

COOPERATION FOR A MORE COMPETITIVE HUNGARY 2020

Recommendations for improving competitiveness, drawn up with the involvement of the member companies of the American Chamber of Commerce

Introduction

The aim of the American Chamber of Commerce (AmCham) is to continue the dialogue and cooperation between the corporate sector and the government, which contributes to Hungary's long-term competitiveness. The most important topics of this dialogue are summarized in this 20-point proposal package entitled "Cooperation for a more competitive Hungary 2020."

The annual **recommendation package**, published for the fifth time this year, forms an integral part of AmCham's 2017-2020 Policy Agenda. The package remains focused on the four main areas that define the direction of our advocacy:

- **general business and investment environment**
- **competitive workforce and education**
- **innovation, research & development**
- **digitalization.**

Over the course of the past year, we have had the opportunity to discuss these topics on a number of occasions as part of a structured and constructive dialogue with government representatives, and a number of our earlier recommendations have been heard and adopted.

They have led to progressive results and measures that we can build on and that are in line with our earlier recommendations. We believe that maintaining a competitive economic environment and continuing its improvement is a continuously demanding common goal of and is in the interest of both AmCham members and the government.

We welcome the government measures and endeavors that promote and contribute to

- a competitive tax system in Hungary;
- the availability of the workforce, in terms of both quantity and quality (regarding its education and health), that makes it possible to maintain and improve competitiveness;
- increasingly basing the national economy on innovation, and developing and continuing the advancement of an ecosystem of research and development and innovation;
- ensuring that the business sector and society as a whole can keep pace with the revolutionary development of digital and artificial intelligence;
- the validation of the aspects of sustainability in all measures.

In many areas, our recommendations are a continuation of the suggestions we have stood behind and supported whenever we feel that they remain current but have not yet been implemented in practice. AmCham agrees with the government's various strategic goals aimed at competitiveness. However, the breakdown of these strategies and the development, implementation, monitoring, and correction of the appropriate concrete measures, including the suitable application of the time factor, continues to be a challenge for and requires the cooperation of actors in the Hungarian economy and society.

AmCham considers regular dialogue with the representatives of the government to be important. During this past year, we have consulted with Mihály Varga, Minister of Finance, Péter Szijjártó, Minister of Foreign Affairs and Trade, and Dr. László Palkovics, Minister for Innovation and Technology, regarding the “Cooperation for a More Competitive Hungary 2019” package. We also hold our participation in the National Competitiveness Council, established by Minister Mihály Varga in 2017, to be important.

The current recommendations set out in the document for 2020 summarize the proposals of the *5th Business Meets Government Summit*, the *5th Competitive Education* conference, and AmCham’s task force meetings. They also incorporate the topics of the consultations held with various government partners in 2019.

We would like to take this opportunity to thank our member companies, our governmental strategic partners, and our key supporters for their cooperation: the National Investment Promotion Agency, the Ministry of Foreign Affairs and Trade, the Ministry for Innovation and Technology, the Ministry of Finance, the Ministry of Justice, and the Ministry of Human Capacities.

We trust our partners in the government will remain open to discussing these proposals, and we offer our help in developing the details with the cooperation of our member companies.

Budapest, 20 February 2020

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I. GENERAL BUSINESS ENVIRONMENT

1. AmCham recommends that the regulatory and incentive schemes better support the improvement of competitiveness in the business environment.

“Invest in Hungary” and “Invent in Hungary” programs continue to be a goal of both the Hungarian government and the business sector. In connection with investment promotion decisions, we consider it important, and AmCham recommends that regulatory and incentive schemes better support the improvement of competitiveness in the business environment in the interest of developing the infrastructure behind investment projects. We recommend taking the following factors and proposals into account:

- a. In order to create a better synergy between job creation and the availability of competitive workforce, it is important that investment incentive programs focus on regions that are less impacted by labor shortage.**
- b. When promoting investment, particular attention should be paid to supporting the supplier background industry of manufacturing companies, encouraging innovation, and further training to reduce supplier risks.**

Supporting the domestic background industry is a priority objective of the government. However, this requires support for the Hungarian SME sector and effective promotion that noticeably increases the technical and innovation development of SMSs.

Chapter III (‘Innovation’) contains our detailed proposals related to this topic.

- c. Greater emphasis should be given to further develop regional infrastructure.**
 - i. Local and interurban transport should facilitate commuting between home and workplace.*

In many cases, commuting from homes located greater distances from workplaces poses a serious problem and stands in the way of effective work. The shortcomings in infrastructure, the limitations of transportation, and the time requirements of commuting hinder the development of a workforce balance and effective employment.

- ii. Measures should be taken to ensure faster crossing of lorries at the Hungarian **border crossing points**, which are used primarily by freight traffic, as well as traffic management and investment to prevent lorries from occasionally increasing traffic congestion.*

The capacities and throughput of road border crossing points has been a recurring issue in the case of both external EU and inner Schengen crossing points. The delays of lorries standing in kilometer-long, or even tens of kilometers long, traffic jams is a risk for both production and sales. The delay is worsened by the fact that drivers’ allotted driving time expires during the hours spent waiting, which results in at least a one-day delay in shipment. The possibility of delays and the uncertainty of the arrival of goods requires higher stock levels, which ties down an unjustifiably high amount of capital. The speed at which goods move from point A to point B and the ability to calculate transport times is

an important factor in investment projects (e.g. FDI). The Chamber recommends that the government examine **what measures can be used to ensure the faster border crossing of lorries at the Hungarian road border crossing points primarily used by goods traffic** and what traffic management or development projects can be used to help lorries avoid the delays caused by the occasional high tourist load.

d. We would welcome new investments in waste management (especially electronic waste).

