate regardless of the time elapsed between the acquisition and consumption of income - unlike income taxes, which are levied on savings and reinvestment income at a cumulative rate (see the chapter on corporate taxpayers). In addition, the shift in the tax system's centre of gravity also favours active groups participating in production during the transition period, thereby encouraging entry into the labour market and production.

In addition to the above, they also have the important advantage that they are typically levied based on the country of consumption rather than the country of production: i.e. a domestically produced and an imported product or service are taxed at the same VAT rate, while exported goods and services are not taxed domestically but in the country of destination at the rates applied there.

The crisis caused by the coronavirus epidemic in 2020 called for new temporary measures, but the main thrust of economic policy remained the same. The general change in VAT rates and the extension or reduction of discounts will in any case have an impact on the income and consumption of economic agents. The key question is whether or not the change - e.g. the classification of a product range at a reduced rate - is reflected in consumer prices. If it does, it is primarily the behaviour and consumption patterns of consumers of the product that may change. If not, then the profitability of selling the product will change, which may ultimately be reflected in the profits of the owners and/or the income of the employees. If VAT changes are reflected in prices, demand responses should also be expected. Demand changes may vary by income bracket and product type. In addition to the change in the price of a given product, demand is also affected by how the prices of alternative products have changed, how the change in the VAT rate has affected overall purchasing power, and the elasticity of demand for a given product to changes in income.

The primary objective of environmental taxes is generally not to raise tax revenue but to discourage activities that are harmful to the environment. Literature suggests that such taxes are more effective in achieving environmental objectives than direct regulation (bans, quotas). However, theoretical literature and recommendations from international organisations suggest that there is considerable scope for improving the environmental effectiveness of these taxes and, to a lesser extent, their revenue-generating capacity. In practice, however, there is also often a problem of regulatory fragmentation and inconsistency, resulting in a significant divergence in the tax burden between two activities with similar pollution. Therefore, in addition to increasing tax rates, it is preferable to align the tax burden as much as possible directly with the level of harmful activity or pollution (e.g. CO2 emissions). However, the tax system is only one of the tools for environmental mainstreaming and, taking into account the recommendations of international organisations and the relevant literature, green tax legislation should be treated as part of a complex environmental programme. Accordingly, countries that are at the forefront of environmental protection are formulating a complex green strategy with long-term objectives and priorities. The objectives most often include reducing pollution, creating a healthy environment and generally improving the quality of life of citizens. The instruments used to achieve these goals include green regulations (e.g. emission limits), bans, subsidies and other incentives, including green taxes. A common solution is not to introduce an environmental measure in isolation but in a group, as the effects of individual measures can often be mutually reinforcing. An example is an environmental tax on energy for heating, the revenue from which can be used to set up a subsidy scheme to help improve the insulation of homes. It is also often argued that green taxes are less distortive of rational decisions by economic operators and that their introduction is often linked to a reduction in traditional taxes (e.g. on labour). Ideally, the aim of green taxes is precisely to internalise the (external) costs that are not perceived by economic agents but are borne by other agents, i.e. to make the agent who causes them pay for them. (CSÁK, 2014)[4]

A significant constraint for the most important consumption taxes is that these taxes are highly harmonised at the EU level.

The most obvious solution for creating a single internal market in tax terms was (positive) harmonisation of legislation. Such harmonisation would make it possible to create and operate a carefully designed and planned system, thereby eliminating all the rules that distort the functioning of the single internal market. Harmonisation has only been achieved in the field of indirect taxation, whereas the positive harmonisation of direct taxation has been unsuccessful, despite a relatively short period. In the absence of strong positive harmonisation, Member States' internal tax laws show widely divergent features, which can result in conflicts of tax discrimination, tax avoidance or double taxation. Just as in international law legislators try to resolve these conflicts by establishing principles, similar tax principles and methods are also found in European tax law, typically the principles of equal treatment, non-discrimination and the prohibition of harmful tax competition. Based on this line of thinking, European Union tax law can be conceived as an approximation of the tax laws applied within the tax systems of the Member States, the result and purpose of which is to resolve conflicts arising from international relations to establish and maintain a single internal market within the Union. (ERDŐS, 2007)[5]

