

Bulletin

2010

Information on the activities
of the Hungarian Tax and
Financial Control Administration

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PRESIDENTIAL ADDRESS

Last year was one of the most difficult years in the history of APEH. In the end the rather high revenue expectations could not be achieved, which led to some deterioration in the personal and tangible conditions of operation. The income of tax officers continued to decline and the necessary development and investment projects were cancelled. The tax revenues were lower than in the previous year as a result of the knock-on effects of the economic crisis and the modifications of the tax regulations.

Last year the APEH management changed after the new government had entered into force, and on October 1 a three-tier organisational structure was established with new county directorates and the retained regional directorates. All these events triggered further changes in the staff and structure.

Last year not only the internal restructuring put a burden on APEH, preparations also began for the merger of APEH and VP, which took place on 1 January 2011. The preparations for such unprecedented reform in the history of the Hungarian tax administration required a lot of resources in both organisations.

Despite the additional tasks and a worse economic environment, the national tax authority performed its professional tasks. It made considerable progress towards the establishment of a service providing tax authority. As the operator of central systems that complies with the current requirements and a user of internationally acknowledged, progressive solutions in its professional activities, it remained one of the most innovative authorities of the Hungarian national public administration.

The whole picture, resulting from the endeavours taken in various fields and actions towards finding solutions to the problems generated by the changes in legal environments, which in fact is much more than



the simple total of these segments, is just shaping up even for me, the old and new president of the Tax and Financial Control Administration in the course of the review of 2010, a year extremely rich in events compared to the previous history of the national tax authority.

APEH closed a chapter in its history, when the administration agency established in 1987 ceased to exist, which had an emotional impact even on old colleagues. APEH was a well-known and accepted name, which turned into a concept and became part of the technical jargon.

The former results of APEH will not be lost in the new organisation formed on 1 January though, because the activities of NAV, the new administration agency, will be defined relying on the best traditions and established processes of both legal predecessors.

Hopefully the 2011 bulletin will already show the first results of our joint efforts.

Dr. Ildikó Vida

President

MAIN BUDGET REVENUES

PERSONAL INCOME TAX

The net personal income tax revenue was HUF 1,767.9 billion. This figure was HUF 106.4 billion lower than the revenue collected in the previous year. This considerable decline was primarily the result of the changes in the tax regulations and the income outflow affecting mainly the revenue side.

In total, taxable persons paid HUF 1,897.7 billion tax, which was HUF 100 billion lower than in 2009. In line with the modified tax regulations, the tax burden of a large number of taxable persons decreased and, simultaneously, revenues also shrank, yet there was no factor, which could have offset this loss of revenue. The modifications of regulations that increased the tax rate applicable to certain income types (e.g., taxation cafeteria benefits) did not raise the revenues enough to compensate for the losses caused by the amended bracket limits. The lower amount of tax paid and higher refund claims had a negative impact on the net revenue. In total, taxable persons reclaimed HUF 129.8 billion compared to the HUF 123.5 billion reclaimed in the previous year.

VALUE ADDED TAX

HUF 2,313.6 billion net revenue was generated from value added tax, which was by 6.7%, i.e. HUF 145.1 billion higher than in the previous year.

In the evaluation of this increase over the base year it must be noted that in the first six months of the base period the effective general tax rate was 20%, in 2010 the payments had to be made at the increased, 25% value added tax rate. Consequently, the impact of the tax rate increase was the main factor in this rise. Because of the nature of this tax type, during the year revenues were significantly influenced by the general trends of the economy. In the second



half of the year domestic sales and purchases were higher than in 2009, while the previous rise in foreign trade continued. Intra-community sales and exports to third countries grew significantly, leading also to a continuous increase in refund claims reflected in the declaration and significantly reducing the positive impact of higher tax payments on the net revenue. During the year VAT subjects reclaimed HUF 1,542.5 billion tax, which was HUF 217.8 billion higher than in the base year. HUF 282.9 billion value added tax was paid on imports and tobacco products, which figure was HUF 20.9 billion lower than in 2009. Apart from foreign trade, this decline was caused by the major changes in the number of licensees paying tax based on self-assessment.

CORPORATE INCOME TAX

HUF 323.4 billion net revenue was collected from corporate income tax, which was HUF 62.2 billion lower than in 2009. The lower revenues were affected by both tax payments and refunds. In 2010 taxable persons paid HUF 495 billion tax, which was HUF 30.1 billion short of the 2009 figure. The reduction in payments resulted from the lower advance payment obligations declared and performed for 2010 in relation to the unfavourable economic conditions. In line with the specificities of the taxation system, a considerable amount of the annual payments (33% in 2010) is concentrated in December. The payments made in December were higher than in the base month. However, taking also into account the changes in legislation, this growth rate was unable to offset the interim revenue losses. Assumingly, the profitability level of the companies did not differ significantly from the previous year's figures. The significant rise in the tax amount, reclaimed based on the declarations submitted for 2009 and leading to HUF 171.6 billion refunds in 2010, which was HUF 32.1 billion higher than in the previous year was another negative factor influencing the net revenues.

SOCIAL SECURITY CONTRIBUTION REVENUES

In 2010, the tax authority collected HUF 2,841.4 billion contribution revenues, which were 1.4%, HUF 41.6 billion lower than in the previous year. This decline occurred despite the fact that as a result of the changes in legal regulations applicable to private pension fund members, significant revenue surpluses occurred in November and December. The figures fell most in relation to the taxable persons of the market sector that paid HUF 33.9 billion less in 2010 than in the previous year. The payments made by the public



sector were HUF 13.3 billion down compared to the previous year's figure. Apart from the moderate income outflow this decrease in revenue stems from the change in legal regulations, which extended the 5 percentage points reduction in contributions, applied progressively in the second half of 2009 to the total income subject to mandatory contribution payment from the beginning of 2010.

SIMPLIFIED ENTREPRENEURIAL TAX

HUF 181.9 billion revenue was earned from simplified entrepreneurial tax, which figure was by HUF 12.2 billion up over last year's figure. Considering the relatively stable group of taxable persons and that there were no major improvements in the economy, the higher figure was due to the higher tax rate. As the tax rate was raised, surpluses occurred already during the year, when the quarterly advances were paid, and therefore a similar amount was paid under the title of complementary tax in December as in the previous year. The revenues were driven by the performance of the corporate businesses, while private contractors had a smaller share.

STAMP DUTY REVENUES

During the year the budget earned in total HUF 83.5 billion stamp duty revenues, which figure was HUF 28.7 billion lower than in the previous year. On average 60.3% of the total revenues were revenues from the tax authority, and the rest originated from other institutions. Within the stamp duty revenues recorded

on the accounts of the tax authority HUF 50.4 billion were budget revenues, showing a HUF 25 billion fall in the previous year figure of HUF 75.4 billion. The decline was primarily due to a slump in the housing, real estate and commercial vehicle market, the changes in stamp duty rates and the extension of exemptions.

GAMBLING TAX REVENUES

The net revenue from gambling supervision was more than 8% lower than in the previous year. The majority of revenues were earned from licensing and controlling fees also in 2010. During the 16.7 thousand audits performed in the gambling sector there was more than a 7% drop in the number of the total resolutions imposing fines, and the total of fines imposed pursuant to the Act on Gambling was 10.4% higher than in 2009.

GAMBLING CASH TURNOVER, PAYMENTS RECEIVED 2010: (thousand HUF)

– Licensing fees:	2,806,352
– Audit fees:	806,468
– Fines:	352,800
– Other:	63,920

GAMBLING CASH TURNOVER, PAYMENTS MADE 2010: (thousand HUF)

– Licensing fees:	6,881
– Audit fees:	4,715
– Fines:	5,981
– Other:	59,370

TAXATION ACTIVITIES

TAXABLE PERSONS

By the end of 2010 the number of active registered taxable persons increased by 57 thousand to 1.658 million. With the exception of economic organisations without legal personality (limited partnership, unlimited partnership, civil law association, etc.) the number of taxable persons increased in each category. The number of taxable persons subject to liquidation, voluntary dissolution and bankruptcy, increased by more than 15% compared to the end of 2009.

Including also the community tax numbers, issued in the previous years, nearly 257 thousand taxpayers had community tax numbers, of whom at the end of 2010 240.7 thousand were active.

During the year the tax authority adopted 55.8 thousand resolutions on the suspension of tax numbers, which more than quadrupled over the previous year and included 47.1 thousand effective resolutions.

More than 12,400 resolutions were adopted on the deletion of tax numbers, which was 21% higher than in 2009.

NUMBER OF ACTIVE TAXABLE PERSONS AT THE END OF THE YEAR WITHOUT PRIVATE INDIVIDUALS, 2009-2010



1+1 PERCENT DECLARATIONS

2010 was the eleventh year when natural persons could offer 1 percent of their personal income tax to a public benefit organisation, on top of which, from 1998, they can also offer an additional 1% to a church or a special budgetary appropriation based on an NGO declaration. Both the number of such declarations and the amounts offered increased over the previous year. By the deadline 1,908 thousand natural persons issued orders allocating one-one percent of their respective personal income tax. In 3,027 thousand effective declarations, natural persons offered HUF 17.19 billion to 30,888 beneficiaries, representing 57.34% of the total potential limit. Pursuant to the effective declarations, HUF 9.97

billion was offered to 30,701 NGOs, HUF 5.24 billion was allocated to 185 churches, and HUF 1.98 billion was designated to special budgetary appropriations.

DUTY STAMP IMPOSITION, TAX AND DUTY RESOLUTIONS

In total more than 2,252 thousand first instance decisions were adopted on tax and duty matters in 2010. The number of resolutions imposing the payment of a health contribution and related to the assessment of the enforcement of state guarantees continued to rise significantly in 2010 as well.