The processing of increasing amounts of waste and waste management has to receive a prioritized role. In addition to plastics, the handling of electronic wastes is a serious challenge for both society and all economic actors. We support prioritizing the conditions of sustainable growth and the promotion of developing a circular economy, including meeting the commitments undertaken in EU and international agreements in a manner that ensures that social, economic, competitiveness-related, and investment factors are taken into account with suitable gravity. We furthermore recommend that the government consult with Hungarian economic actors and interest representation bodies regarding this issue.

2. AmCham recommends additional measures to ensure a competitive and predictable tax environment.

AmCham welcomes the government’s steps to reduce the tax burden. However, additional measures would be required to improve competitiveness. Therefore, AmCham recommends the following:

a. We recommend changes related to the local business tax (LBT/HIPA). We suggest:

As local business tax is the most important source of revenue for local governments, AmCham is aware of the fact that doing away with this tax type is not a realistic option, despite of its fundamental propensity to distort competition. However, we would like to call attention to some anomalies that result in a competitive disadvantage not only among domestic players, but also in Hungary’s international competitiveness. Our recommendation focuses on determining the LBT base, revising the top-up obligation, and simplifying LBT administration.

i. reviewing the definition of local business tax base and expanding tax reduction items;

We believe that the recognition of personnel expenses in the determination of the LBT base can be an acceptable compromise to end the three-decade long debate about local business tax. The advantages of this step could be the following:

- higher added value would not incur a disproportionately higher tax rate;
- local business tax would not cause a detrimental and competition-distorting accrual in distribution chains;
- it would put an end to the differentiation that discriminates against the service sector as compared to the commercial and production sectors.

Local business tax may also be distorting the national economy, primarily in regard to sectors with significant international exposure. To the best of our knowledge, this affects two sectors in particular:

- international service centers;

- companies with the activity of international labor force hiring.

ii. abolishing the obligation to top-up the LBT liability at year end;

The mid-2019 legislative amendments cancel the obligation of tax subjects with sales revenues exceeding HUF 100 million to top up their corporate income tax and innovation contribution advance accounts in the tax year to the amount of the expected tax/contribution. The cancellation of the top-up requirements for the corporate income tax and the innovation contribution and company tax can first be applied by entities whose financial year is after July 31, 2019. Similarly, to the example of the corporate income tax and innovation contribution, we recommend that the local business tax top-up obligation also be cancelled. We are naturally aware of the fact that this issue may have a profound influence on the financing of local governments, and that where there are 3,200 local governments, there are 3,200 different circumstances. We therefore consider the most important point to be to start a dialogue between the Ministry of Finance, local governments/the Ministry of Interior, and AmCham companies in the interest of finding a solution.

iii. simplifying related tax administration.

Due to length considerations, the recommendations are included in an annex to this document. Please see **Annex 1** for more details.

b. We recommend changes related to transfer pricing documentation:

i. amending the regulation pertaining to transfer price documentation

Under the laws currently in force, the deadlines for the preparation of the annual report according to the Accounting Act, the corporate income tax return, and the transfer pricing documentation are currently on the same day. In light of the fact that the transfer pricing documentation is based on the data of the annual report and that the transfer pricing documentation affects the corporate income tax return, we recommend that the deadline for the latter two documents be **extended** as compared to the deadline of the annual report, or that a possibility be provided to taxpayers obligated to prepare transfer pricing documentation and CbC reports for choosing an extended deadline.

ii. further recommendations related to transfer pricing

In the interest of clarifying and simplifying the tasks of companies related to transfer pricing:

- We recommend always having a Hungarian translation of the current OECD Guidelines (similarly to the European Union acquis).
- We propose the creation of a separate National Transfer Pricing Guideline available in both Hungarian and English, in which the NAV summarizes its expectations regarding transfer pricing and transfer pricing documentation.
- In connection with the above, we furthermore recommend that the NAV publishes detailed information on its investigations pertaining to transfer pricing, the number and type of such investigations, their findings, APA (advance pricing arrangement) requests, decisions, etc.
- We recommend providing the corporate income tax return with a voluntary annex (transfer pricing questionnaire) that would allow the tax authority to filter out taxpayers at risk from the aspect of transfer pricing. Companies that voluntarily complete the questionnaire could

receive support from the NAV during the course of a possible audit and could be given a possibility to correct any documentary deficiencies in the interest of assisting their future legal compliance and to settle any tax debts without incurring a penalty.

- c. **We recommend the revision of granting corporate income tax support (TAO) concept, including its possible elimination. We recommend providing a more effective form of support to help beneficiary organizations. However, if the legislator intends to maintain the TAO system, we recommend expanding the range of beneficiaries. It would be essential to simplify and update the system of corporate income tax.**

i. the TAO system should be reconsidered, including its elimination;

We recommend reviewing the concept used to support popular team sports and to **entirely eliminate the TAO support system** in light of the fact that it is costly to state administration, difficult regarding its implementation, and is far from efficient in its end results. In addition to the results achieved in the sport in question, the success of a sports organization also depends on whether it can obtain support from organizations that have no insight in the sport activity. **The Chamber's position is that the beneficiary organizations could be supported much more efficiently with the use of direct support from the State rather than via corporate income tax.**

ii. if the TAO system remains, we recommend expanding the scope of beneficiaries;

However, if the legislator wishes to maintain the current support system, we uphold our previous position that **educational and healthcare institutions should be included among the possible beneficiary organizations.**

iii. we recommend the simplification of the TAO administration;

If the legislator wishes to maintain the current support system, it would be essential to **simplify** the tax support system, primarily to decrease risks to supporters (companies). Regarding this issue, we recommend taking the following simplifications into consideration:

