
Importance of Local Taxes in the Budget of Hungarian Local Governments – Focusing on Tourist Tax



Abstract

Primary revenue sources of Hungarian local governments are local taxes. During budgetary planning, municipalities focus firstly on payment obligations of local undertakings, regarding not only local business tax, but also other local taxes. The relevance of this analysis has been in the forefront due to the economic recession caused by pandemic since almost all Hungarian local governments need to reorganise their budgets. The situation is aggravated by changes in legal conditions concerning new regulations on tax payment, the freezing of local tax rates and the suspension of government grants for resort activities. The aim of this research is to analyse the structure of local tax revenues in touristic municipalities.

Keywords: local governments, tourism, local taxes

INTRODUCTION

The financial autonomy of local governments is embodied in independent budget management in which local taxes make up a significant proportion of revenues. The basic condition for the operation of local governments is local taxation that provides financial opportunities and autonomy, which has a tight connection to both macro- and microeconomic processes.

In Hungary, in the years following the introduction of the local tax system, own resources only accounted for one-fifth of the revenues (Horváth et al., 2014). Nowadays this proportion exceeds 30 percent. However, there have been huge differences between the own revenue capacities of local governments in terms of geography and settlement size due to the dominance of local business tax. The high level of income inequality of the Hungarian local government system is confirmed by the fact that local governments with the highest local business tax revenue only account for 20% of the population but take a 50% share of the national local business tax base (Berczik, 2018).

Tourism tax has a special place in the local tax system since it does not generate significant revenue in a national context; however, it plays an important role in tax-derived resources in the case of certain local governments' budgets.

The research points out the structural differences in local tax revenues highlight the role of legislative changes and the impact of the economic consequences of Covid19 with a focus on those local governments that have been mostly affected by the decline in tourism.

The selection of settlements was developed using the method of indexing. The indexing takes the specific tourist tax revenue of local governments and the guest nights of accommodations into account as well. Local tourist tax and local business tax paid by touristic service providers played a determinant role among the revenues of municipalities involved in this analysis in the recent period. However, regarding changes in the economic situation and legal regulations, these local governments would suffer the consequences of local tax revenue decrease in 2021 and in the following years.

1. IMPORTANCE OF TOURIST TAX REVENUES

Observing the national average, the share of local business tax among all local tax revenues of municipalities was around 80% in the latter years, while the share of tourist tax did not reach 2% (Gróf-Németh, 2021). Out of the 3,178 Hungarian local governments, 844 levied tourism tax in 2018; however, only 757 local governments generated tax revenue from it.

The size of the revenues from the tourist tax varies from region to region and from city to city. Budapest represents an outstanding value, its revenue in 2018 was HUF 6.412 billion; therefore, the relevant data of the city is distributed among the districts and each are treated as local governments in the surveys. The highest per capita tax revenues were recorded in the settlements of Western Transdanubia (Zalakaros, Hévíz, Bük), but several other spa towns and villages, settlements at Lake Balaton, as well as Mátraszentimre and Parádsasvár from the northern Hungarian region also represented a significant proportion.

Examining the data in the Table 1, the highest tourism tax revenue per capita was generated in the districts of Budapest, however the role of this type of tax is the most significant in the villages.

Table 1 Changes in the amount of tourist tax revenue and its proportion in local tax revenue by type of settlement in 2018

	Nr.	Sum of tourist tax revenue (million HUF)	Tourist tax revenue per local government (million HUF)	Tourist tax revenue per capita (HUF)	Proportion of tourist tax within local taxes (%)
Capital districts	23	6,102	290.6	3,487	3.17
County status cities	23	1,633	71.0	835	0.71
Cities	188	5,223	27.8	2,472	3.02
Large villages	37	222	6.0	1,693	3.46
Villages	485	1,567	3.2	2,972	7.50

Source: own calculation based on MÁK database (2021)

The relevance of tourism tax is also shown by the fact that revenues from this type of tax in several settlements accounted for more than half of the municipal public revenues, for instance in Aggtelek, Cserkeszölő and Hegykő (TEIR, 2019).