During the year the number of tax resolutions in 2010 on negligence penalties was 20.86% lower than in the

previous year. (119,644 → 94,687), while in the amount the drop was 12.77% (HUF 13,194 thousand → HUF 11,685 thousand). Most of these resolutions (73%) related to taxable persons failing to submit declarations, on whom APEH imposed nearly HUF 9.3 billion fine in 68,880 resolutions. The number of resolutions related to the failure of complementary tax payments grew by 11%, as compared to the 12,184 resolutions issued in 2009, the directorates issued 13,536 such resolutions in 2010, imposing HUF 1.95 billion fines. The resolutions imposing penalties for the failure of reporting should also be mentioned, as APEH imposed HUF 383.8 million penalty in 6,691 resolutions.

With regard to stamp duty, 899 thousand first instance decisions were made. HUF 78.9 billion payments were imposed on taxable payments, representing 49.1% of the previous year's figure. The directorates ordered the refund or cancellation of HUF 12.7 billion stamp duty in their decisions, which resulted in total HUF 66.2 billion payment liability for the taxable persons.

DISTRIBUTION OF TAX ACCOUNT STATEMENTS

In 2010, 1,511 thousand tax account statements were generated, which figure was 81 thousand lower than in the previous year. The number of remarks received by the end of the year in relation to the tax account statements dropped significantly. Compared to the 96 thousand remarks received in 2009, in 2010 taxable persons made only 37 thousand complaints. As taxable persons preparing electronic tax declarations can inquire about the actual balance of their tax accounts at any time, no paper-based statements were sent to them in 2010 either.

CUSTOMER INFORMATION, CUSTOMER SERVICE

The number of calls made to the contact center (TCC) decreased by 250 thousand, but the ratio



of answered calls increased from 93.7% to 98%. 30,671 replies were sent to taxpayer e-mail messages through the TCC system in the whole country.

The administration contact center (ÜCC) received more than 59 thousand calls. The options available on this channel expanded in 2010 with the application for Community tax numbers, reporting on the reaching of limits and income certificate requests. So far approximately 43 thousand taxpayers requested codes for the system.

In 2010 a total of 24.9 million people visited the APEH website, which was 34.2% higher than in 2010.

The customer service offices were visited by 2.4 million people in 2010, and the central customer services and APEH offices received approximately 250 thousand telephone calls with inquiries. The majority of the customers personally visiting the tax offices requested various certificates.

Among the certificates, the number of joint certificates grew by nearly 66.8%, while the number of tax, income and taxpayer status certificates decreased. Within the total number of issued certificates, the share of electronic certificates reached 11%. More than a fifth of the certificates were issued based on electronically received requests. The database of good taxpayers is becoming increasingly popular among them. The monthly updated database currently includes 39.7 thousand taxpayers.

Similarly, the popularity of payments with bank cards is also increasing among taxpayers. Approximately HUF 7.1 billion tax was paid with bank cards in the customer service offices in 35,104 cases for the issue of a tax certificate or joint tax certificate and for debt settlement and under the title of other payments. This figure was 83.4% higher than in 2009. The amount paid is 6-and-a-half times higher than the HUF 1.1 billion, paid in 2009 with bank cards. Recently certain large taxpayers also began to use this method for payments, significantly increasing the expenses of the tax authority.

DECLARATIONS AND DATA SUPPLIES

A new form containing fewer data (electronic form) has been designed for the 2010 personal income tax declarations. The new declaration form was designed on the basis of the data of the survey of the completion of the declarations for the previous tax year without

any change in legal regulations and offers a choice to natural persons to significantly reduce the time spent on the completion of the tax declaration. Thus, natural persons received the required forms in a simple and transparent format, in which the structure and number of the rows of the original declaration were kept. The only 149 rows contained in the shorter declaration compared to the 560 rows of the complete '53 declaration illustrates the volume of simplification. With this scope and content the new form represents transition between the complete PIT declaration and the tax declaration, referred to as "beer mat", which can be submitted on the 2011 tax year in 2012.

Our agency sent simplified 1053 PIT declaration forms to those natural persons (909 thousand indi-



viduals) who are eligible for the simplified declaration based on their declarations filed for the previous year.

In total approximately HUF 577 million and 33 million sheets of paper were saved in the production and postage costs of the declaration packages sent to the taxpayer groups, eligible for the new declaration form, compared to the expenditures of the previous year.

The packages distributed in January 2011 no longer contained cheques, as our experience in the previous years showed that only 10% of the cheques distributed in the packages were actually used.

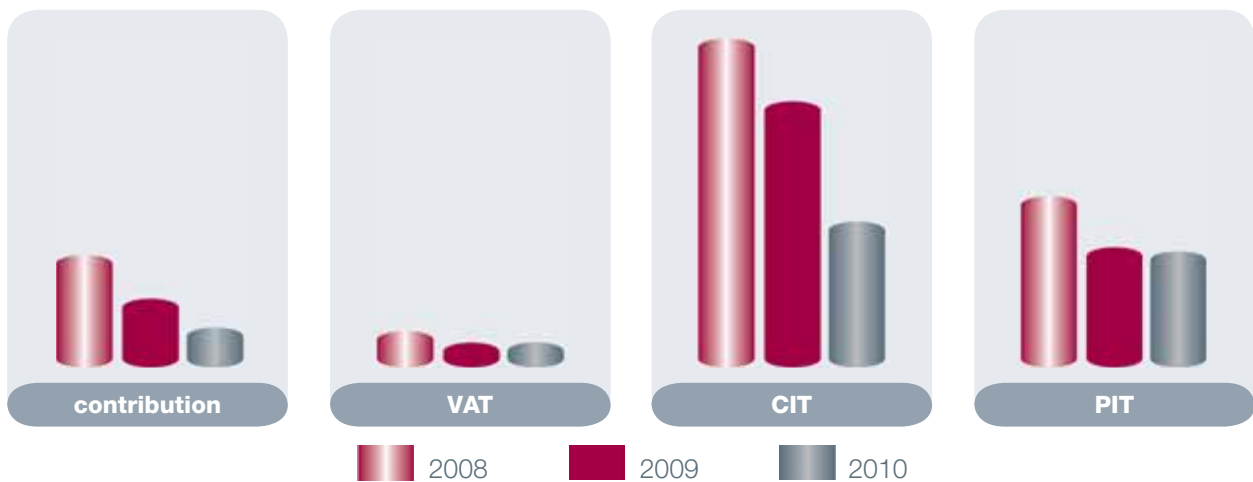
Compared to the previous year we reduced the number of declaration packages sent to taxpayers by



200 thousand and the number of declaration packages displayed in customer services by 143 thousand.

We expect further significant savings with the introduction of the printing of extracts. With this technical innovation, those taxpayers who choose this printing option can print out only those rows (pages), which contain data. This way taxpayers

COMPARISON OF THE NUMBER OF DAYS OF DECLARATION PROCESSING
(including tax accounting and control prior to disbursement)



	contribution	VAT	CIT	PIT
2008	7.2	1.45	23.8	11.7
2009	4.0	0.7	19.1	8.0
2010	2.0	0.7	10.0	7.9

can also save paper and ink used for printing. According to our experience, this method has become very popular and a lot of taxpayers have opted for it.



The number of declarations (0953E) received on the basis of the simplified declaration proposals distributed for the 2009 tax year was short of the previous year's volume by 86.2 thousand declarations. The main reason behind this decrease was that, pursuant to the legal regulations, natural persons using this declaration option and reclaiming tax received their refunds later than those taxpayers who submitted the ordinary ('53) declaration. Consequently, the group of taxpayers opting for the simplified declaration restructured, and typically those who reclaim tax do not use it.

As a result of the modification of the Act on Social Insurance Pension the data supply obligation of employers (including also self-employed individuals) performed on Individual Pension Insurance Registration Form (NYENYI) no longer applied from 1 January 2010. Pursuant to the effective regulations, the data required for eligibility for pension and pension establishment for 2010 are provided only by the national tax authority as the primary source of data, with the exception of the data required for the assessment of the pension of natural persons retiring during the year.

The data required for establishing eligibility for pension and the pension amount, aggregated by

natural person and declared by the employers with details specified in the Act on the Order of Taxation for each year are transferred electronically to the Central Administration of National Pension Insurance by 31 August of the subsequent year.

The detailed, error free and processed declaration data are transferred pursuant to the legal regulations.

The source of this data supply is the contribution data of 4.5 million natural persons, contained in the contribution declarations of nearly 400 thousand employers. The monthly tax and contribution declaration data are prepared on the basis of the principles of wage and contribution accounting, and therefore contain the actual payment liabilities of employers and natural persons. The payment liabilities stated in the declarations are based primarily on the income of the employee (insured natural person), which may also be verified in subsequent audits. The data of declarations submitted by employers (private contractors, agricultural producers) are registered in a data warehouse system, structured according to the legal regulations and operational principles, where data are stored purposefully in accordance with the regulations. A new individual registration system, supporting the composition and transfer of data extracted from tax and contribution declarations was established within the framework of this overall system on 1 January 2010, containing the data broken down by natural person, in compliance with the currently effective legal regulations, indicating also the employers (employers and payers) and the applicable contract data by natural person. APEH used the data extracted from this system to fulfil its data supply obligation specified in the legal regulations in 2010.

AUDIT ACTIVITIES

The audit activities were performed in accordance with the objectives laid down in the guidelines issued pursuant to the provisions of Act XCII of 2003 on the Rules of Taxation. In 2010 the most important audit tasks included combating various types of tax evasion and identification of economic processes and types of conduct that represented outstanding risks in terms of tax revenues.