[4] The 'polluter pays' principle is a fundamental principle of EU environmental protection policy. In practice, the principle means polluters are incentivised to avoid environmental damage and are held responsible for the pollution that they cause. So that the polluter must bear the costs of the pollution he causes, including the costs of preventing, controlling and eradicating the pollution and the costs to society. By applying this principle, polluters are encouraged to avoid damaging the environment and, if they caused pollution, they are held responsible. The costs of restoration are also covered by the polluter, not the taxpayer. https://op.europa.eu/webpub/eca/special-reports/polluter-pays-principle-12-2021/hu/

[5] BÉKÉS Balázs: Közvetlen adózás az Európai Unióban Lehetőségek és korlátok a tagállami jogalkotásban, Doktori értekezés 2013. PPTE JÁK Doktori Iskola 2013. file:///C:/Users/USER/ Downloads/ Bekes_ Balazs_PhD_vegl_doi.pdf

Thus, in the field of indirect taxation, EU rules set, among many other factors, the number and, in part, the rate of VAT rates, the range of products that can be subject to reduced rates and exempted, the minimum rate of excise duty on certain products and the mechanisms for accounting for and collecting the tax. As in other countries in the region, the weight of consumption taxes in the tax mix was already high in the 2000s (reflecting the inclusion of local business tax in international classifications).

In the 2010s, tax policy sought to increase the weight of consumption and environmental taxes in the tax mix. As an important element of this, the standard VAT rate was increased to 27% in 2012, with no change in the reduced rates. Subsequently, the VAT system has stabilised in terms of the main tax rates, an unusual stability by historical standards despite changes in other detailed rules.

Looking at the trends, as a result of the measures taken in the 2010s, the relative weight of consumption-related tax revenues in total tax revenues in Hungary has continued to increase, and in 2021 it will be the 4th highest among EU Member States.

However, despite the tax increases implemented, the share of revenue from green taxes as a share of GDP has still fallen slightly, partly because the volume of harmful activities underlying these taxes has grown less than GDP, and partly because under EU rules they are often based on the volume of activity, so the tax rate does not automatically follow inflation.

In summary, consumption taxes are expected to remain an important key element of tax policy in the coming years, as the main source of revenue from these taxes, alongside economic growth and an overall reduction in the level of redistribution, can provide the source of reductions in taxes on production. The source of the additional revenue needed to achieve this will mainly come from further whitening the economy and strengthening incentives to discourage harmful activities.

2. NEW TRENDS IN THE COVID-19 POST-PANDEMIC TAX POLICY

According to the analysis of the State Audit Office of Hungary (hereinafter: SAO)[6] dated 2022, there were no significant externalities in the period 2017-2019, so domestic macroeconomic and fiscal developments were characterised by dynamic economic growth and the pursuit of fiscal balance. Over this period, real GDP grew by 4.8% on average, above the EU27 average, driven by consumption based on domestic demand and economic performance based on investment activity by households and firms. Over this period, the contribution of final consumption to GDP was dominated by a steady increase in the net disposable income of households and favourable labour market developments. For households, investment activity was boosted mainly by an increase in the amounts that could be used to accumulate from growing savings and by the Government's home creation programmes, while for businesses it was boosted by preferential loan schemes to encourage investment.

The SAO has been working to reduce the negative social and economic impact of the coronavirus epidemic, which requires economic and social cooperation. In the present

[6] Correlations of macroeconomic and budgetary processes in 2021, with a 5-year retrospective , (A 2021. évi makrogazdasági és költségvetési folyamatok összefüggései, 5 éves visszatekintéssel) 2022. Állami Számvevőszék elemzése 22-23.p. www.asz.hu

case, this cooperation was emphasised by the emphasis on the advisory role and the launch of monitoring audits. (DOMOKOS, 2020)

In 2020, the national economy was hit by an external shock with the emergence of the coronavirus epidemic. The health emergency has halted consumption, which has been a driver of dynamic economic growth since 2017, and curbed business investment. The closures due to the epidemic mainly affected the service sectors of the economy. The significant decline in the performance of the tourism and air transport sectors had a diminishing effect on the external trade balance through the services external trade balance, which thus continued to decline after 2019.

In the context of fiscal crisis management, the fiscal execution that stimulated investment and development in previous years has been further strengthened, leading to a shift in the budget expenditure towards financing investment and development. In addition, the budget has prioritised the protection of human lives, providing funds for the purchase of health protection equipment, the financing of health investments and a one-off wage increase for health workers. With the slowdown in economic performance (real GDP declined by 4.5%) and the adoption of tax relief measures to reduce tax liabilities to protect the economy, the growth rate of tax revenue collection also declined compared to previous years, while the effective operation of the economy-reducing measures taken in previous years contributed to an increase in tax revenue collection compared to the previous year.