2. CHANGES IN THE REGULATORY ENVIRONMENT

Local taxes constitute typically a significant share of local government revenues. Looking at the national average, the share of tax revenues within total municipal revenues was around 35% until 2007, then it dropped to 20–22% from 2008, following this the rate showed an increase from 2015, and in 2020 it was 28.86% (OECD). In addition to the economic performance, changes in legislation on taxation also have been a significant impact on the tax revenues of municipalities. Both the regulations on transferred central taxes and local taxes, as well as the changes in the conditions of subsidies related to collected taxes are forcing local governments to restructure (Gróf-Németh, 2021).

2.1. CHANGES IN MUNICIPAL FINANCE

Instead of the resource regulation method that has been operating since the change of regime, in the framework of the 2012 local government reform, the Law No CLXXXIX of 2011 on Hungarian local authorities, a system was introduced based on task financing, in which the state provides for the performance of mandatory tasks with task-based support. The purpose of the amendment was to eliminate or reduce debt and underfunding. The support is determined by taking into account frugal budgeting, statutory expected own revenues of the local governments and the actual own revenues (Fellegi, 2015).

Both advantages and disadvantages of task financing system are highlighted in the literature. On the one hand, according to Török (2014), task financing creates stricter budget management because only the given task can be financed in this way, but on the other hand, there is less of an incentive to generate tax revenue (Giday, 2014; Nagy 2019).

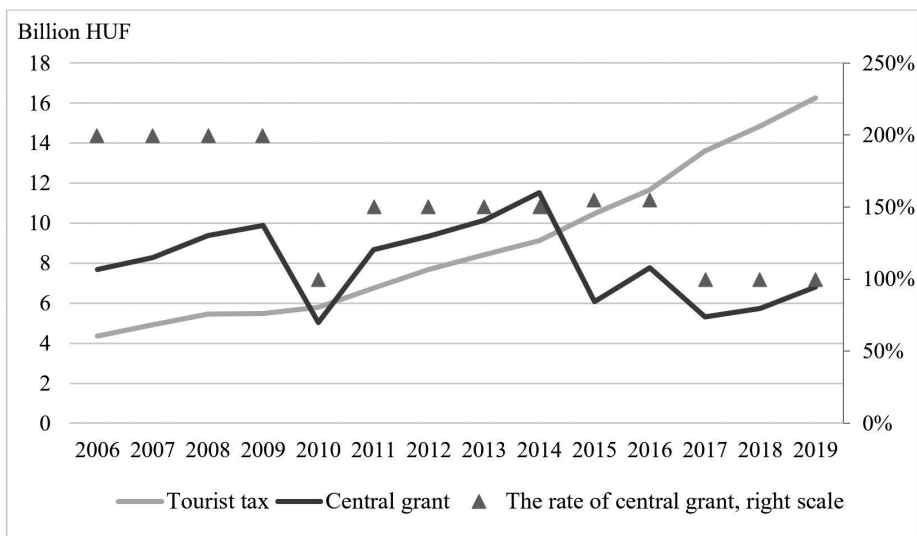
In terms of own revenue capacities, there were large differences among Hungarian municipalities by area and settlement size, due to the dominance of the business tax. This dominance also means, that the business tax base has become a kind of indicator measuring the general development of a settlement (Péteri, 2015). A system of offsetting and supplementation has been introduced to compensate for income disparities; moreover, the Budget Act of 2017 added a new element to the financing system of local governments. This is the solidarity contribution, which will serve as the income equalization alone from 2021 onwards. The solidarity contribution is paid to the central budget by the local governments with a tax capacity of more than HUF 22,000 per capita, taking into consideration the business tax capacity of the settlements (Budget Act of 2021).