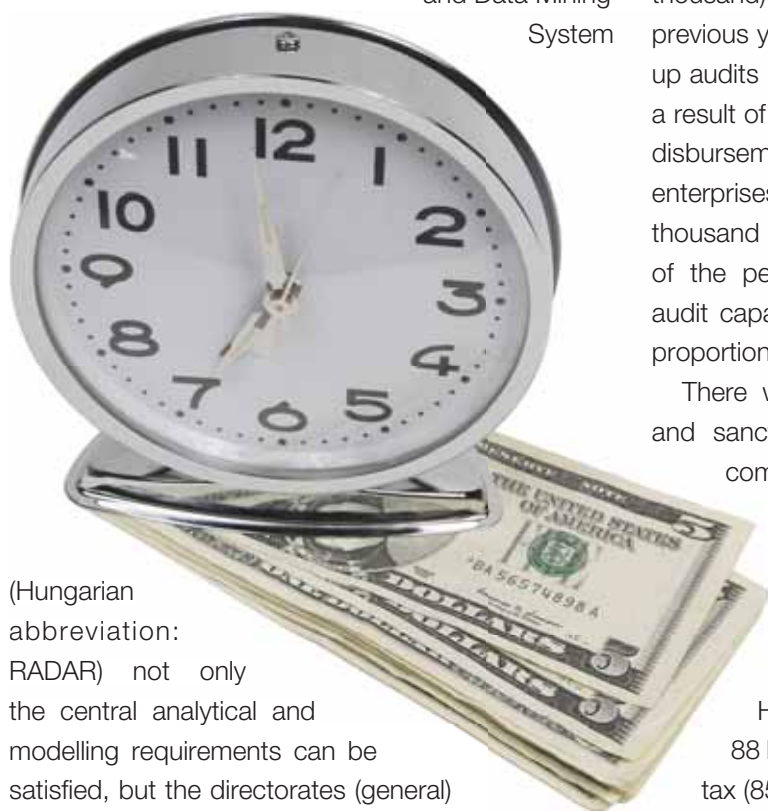
The most important results of the audit process modernisation included the development of the RADAR system, the extension of the data markets of the Data warehouse, supporting decisions, risk analysis and selections for audit and the related queries, as well as the modernisation of data exchange between the tax and customs authority. Among the various selection techniques, with the installation of the Flexible Tax Audit Decision Support and Data Mining System

also receive an effective decision support and integrated selection tool. The information obtained from the free linkage of the elementary data of the system can also assist in the planning of audits and the distribution of audit capacities. The system contains both data of taxpayers and audits. Such data can be used to form a so-called "taxpayer file", providing a concentrated overview, illustrated with graphs, of the time line of the data and risk indicators of individual taxpayers within the statutory limitation period.

Owing to the effective risk analysis, the auditor capacities were not fragmented, and therefore fewer but more effective audits were conducted. The completed 266.3 thousand audits were only slightly below (94.9%) the previous year's figure (280.6 thousand), and the number of failed audits (15.7 thousand) was not significantly different from the previous years' figures either. The increase of follow-up audits reached 77.4 thousand (3.8% increase) as a result of the higher number of PIT cheques prior to disbursement, completed at transforming and ceasing enterprises. During the year we also completed 187.4 thousand data collection activities and cheques of the performance of specific tax liabilities. The audit capacities were used according to the plans, proportionately with the type and number of audits.

There was also a rise in the number of taxes and sanctions imposed in the completed audits compared to 2009. The net tax arrears were higher than HUF 476 billion, and the effective tax arrears were higher than HUF 418 billion. By the end of the year HUF 52.6 billion became effective from the audit conclusions imposing more than HUF 1 billion payment liabilities (in total HUF 88 billion). Similarly to the previous years, most tax (85%) was imposed in VAT during the audits.

(Hungarian abbreviation: RADAR) not only the central analytical and modelling requirements can be satisfied, but the directorates (general)





There was also a rise in the sanctions imposed during the year (HUF 337.6 billion), which included 58% tax penalty, 39% default interest and 3% default penalty. The average penalty rate increased to 47.7% over the previous year (46.4%).

In 2010 the audit department conducted 5,519 audits among taxpayers deliberately avoiding taxes. The items imposed in these audits make up 44% of the total net tax arrears, identified in 2010. 79% of the audits conducted at these taxpayers were closed with payment obligations imposed on them (HUF 154 billion) which resulted on average in HUF 28 million net tax arrears.

Continuing the practice of the previous periods, the directorates focused on VAT, both in subsequent and prior to disbursement audits. In the reporting period the directorates conducted 14,829 subsequent and 4,619 prior to disbursement tax audits, establishing in total approximately HUF 270 billion net tax arrears.

During the audits primarily the documentation and existence of intra-Community trade and regularity of transactions falling within the scope of reversed taxation were reviewed, and new tax evasion techniques were detected.

The audits conducted at taxpayers minimising taxes (4,881 audits, HUF 147.6 billion net tax arrears), performing chain transactions (412 audits, HUF 41 billion net tax arrears), and trading with taxpayers of other Member States of the Community (1,085 audits, HUF 63.5 billion net tax arrears) usually took longer than expected due to the frequent, yet necessary related examinations and potential international queries.

We also found that as a result of the liberalisation of the Companies Act, companies were also established with the intention to deliberately accumulate debt. Such companies operate for a short time, accumulate a large amount of uncollectible debt and generally are inaccessible. According to the audit findings tax

minimisation occurred most frequently in the vehicle trade, in security, construction industry and workforce hiring companies.

In 2010 the directorates continued with a high number of audits based on unlawfully reclaimed tax and tax evasion through invoicing chains and sales abroad. The audits still confirmed the existence of “classic” fraud models. Most of the cases were detected in the sale of grains, sale and purchase of IT and mobile phone components, forwarding, construction industry, security services and in food trade. Within the category of carousel fraud, a type of electronic, Internet-based sales where transactions takes place fast and the actual goods are not materialised (e.g., sale of Internet advertising space, trade of carbon dioxide quota) appeared to be a new area of fraud. However, chain transactions were detected in relation to an increasing number of service activities too.

During the audits related to the reverse charge taxation, specified in the VAT Act (152 audit, HUF 1.1 billion net tax arrears) the right application of the rules of services requiring a construction permit, e.g., the assessment in terms of the tax law of the main service and related ancillary services in case more services were rendered, or in the borrowing of the construction machine operators or in accrual, continued to be a problem.

There was also a major decline in the number of completed audits of rapid financial gains (1,864) and the capacities used for such audits, but the disclosed tax arrears were only slightly different from the previous year’s figure, which indicated an improvement of the efficiency of the audits. The average detected amount rose to HUF 12.1 million (a third of last year’s figure).

The negative impact of the economic crisis on profitability was also clear in the audits of taxpayers declaring lower than the minimum income (profit),

caused primarily by the fewer market opportunities and a fall in revenues. In 88% of the 2,846 completed audits focusing on the performance of specific tax liabilities there was no need for the subsequent control of the declarations.

The main priorities of the 2010 audit directive included the extension of contribution payers (to ensure that everybody pays contribution) reduction of black employment and control of regularity of contribution payment. The tax authority began two years ago to select those insured individuals who, according to the OEP (National Health Fund) records, used/use the health services unlawfully, while performing audits of the performance of specific tax liabilities. During the audits some taxpayers also fulfilled their reporting obligation retrospectively, and thus the declarations were subsequently controlled only in a few cases.

Of the 92 thousand audits conducted during the year in relation to the social security funds, 49 thousand contribution audits, and further 43 thousand data collection and specific tax liability





audits were completed during the year. In total the audits concluded HUF 11.2 billion net contribution and health contribution arrears.

As a result of the changes in simplified employment, introduced on 1 August 2010, employment based on an employment contract became a lot more dominating type of employment in almost all reviewed sectors, because taxpayers prefer employment based on a traditional employment contract to the administration involved in simplified employment, assuming even the higher contribution burden.

Cooperation with our partner authority continued to be highly organised in line with the agreements. The two authorities conducted joint and simultaneous subsequent and ad hoc audits.

Most subsequent audits focused on the launch of products for free trade, performed in other Member States, but licensed for Hungary, typical chain transactions, refund claims of agricultural gasoline users, environmental enterprises and businesses subject to excise duty and cattle purchases in relation to compensation premium.

Within the framework of the “cooperation of eight authorities” approximately 17.4 thousand centrally organised audits were completed concentrating mainly on compliance with the documentation obligations, regular employment of employees and purchasing documents of the sold goods. 15.2% of the audits

were closed with sanctions, including HUF 404 million default penalty, the closing of 559 shops and suspension of the activities of 61 enterprises. Apart from the centrally organised actions, the directorates also organised local audits with the involvement of 1-3 partner authorities.

The tax authority requested information mainly from Germany and Slovakia in 2,517 cases. In total 1,849 requests were received from the EU Member States, sent primarily from Slovakia, Romania and the Czech Republic. In 2010 Hungary participated in 7 multilateral audits, three of which were launched by the Hungarian tax authority. As a result of the 10 audits closed in 2010 the total amount of the tax arrears and sanctions in Hungary was higher than EUR 30.6 million.

On 1 October the national tax authority was reorganised into a three-tier structure, maintaining the advantages of its regional organisation and the continuity of operation. Apart from the Head Office and Regional Directorates county directorates were formed with strong competences in order to separate the regulatory activities and the legal remedy fora and to make them transparent. Apart from the restructuring completed in 2010, the rules of audit competence also changed and the performance of the tasks related to the modification of legal regulations that entered into force during the year also put a huge burden on audit.

AUDIT RESULTS

Definition	2009 (HUF billion)	2010 (HUF billion)	2010/2009 (%)
Established tax arrears			
to the taxpayer's debit	463.8	493.6	106.4
to the taxpayer's credit	20.6	17.6	85.4
net	443.2	476.0	107.4
Effective tax arrears			
to the taxpayer's debit	404.6	430.0	106.3
to the taxpayer's credit	8.7	11.9	136.0
net	395.8	418.2	105.6
Legal consequences established in audits (sanction)	311.2	337.7	108.5
of which: tax penalty	179.5	192.5	107.2
default penalty	8.5	10.0	117.7
default interest	123.2	135.2	109.7
Tax penalty rate (%)	46.4	47.7	102.8
Effective audit sanctions	296.8	324.1	109.2
of which: tax penalty	173.7	183.8	105.8
default penalty	8.3	9.4	112.5
default interest	114.7	130.9	114.1
Effective tax penalty rate (%)	46.7	47.4	101.5

COLLECTION OF ARREARS

With further fragmentation of arrears and an increase in the ratio of uncollectible arrears, the unfavourable changes in the composition of arrears continued in 2010, although the trend was also considerably affected by the financial and economic crisis. According to the experience significantly lower amounts can be collected from the gradually increasing number of debtors, the amounts paid were lower and the number of taxpayers without any assets increased.