Tax revenues accounted for 65-70% of direct budget revenues in the period analysed. One of the main focus areas of the post-2010 tax policy was the restructuring of the tax structure, aiming at increasing consumption-related taxes and reducing the weight of taxes on income within total tax revenues. In achieving these objectives, economic policy aimed at supporting the increase of employment, the reduction of tax evasion and the strengthening of the competitiveness of enterprises. Between 2017 and 2019, the share of taxes linked to consumption increased, while the share of taxes on contributions by business organisations decreased. The share of taxes paid by the general public increased over the same period, reflecting the effects of improving labour market trends (rising employment and earnings, falling unemployment). The tax structure in 2020 was significantly affected by the coronavirus epidemic, as falling demand in the context of restrictive measures reduced the fulfilment of consumption-related taxes.

In 2021, the weight of payments by business entities increased compared to 2020, resulting in a further decrease in the share of consumption-related taxes

The general sales tax (VAT), which accounts for around three-quarters of consumption-related taxes, is the largest source of revenue for the central budget, and its fulfilment is closely related to the evolution of final consumption, which determines the consumption side of economic growth, and to changes in the consumer price index. The volume of VAT revenues increased steadily between 2017 and 2021, reaching HUF 5 397.2 billion in 2021 compared to HUF 3 525.3 billion in 2017. The dynamic increase in the period analysed, from 2017 to 2019, was curbed in 2020 by the coronavirus epidemic. Subsequently, in 2021, with the recovery of the economy and the rise in inflation in 2021, revenues increased at a similar rate of growth to 2019. The gap between the VAT potentially collected and the VAT collected, i.e. the VAT gap has improved dramatically in Hungary thanks to measures to improve the economy (e.g. the effects of the introduction of the online cash register in 2013 and online invoice reporting in 2018). According to a related study by the EU Commission, the ratio has decreased from 13.9% in 2017 to an estimated 6.1% in 2020. As a consequence, the growth dynamics of the VAT revenue performance compared to the previous year in the period analysed were influenced by changes in the tax rate and was determined by improvements in the efficiency of tax collection, in line with inflation developments.

3. THE CHANGING ROLE OF THE STATE AUDIT OFFICE IN THE PANDEMIC

Even after the declaration of a state of emergency, the State Audit Office of Hungary continued to perform its statutory tasks by the rule of law, including the audit of the 2019 accounts and the provision of its opinion on the 2021 budget, the preparation of which required more work than before due to the uncertain and constantly changing environment. However, the SAO did not only audit the entities subject to statutory audit but also sought to extend its audit, analysis and advisory activities as widely as possible to help organisations use public money and assets more effectively. It does so to promote the principles of quality spending, good governance and transparent operation and management, and thus to strengthen public confidence in public institutions and other publicly owned organisations.

In addition to advice and analysis, there was a need to strengthen transparency and integrity, which could be achieved by carrying out audits, while at the same time, in an increasingly difficult economic and social context, two important aspects had to be kept in mind: to cover as wide a range of audits as possible, since transparency is now more than ever a means of strengthening trust; and to identify the operational and management risks of the auditees, while minimising their workload.

Within its audits, the SAO has created a new type of so-called monitoring audit, which was first used based on financial data from the Hungarian State Treasury. It evaluates institutions on a monitoring basis, but in addition to evaluating the MÁK's (Hungarian Tresury) data, it has also developed a new method of requesting documents from the organisation for the current year. This type of audit has numerous advantages. On the one hand, the audit coverage can be significantly increased, so that segments not previously audited, i.e. the entire audited population, are covered, and on the other hand, it carries out targeted audits with a relatively small number of documents, and thus seeks to address risks and irregularities, thus helping to raise awareness of the efficient use of public money and assets. This is beneficial not only for the SAO but also for the audited organisations, as it reduces their workload due to the limited number of documents and also provides an opportunity to address risks and irregularities identified during a subsequent, more in-depth audit of the monitoring type.

In 2020, the State Audit Office of Hungary put the integrity of local governments under monitoring control, thus reducing local governments' vulnerability to integrity threats. The topicality of the issue is further reinforced by the fact that the fight against the virus and its negative social and economic effects has also placed additional tasks on local governments, and in the current situation, they are also required to pay greater attention to maintaining organisational integrity.

