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SUMMARY

of the Audit on Investment-Related Tax Allowances and Subsidies (12102)

Objective and scope of the audit

The State Audit Office of Hungary (SAO) evaluated the utilisation of tax allowances and subsidies related to the investments of enterprises, amounting to approximately HUF 1000 billion. In the last 20 years, this was the first time that SAO audited subsidies granted as tax allowances. In the course of this audit we presented the budgetary relations of the companies applying tax allowances.

The objective of the audit was to evaluate whether the economic policy aims set were achieved by using the investment-related tax allowances and subsidies, and whether the control, monitoring, evaluation and reporting systems following up tax allowances and subsidies related to investments were established and operated. The audit covered the period between 2007 and 2011, within that the data of the 2006-2010 tax years. Besides the on-site audit, we applied with surveys to 547 enterprises, 92.9% of whom provided information on the online surface developed by SAO.

Main findings

The National Development Concept (NDC), which was accepted in 2005, determined the directions of the national development policy and calculated with a significant mid-term increase of investments and the increase of the investment rate to 28% by 2013. In contrast, the investment rate decreased from 22.78% to 17.97% from 2005 to 2010 and within this the investment rate of the enterprise sector dropped from 13.34% to 10.62%. It was not specified in NDC, which forms of support (investment, operational, repayable, non-repayable subsidies, tax allowances) and other regulatory tools were planned to be applied for the implementation of the objectives set. For the achievement of objectives, they took into account mainly EU subsidies, however, those were supported entirely by national funds and tax allowances defined in the Act LXXXI of 1996 on Corporate Tax and Dividend Tax. Despite the multi-channel subsidy system, according to the deteriorating investment indicators there is a risk that the growth targets of investments will not be achieved by 2013. However, development subsidies granted for enterprises with the aim of implementing investments contributed to job creation and territorial development.

Investment-related tax allowances

Of the 340-390 thousand entities subject to corporate income tax altogether 110 utilised investment-related tax allowances in the tax years 2006-2010. 87% of the investment-development-related tax allowances amounting to HUF 405.2 billion were accounted for by 21 enterprises. Of them, two enterprises – according to the provisions of individual government decisions and the Act LXXXI of 1996 on Corporate Tax and Dividend Tax – utilised tax allowances in the amount of HUF 130.2 billion. In contrast, the budgetary payment obligation without personal income taxes and contributions of 110 enterprises amounted to HUF 4017 billion.

The data of tax allowances utilised by the individual taxpayers were not made public in the audited period despite the fact that they are considered as public funds. Legal provisions did not regulate in an unambiguous way the publication of the data on tax allowances as subsidies, as well as the scope of data not falling within tax secrets.

The report indicates that the regulation of the act on corporate tax and dividend tax, effective in the audited period and entering into force on 1 July 2005, made it also possible that for the fulfilment of the employment conditions stipulated in relation to investments, those employed at foreign premises can also be taken into account. Thus, the regulation supported also the job creation outside the country, which was terminated by the amendment of the act on corporate tax and dividend tax entering into force on 1 January 2012, in the period of the on-site audit. Following that, the average headcount has to be calculated without taking into account those employed at foreign premises.

The utilisation of the subsidies granted as tax allowances was not transparent and adequately audited, despite the significant volume thereof. The assessment of the long-term impact of tax allowances utilised in relation to investments was not stipulated by legal regulations. No aggregate data were available showing the volume of investments related to the accounted investment and development tax allowances. It was not recorded whether the planned investments were implemented and what amount of tax allowances were utilised in relation thereto. As a result, they did not have any information for the planning of lost corporate tax revenues.

The audit of tax allowances was carried out by the National Tax and Customs Administration (NTCA, Hungarian Tax and Financial Control Administration before 2011) in the framework of the follow-up audit of tax returns. However, in the course of the processing of tax returns, it did not filter out the taxpayers accounting for development tax allowances without permission and declaration. Therefore, in the course of the audit we revealed also taxpayers which were not eligible for accounting for development tax allowance. These taxpayers did not fulfil their obligation to report to the minister responsible for tax policy and they did not submit any requests, thus they did not have a permission to utilise tax allowance. According to our indication, the NTCA launched a targeted audit of these taxpayers.

The objective of the audits carried out by NTCA was to determine whether the utilisation of tax allowances was in compliance with legal regulations. It was not assessed whether the implementation of investments was in accordance with the declarations made prior to utilisation and the content of permissions.