Due to the negative impacts of the economic crisis on tax collection not only the potentially collectable debt volume reduced, but also the ability and willingness of the taxpayers to pay, which also had a detrimental impact on the otherwise collective enforcement actions.

The total tax arrears at the end of 2010 were 16.1% higher than in the previous year. Within this total figure the debt stock of active taxpayers did not change, yet the arrears of inactive taxpayers grew significantly, by 22.9%, primarily because of the enterprises subject to liquidation. Within the total arrears 74% cannot be collected, and there is no chance of their recovery. The same ratio was 70% one year ago.

ENFORCEMENT

The databases, accessible on APEH's website still provide information to customers, revealing the data of on average 150 thousand taxpayers subject to enforcement each week; the database of taxpayers with considerable tax arrears for 180 days contains the data of 5,219 taxpayers, who accumulated in total HUF 1,095.4 billion debt, typically in companies subject to liquidation.

In 2010 the directorates conducted proceeding to reconcile 734.5 thousand tax accounts, which was 10.8% higher than at the end of 2009. There were slightly fewer payment orders and instruction received than in the previous year, involving HUF 195.4 billion debt.

In 2010 the tax authority launched 681 thousand enforcement cases to collect in total HUF 787 billion debt. The total amount collected as a result of the enforcement actions was HUF 2,067 billion.

The directorates issued collection orders for HUF 1 962 billion debt and, although this figure was 8.2% lower than in the previous year, the recovery ratio grew from 7.5% to 8.3%. The collection order issued by the authority continued to be the most effective enforcement action, as it generated HUF 163 billion revenues by the end of December.

Among the administrative enforcement actions, the number of collection orders and transfers from enforcement purposes were up by 12.1% and 74.5% respectively. The number of seized vehicles decreased by 8%, because the taxpayers had fewer assets available for enforcement, while the 7.8% decrease in income deductions indicated the worse income position of natural persons (e.g., lower employment).

Of the 7,767 online auctions, launched on the Electronic Auction Interface in 2010 5,445 auctions were completed for moveable assets and 1,794 real estate auctions were completed. 39.6% of the auctions of moveable assets and 16.6% of the real estate auctions were successful. The purchase price offered by the bidders totalled HUF 1.4 billion, equalling 75% of the estimated value of the assets. Compared to the previous years the recovery ratio improved both in the auctions of moveable assets and in real auctions. There was a considerable rise in the number of successful auctions (40.6%) compared to the end of 2009.

ONLINE AUCTIONS (MOVEABLE ASSETS AND REAL PROPERTY) IN 2009 AND 2010

	2009	2010	2010/2009
Number of announced auctions	6,069	7,767	128.0%
Completed auction (successful, failed, due to other reasons)	5,560	7,239	130.2%
of which: successful auction	1,676	2,357	140.6%
failed auction	2,858	4,440	155.4%
Estimated value of the assets sold at the auctions (HUF million)	1,697.0	1,906.9	112.4%
Purchase price of the assets sold at the auctions (HUF million)	1,208.8	1,432.4	118.5%
Gain (purchase price / estimated value)	71.2%	75.1%	105.5%

By the end of December 2010 1,846 cases were handed over to independent court bailiffs, which figure was 51% lower than in the previous year. The transferred cases contained 56% less arrears. The

majority of the HUF 29 million revenue collected by court bailiffs, HUF 28 million represented APEH's revenues and 1.2% of the total amount transferred to the bailiffs for collection.

NUMBER OF COLLECTION MEASURES IN 2009 AND 2010

Definition	2009	2010	2010/2009
Enforcement			
Cases launched	602,587	680,520	112.9%
Cases in progress (at the end of the year)	278,252	295,012	106.0%
Procedures conducted based on external requests	103,575	109,899	106.1%
Liquidation			
Initiated procedures	6,420	5,424	84.5%
Instituted procedures	13,429	15,658	116.6%
Completed procedures	9,908	10,928	110.3%
Procedures in progress (at the end of the year)	25,509	30,239	118.5%
Voluntary dissolution			
Instituted procedures	11,662	13,085	112.2%
Completed procedures	8,077	10,620	131.5%
Procedures in progress (at the end of the year)	19,012	21,746	114.4%

LIQUIDATION

The number of liquidations ordered by courts gradually increased over the last three years, while the number

of liquidations initiated by the tax authority decreased. The arrears of the businesses concerned amount to HUF 1,145 billion. In 2010 the tax authority initiated 5,424 liquidation proceedings, which were 15.5% lower

in number, and contained 18.5% lower tax debt than in 2010. The number of liquidations ordered by courts was higher than ever before (15,658) in 2010, of which APEH initiated a smaller portion (40.6%) of the total cases. Regarding the number of cases, the increase was 16.6% and the creditor claims reported to the liquidators were 7.7% higher than in the previous year.

The auditors checked 22,205 declarations on closing activities and liquidations, thereby the receivables grew by in total HUF 246.8 billion. Both the number of the completed audits and the established amount were higher than in the previous year by 21.6% and 24.2%, respectively. In total HUF 1.9 billion was collected from liquidation in 2010, which was 16.7% lower than in 2009.

The number of completed liquidations reached 11 thousand, following a 10.3% increase. The majority of the cases were closed with simplified proceedings. In December 2010 the tax authority's records contained 30.2 thousand liquidations in progress, with a total outstanding debt of HUF 1,145.1 billion. The number of the cases by 18.4% the outstanding debt by 34.5% exceeded that of in December 2009.

VOLUNTARY DISSOLUTION

By the end of 2010 13.1 thousand companies decided to cease their companies without any legal successor; the number of such cases was 12.2% higher than at the end of the previous year. While at the end of 2009 43% of the 8 thousand completed voluntary dissolution procedures turned into liquidations, in 2010 55% of the approximately 11 thousand completed cases ended up this way. The auditors conducted 9,889 final audits, which figure was close to previous year's figure. However, due to the permanently high number of cases both the time available for audit and the audited period became shorter.

BANKRUPTCY PROCEDURES

After the legal regulations on bankruptcy had entered into force in September 2009, the number of bankruptcy cases grew significantly. The amendments of the Bankruptcy Act gave a boost to interest in bankruptcy proceedings, yet the majority of the procedures failed and 75% of the cases were closed without an agreement.

By the end of December the courts granted deferred payment to 131 economic organisations. By the end of the year 28 bankruptcy agreements were reached in bankruptcy proceedings and at the end of December 2010 in total 54 bankruptcy proceedings were in progress.

PAYMENT EASEMENTS

Included also cases carried over from 2009, the taxpayers submitted 227 thousand requests to the tax authority for payment preferences, involving HUF 291 billion debt. (The taxpayers submitted 3,316 requests in electronic form, including 570 requests from natural persons and private contractors, and 2,746 forms from economic and other organisations.) Both the number of requests and the amount of involved were significantly lower than at the end of 2009. (19% and 14% respective decrease.)

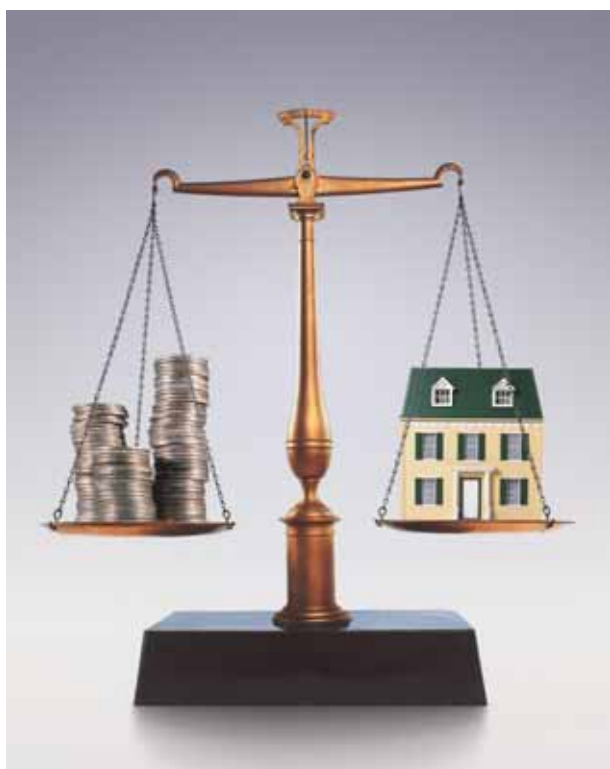
The number of requests for payment easements dropped also significantly, by 32% and the number of requests for payment reductions was nearly 21% lower.

The change in the number of requests indicated above relates to the use of the automatic instalment payment preference, granted in Article 133/A of Act XCII of 2003 on the Rules of Taxation and also the lower number of the requests carried over into 2010. Of the 203 thousand first instance resolutions, adopted during the year, nearly 167 thousand entered into force.

AUTHORITY DECISIONS AND LEGAL MATTERS

RESOLUTIONS AND LEGAL REMEDIES

In 2010 the tax authority issued 2.6 million first instance resolutions/rulings, which number was approximately 6% lower than in 2009, including a 23% decline in the number of first instance resolutions concerning duties. Legal remedy was sought against the decisions of the first instance tax authority in 14,447 cases, mostly against audit resolutions, reflecting a 9% drop compared to the previous year. In the legal remedy proceedings the second instance tax authority found the infringement of the taxpayer's right partly or fully founded in approximately 20%, but this respective ratio was close to 35% in relation to legal remedy related to resolutions on duties. Consequently, in nearly 80% of the cases the second instance tax authority confirmed the decision of the first instance authority.