With the restructuring of the financing system, the share of transferred central taxes among the tax revenues of local governments decreased significantly: in 2012, 8% of personal income tax, 100% of duties and 100% of vehicle tax went to local governments, of which only the 40% of the vehicle tax could remain in the local government budget from 2013. This amounted to HUF 33.7 billion in 2019, but in 2020 local governments had to transfer all vehicle tax revenue to the central budget, according to the 92/2020 government decree. The centralization of vehicle tax meant another HUF 35 billion deduction from local governments.

2.2. TOURIST TAX GRANT

Tourist tax plays an important role in the budgets of municipalities with a strong tourism profile. Related to local tourist tax, the grant provided by the central budget was also not forgotten. For resort activities, municipalities could count on an additional central grant with a rate of 100 per cent for each HUF tourist tax revenue unit (Figure 1). Local governments received one HUF after each unit of collected tourist tax, however, the actual amount decreased depending on the business tax capacity of the municipality according to the regulation of the previous offsetting system (Budget Act of 2019). Nevertheless, in most settlements it was still a significant source of local revenues.

Figure 1 Municipal revenues from tourist tax and resort activities grant, 2006–2019



Source: own calculation based on MÁK database (2021)

The revenue from tourist tax increased continuously in Hungary and was more than HUF 16 billion in 2019. Its growth rate was almost the same as for guest

nights, while municipalities raised their applied tax rate following the maximum statutory rate adjusted for inflation in each year (Table 2).

Table 2 Trend of tourist tax rates (HUF per person per night)

	2013	2014	2015	2016	2017	2018	2019	2020
Average rate of tourist tax	253	256	261	268	273	276	280	285
Maximum rate	469	497	505	504	504	506	518	532

Source: own calculation based on MÁK database (2021) and Act C of 1990 on local taxes
 The highest tax rate, HUF 530, was applied by several local governments from 1 January 2020: Balatonfüred, Budapest XIV. kerület, Bük, Hévíz, Nagypáli, Sopron, Tihany and Velence (MÁK, 2020).

3. IMPACT OF THE COVID-19 PANDEMIC

Due to the dominance of local business tax, local tax revenues typically follow the changes in the economic performance of companies in settlements, and in an economic recession, tax revenues also immediately decrease. Municipalities are more or less prepared for these economic downturns, based on local possibilities, even in the absence of preventive means, at least by taking into account the fluctuations of business tax revenues. On the contrary, a Hungarian professor, Kamplér (2006) identified tourist tax as a stable source of local revenues similar to wealth taxes and the communal tax. It means, he thought that tourist tax not depends on business cycles. Until now, local governments have not anticipated the possibility of a decline in tourism tax revenues as much as they faced in March 2020, when the almost total decline in tourism did not generate any tourism tax revenue. For instance, during the first 9 months of 2020, the number of registered domestic tourists declined by 47% in Budapest, whereas the number of foreign/international tourists decreased by 76% compared to the same period from the year before. This is approximately the same tourism level as it was 8 years ago (Probáld, 2020). However, the decrease of these revenues not only affected the referenced months but it will also have longer-term impacts.

The 535/2020 (XII.1.) government decree on local tax provisions in the interest of mitigating the impact of the coronavirus pandemic on the national economy provides that local governments could not set a higher tourist tax rate than what they previously introduced, despite the fact that the statutory maximum rate is HUF 550 per person per guest night in 2021, which is adjusted for inflation. Until 30 June 2021, taxpayers did not have to collect the tax from guests and pay it to the local tax authority, however, they had to submit even then a return on the number of taxable nights, which were spent at their accommodation by guests (498/2020 government decree). Municipalities could request state grant in 2020 for all non-collected but declared taxable nights spent in their administrative area.

The Act LX of 2020 amending the Central Budget Act for 2020 suspended the payment of resort activities grant, and this grant is no longer included in the Act of Central Budget for 2021. Elimination of the resort activities grant also contributed to the decrease in local revenues.

