Achieving enhanced digitalisation in Hungary: supporting affordability, growth and fiscal stability

Mobile services connect 60% of the population in Hungary and deliver widespread social and economic benefits. Mobile technology is increasingly important in delivering the benefits of digitalisation, which enhances social development and strengthens economic growth through increased productivity and innovation.

Gaps in digitalisation and the highest mobile-specific taxation in Europe act as barriers to realising the full potential of economic growth in Hungary.

- **Annual average subscriber growth is slowing down in Hungary** and was 0.1%, compared to the European Union (EU) average of 1.8% between 2009 and 2014.
- **Hungary has the lowest mobile internet penetration rate in the EU** at 26% compared to an EU average of 60%.
- **As a result, Hungary is lagging behind the EU in terms of the development of the digital economy and society.** Hungary ranks 21st out of the 28 EU countries in digitalisation mainly due to limited use of digital public services and to poor integration of digital technology by businesses.

However, low unique subscriber penetration in Hungary does not result from infrastructure issues or lack of coverage: 3G networks reach 95% of the population, while 4G networks already cover 82% of the population. Barriers to mobile adoption and increased digitalisation include low affordability of mobile services and inadequate incentives for investment, both affected by taxation policy.

A recent study conducted for the GSMA by Deloitte reviews mobile taxation in Hungary and identifies priorities for policy change.

The mobile sector in Hungary is subject to one of the highest discriminatory taxes in Europe, affecting affordability of services and investment.

This includes general taxes such as VAT, but also sector-specific taxes that have been applied over the years including the crisis tax, telecoms tax and utility tax.

Estimates based on average usage levels indicate that the telecommunications tax amounted to

15%

of the final effective price per minute for calls in 2014.

Hungary is one of only three countries in the EU that levy a special tax on mobile services. Special taxes on the mobile sector such as Hungary's Telecommunication tax are typically used in developing markets in Africa and Asia, but are not common in Europe.

As a result of both VAT and the telecommunication tax, the study finds that taxation accounts for

30%

of the TCMO (TOTAL COST OF MOBILE OWNERSHIP) **in Hungary, compared to the European average of 22%.**

Key findings

The tax burden as a share of TCMO **is in the top 15 worldwide and the second highest in Europe, after Greece.**

Overall, in 2014, it is estimated that mobile operators paid

C. HUF 160 billion

in total recurring tax and payments, representing around

29%

of market revenues.

Mobile-specific taxation in Hungary negatively impacts its investment attractiveness.

Both total FDI and telecommunications FDI fell following the financial crisis in 2009, and started to increase again in 2011.

However, while total FDI recovered and increased by 4% over the period 2009 to 2012, **telecommunications FDI decreased by 35%** over this period, after the introduction of the sector-specific 'Crisis tax' in 2009.

An alternative approach to mobile sector taxation could extend the benefit of mobile and support the Government's and the EU's digital agendas and support digitalisation, ICT investment and economic growth in Hungary.

A number of areas for tax reform have been identified:

- **Reduce taxation of the mobile sector:** Higher than standard taxation on mobile operators and consumers distorts production and consumption behavior. Reducing mobile-specific taxation would make mobile services more affordable and incentivise operator investment.
- **Apply phased reductions of taxes on established services:** Phased reduction of mobile-specific taxes on usage, such as the telecommunication tax, could offer governments the opportunity to benefit from the economic contribution from mobile in the medium term whilst limiting short-term fiscal costs.
- **Reduce complexity and uncertainty of mobile taxation:** Taxation on mobile operators has varied rapidly and unexpectedly. Any unpredicted tax change that occurs after investment in spectrum licence is made may negatively impact a mobile operator's business plan. The risk of future tax rises is priced into investment decisions and can therefore be expected to reduce both FDI and domestic investment in the medium-term.

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