- The current contractual and administrative structure should be made into a **one-stop-shop solution** so supporters wouldn't be required to conclude contracts, separately provide for additional support or the legal title under which they provide such support. These should, at most, be kept as optional possibilities.
- Donations **in the first six months of the year** should be better incentivized so donations wouldn't be pushed until year end.
- We recommend eliminating the restrictive measures regarding the **public debts** of supporting and supported parties, as these can cause serious damages to the other party for something which is beyond its control. Instead, the infringing party should be called upon to pay its public debts before the support is awarded; after the debt is settled, the NAV would transfer the support and both parties would be eligible to receive the benefits.
- **Central support accounts** should be introduced which, similarly to the support of the National Film Institute (formerly the Hungarian National Film Fund), would provide support for the work of popular team sports in general. Sport federations could then use a regulated automatic procedure to divide up the support between the sports organizations that were unable to top up their support budgets in time. This would make it possible to include

companies in the support mechanism that have no connections to sports and would allow smaller sports organizations to obtain additional funds.

d. Rules of corporate group taxation (tao-csoport) should be further liberalized. Tax losses and tax allowances within the group should be fully available for each group member without restriction.

Commencing from 24 July 2019 the condition that only those taxpayers could establish a corporate tax group who used the same currency for their accounting was eliminated.

As a continuation of this beneficial amendment, we recommend an additional simplification to the conditions for establishing corporate tax groups and to expand the scope of companies that make use of this tax regime. As the first step, we recommend decreasing the currently prescribed voting ratio of 75% to 50% + 1 vote, which would extend this method of taxation to practically all Hungarian affiliated companies.

We also recommend considering the transformation and review of the provisions pertaining to the use of intra-group losses and tax allowances. Granting group members unlimited entitlement to using deferred losses and the tax allowances would be a significant step in expanding the sphere of taxpayers who opt for the corporate tax group solution and in simplifying tax administration.

e. Cafeteria should be reconsidered in personal income tax (PIT/szja).

Commencing from 1 January 2019 the range of benefits for which a tax advantage is provided was significantly reduced. As a result of this change, benefits that had previously been tax-exempt or had received tax advantages became classified as income from employment. Companies that wanted to continue to provide their employees with the previous cafeteria elements had to face a significant increase in administrative burdens accompanied by a disproportionate increase in the amount of time spent with tax administrative matters (usually payroll).

As a result, several cafeteria elements that had previously been widely favored and that promoted self-care became unavailable to employees, including **health insurance, pension insurance, and subsidized housing**.

- i. We recommend encouraging the employer's contribution to **voluntary pension funds** (up to a certain cap) by introducing new tax benefits of its tax burden. The long-term effects of this will alleviate the anomalies of the pension system.*
- ii. Extra corporate spending on health preservation and health services would be subject to favorable tax conditions, as part of cafeteria and beyond as well.*

A **healthy workforce** is a value for companies as well and it constitutes a competitive factor. Due to the limitations and time requirements of state healthcare services, involving companies in performing a part of the state's healthcare tasks by way of occupational health services and the financing of preventive screening is becoming increasingly unavoidable. We believe that providing favorable tax conditions for this extra corporate spending on health preservation and health services would be an equitable solution. In some form, the state should contribute to these costs either as part of the cafeteria system or in some other way.

- iii. *Review and, if possible, eliminate the tax burden on **housing allowances and group life-, accident-, health, and pension insurance** by the employer.*

In light of the above recommendations, we recommend reviewing the taxation of **housing allowances and group life-, accident-, health, and pension insurance** provided by employers and, if possible, eliminating their tax burden OR clearly classifying them as specific benefits as defined by tax law (“egyes meghatározott juttatás”) categories.

- iv. *Reconfigure the tax-exemption system applicable to gifts of small value.*

We recommend that the tax-exemption system applicable to **gifts of small value that can be given once a year** be reconfigured. On the one hand, it would be justified to set a much higher limit for tax exempt gift, regardless of the number of donations. On the other hand, we propose handling such benefits as specific benefits as defined by tax law so that the payer can quickly and easily determine the applicable tax burden above the tax-exempt limit without having to involve the payroll system.

The above extends to the possibility of gifting tangible assets to employed **student workers** up to a small amount without the employer’s obligation to declare and pay personal income tax.

f. Simplify the administration of rehabilitation contribution.

Similarly to the tax advantages on social security tax, we recommend issuing and sending an automatic official certificate to taxpayers on the possibility of reducing their rehabilitation contribution for disadvantaged persons. If the GDPR rules preclude such a solution, we propose that, instead of a certificate issued specifically per name, a consolidated certificate be issued (containing only the average statistical headcount that can be taken into consideration) prior to the payment deadline for the quarterly advance.

g. Reconsider the timing of the new provisions on online reporting requirements effective from 1 July 2020

Commencing from 1 July 2020, the data reporting requirements would extend to all invoices issued to Hungarian taxable persons regarding products sold or services provided in Hungary. This would eliminate the HUF 100,000 VAT reporting limit, and data would have to be reported even for invoices not containing any output tax (for example, stemming from invoices for tax-exempt transactions or domestic reverse charge procedures).

We agree with the contents of the approved change but feel that its introduction is too accelerated. In the interest of providing companies somewhat more preparation time for the change, we propose the following:

- commencing from 1 July 2020, data should be reported to the tax authority not irrespective of value, but only above a certain reduced value, or
- introduction of the measure should be postponed until 1 January 2021.

h. We suggest the extension of e-invoicing possibilities in the VAT regulation.

We suggest the extension of **e-invoicing** possibilities in the VAT regulation so as wide a range as possible of economic operators can make use of the system. In connection with e-invoicing, it would

be important for the tax authority to actively help taxpayers (e.g. by **publishing leaflets** , operating websites similar to the **EKAER website/online invoice website** O-+/E-SZJA website, and possibly laying down minimum IT requirements for e-invoicing) instead of calling attention only to formal inaccuracies and the penalties to be imposed for those.