Beyond these losses, the reduction in the business tax of tourism service providers will have a negative impact on business tax advances and tax revenues in the coming years.

In addition, according to the 639/2020 government decree, the local business tax rate will drop to 1 percent by 2021, if the current business tax rate is already higher in the settlement. Only micro, small and medium-sized enterprises are eligible for the discount, whose turnover or balance sheet total does not exceed HUF 4 billion. An additional benefit for these companies is that in 2021 they will only have to pay 50% of their local business tax advance.

All this could cause not only liquidity but also longer-term financial difficulties, thus setting new challenges for local governments interested in tourist tax.

4. ANALYSIS OF THE TOP10 MUNICIPALITIES

With the collapse of tourism in 2020, the number of guest nights dropped drastically compared to previous years. Municipalities that had to deal with the biggest challenge were those where the revenue from tourist tax, the related resort activities grant, and the business tax paid by the tourism service providers played the largest role in their budget.

4.1. TOP50, TOP10 METHODOLOGY

Municipalities in which the tourist industry has a significant influence on their budget were selected for further analyses. Hungarian local authorities were ranked according to the efficiency of their tourism performance and their tourist tax power. The investigation database was provided by the budget outturn figures for the year 2018, reflecting the actual pre-pandemic conditions.

In order to make the data sets comparable, the study took into account the relative values of each variable. To normalize the data sets, an index was assigned to the selected variables. The calculation of each sub-index was accomplished with the following formula (Obádovics-Kulcsár, 2003):

$$I_i = \frac{X_i - X_{\min}}{X_{\max} - X_{\min}}$$

where X_i is the current value of the variable,

X_{\max} is the fixed maximum value of the variable,

X_{\min} is the fixed minimum value of the variable.

Altogether three sub-indexes were required in order to calculate the tourism concentration index of municipalities:

1. *I*₁: *Tourist tax revenue index*, which is formed from tourist tax revenue per capita;
2. *I*₂: *Tourist traffic index*, which is based on the guest nights spent per capita;
3. *I*₃: *Tourist tax share index*, which shows the share of tourist tax revenues in the total budgetary revenues of municipalities.

Finally, the main indicator used to rank the settlements was determined by a simple arithmetic average of the calculated indices according to the following formula:

$$I = \frac{I_1 + I_2 + I_3}{3}$$

With the help of the index, it was possible to establish a ranking of Hungarian local authorities concerning tourism concentration. The TOP50 local authorities resulting from the ranking formed a sample for further investigations, in certain cases it was narrowed down to the TOP10 municipalities (Table 3).

Table 3 TOP10 Hungarian municipalities by tourism concentration index, 2018

	Municipality	Population 2018 (person)	Guest nights, 2018	Tourist tax revenue, 2018 (million HUF)	1. sub-index	2. sub-index	3. sub-index	Index
1	Zalakaros	1,996	723,052	273.2	1.0000	1.0000	0.8278	0.9426
2	Hévíz	4,633	1,279,882	610.7	0.9630	0.7626	1.0000	0.9085
3	Mátraszentimre	417	137,936	42.2	0.7393	0.9131	0.5482	0.7335
4	Bük	3,631	840,451	342.7	0.6895	0.6390	0.7658	0.6981
5	Zamárdi	2,410	350,724	166.8	0.5057	0.4017	0.6470	0.5182
6	Visegrád	1,841	287,991	101.6	0.4032	0.4318	0.7135	0.5162
7	Parádsasvár	328	45,741	19.0	0.4243	0.3850	0.7012	0.5035
8	Berekfürdő	1,001	138,027	54.4	0.3973	0.3806	0.6167	0.4649
9	Egerszalók	2,024	235,703	90.5	0.3265	0.3215	0.6541	0.4340
10	Tihany	1,342	169,565	70.5	0.3836	0.3488	0.4136	0.3820

