



INSIDE VIEW

Businesses to Contribute to the Tourism Budget



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Tourism is an important economic sector substantially contributing to Hungary's economy. Achieving growth in this increasingly competitive national and international market requires a supportive regulatory environment. Governments are introducing tax systems that are core to the sector's development potential.

The EU has recently conducted a study on "The Impact of Taxes on the Competitiveness of European Tourism." It suggests reducing tourism taxes to improve tourist destinations' competitiveness and support the local tourism sector.

Hungarian Tourism Numbers

If we compare the figures of Q1 2023 to the same period in 2022, we see that foreigners made 8.8% more trips to Hungary, and their expenditure increased by more than a third. The number of Hungarian trips abroad increased by 29% compared to a year earlier. Foreigners arriving in Hungary spent HUF 517 billion, and Hungarians traveling abroad spent HUF 252 bln.

All these figures show that domestic tourism has performed well above expectations, and it is expected that, in 2023, the sector can experience a year similar to 2019, which brought the highest numbers before the coronavirus pandemic.

Tourism-specific Taxes

Seeing the vitality of tourism, the Hungarian state has recently re-introduced taxation of the tourism sector. One way of helping businesses hit hard by the coronavirus pandemic was for the state to waive the tourism development contribution (TDC) for touristic operators. However, this moratorium is now over, and the 4% tax became due again from April 1.

The TDC was introduced in 2018 under the tax package adopted in 2016, and it is payable on services such as:

- catering services of food and non-alcoholic beverages prepared on the premises (catering services can be restaurant services, confectionery services, catering vehicles, self-service catering, or other catering services);
- commercial accommodation services.

TDC shows similarities to VAT. The service providers, however, pay 4% as TDC in addition to 5% as VAT. Both are calculated on the VAT-exempt income from the services.

Another similarity is the due date of the contribution. Those who declare VAT monthly must also declare TDC by the 20th of the month following the month in question. Those who report quarterly must do so by the 20th of the month following the quarter, while those obliged to file an annual return must do so by February 25 of the following year.

A significant difference between the two burdens is that TDC shall also be paid by those who are not liable to pay VAT, for example, because they received a tax exemption. This is typically the case for properties rented out for short periods for tourism purposes via Airbnb, where the contribution is also payable on the income generated.

The revenue from TDC must be used by the state for tourism development purposes included in the state budget's tourism earmarking, such as spending on promotion activities related to the Tour de Hongrie, the organization of Hungarian regional tourism development projects or the development of sector-specific IT systems.

Similar Taxation Schemes

A similar tax is payable by a wide range of Croatian businesses and individuals working in the tourism industry to help fund Croatia's tourism boards. This tax is applied to total income, with rates varying according to a business's location and activities. A total of 24 different rates apply, ranging from as low as 0.00646% to as high as 0.1615%. As with the accommodation tax, the law specifies the apportionment of revenues generated by this tax that must be transferred to each level of tourist board (municipal, city, county and national).

In summary, regulators have a crucial role in maintaining competitiveness in the tourism industry, particularly with the increasing global competition. Given the need of the governments to raise revenue on the one hand and to maintain competitiveness on the other, policymakers need to design the tax system carefully to balance these conflicting objectives.



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