The number of extraordinary legal remedy requests rose by 8% over the 2009 figure. On the basis of the data it is clear that the number of extraordinary legal remedy requests against first instance resolutions had been rising constantly from 2007. The second instance tax authority assessed 2,047 requests for supervisory actions in 2010, which was nearly 8% higher than in the previous year. In nearly 85% of the decisions, the superior tax authority did not apply any supervisory measure. In 2010 the president of the tax authority made decisions in 774 requests for supervisory actions, in 82% of which the supervisory action was denied.

In 2010 in total 2,455 new public administration lawsuits were launched for the judicial review of the second instance resolution involving a total amount of HUF 52.6 billion. The number of these cases was slightly lower than in the previous year. Most of the petitions were filed against second instance decisions in relation to audits, followed by duty cases. Of the 1,852 defendant resolutions, reviewed by the administrative court during the year, the plaintiff's petition was rejected in 1,360 cases, indicating that, similarly to the previous year the administration court confirmed the tax authority's defendant resolutions in approximately 73% of the cases. The administration court imposed HUF 146 million litigation costs payable to the tax authority, and obliged the tax authority to pay approximately HUF 83 million litigation costs in relation to the decisions made against it.

511 judicial review procedures were submitted to the Supreme Court in the reporting period, of which the judicial review of the ruling of the county/Budapest court was requested by the plaintiffs in 369 cases and by our own authority as a defendant in 142 cases. In these cases the Supreme Court confirmed the rulings of the county/Budapest courts in 74% of the cases, in relation to which it imposed HUF 35.8

million litigation payable to the tax authority, and HUF 9.7 million litigations costs payable by the tax authority in its decisions against it.

13 lawsuits were filed against the tax authority for compensation of damages caused within public administrative competence in the reporting period, involving in total HUF 15 trillion 360.5 million, among which one natural person claimed HUF 15 trillion from the tax authority in the proceedings launched by him. Of the 45 lawsuits in progress last year by the end of December 19 lawsuits were effectively completed; in 9 cases the rulings were in favour of the tax authority and in 10 proceedings the lawsuit was terminated. 10 lawsuits were filed under other titles, and, including also the lawsuits carried over from the previous period, of the 37 lawsuits 12 were effectively concluded during the reporting period: in 7 cases the ruling was in favour of the tax authority, and in 5 cases the lawsuit was terminated.

The number of presidential orders issued in the reporting period was 6% higher than in 2009 and their breakdown also changed. In the gambling supervisory cases launched after 1 January 2010 the secondary authority competence of the president of the tax authority no longer prevailed. Due to the changes in legal remedy regulations, the ratio of gambling supervisory cases decreased, yet the number

of presidential decisions adopted on requests for



supervisory measures and objections to enforcement rose a lot more. The taxpayers continued to object typically against resolutions adopted in VAT audits and in the audits of rapid financial gains. During the reporting period the president of the national tax authority judged 774 requests for supervisory measures. The number of appeals against decisions adopted in relation to objections to enforcement grew by 13%.

In 2010 the proceeding organisational units requested the extension of the audit deadline in 5,713 cases, which figure was 22% lower than in the previous period. The audit deadline was generally extended as requested (in 99%). In 5,635 cases the assessment of requests fell within the competence of second instance authority, and in 78 cases the president was competent to make a decision.

Two centrally ordered law compliance audits took place in 2010: one related to the assessment of the requests for the approval of preferential payments (deferred payment, instalment payment, tax reduction) and the other focused on the failure of the obligatory issue of invoices or receipt, employment of unregistered employees and default penalty and other measures applied to the sale of goods of uncertified origin. In relation to this the law compliance supervisory agency ordered measures in individual cases, and also gave some indications.

Compared to the previous year, there was a slight decrease in the number of ombudsman queries as we received 37 requests in 2010. The 22 queries carried over from 2009 were closed in the first

half of 2010. In the cases starting in the reporting period the tax authority gave 31 relevant answers, in relation to which the parliamentary commissioner prepared reports on 2 cases, with which the tax authority did not agree,



and therefore escalated the issue to the Ministry of National Economy.

In 2010 the national tax authority received in total 23,626 reports of public interest. In terms of the national average, 57% of the reports of public interest were submitted anonymously. By 31 December 2010 citizens sent 4,800 e-mail messages communicating their reports and complaints. Regarding the subject of these messages, reports on the failure of the mandatory issue of invoices and receipts were still dominating, followed by public reports on unregistered employment and reports on audits of rapid financial gains, many of which supplied accurate data and valuable information to the tax authority.

In the reporting period, our authority received 1,350 complaints, of which 1,301 were investigated together with the 74 complaints carried over from

the previous period. In relation to the complaints submitted in 2010 we could conclude that the main problem was still the delay in the administration activities of the tax authority. The so-called “typical complaints” pointed out tax authority practices and problems affecting a large number of taxpayers. A lot of complaints were received on the delays in the disbursement of the tax refund, due according to the PIT declarations, and the technical problems of tax card production, but complaints about the audit and enforcement procedures and the customer services also continued to be typical complaints.

Following the drastic fall in the number of the operating game parlours, slot machines and gambling locations between 2009 and the first half of 2010, the decline continued in the other months of the year, although at a decelerated pace. Similarly to the previous year, the tax authority issued licences for the

operation of slot machines and game parlours. As a result of the amendment of the rules on the organisation of gambling, poker type card games, managed in totaliser, cash and/or competition schemes can now be organised also in card rooms, not only in casinos. Between 1 May 2010 and the end of the reporting period in total 9 poker club licences were issued. The gambling supervision department conducted in total 16,661 audits in the reporting period, which was close to the audits performed in the previous year, imposing approximately 2 thousand fines in the amount of HUF 486.9 million. The revenues related to gambling supervision dropped by 8%, which is explained by the lower collected fees resulting from the 14% decline in the number of licence applications.

CRIMINAL REPORTS

The number of criminal reports made in 2010 rose by 5% over the previous year. The amounts included in the report decreased slightly compared to 2009. In relation to the reported amounts, the figure nearly doubled in personal income tax and corporate income tax in 2010. Similarly to the previous years, the tax authority made most criminal reports in relation to suspected tax fraud, fraud and fraud attempt, and these combined with the forgery of private documents in 2010. The historic facts explained in the reports were still based mainly on the acceptance of fictitious invoices and their inclusion in VAT declarations. Construction industry services and trade in IT equipment, clothing and vehicles continued to be “popular” in fictitious invoicing also in 2010. In the majority of the cases we observed that perpetrators formed extensive invoicing chains, full of personal and economic concentrations, occasionally extending even over the borders, in order to commit and conceal fraud and tax fraud. In such cases





involving the establishment of such chains and, in many cases, also the suspicion of chain transactions we often came across extremely high amounts.

Apart from the crimes specified above, the tax authority detected the following most frequent crimes in 2010 during its activities: forgery of public documents, failure of economic data supply obligations, violation of accounting procedures, bankruptcy as a crime and breakage of seals. The number of criminal reports related to such crimes increased by 33% over the previous year.

SUPERVISION OF CLOSED AUDIT CASES

270 supervision of closed audit cases were conducted in 2010. During the supervision of closed audit cases involving 48 complex audits of budgetary relations and 179 audits of specific tax types, already completed, in total HUF 8.4 billion tax arrears were established to the debit of taxpayers and HUF 26 million to their credit as a result of the modification of the findings of the basic audits. The authority itself initiated 146 regularity

and compliance audits, of which 123 were completed and the findings were different from the findings of the basic audit in 38% of the cases. The resolutions that became effective in 2010 stated HUF 5.3 billion tax arrears, HUF 1.1 billion tax penalty and HUF 571 million default interest, payable to the tax authority. 35 court cases are in progress involving HUF 2.4 billion.

INTERNAL AUDIT

As part of the internal control system, the internal audit of the Head Office in 2010 audited in total 25 organisational units in relation to 6 subjects, in compliance with its audit plan (one audit covered all APEH offices in the country). In addition, internal audit also began 2 extraordinary audits based on one external and one internal request.

According to the findings of 107 internal audit exercises, performed by the APEH internal organisation in 2010 (Budgetary Internal Audit Department and the internal audit units of the regional offices) in total 317 measures were defined in 81 action plans.

CONTROL AND OPERATION

Due to the organisational restructuring and changes in the legal environment, more robust changes had to be implemented in the tax administration, affecting the total scope of operation and the entire organisation. This involved a lot of additional work and required continuous managerial control.

The year was launched with preference given to organisational regulation, which also involved a modification of the organisational status as a result of the changes in the legislation. Pursuant to the so-called Status Act on the status of budgetary agencies, which was already revoked, the APEH organisational units lost their independent legal personality and continued their operation as organisational units with legal personality.

However, the control activities of the tax authority were determined by the preparations for the organisational restructuring on 1 October and on 1 January 2011. It was an important principle during

the implementation of the changes that the APEH organisation should fit into the restructured public administration sector and that it should be able to effectively serve taxpayers and perform its activities in line with the interests of the society in ensuring budgetary revenues even after its integration with the Customs and Finance Guard.

On 1 October the national tax authority was reorganised into a three-tier structure, maintaining the advantages of its regional organisation and the continuity of operation. Apart from the Head Office and regional directorates county directorates were formed with strong competences in order to separate the regulatory activities and the legal remedy fora and to make them transparent. It was another important requirement not to create any disadvantage for the customers with the changes and not to infringe the values of the APEH staff.





supervisory authority) with regard to resolutions adopted by the county directorates and, based on the guidelines of the Head Office, it also controls the operation and professionally supervises and controls the activities of the subordinated organisational units in terms of taxation, audit, liquidation and enforcement.