4. NEW CHALLENGES: THE EMERGENCE OF SUSTAINABILITY AND ITS FINANCIAL IMPLICATIONS FOR ECONOMIC POLICY

4.1 Sustainable finance policy and environment protection policy

About the financial system, sustainability is most often defined in terms of environmental, social and good corporate governance in investment decisions in the financial sector. The relationship between the financial sector and sustainability is most often discussed about the risks inherent in climate change. Although its future magnitude and economic impact cannot be predicted with certainty, there is a growing recognition that the financial sector urgently needs to build its resilience to climate change (Moldovan, 2019). Financial institutions can contribute to the sustainability turnaround of the economy in particular by assessing the environmental and social impact of their financial stakeholders and encouraging them to act sustainably. This is particularly important when working with companies with the highest emissions.

The European Union aims to promote sustainable finance to help achieve the objectives of the European Green Deal, in particular by mobilising the resources needed to make the transition to a sustainable economy (European Commission). To this end, the European Commission has drawn up a ten-point action plan, the elements of which are grouped around the following strategic objectives: (1) to steer capital flows towards sustainable goals; (2) to mainstream sustainability in risk management; (3) to strengthen transparency and long-term thinking in the financial sector.

In the context of the EU's sustainable finance policy, it is noteworthy that the European Investment Bank was the first in the world to issue a green bond in 2007, and by 2018, 31% of its total financing activities were supporting projects that mitigate or adapt to climate change (Lagarde, 2020)

Sustainability considerations, particularly in the field of environmental protection, are becoming increasingly important in national economic policies. It is worth pointing out that their introduction must be based on cooperation with the financial sector, otherwise, the sector could suffer significant damage, which would affect the economy as a whole. Pillar I: Analysing the risks for the financial sector and promoting the greening of the financial sector; Pillar II: Working with domestic partners, raising awareness, and participating in international coalitions on climate change and green finance; Pillar III: reducing the ecological footprint of the MNB (Hungarian National Bank) and publishing relevant data.[7]

Sustainability, as can be seen above, is a complex issue in which economic impacts are of crucial importance. The issue of sustainability in the budgetary area is set out as a general principle in the Fundamental Law.[8] This principle can be considered general - as the explanatory memorandum also points out - because the exercise of fundamental rights

[7]A pénzügyi rendszer fenntarthatósága (infojegyzet) Országgyűlés Hivatala Közgyűjteményi és Közművelődési Igazgatóság Képviselői Információs Szolgálat 2020/63. 2020. október 2.

[8] Hungarian Fundamental Law Article „N „:

(1) Hungary shall observe the principle of balanced, transparent and sustainable budget management.

(2) The National Assembly and the Government shall have primary responsibility for the observance of the principle referred to in paragraph

(3) In performing their duties, the Constitutional Court, courts, local governments and other state organs shall be obliged to respect the principle referred to in paragraph (1).

and the effective functioning of the state can only be guaranteed if the social and economic balance of the country is not jeopardised by problems of public finances. Therefore, the fundamental general principle of budgetary management and budgetary planning is that Hungary wishes to apply the principle of balanced, transparent and sustainable budgetary management, which all bodies operating in both subsystems of public finances are obliged to respect. Balance serves the predictable operation of the state, transparency serves democratic public life with the participation of informed and responsible citizens, and sustainability serves the assumption of responsibility for the fate of future generations. Another aspect of sustainability is the growing importance of environmental protection issues in the public finance system. Environmental policy seeks to respond to the problems that arise through policy, legal and economic regulation, support policy and the development of institutional conditions. On the one hand, the issue requires a separate public service and funding in public finance management, and on the other hand, the environmental aspects of specific public functions are of growing importance. The importance of environmental protection is demonstrated by the fact that the basis for environmental funding is laid down in the Fundamental Law as well as in individual laws.

Public finance management affects environmental management both in the area of public (environmental taxes, other charges, fines, etc.) and in the area of public expenditure (specialised administration, subsidies). (Nagy, 2010) (Csák & Nagy, 2020) The economic and financial crisis of recent years is prompting economic policy-makers to rethink the crises that may arise in the future and that can be avoided. Arguments and positions in favour of sustainable economic policy, including sustainable fiscal policy, are gaining momentum. An important objective will be to achieve a balance between the natural environment, production and consumption, which will require a reorganisation of public finance management and a sustainable fiscal policy.[9]

The interaction between financial policy and environmental protection is not only at the national level. There is global agreement that current tax systems need to be reviewed and modernised to address environmental, social and economic challenges. These challenges include technological transition, demographic change, rising inequalities and the triple environmental crisis: climate change, biodiversity loss and overconsumption of natural resources.