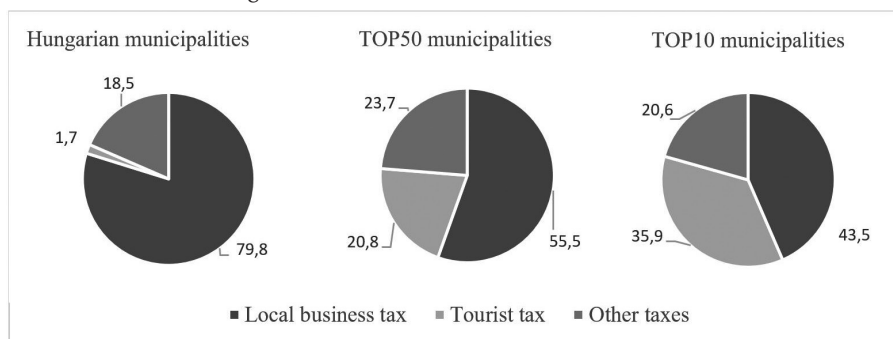
Source: own calculations based on MÁK (2021) and KSH (2021) database

4.2. DISCUSSION OF THE FINDINGS

At national level the seemingly modest tourist tax is extremely important among the tax revenues of the top tourism concentrated settlements. In the first 10 settlements

according to the tourism concentration ranking, the revenues from the tourist tax accounted for more than one third of their local tax revenues (Figure 2)..

Figure 2 Share of local tax revenues, %, 2018

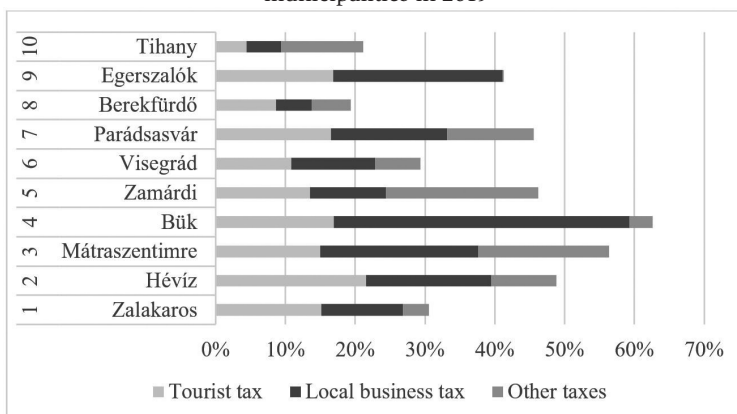


Source: own calculation based on MÁK (2021) database

Settlements with tourism suffer the greatest disadvantage of the economic crisis caused by the pandemic. At the same time, even regarding the tax revenues of the TOP10 settlements, the business tax is decisive. It has a strong dominance in Bük (Figure 3). Before the pandemic, in 2019 Bük realized the two-thirds of its local tax revenues from business tax; this proportion grew to 84 per cent in 2020. The amount of business tax stayed considerable because its most enormous enterprises work in the processing industry.

It is also important to emphasize that for the examined year the share of the revenue from tourist tax in the total revenues of the TOP10 local governments was higher than 20% only in Hévíz (22%), while in the case of Tihany it did not reach 4%.

Figure 3 Tourist tax and business tax revenues as percentage of total revenue at TOP10 municipalities in 2019



Source: own calculation based on MÁK (2021) database

4.3. CHALLENGES AND OPPORTUNITIES

However, the proportions described in the previous section have changed significantly as a result of the pandemic. Based on 2020 data, tourist tax revenues at the TOP10 municipalities fell by an average of 85%. In Zamárdi, only 6 percent of the planned revenue was received, Tihany and Berekfürdő collected around 10 percent of the targeted amount of tourist tax revenues (Table 4). According to the figures, guest nights in the settlements of Lake Balaton decreased more significantly than in municipalities with a spa or thermal bath. While in those municipalities where tourism is not based on spa tourism, such as in Visegrád or Mátraszentimre, there was a slight decrease in the number of taxable guest nights at tourist accommodations.