3. We ask that the government continue the uniformization and digitalization of public administrative services (one-stop business gate/customer gate).

Uniformization and further digitalization of public administration services hold serious possibilities for competitiveness. In the interest of utilizing these, we have developed the following specific proposals for making the one-stop business gate/customer gate more user friendly.

a. We recommend introducing a more advanced document management in the existing electronic communication systems (one-stop business gate).

- In the case of documents that are delivered to both the company one-stop business gate storage and the authorized person's/agent's personal customer gate storage, the download status should be refreshed simultaneously on both the one-stop business gate and the customer gate storage locations.
- A filter function should be added for the folders in the one-stop gateway storage and in the long-term storage folder.
- If a given label is changed (e.g. conditions are expanded), the contents of the folder (label) are not modified and the change applies only to future documents. We suggest updating the contents of the created folders retroactively if a given condition is changed.

b. We recommend introducing a more advanced access rights management in the existing electronic communication systems.

- The absence of a possibility for differentiating between administrators has been a problem in the one-stop business gate system, i.e. administrators could not be assigned privileges of different levels. Although the development has to a certain degree improved the situation regarding access rights, it still poses a large challenge for large organizations. For example, at companies where internal regulations set forth that tax returns could be submitted only with joint approval, the EGYKE form was used to indicate such joint approval pertaining to the given person. With the introduction of the one-stop business gate, the joint approval previously required was done away with despite the fact that the given company did not issue any statement to that effect. We believe that the risk arises that hypothetically anyone with access to the company's one-stop business gate can independently submit NAV forms without any control. We propose adding a joint approval/messaging privilege function to the one-stop business gate management settings.
- Technically, anyone can delete a document, and there is no possibility for restricting this right. Our recommendation is that the persons entrusted with the use of the one-stop business gate be given a possibility to set which administrators have the right to delete documents and which do not.

- We recommend creating separate registrations for the employees of tax advisor and accounting companies so they can represent their clients.
- Currently, registration forms and returns to be submitted electronically can be submitted only via the customer gate of the authorized private person, based on the authorization given by the representative of the authorizing organization. This is because only private persons can register to use the www.magyarorszag.hu site. **If it were possible to register legal entities and the submission of forms and returns would take place under the name of the employer instead of a natural person authorized by the employer’s representative, the continuity of representation would be ensured** even if any change takes place regarding the person of the authorized employee.

4. We recommend for associations and foundations a simplification of the operating environment and a greater alignment of economic incentives with stakeholders, all in the interest of efficiency.

Associations and foundations should strive, like corporations, to adopt internationally accepted best practice governance¹. Investors are frequently involved in such organizations as members or supporters and in roles of leadership and are currently frustrated with increased time for processing relatively simple applications by the court on seemingly mundane issues. Investors are also concerned with the lack of consistency between a modern Civil Code and other legislation which derogate the governance provisions of the Civil Code.

Also, a better economic alignment of the associations and foundations with the corporate and government sectors is needed. The efficient functioning and reporting requirements of these sectors will no doubt improve the confidence in and impact potential on the economy and the competitiveness of Hungary.

Due to length considerations, this recommendation is included in an annex to this document. Please see **Annex 2** for more details.

¹ AmCham first expressed its views on Corporate Governance in a position paper titled “*Good Corporate Governance as a Pillar of Hungarian National Competitiveness*”, April 2005. Later in 2016, it extended its views in a second position paper titled “*Responsible Governance of Civil Society Organizations as a Pillar of Hungarian National Competitiveness*”. The recommendations included herein are based on these works.

II. COMPETITIVE WORKFORCE AND EDUCATION

5. The government should aid the increase of the workforce supply in every possible field in order to meet the demand of the labor market.

a. We recommend the promotion and expansion of new forms of flexible employment and atypical employment schemes and the creation of a convenient regulatory environment.

Promoting and expanding types of flexible employment and promoting their spread is especially important to increase the workforce supply, to better utilize reserves, and to provide the required number of personnel. In addition, it is an important tool for companies to attract and retain talent.

This is supported by the most recent study involving the 16-28-year-old age group, which shows that young employees and career starters consider flexible working arrangements and working hours to be the most important expectation from employers.²

Moreover, the availability of flexible and atypical forms of employment can increase the activity of women and mothers in the workforce and facilitate their return to the labor market as soon as possible. Of atypical employment forms,³ the percentage of people employed in part-time work in Hungary (among workers aged 15-64) was about 4.2% in 2018, which is one of the lowest figures in the European Union.

It would be necessary to lay down a legal framework to regulate telecommuting and home office setups, which is becoming increasingly important for employees. This necessitates a reduction in administrative burdens, increasing the flexibility of work safety rules, and reducing employer liability in case of work performed from home. In addition, working time records should be simplified and administration should be decreased for all atypical work forms.

b. We recommend expanding employment opportunities for non-EU (third country) nationals and making the licensing process more efficient, especially for health insurance card applications

Currently, the options for employing third-country nationals within a short amount of time are quite limited. (Ukrainian and Serbian citizens can work in Hungary without a work permit for 90 days in the positions specified by a notice issued by the Ministry of Finance.) We recommend expanding the sphere of people who can be employed under the advantageous scheme to include the citizens of other third countries and to other jobs without the requirement of keeping their foreign addresses. The expansion of the terms and conditions could be linked to whether the employer is the government's strategic partner and/or is implementing an investment project significant for the national economy. In addition, it would be beneficial to allow the option of an extension of the 90-day work period of these beneficiary workers in Hungary without having to suspend their activities. For example, by laying down a provision that if the conditions of employment do not change (position, place of work), their employment could be continued on the basis of the employer's notification for the period of the process for issuing the residence permit (which would allow them to stay and work in Hungary for periods exceeding 90 days).