The fiscal consequences of the 19 Covid pandemic have made it clear that fiscal sustainability, the solvency of the state, is critical to the success of the transition to sustainability. The long-standing idea of shifting taxes from human labour to the environment in support of sustainability goals has largely failed to materialise. With the EU facing multiple fiscal pressures over the coming decades, the idea could be framed as sustainable fiscal reform, with an emphasis on other taxable items such as financial transactions, real estate and wealth.

Revenues from environmental taxes are a crucial contribution to the transition to a climate-neutral economy by 2050, and to the European Green Deal, which aims to achieve

[9] CSERNUS, Dóra Ildikó: Ajánlások a költségvetéshez In: Fülöp, Sándor: A jövő nemzedékek országgyűlési biztosának beszámolója 2008-2009. Országgyűlési Biztos Hivatala, Budapest, 2010. p. 251.

a net 55% reduction in greenhouse gas emissions by 2030.[10] Given Europe's ageing population, whose impact on labour-based tax revenues and welfare spending is significant, the case for environmental taxes has never been stronger. The carbon pricing measures, the aforementioned European Green Deal[11] and the European Commission's 'Fit for 55' package are all essential elements of the measures to support the transition to a climate-neutral economy. The modification and revision of the EU's current energy taxation and carbon pricing systems, including the EU Emissions Trading System, will also generate more revenue in the coming years.

The tax base is significantly reduced and eroded in the context of decarbonising the European economy, as current energy taxation and carbon pricing systems rely heavily on non-renewable energy products. It will therefore be essential to find the right balance between achieving the transition objectives and maintaining revenue stability, and between future-proofing tax systems and new revenue sources.[12]

On 2 March 2023, the European Commission adopted a Communication guiding the Member States on the conduct and coordination of budgetary policies in 2024. This guidance will help prepare the Stability and Convergence Programmes in which Member States will set out their medium-term structural budgetary plans. This will be followed in the spring by country-specific budgetary recommendations, which will form the basis for the Commission's monitoring of budgetary outcomes, starting with the 2024 budgetary plans of euro area Member States, which will be assessed by the Commission in the autumn.[13]

In summary, sustainability is a complex concept and can be interpreted not only in the field of environmental law but also in the field of financial law, the two fields of law are closely interrelated. Public administrative law alone is not sufficient to ensure effective environmental responsibility. What is needed are regulatory instruments that can have an impact on the sustainable functioning of a society. Through taxes, the state can influence the consideration of environmental values and reorient economic activity towards environmental awareness. Subsidies allow economic activities or the restructuring of economic activities in a way that also promotes sustainability. Financial interest is a major

[10] The new EU Climate Agenda calls for a reduction of at least 55% instead of 40%. Thanks to new carbon sinks, this figure could rise to 57%.https://www.europarl.europa.eu/news/hu/press-room/20210621IPR06627/2050-re-klimasemleges-eu-megvan-az-ep-jovahagyas

[11] European Green Deal https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal_en

[12] Európai Környezeti Információs és Megfigyelő Hálózat : (Környezeti) adók szerepe a fenntarthatóságba való átmenet támogatásában (2022)
https://eionet.kormany.hu/kornyezeti-adok-szerepe-a-fenntarthatosagba-valo-atmenet-tamogatasaban
Európai Bizottság közleménye, amely iránymutatást ad a tagállamoknak a 2024-es költségvetési politika folytatásához és összehangolásához. 2023.
https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/fiscal-policy-guidance_en

[13] European Commission, Economy and Finance, Fiscal Policy Guidance, The European Commission has adopted a Communication providing Member States with guidance on the conduct and coordination of fiscal policy in 2024. (2023)
https://economy-finance.ec.europa.eu/economic-and-fiscal-governance/stability-and-growth-pact/fiscal-policy-guidance_en

driving force for people and society to promote environmental responsibility. (Csák & Nagy, 2020)