The functional tasks are performed regionally, although the daily operational tasks that should be performed by the

In the new structure the first instance organisation of the tax authority is the county directorate, the second instance agency is the regional directorate general, while the third instance organisation is the Head Office.

The functions of the Head Office include only theoretical, strategic and professional control of APEH, and therefore any task that does not necessarily fall within the scope has been transferred to the regional directorates general. Thus, e.g., the Regulatory Department was transferred into the structure of regional directorates general, while the supervision and theoretical control of the regulatory works remained at the Head Office. In addition, of the tasks of supervision of closed audit cases, the performance of regulatory and repeated audits was also transferred to the regional directorates general and from the activities of the Department of Matters of Specific Competence the second instance authority functions were transferred to the Directorate General of Priority Cases and Large Taxpayers.

As a mid-level organisation, the Regional Directorate General acts as a second instance (and

county directorates for economic or practical reasons were transferred to the county directorates. In terms of professional functions the regional directorates coordinate and, in order to ensure the operation of county directorates in accordance with standard principles, regulate the directorates reporting to them. However, a regional directorate general cannot order a county directorate to adopt a specific decision, and cannot withdraw any of its competence. The county directorates perform all the tasks that require local presence, i.e. specific audit, taxation, enforcement and liquidation activities.

The organisation control work has not ended with the establishment of the new tax administration structure, because parallel with the elaboration of the legal background for the implementation of the government's intention to merge APEH and the Customs and Finance Guard a survey began, among others, assessing the controlling tools of the two legal predecessor institutions and the instruments supporting the start of operation of the integrated administration agency were also put in place within the framework of preparations for the integration.

HUMAN RESOURCES

The permitted headcount figure of APEH has been 15,607 employees since the beginning of 2009.

During the year the number of vacancies and employees absent for a long-term increased in the tax administration, and the statistical headcount figure was lower than the permitted headcount figure by 744 employees. Compared to the previous year, fluctuation increased by 0.63 percentage point, 281 people retired, which figure is 124% of the previous year's number. The Act on the Legal Status of Government Officials entered into force on 6 July 2010, as a result of which the previous consistent regulations on the status of public servants were divided.

The wage budget has not changed for three years. The income position of the tax administration employees was further deteriorated by the fact that the amount and ratio of extra-wage benefits was the lowest in 2010 over the last 20 years. (Apart from the one-off bonus granted by the Minister of Finance the tax administration employees did not receive any other performance-based reward.)

The changes in legislation during the year, the restructuring on 1 October 2010 and the preparations for the integration of 1 January 2011 imposed a large



amount of additional tasks on the human resources. The recruitment block ordered in the meantime, followed by the suspension of the restructuring of human resources within the organisation caused difficulties in performing the professional tasks in several organisational units. In view of the restructuring on 1 October 2010, followed by the integration on 1 January 2011, the appointment documents of the complete staff were renewed and distributed.

TRAINING, FURTHER TRAINING

The APEH Training Institute organised approximately 77 training programmes in 290 groups, involving 5,985 employees in 2010 in the framework of general, technical and IT basic trainings, involving special subjects tailored to APEH employees, other technical and IT further training, licence renewal and skill development training, managerial skill development and other workshops. The complex preparation for the integration of the Institute into the NAV Training, Health and Cultural Institute also required a lot of resources.

INTERNATIONAL RELATIONS

In 2010 we focused mostly on maintaining the existing multilateral relations. The tax administration leaders of the "Visegrádi 6" countries had two meetings during the year. The presentation of projects aiming at the improvement of the relationship between the tax authority and the taxpayers was a new topic, in relation to which our employees gave a presentation on the organisational, modernisation endeavours of APEH. Upon the initiative of the Slovenian party, the Member States would extend their cooperation to almost the full range of their tax administration activities, in relation to which an agreement is being drafted on the exchange of experience.



We continued to actively participate in the activities of IOTA, with the regular supply of information to the requests of neighbouring countries in the framework of technical assistance. At the 14th IOTA General Meeting held in Brussels Hungary was elected again into the members of the Management Board.

Within the framework of the Fiscalis 2013 Programme in 2010 as regards of electronic information exchange APEH took part in the activities of various project groups, including the development of standard executable electronic documents, administrative cooperation in relation to VAT fraud e-learning module, development of databases supporting administrative cooperation in the field of direct taxes, and the launch of the electronic platform of the Programme supporting the exchange of information and cooperation of the Member States.

Financed by the Fiscalis 2013 Programme, the Risk Management Platform project team reorganised itself in 2010 based on the preferences of the Member States and, in addition to the existing topics, formed four new sub-teams called 'Risk Picture', 'Tax gap and Compliance map' (with the participation of Hungary), 'Third party information'.

In relation to the amendments of the VAT directive and several Hungarian legal regulations, as well as numerous forms and completion guidelines, the APEH website in foreign languages was updated and extended on several occasions during the year.



BUDGET, FINANCES

The 2010 budget appropriation of the Tax and Financial Control Administration was HUF 91 billion pursuant to Act CXXX of 2009 on the 2010 Budget of the Republic of Hungary, which was raised to HUF 107.4 billion as a result of the amendments in the appropriation, made during the year.

The following table summarises the main appropriations and performance in 2010:

Definition	Original appropriation <i>(HUF billion)</i>	Modified appropriation <i>(HUF billion)</i>	Limit overrun <i>(HUF billion)</i>	Theoretical appropriation <i>(HUF billion)</i>	Performance <i>(HUF billion)</i>	Performance in percentage
Staff costs	53.9	51.6	3.7	55.4	55.2	99.7
Employer contribution	14.0	13.8	1.0	14.8	14.9	100.0
Purchase of goods and services	22.1	25.0		25.0	25.0	100.0
Operating expenses equivalent to support		6.6		6.6	6.7	-
Capital investment of the institution	0.6	3.5		3.5	3.5	100.0
Reconstruction	0.4	0.4		0.4	0.4	100.0
Transfer of the operational appropriation, remaining from the previous year		1.8		1.8	1.8	100.0
Accumulation expenditure, equivalent to support		4.1		4.1	4.1	100.0
other	0.1	0.3		0.2	0.3	
Total expenditure	91.1	107.1	4.7	111.8	111.9	100.0
Budget transfer	90.6	95.2	4.7	99.9	99.9	100.0
Revenues of the operational budget	0.4	0.7		0.7	0.8	112.6
Non-cash revenues / Use of the appropriation remaining from the previous year		11.4		11.4	11.4	100.0
Total revenues	91.0	107.3	4.7	112.0	112.1	100.1

In total HUF 55.3 billion was available for staff costs (HUF 51.6 billion appropriation + HUF 3.7 billion limit overrun), which covered the regular remuneration paid to the staff, including also the recently introduced cafeteria benefits. The Q1 performance-based bonus was paid from the limit overrun, approved in addition to the appropriation. The lack of any subsequent bonuses, which occurred because the expected and projected surplus revenues were not collected, led

to a considerable decline in the real income of the employees compared to the previous year.

HUF 14.9 billion was available for employer contributions, which covered the employer's payment obligations based on staff remuneration.

HUF 25 billion was available under the amended appropriation for the purchase of goods and services and other current expenditures. The appropriation covered the performance of professional tasks,

and was the result of the partly moderate and economic financial management applied during the year and partly the reallocations made within the appropriation.

The directorates required pre-financing in the first half in relation to the use in the first months of the residual appropriations, which contained commitments and for the payments made in relation to the processing of the PIT declarations in the second quarter.

The implementation of the Budget Management System (KGR), a management information accounting system contained in APEH's mid-term strategy, represented a new task for the Finance and Wage Management Department in 2010. The new system supported the performance of the financial and accounting tasks within the applicable deadline.

CAPITAL INVESTMENTS

The amount of the annual institutional accumulation appropriation was lower than in the previous years. Despite this, we consider it a good result that we



completed the reconstruction of the head office in Szeged, Bocskai u. 14, and converted part of the real property at Budapest, Dob u. 75-81.

In relation to the organisational restructuring taking place on 1 October and the APEH-VPOP integration, we tried to maintain the continuity of professional work and locate the members of staff smoothly, without any problems.

The building at Budapest, District V, Zoltán utca 16 was added to NAV's real estate portfolio, providing office space of the new organisation.

INFORMATION TECHNOLOGY

The changes in the legal regulations and organisation introduced during the year imposed a lot of tasks on information technology. We focused on the tasks related to the assumption and then the return of the local business tax, the IT support of the organisational changes at APEH and the preparations for the APEH and VP integration.

The need for establishing a relation managing organisation with a professional and IT approach and satisfactory knowledge base appeared on the basis of evaluation of international experience. Consequently, the Professional Relation Management Unit was established under the supervision of IT field. This unit is responsible for maintaining contact with the other organisational units of the administration, coordinate their IT orders and development requests, and manage user reports and error reports related to the programmes.

IT took part in several important projects. Consequently, the products of the electronic VAT refund system (ELEKÁFA) project, the registration system (MEK) of underlying and joint and several obligations of the enforcement modernisation project (VHK), and the procedural framework system and payment preference module (ELJAR-FKM) were completed

and delivered for operation. In 2010 all new declarations were processed in the central declaration processing system (UBEV). All data and other change reports of the economic organisations, submitted electronically, were processed in the central partner registration project (ANYK).

The selection of the source system data, required for the initial database population began in the Taxable Person-Centred Data Supply Model (ACM).

The development tasks were completed in the institutional project (eADÓ) in relation to the Electronic Payment and Settlement system, which was granted support under EAOP, and the complete horizontal and vertical system is scheduled to go live in Q1 2011.