² PwC Employee Preference Survey 2019

³ Fixed-term employment, part-time employment, telecommuting, home office, job sharing, employment by more than one employer, employment based on request, labor force hiring, simplified and occasional employment, outworker schemes, school cooperative employment, etc.

As regards the procedure for increasing the efficiency of the authorization procedure, accelerating and simplifying employment authorization is an important step to support companies. In the summer of 2018, the process and procedure for applying for a social security (TAJ) number was changed in a way that is detrimental to employers and decreases their effectiveness. Previously, a one-stop-shop process was available for social security applications at customer service centers, which could be completed in a couple of days. The new system centralized the entire process: Even though applications still must be submitted to the customer service centers, they are now forwarded to the National Health Fund (OEP) who then return them to the customer service center. The process is time-consuming and takes about 2-3 weeks, meaning that employers who want to hire workers from third countries must calculate with 2-3 weeks of worktime loss even if everything is approved in the first attempt and no corrections are necessary.

- c. To increase the effectiveness of the temporary recruitment process, we suggest enabling Hungarian temporary employment agencies to hire workers from non-EU countries without the obligation of starting a new authorization procedure in case the borrower changes, but the non-EU national stays the same.**

It would be worth considering allowing Hungarian temporary employment agencies to use third-country employees (similarly to labor force providers registered in other EEA Member States) by clearly stating that a new authorization procedure is not required if the borrower changes. However, to avoid any abuse of the system, the lender could still be obligated to report the change of workplace to the competent authority.

- d. We recommend stronger and more effective promotion of adult education and lifelong learning.**

The percentage of lifelong learning is quite low in Hungary. According to a Eurostat survey, in 2018 6% of 25-64-year-olds participated in any form of training in Hungary, while the EU28 average is 11.1%. Supporting and promoting lifelong learning is important because the existing labor force must be developed and reskilled to meet new demands. A critical question of Hungary's competitiveness is how employees can adapt to the continuously changing digital world and how they can keep pace with the expectations of the labor market. Promoting participation in training and developing human resources is essential for a transition to activities with high added value and for improving the adaptability of companies. Even if the students who currently fill Hungary's schools enter the labor market with competitive knowledge and skills, they must accept the fact that the learning process will never stop, as fast-paced technological advancement requires continuous adaptation.

6. Revise certain Labor Code regulations so that business reality requirements can meet the expectation of the Labor Code.

Employment formats and conditions are changing and modernizing, which the regulatory environment must consider, especially regarding reasonable and justified administrative burdens.

- a. Revise the Regulation on Minimum Health and Safety Requirements for screen work.**

Current regulations require employers to organize their work processes in a manner that provides at least one ten-minute break per every hour of working with screens (with certain exceptions) and that

the time spent working with screens does exceed six hours a day. Thanks to developments in technology, the adverse effects of the screens used today are minimal, which questions the necessity of these stringent rules. Additionally, working methods, task organization, workflow processes, and technology have undergone significant changes in past years, with work in certain industries requiring 8 hours of work with computers. In light of the above, we recommend amending the requirements accordingly.

b. We recommend the revision of the Regulation on selection of representatives of employees.

The act on occupational safety requires the election of an occupational safety representative at companies employing more than twenty employees to represent and protect their rights to safe work that is not harmful to their health. Companies are obligated to organize elections; however, large companies already have very stringent internal regulations in place for protecting the welfare of their employees, often certified according to ISO, OHSAS, etc. standards. If an employer can prove that representation is suitably provided for, we recommend it should be approved and authorized by the authorities.

c. We recommend the revision of the maximum weekly working time rules.

The Labor Code sets the maximum weekly working time at forty-eight hours, including overtime, with the exception of employees in working time banking. In most service centers, and especially in financial services, the amount of work and the workload varies from month to month and during the quarter: for example, increased loads are expected around financial closing. Accordingly, we suggest that a possibility be given for amending the maximum weekly working time based on a joint agreement between the employee and the employer while keeping the rules on maximum monthly working times.

d. We recommend the revision of the Regulation on the mandatory schedule of monthly one rest day on a Sunday.

According to the Labor Code, at least one rest day per month must fall on Sunday (with certain exceptions). Service centers provide their services on all seven days of the week, including in countries where Sunday is a workday (and Friday or Saturday constitute the weekend). Due to this requirement, more resources must be involved than otherwise necessary for operations. We therefore recommend that this rule be reviewed and amended so that if the employee voluntarily requests and undertakes to work Sundays, it will not be compulsory to provide at least one Sunday off per month.

7. We recommend that government expenditure on education in respect of the total % of our GDP should at the very least meet the OECD average.

We consider reforming the education system and providing a competitive, high-quality education system to be necessary for creating a knowledge-based economy that generates high levels of added value. This requires the imminent and significant raise of education expenses. The transformation of the education system and the development of skills and competencies is essential for adapting to a evolving labor market, which is a condition for sustainable and dynamic economic growth.

AmCham holds the targeted development of skills and competencies to be especially important, as a factor to the successful adaption to a dynamically changing labor market. The flexibility of the

education system, as a system of institutions, must be increased in the interest of allowing it to react more easily and quickly to signals from the labor market. The changes to the education and training system play a key role in giving the younger generation the knowledge that is valuable for an economy based on 4.0 technologies, data, and innovation, in offering them appealing prospects in Hungary, and in allowing them to hold their own on the labor market.