Table 4 Tourist tax revenues in the TOP10 municipalities, 2020

Ranking	Municipality	Initial appropriation (million HUF)	Result (million HUF)	Downturn %
1	Zalakaros	265	71.5	73%
2	Hévíz	600	137.5	77%
3	Mátraszentimre	40	13.4	67%
4	Bük	330	71.1	78%
5	Zamárdi	130	8.2	94%
6	Visegrád	100	40.0*	60%
7	Parádsasvár	18	5.1	72%
8	Berekfürdő	54	5.2	90%
9	Egerszalók	95	24.5	74%
10	Tihany	75.5	7.9	90%

* Last modified on 29 October 2020

Source: own calculation based on MÁK (2021) database

Due to the sudden decline in revenues, the role of business tax from companies with a non-tourism main profile is becoming more important in these municipalities. Greater emphasis needs to be placed on industrial investment, especially in those sectors that are less vulnerable to similar pandemics or economic recessions.

In order to compensate for lost local tax revenues, for example in the case of Egerszalók, it would be “obvious” to impose additional taxes, whether that is to introduce a property type or a settlement tax. However, due to the restriction in force from 1 January 2021 that neither a new type of tax nor a higher tax rate can be introduced by municipalities, local tax revenues can be difficult to increase (535/2020 government decree on local tax provisions in the interest of mitigating the impact of the coronavirus pandemic on the national economy).

Depending on the current financial situation of the local economic actors, the fulfilment of the tax payment obligations for 2020 and 2021 will be stalled with payment deferrals and the loss spread over several years. All of these have called for the revision of annual budgets and, in more serious cases, the postponement of developments and investments, not only in this year but in the near future, as well.

5. CONCLUSIONS

The budget revenues and development opportunities of the settlements are determined by the operation of the economy. As a result of the recession associated with the pandemic, these revenues declined significantly.

The role of tourism is outstanding in the life of the TOP10 settlements, which is the focus of the study, so in all probability, they had to book the biggest loss in local tax revenues. These municipalities have been able to calculate the tourist tax as a constant or even increasing revenue for years. In addition, tourism has had an impact on business tax revenues, among other things, through the tax payments of tourism service providers and other services used by visitors.

However, it is important to find out what additional resources are available in the studied settlements to increase the revenues from local taxes. Taking these into account and constantly adapting to most recent government measures, it is necessary to carefully shape local government budgets.

Overall, the situation is expected to be expensive, as the impact of the seemingly stable tourist tax revenues should not be taken for granted. Municipalities should ensure that they have more possibilities in terms of local taxes, given their own opportunities to prevent fluctuations in resources; furthermore, it is advisable to be especially careful when planning tax revenues.

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REGULATIONS

- Act C of 1990 on local taxes
- Act CLXXXIX of 2011 on Hungarian local authorities
- Act XC of 2016 on the Central Budget of Hungary in 2017
- Act XX of 2018 on the Central Budget of Hungary in 2019, Annex 2
- Act LX of 2020 amending the Central Budget Act for 2020
- Act XC of 2020 on the Central Budget of Hungary in 2021
- 92/2020 (IV.6) Hungarian government decree on certain rules of the Central Budget for 2020 related to the emergency situation
- 498/2020 (XI.12.) Hungarian government regulation on certain economic rules applicable during the emergency.
- 535/2020 (XII.1.) Hungarian government decree about local tax provisions in the interest of mitigating the impact of the coronavirus pandemic on the national economy.
- 639/2020 (XII.22.) Hungarian government decree on certain measures to mitigate the effects of the coronavirus pandemic on the national economy.
- Budget decrees for 2020 of the TOP10 Hungarian local governments