4.2 Sustainable fiscal policy and tackling tax avoidance

In addition to the global health crisis, the coronavirus epidemic has also caused an economic downturn worldwide. National budgets and economic operators alike have suffered significant losses on the revenue side, while expenditure is gradually increasing, due to overfunding of the health sector on the one hand, and to the recovery of businesses that have gone bankrupt, to save jobs and to create new ones on the other. Well-functioning tax systems will play a major role in making up for the increased public deficits. It is therefore important that the state effectively and fairly extracts wealth from economic agents and redistributes it beneficially. Consequently, one of the main tasks of the taxing public authorities is to step up the fight against tax fraud and curb the black economy.[14]

Sustainability and tax avoidance are two concepts that are far apart, with opposite goals and opposite interests, yet there is a link between the two. This was highlighted by the pandemic caused by COVID-19 and the resulting economic crisis. Tax evasion is by no means sustainable, and the continued maintenance and growth of tax evasion is causing billions of euros in deficits in Member States' budgets. Indeed, with the development of digital commerce and the digital economy, we are confronted every day with the wonders of digitalism and enjoy all its benefits, using digital social spaces, digital media, shopping online, and watching films online, but we wonder less whether digital companies that operate across borders and around the world pay taxes in the countries where they operate and where their revenues come from.

The concept of sustainable development, a worldwide concept, was introduced in the Brundtland Report adopted by the United Nations in 1987, which states that "sustainable development is a development that meets the needs of present generations without compromising the ability of future generations to meet their own needs." The model is therefore based on three elements: social development, environmental protection and economic development. The triple aspect of sustainability was already articulated in the Brundtland Report: (1) infinite growth in a finite world is unthinkable, (2) the existing economic model is subject to physical and ecological limits, (3) all inhabitants of the Earth have the right to live in dignified living conditions. (Domokos & Pulay, 2020) (citedErdős, 2021) Some elements of sustainability can be found in the National Framework Strategy for Sustainable Development 2012-2024 adopted by the Hungarian National Assembly in its Resolution 18/2013 (28.3.2013) (ERDŐS, 2021)

The conditions for ensuring the individual’s good life and the common good are preserved for future generations. It is clear from the concepts that sustainable development must go hand in hand with economic growth, but it cannot be reduced in any way to growth alone, because, just as human growth is finite, so economic growth has a limit, i.e. economic growth is finite and must stop somewhere (ERDŐS, 2021).

Sustainability, one of the conditions for sustainable taxation is therefore to reduce tax evasion,it goals more revenue of the central budget. The fight against tax avoidance will

[14] Dr. SZILOVICS, Csaba – Dr. SZÍVÓS,Alexander: Az adócsalás elleni küzdelem helyzete Romániában és Magyarországon 2022. július 21. in: Az új BTK. szakcikkek, https://ujbtk.hu/dr-szilovics-csaba-dr-szivos-alexander-az-adocsalas-elleni-kuzdelem-helyzete-romaniaban-es-magyarorszagon/

mean less tax evasion, less tax avoided revenue and profits, which will also mean more tax revenue, and more budget revenue, which can be used for sustainable development and thus generate economic growth, which can be spent on sustainable green taxation, sustainable digitalism and sustainable environmental protection. The fight against tax evasion and sustainability are therefore closely linked, with complementary goals and tools. So, in the cycle described above, we can conclude that as a result of the increased fight against tax evasion, harmful tax behaviour will decrease, tax avoidance and tax evasion will show a downward trend, and taxpayers who have not paid taxes on their economic activity at the real place of value creation and profit generation - neither in Europe nor in America - will be channelled into taxation, such as digital tech companies. This could result in increased tax revenues, and increased tax revenues could increase Member States' budgetary resources, thus increasing the resources needed to respond to the current crisis, and thus achieving the goal of greener and more digitally sustainable taxation, i.e. to use the surplus tax revenues from economic growth for sustainable development by eliminating tax abuse. (ERDŐS, 2021)[15]

The recent reduction in tax evasion can be quantified. According to a report published by the European Commission in 2020, VAT avoidance was only 6.1%, bringing us close to Austria's level. The EU VAT gap[16] in the EU Report 2022[17], which includes data up to 2020) shows that the efficiency of Hungarian tax collection has further improved, with a VAT gap of only 5.1%. This is the best result among EU Member States in the fight against VAT fraud.