From an early age, the public-school system should strive to foster a creative, productive mindset in children that is the necessary for innovation.

a. A significant improvement is necessary regarding the professional and financial appreciation of teachers, and a better social prestige of the teaching profession as a necessary condition for a good quality education system.

We feel that developing teachers' professional competencies and improving the prestige of teaching as a career is very important. We believe that measures need to be introduced in both public education and higher education as soon as possible to improve the appreciation of teachers and their colleagues. Increasing teacher wages is essential to increase staff numbers, provide the required number of teachers with the appropriate knowledge as well as to ensure the continuation of their training. Since the wages of teachers is less than in other jobs requiring a higher education, the shortage of professionals is expected to grow in coming years due to the labor force migration. To prevent this process, teachers' wages must be increased significantly and quickly. In this respect, we do not support differentiating between teachers working in vocational education and in public education, first because it might lead to wage pressures and second because the financial appreciation of teachers requires serious improvement in both areas.

As regards the success of education and teachers, we consider it necessary to advance the training of teachers, with emphasis on digital skills and digital education.

b. We consider it important to reduce the workload and especially the administrative burden of teachers.

Excessive administration paralyzes the operations of schools. Teachers face the tasks of planning, preparing, and holding classes, following changing curricula, substituting, compiling and grading tests, consulting about and evaluating papers that have to be submitted every semester, school programs, events, outings, field trips, parent-teacher conferences, talent promotion, catching up, etc. In addition to all these duties, they are burdened with numerous administrative tasks, including setting up various self-evaluation groups and the related documentation and record-keeping. Besides the above, the number of students requiring special activities is increasing, which necessitates the preparation of time-consuming individual development plans. Many subjects have been broken down into separate theory and practice classes and they are now listed separate subjects resulting in separate evaluations, more tests and more grades. Although electronic communications facilitate their work, many schools do not yet have the necessary infrastructure (for example, their internet connection is slow) and could not yet develop an effective system. We recommend taking these burdens and limits into account to ensure that the primary task of teachers should remain quality teaching.

8. We propose further measures to increase the effectiveness of foreign language teaching.

AmCham continues to feel that a marketable, practice-oriented foreign language education should be treated as a priority within education, as this area demands serious major improvement. According to Eurostat's 2016 survey, 42.4% of the 25-64-year-old age group said they speak at least one foreign language, which is one of the lowest values in the European Union.⁴

As the emphasis of demand on the Hungarian labor market is being transferred to positions that generate high levels of added value, the importance of speaking foreign languages increases and is becoming key to competitiveness. Foreign languages are not only essential for multinational companies, but development would even support an important task of the government's objective of elevating Hungarian small and medium-sized enterprises and increasing their innovation capabilities. The lack of usable foreign language skills is currently a strong disadvantage for these companies in their entry into international markets, involvement in the supply chains, training, and in maintaining their technological standards.

To expand the services sector⁵, it is also very important to increase the number of people who speak 2 or 3 or even more languages, as the availability of employees with such skills is a prerequisite for securing projects with high levels of high added value projects.

a. We recommend reviewing and extending the foreign language learning program for students.

It is disappointing and concerning that Hungarian high school students speak a relatively low number of languages. Although they generally have a good knowledge of rules and grammar, their vocabulary and speaking skills are poor due to the lack of opportunities to practice.

Starting from February 2020, the Hungarian government's new program provides language courses abroad for students in grades 9 and 11. We have studied the statements made by Mónika Bartos, Ministerial Commissioner for Foreign Language Courses, to the press, and it is encouraging that out of 140,000 Hungarian students, 90,000 have indicated their intent to participate in the program. However, we also agree with those who feel that it is difficult to realize significant development in language skills in only 2 weeks, regardless of the quality of the language school that would host the students.

We therefore recommend continuing the development of the program as follows:

- i. The government should connect the new program with existing exchange programs where students use the foreign language in a native environment for an extended period. We would be happy to make additional recommendations regarding the topic.*
- ii. With the schools' approval, a part of the international study program's budget could be used to employ a native language teacher from the target country.*

⁴ According to Eurostat data, the average of the EU28 is 64.4% and only Romania (35.8%) and the United Kingdom (34.6%) have poorer values.

⁵ Dynamically developing business service centers currently employ about 55,000 people in Hungary.

b. We recommend supporting the training of foreign language teachers, including the possibility of further training abroad.

In addition to helping students gain experiences abroad, we recommend providing regular training to foreign language teachers to elevate the quality of foreign language teaching. Furthermore, teachers should be provided an opportunity to receive further training abroad in the countries of the target language.

Supporting teachers in their professional development is essential for improving the effectiveness of language teaching: by giving new experiences, continuously renewing and updating teaching tools and methods. International training programs are one of the best ways to facilitate this and can also be used to increase the teacher's motivation.

9. We recommend that the government should facilitate the strengthening and expansion of schools' career orientation activities with a special focus on STEM subjects.

a. Career orientation must start from a very early age in public and vocational education and should be an integral part of the education system.

Traditionally, school career orientation appears at key decision points as a type of personal service and not as a coherent part of the education system. In the interest of ensuring that such orientation becomes part of the curriculum, teachers should participate in career orientation. It would be advantageous to develop an effective career monitoring system including a feedback system which transfers relevant career orientation related information to students, teachers, and parents.

The career orientation system must also account for the long-term aspects of the labor market. In general, we advocate for a broader approach which focuses on providing relevant and up-to-date information to students about the world of work and developing their ability to plan their careers.

b. Support STEM related career guidance and provide fair and equal opportunities for girls to engage in STEM-related subjects at school in order to draw more girls into science. Introducing experience-based education would improve the current system.