In relation to the APEH-VP integration, first those IT-supported tasks had to be listed and prepared in terms of information technology that were absolutely necessary for the operation of the integrated organisation and will represent the basis of the subsequent steps of integration. Thus at the end of 2010 the connection of the IT networks of the two organisations, internal communication (e.g., connection of the electronic mail systems), the establishment of a common internet portal (www.nav.gov.hu), and the preparation of the systems supporting operation (document management, HR systems, authorisation management) for supporting NAV's operation were the priority tasks.

MAIN DEVELOPMENT PROJECTS

The Department for IT Developments of High Priority was established as a result of the restructuring processes started in the summer of 2010.

The primary objective of the transformation and strengthening of the control system was to coordinate and control more tightly the priority development activities aimed at the establishment of the driving

products, which will make the core activity of the organisation more effective in the future.

The knock-on effects of the crisis that also hit the budget, reached the organisation as well and slowed down the pace of implementation of priority development projects, too.

In 2010 the Priority IT Development Department took over the management of 16 active projects.

In the second half of the year, 3 projects were closed (AVS, DES9-UPG, EGYABLAK). The foundations of 7 other priority development projects were laid down (DOKUBE, ELEKÁFA, ELJAR-FKM, FOK2P, HUMIG, RADAR, ELKÉRI), and these projects are currently being closed. Six projects (ACM, ANYK-2008, eADÓ, EKP2, UBEV, VHK) are in progress.

In line with the tasks and objectives specified in the NAV Code of Organisation and Operation, the most important activities of the department with regard to the priority development projects are as follows:

- control: coordination of the tasks, use of synergies, monitoring and evaluation of events, adequate intervention and reporting as necessary;
- support: both management and administration;
- control: monitoring and statement of costs, management of resources;
- maintenance of the operational environment;
- preparation of a development plan, development portfolio management;
- change management on a continuous basis.

The project management practices and dissemination of this culture, and the customisation of methods, successfully applied in international practice still impose a lot of tasks on all organisational units and employees involved in project operation, but the achieved results and completed project products prove that this project type work is viable also in strongly vertically structure organisations, assisting the organisation in achieving its strategic goals more efficiently.

COMMUNICATION

The tax authority organised 4 central and 20 regional press conferences on taxation during the year. The media representatives contacted the Press Department of the Head Office on 929 occasions in that period (number of questions: 3,444). The questions were answered by the managers of the authority or employees of special departments. The regional directorates were covered by regional media on 3,709 occasions. The employees of the directorates gave 748 presentations to various target groups during the year.

At the beginning of the year the tax authority ran a reminder campaign about the simplified tax declaration and then warned the taxpayers about the deadline for the submission of the personal income tax declarations later. For cost efficiency reasons, the media broadcast only free TCR advertisements (Public Service Advertising) in the campaign at the beginning



of the year on 70 occasions in total. The TV campaign was also reinforced by radio adverts, broadcasting the spots of the tax authority on 43 occasions (Klub and MR1-Kossuth Radio). Taxpayers were reminded of the deadline of PIT declarations in a TV spot on 102 occasions. APEH attended the Home Fair and the Government Career Expo with its own stand. The regional tax offices organised open days presenting the activities of the tax administration.



The RangAdó (Taxation contest) was successfully completed again in spring in order to enhance tax awareness and deepen the taxation-related knowledge of young people. Almost 500 teams entered the contest representing 250 secondary schools. The final was held on 26 March 2010 and was broadcast on MTV 1 on the subsequent day.

The tax authority launched a drawing contest for primary schools under the title of “What do you know about taxation?” In total 480 drawings were received in the first drawing contest, illustrating the world of taxation through personal experience (family) or in any imaginary way. The drawings were also displayed on the APEH website from the middle of May and the best drawings were exhibited in the Palace of Arts. The exhibition in Budapest was followed by a tour around the country, within the framework of which the drawings were exhibited in all county seats of the country.



WEBSITE

In total 3,054 publications were uploaded on APEH’s website. APEH’s various units received 652 requests through the webmaster@apeh.gov.hu address. The www.apeh.hu website had 24,946,815 visitors, which number was almost 43% higher than in 2009.

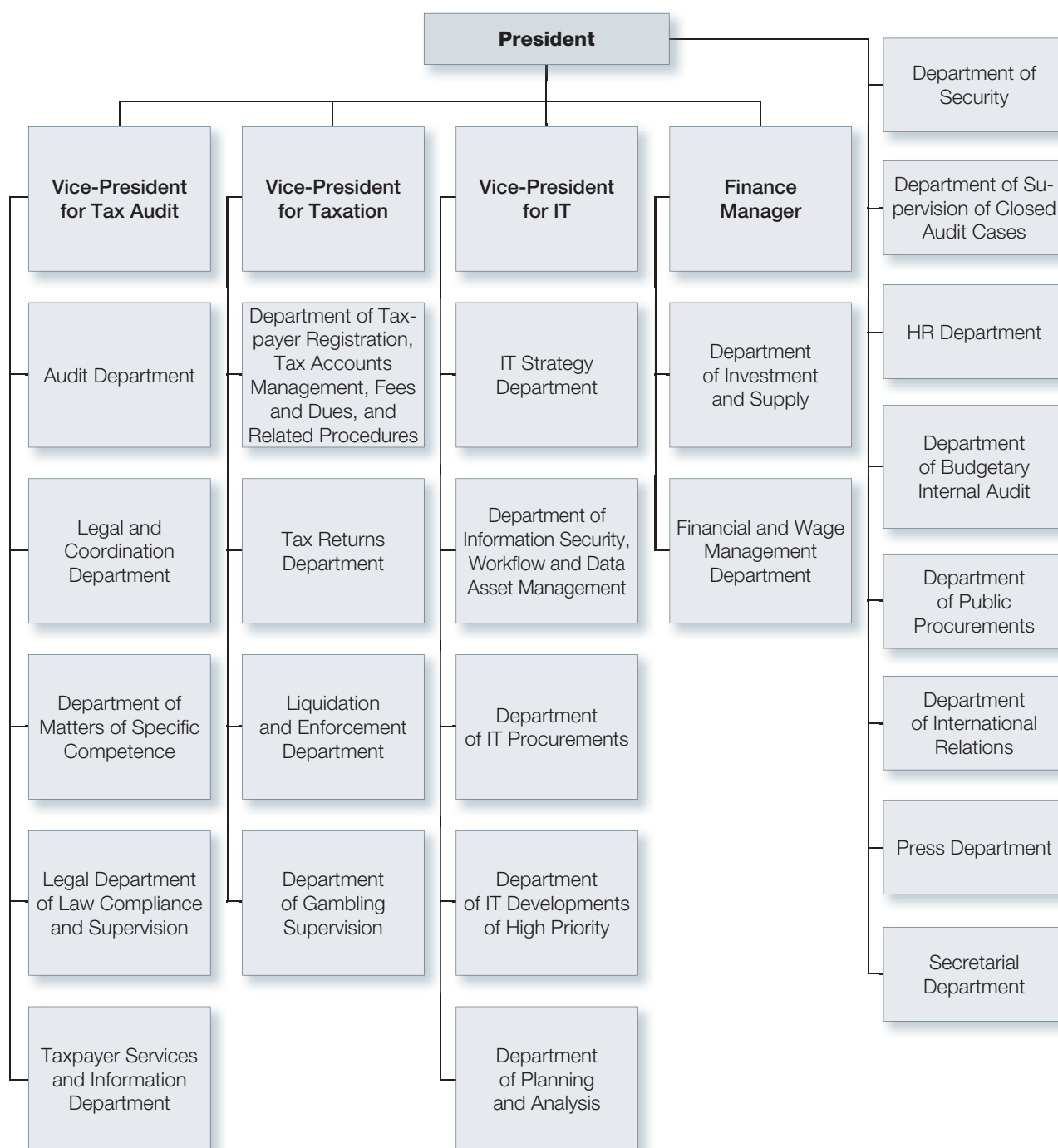
	2009	2010	2010-2009	
	number of visitors in the quarter		change	
Q1	5,645,750	6,748,190	1,102,440	119.5%
Q2	5,370,019	7,723,842	2,353,823	143.8%
Q3	3,846,591	5,250,691	1,404,100	136.5%
Q4	3,731,139	5,224,092	1,492,953	140.0%