Investment subsidies

In the support granted for investment-aimed developments of enterprises, the Economic Development Operational Programme of the New Hungary Development Plan (NHDP) and the regional operational programmes were determining in the audited period. No indicators were linked to the economic development priorities of NHDP. In the absence of quantified indicators and the definition of measurement tools the plan and the actual states could not be compared. On a macroeconomic level, planning was not substantiated by legal regulations. The legal regulation on the central strategic governance was approved in 2012. No procedures were established which would measure and evaluate how the utilisation of development resources, i.e. investment subsidies, tax allowances, contributed to the implementation of economic policy objectives (e.g. the increase of the investment rate) and whether the results achieved were proportionate to expenditures.

From the audited support schemes for investment purposes, HUF 574.4 billion of non-repayable subsidies were granted for 14 thousand enterprises. The accession of micro, small and medium enterprises (SMEs) to financial resources was supported by JEREMIE-type financial instruments, with investment-aimed loans. Thus, approximately 5 thousand enterprises received concessional resources. The legal and regulatory environment did not assist enterprises effectively in the implementation of their investments. The quantity and continuous change of EU and national legal regulations, as well as public tools of organisational regulation limited predictability and transparency. It occurred that special procedural rules were not stipulated and that regulations were incomplete or contradicted each other.

The institutional system established for the utilisation of investment subsidies ensured the performance of tasks also during the changes occurred in the audited period. The task performance of the organisations participating in implementation was established in a way that it contributed to the administration via points of single contact, with the exception of subsidies granted on the basis of individual government decisions.

Concerning EU subsidies, the information and data necessary for tenders were included in the calls for applications published on the website of the National Development Agency (NDA). In spite of this, four-fifth of applicants had to complete the documentation submitted in relation to their application. The implementation of investments was lengthy. 41.5% of the projects whose contract was concluded until 31 December 2011 was completed, 63.8% of which exceeded the planned deadline. The average implementation period of projects was 502 days, which – as a result of procedural changes introduced from 2011 – decreased.

An indicator system was set up for the monitoring of the results of EU subsidies. However, the availability of data – despite continuous developments – enabled the measuring of the achieved results in comparison with objectives only in a limited way. The harmony between the several indicators established in the different fields was not ensured. In the audited fields, in case of 38.5% of the occurrence of 91 indicators belonging to the output programme monitoring, the time-proportionate fulfilment of the target value set could not measured. At the JEREMIE financial instruments, monitoring covered the financial processes, and it did not ensure the utilisation complying with the loan target, as well as the monitoring of the physical and technical implementation of investments.

The annual appropriation of the indicative targets set by law, which support enterprises as well from entirely national resources decreased to one third from 2007 to 2011. 96.6% of the allocation of investment-aimed subsidies, available between 2007-2011 (HUF 118.8 billion) was utilised for financing individual government decisions (e.g. support of the processing industry and job creation). Of the subsidy contracts concluded on the basis of individual decisions from 2004, 80 were in force with a subsidy amount of HUF 160.5 billion in the audited period. This contributed to the implementation of investments amounting to HUF 1905.8 billion, investors undertook the creation of 34,848 jobs. Of this, the 37 completed investments created 22,971 new jobs instead of the planned 15,460.

Audit trails were defined for all – national and EU – types of support, procedural rules were established, organisations carrying out audits were selected, which basically performed their tasks. NDA elaborated the detailed procedural rules for the process related to EU subsidies, however, the provisions concerning the publication of decisions related to irregularities were not observed, as they were not published within the 10 days set as deadline.

Recommendations

We recommended the Minister of National Development – involving the Minister of National Economy – to update the regulation concerning the subsidies to be granted with the individual decision of the Government, as well as to prepare an information note about the National Development Concept for the National Assembly.

Furthermore, we recommended the Minister of National Development to establish the monitoring system of tax allowances, to initiate the lawful publication of the data of utilised tax allowances – similarly to state subsidies –, to take measures for the harmonisation of individual government decisions and corporate tax return, as well as to order the launch of tax inspections aimed at evaluating the lawfulness of utilisation.

We recommended the President of NTCA to review all the enterprises which utilised tax allowances without declaring them or having permission between 2006-2010 and in the future to filter them out already during the elaboration of tax returns, as well as to ensure the compliance of inspection directives with legal regulations. We recommended that in the course of the inspections of NTCA, the harmony between the contents of declarations made prior to utilisation and permissions, as well as implementation is also examined.

We recommended the President of NDA to keep a record of and file the action plans effective in the different periods and to observe the provisions concerning the disclosure of decisions related to irregularities.