In today's economy and the world of work, the value of STEM-based educations and professions is rapidly increasing. The availability of required number of professionals, engineers, mathematicians, and IT operatives is a determinant factor in competitiveness. In 2018, 24.52% of applicants to university education chose a STEM education in first place. The shortage of professionals is increasing, but higher education is unable to meet demand, partly because of the low number of applications, accepted applicants, and the high rate of early school leavers and dropouts. Professional technical education could be improved with the addition of private sector professionals into the education program at the appropriate schools, with a low tax rate and for respectable hourly rates.

The awareness of STEM subjects of careers could be further raised by organizing targeted career orientation programs and workshops which spread relevant information about the prospect of STEM careers. The labor market demands a steady supply of professionals, an increased number of STEM graduates, and effective career orientation as soon as possible.

The popularity of STEM careers must be increased among girls. Experience shows that interest in mentor programs and exercises held for young children is still equal between the sexes: children are

curious and interested. The difference develops later due to stereotypes of boys and girls. We should try to maintain interest and encourage girls should also try their hand at scientific subjects. This requires motivated teachers. We recommend the widescale introduction of experienced-based learning tools and inspirational teaching materials.

10. It is necessary to boost participation in higher education, reduce administrative burdens and increase the efficiency of dual education.

Higher education plays an essential role in society and improving competitiveness as it develops innovation and research & development, promotes economic growth and development, and improves the welfare of citizens in general. In an international comparison, fewer people participate in higher education in Hungary than in the EU and the region, even though the demand for a highly trained workforce is continuously growing. If we examine expenditures, we can also see that Hungary's spending on higher education is less than the average of the V4 and the OECD countries.⁶

a. We recommend encouraging greater participation in higher education, with special focus on PhD training

- i. A scholarship system and benefits for students should be developed which is closely equivalent to the livelihoods of employment.*

One of the problems that higher education will soon be facing is that students participating in BSc and MSc programs will be able to find jobs before graduating and having obtained only incomplete skills, either in part-time or even in full-time positions at companies increasingly struggling with labor shortages. This tendency is exponentially true for persons in PhD programs, where numbers were already low. BSc, MSc, and PhD students who leave the system before graduating are less likely to return to complete their studies or to become teachers themselves. The counter selective effect of this trend will have serious consequences on the higher education system: people who were unable to find jobs in the labor market will remain at education institutions and teach future generations, and even their numbers will be less than optimal. All the above will have a serious negative effect on satisfying the labor demands of companies. To prevent it, we recommend the introduction of measures that encourage/force companies to refrain from employing students before they graduate. Students - thus especially PhD students - should be provided with a scholarship system that provides equal conditions to working. Companies should moreover be incentivized to participate in developing education programs with universities.

- ii. Student loan should be available regardless of age.*

In the interest of supporting lifelong learning, eligibility for student loans should be expanded to include the age group over 45, as well.

⁶ According to the latest OECD data, Hungary spent 0.56% of its GDP on higher education in 2015. The V4 average was 1.03% and the average of the OECD countries was 0.98%.

b. We recommend making the dual training framework more flexible and reducing the administrative burden on companies.

The existing dual training framework is a good example of successful cooperation between higher education and the corporate sector. Its basic concept is headed in the right direction, but it needs to undergo some reform, as feedback from companies shows the framework is very rigid and puts extensive administrative burdens on businesses. At the same time, the required term of commitments is too long, even though companies are struggling with limited resources. In addition, internal processes change quickly and flexibly in shorter cycles than required by the dual training system. Students are also faced with numerous burdens, and the current solution does not support an outstanding practical training where the university is responsible for teaching the theoretical and scientific background while companies account for the practical side of learning.

As a transition has taken place from “Made in Hungary” to “Invented in Hungary” in both the country’s image and in the investment incentivization, this change also has to take place in both higher education and in the framework of cooperation system between higher education institutions and companies, with emphasis on joint teaching programs and research & development activities. Progress could be made by introducing additional short-term and more flexible programs with an administration process that is in line with current digital trends, providing a greater degree of flexibility to corporate partners.

11. We suggest that the government reduce the administrative obligations of training support; promote flexible training planning and provide further incentives for corporations.

a. Administrative burden of companies applying for training support should be reduced.

Companies applying for training support are faced with the significant burden and difficulty of having to prepare the adult education documentation of their supported internal trainings in full. Under the present rules, similarly to professional training institutions, each training requires the preparation of numerous documents (two copies of the adult education contract, training program, certificate (and a copy thereof) per participant, certificate of receipt per each training, attendance sheet for each training (in a breakdown by day), and OSAP statistics for each training). In case of training involving several hundred people, the documents can number in the thousands. We therefore recommend limiting the documentation obligation to only the most basic and necessary documents that provide adequate proof that the training took place and that allow for audits to be held. We are of the opinion that the requirement would be met if supported companies would have to have the following for their internal training programs: training program, attendance sheet, certificate (and a copy thereof, or proof of receipt).

The preparation of the entirety of the adult education documentation is an especially large problem in the case of trainings organized at a foreign parent company or other intragroup company. The approval process is also difficult as all documents and contracts are in Hungarian even though the persons filling executive positions at large companies and the persons authorized to sign are often foreigners. We suggest making a part of the documents available in English.

b. We recommend that records and documentation of training planning and delivery should be allowed to be managed in electronic training management systems of large corporations.

Many companies use Learning Management Systems (LMS) to hold training courses and manage training records, registrations and documentation. We recommend taking large companies' own learning management system into account and defining the minimum content requirements that, if met, make the electronic records sufficient, deeming it unnecessary to keep records both electronically and in hard copy. The current documentation process is complicated and is not always clear: it would be much easier to use documentation obtained from simplified company records.

c. Flexible training planning is needed to adopt to the quick changes of businesses and the needs of the labor market.