ORGANISATIONAL CHANGES

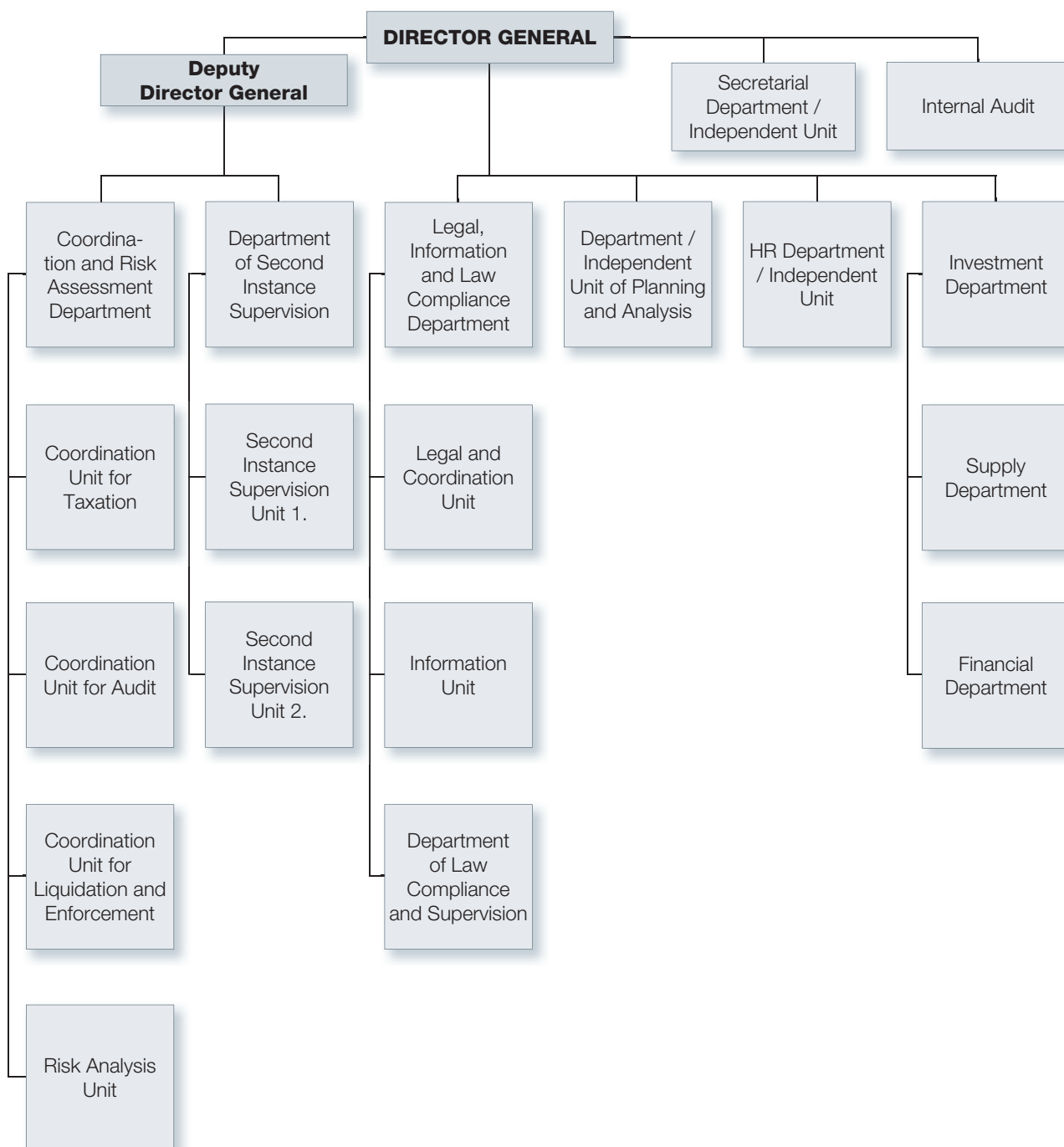
In 2010, APEH’s organisation was restructured, with the establishment of the county directorates on 1 October 2010, creating a three-tier tax administration system. The changes were accompanied by the restructuring of the regional press work, as the press and communication tasks were re-allocated at county and regional levels in line with the new organisational structure.

These changes prepared the integration of APEH, and the Customs and Finance Guard. The integration of the two agencies and the establishment of the National Tax and Customs Administration in 2011 was decided in 2010, and the preparatory works began in 2010. The changes also affected communications, as the complete image change of the National Tax and Customs Administration and the restructuring of its press and communication organisations had to be prepared by 1 January 2011.

ORGANIZATIONAL CHART OF THE CENTRAL OFFICE AS OF 1 OCTOBER 2010



TYPICAL ORGANIZATIONAL STRUCTURE OF THE REGIONAL DIRECTORATES GENERAL
AS OF 1 OCTOBER 2010



TYPICAL ORGANIZATIONAL STRUCTURE OF THE COUNTY DIRECTORATES AS OF 1 OCTOBER 2010

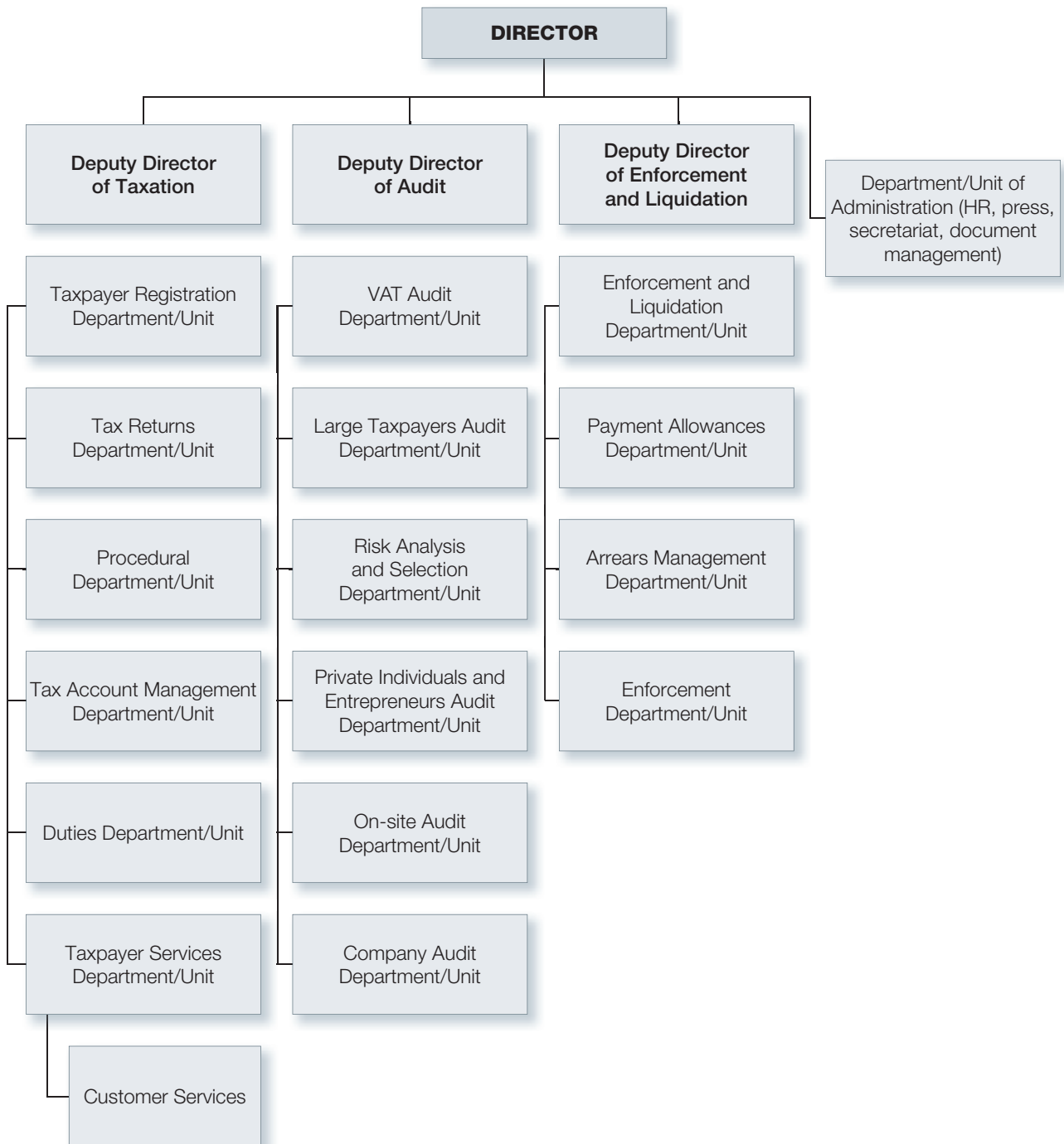


Table 1

TAX AND TAX-TYPE REVENUES (IN HUF BILLION)

Definition	2009		2010	
	net	gross	net	gross
Corporate income tax	385.6	525.1	323.4	495
Special tax of corporate entities	156.9	191.0	-32.4	40.5
Contribution of credit institutions	12.6	12.7	10.0	10.0
Special tax of financial organisations	-	-	182.3	182.3
Personal income tax	1,874.2	1,997.7	1,767.8	1,897.7
Special tax of natural persons	25.5	28.3	6.1	9.0
Total value added tax	2,168.5	3,495.2	2,313.6	3,857.8
of which: based on imported and tobacco products	303.8	305.8	282.9	284.7
Special tax on retail trade in shops	-	-	28.9	28.9
Special tax on telecommunications activities	-	-	58.6	57.6
Special tax on energy supply companies	-	-	64.2	64.2
Income tax of energy suppliers	24.2	24.2	17.0	19.0
Gambling tax	66.7	66.8	62.7	62.7
Employer contribution	169.6	170.5	13.5	14.8
Employee contribution	96.3	97.0	9.4	10.4
SET (Simplified Entrepreneurial Tax)	169.7	170.7	181.9	182.8
Company car tax	18.0	18.2	25.9	26.3
Various funds, fund-type contributions and repayments in total	107.5	116.7	291.6	302.7
of which:				
Rehabilitation contribution	15.0	15.7	54.2	55.4
National cultural contribution	7.7	8.1	2.1	2.3
Vocational contribution	39.6	41.4	42.7	44.5
Innovation contribution	23.2	28.1	22.1	27.8
Environmental fee	-0.0085	0.52	0.016	0.4
Entrepreneurial contribution	11.3	11.8	1.2	1.9
Environmental fee	10.7	11.1	6.6	7.2
Labour market contribution (the amount allocated to the Labour Market Fund)	-	-	162.7	163.1

Definition	2009		2010	
	net	gross	net	gross
Social security contribution	2,883.0	2,895.0	2,841.4	2,872.4
Health contribution	109.9	114.6	41.2	46.1
Private Pension Fund revenues	354.5	355.8	308.5	310.5
Stamp duty revenues	129.8	138.4	88.7	96.8
Various other receipts, sanctions, with fines, penalties and procedural duties	76.6	99.9	90.8	108.2
of which:				
Default penalty	11.7	25.9	21.5	25.2
Fine, self-revision penalty	21.6	24.8	18.8	22.5
Gambling organisation fee and fine	4.3	4.4	3.9	4.0
TV operational fee	0.93	0.99	0.65	0.71
Contribution from pharmaceutical trade	37.1	37.3	38.7	40
Total receipts managed by APEH	8,829.0	10,518.0	8,695.0	10,696.0
of which: VAT on imported and tobacco products		306.0		285.0
Total taxes and contributions collected by APEH		10,212.0		10,411.0





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Tax and Financial Control Administration



National Tax and
Customs Administration