In the section on Hungary, the authors of the study on VAT collection point out that the 2020 figure shows a huge improvement even though the fall in GDP due to the coronavirus should have hurt VAT collection. Nevertheless, as the authors point out, Hungary achieved the largest improvement between 2019 and 2020. With an improvement of 4.7 percentage points, we overtook, among others, second-placed Germany (4.2 percentage points) and third-placed the Netherlands (4.1 percentage points). The authors of the report say that the improved figures may have been partly due to support measures in response to the coronavirus epidemic - and thus a reduction in the number of bankruptcies - and a decline in cash flow, also linked to the epidemic. Finally, it is anyone's guess, but the expansion of the online invoicing system in 2020 and even the introduction of the home renovation subsidy could have contributed to the sharp improvement in the Hungarian result, as both of these made the issuing of invoices a standard requirement for the area most affected by VAT evasion.[18] In addition, the steady, trend-like decrease in

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[15] Council of the EU, Code of Conduct Group Business Taxation, the Council conclusions on the reform of the Code of Conduct for Business Taxation https://www.consilium.europa.eu/hu/council-eu/preparatory-bodies/code-conduct-group/

[16] The amount of VAT uncollected by the state, i.e. missing VAT. The underlying causes of the VAT gap can be grouped into four broad categories: (1) VAT fraud (2) VAT avoidance and optimisation practices, (3) bankruptcies and financial insolvencies, and (4) administrative error

[17] VAT gap in the EU Report *2022*,https://op.europa.eu/en/publication-detail/-/publication/030df522-7452-11ed-9887-01aa75ed71a1

[18] DÉNES, Zoltán: Magyarország érte el a legjobb eredményt az áfacsalással szembeni küzdelemben, Világgazdaság, Magyar Gazdaság https://www.vg.hu/vilaggazdasag-magyar-gazdasag/2022/12/magyarorszag-erte-el-a-legjobb-eredmenyt-az-afacsalassal-szembeni-kuzdelemben 2022.12.19.

Hungarian VAT evasion is also due to the digitalisation process, which is strongly supported by the tax authorities.

5. CONCLUDING THOUGHTS

To sum up, the economic situation before and after the coronavirus epidemic was similar in Hungary to the consequences of the financial crisis that hit in the late 2000s, but there is a significant difference between the causes, nature and course of the crisis. In early 2020, the epidemic hit an economy with a much more resilient and balanced structure: the Hungarian economy was growing, and both external and internal balance indicators were favourable. Another important difference is that, while the previous crisis in 2008 was triggered by an overheated US housing market and excessive risk-taking by the banking system, the current downturn was triggered by a health emergency outside the economy. While the financial crisis had a lasting impact on the economy through a fall in demand until the necessarily lengthy balance sheet adjustments were implemented, the historic second-quarter slump was followed by an unprecedented bounce-back in the third quarter, following weeks of temporary paralysis of activity in the spring of 2020, and by the summer, when the epidemic restrictions, which were reduced to face-to-face services, allowed the economic activity to resume. The spill-over of the crisis in the affected sectors and the reduction in capacity was prevented by the significant flow of resources into the economy under the Economic Recovery Action Plan, which helped businesses, households and workers alike. As a result, unlike in the 2008 crisis, the containment of the epidemic means that the Hungarian economy has a good chance of quickly outperforming its performance in the period before the outbreak.[19]

It is also worth noting that the promotion of a "green turn", which is becoming more prominent in the wake of the COVID-19 crisis, is a priority for the financial sector and central banks. Central banks cannot ignore climate change and must respond to it, but further discussion and sharing of experience is needed on the extent of central bank involvement. COVID-19 has significantly "brought forward" the strengthening of the green renewal and circular economy, as the pandemic situation creates new opportunities for green and digital transformation, which can be better achieved through international cooperation, but requires a country to become a meaningful partner (participant).

Sustainability is closely linked to tax avoidance, to the fight against tax evasion, because strengthening the tools to fight tax avoidance will result in fewer harmful tax practices, fewer tax evaders and taxpayers who do not pay taxes. The loss of budget revenue due to tax evasion is thus reduced, the payments of taxpayers who stop avoiding newly channelled taxes and the reduction in the loss of revenue increases budget revenue. The increased budget revenue in turn leads to economic growth, which can be used for environmentally friendly methods and sustainable development. This is what the budgetisation of taxation of digital companies will bring about, and this the real goal.

[19] Magyarország konvergencia programja 2021-2025 pp.10. -11. The Hungarian Convergence Program provides information on the government's economic policy objectives and describes macroeconomic and budgetary developments, with a particular focus on the impact of the crisis and the economic policy responses to it.

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