In general, we would note that we recommend taking a flexible training planning into account due to changing training and business needs and due to the current labor market position. In the case of several hundred employees (the majority of whom are not yet the Beneficiary's employees when the support is applied for), the multi-year training plan is usually amended even if careful preparations are made. Planning would lead to better results if there were greater flexibility within the process. It would be more advantageous if individual training plans were defined after self-assessment, targets, and consultation with leadership. Flexible planning is essential for this solution. The current application requires costs and headcount plans to be broken down by training; however, except for the few examples listed in the guideline, it is not clear what deviations are permitted when implementation is audited. We recommend specifying that a certain amount of deviation from training headcounts and cost breakdowns does not affect the eligibility of trainings and costs. Another difficulty is that external trainings held by companies in Hungary are eligible only if the company holding the external training has an adult education registration number. A number of companies (including large, internationally recognized training firms) do not have such registration number because it requires a great deal of administration. Even if we accept that the adult education registration number ensures that trainings are held only by existing, reliable companies, we still recommend considering the expansion of the eligibility criteria, including the size, sales revenue, and operating principles of the company, or other, international document, so the list of training companies available to companies can be expanded.

d. We advise the consideration of providing training support on a 'de minimis' basis, allowing companies in Budapest access to the training support.

We also advise considering whether the support should remain available only to companies that undertake to create at least 50 new jobs, as the investment support based on EKDs (individual government decisions) no longer sets any minimum requirements for job creation.

III. INNOVATION AND RESEARCH AND DEVELOPMENT

12. AmCham recommends reviewing the financing and management of the R&D model, especially for high value-added R&D firms.

Hungary has an isolated potential in industries developing extremely quickly in the modern economic race. Due to the R&D activities with decades-old roots, certain industries in the sector (artificial intelligence, pharmaceutical industry, health technologies, e-mobility) are able to create large amounts of added value if the country employs the proper strategy. Within the various industries, different methods need to be applied to motivate and support successful cooperation between large companies, SMEs, and universities.

a. We recommend identifying the particularly innovative, fast-developing and strategically important sectors and revising the grants system for these sectors.

It is worth providing microenterprises and start-ups in especially innovative sectors access to tender resources in the interest of realizing innovative ideas and taking them to the market as quickly as possible. The current conditions do not allow support to be granted for companies without at least 2 closed business years or companies without revenue streams, which is an obstacle to putting innovative ideas on and allowing companies access to the market and hinders their potential purchase.

b. We recommend setting up and operating an efficient, reformed seeding system.

Years ago, a centrally-supported seeding support system was launched via tenders announced as part of economic development. Similar systems are also currently available (GINOP-2.1.5-15). In many cases, the problem stems from the fact that these funds are often able to provide seeding support only (approx. HUF 60 m), which does not provide enough funds for larger R&D activities, and in a number of cases implementation has to take place outside of Budapest. Moreover, in many cases the seeding systems try to appear as venture capital organizations, but both they and applicant companies are constrained by administrative conditions of the tenders. In most cases, companies with greater innovative value prefer the private (often foreign) investors competing with seed capital investors. We recommend analyzing the experiences of the SBIR (Small Business Innovation Research) model applied in the United States for decades now and introducing certain elements to Hungary.

c. We recommend encouraging events that bring together particularly innovative start-ups, university research centers, venture capitals, and large companies in the industry.

Organizing technical meetings and networking forums in the form of regular conferences, roundtable discussions, and section meetings, promoting the presence of large companies, and supporting the participation of universities to develop and maintain a business network plays an important role in this process.

13. We advocate for stronger innovation-centered approach and increasing support and incentives for innovation, and reconsideration of the existing system of incentives.

We consider advances to be important in the following areas:

- a. **We recommend redefining the concept of innovation and qualifying each activity accordingly (e.g. process and service innovation, new market and value creation).**
- b. **We recommend that the definition of innovation target areas be based on extensive communication and, where possible, to conduct related impact assessments.**
- c. **It is desirable to develop a system of incentives to support innovation that is tailored to the specifics of sector and provides a real, effective incentive for innovation. We recommend setting up a voucher system, especially for SMEs, while striving and maintaining consistency with EU aid rules.**

We welcome the fact that from 1 January 2020, the scope of innovation activities that are eligible for support will be broadened with activities that are not explicitly categorized as basic research or experimental development. These can be the followings:

- process innovations and digitalization activities that greatly help speed up various workflow processes or steps;
- service innovation that provides an answer to an existing problem in a previously unknown manner by creating new value in the form of creatively linking existing tools, knowledge, processes, and services;
- functions that supplement existing knowledge, products, or services that create a new market or value.

Supporting the innovation of these services and better integrating them into the innovation ecosystem is also justified because the services sector generally creates higher levels of added value in the economy.

By supporting these processes and ensuring greater motivation to innovative manners of thinking, the government can continue to strengthen the utilization of existing development capacities in the country, to attract new investments and development projects, and to maintain existing capacities.

14. The Government should more effectively support the practical implementation of the cooperation agreements between the higher education institutions and businesses, and enough flexibility should be left for adaptation to environmental conditions.

The “Invent in Hungary” paradigm shift cannot be realized if the change in attitude does not reflected systematically in higher education and in the research and innovation collaborations between higher education institutions and businesses. AmCham makes the following suggestions regarding this issue:

a. We suggest strengthening and providing targeted support for centers of excellence.

The tenders announced for creating research workshops and R&D centers of excellence provided and continue to provide a great help in interdisciplinary research & development cooperation, the support of which we consider to be very important. However, as the success and results of these depends on professional implementation and execution, resources should be provided for the operation of these workshops and for maintaining and continuing the development of their professional network and infrastructures.

b. We recommend recognizing the importance of expanding knowledge transfer; the process of market utilization of intellectual property transfers should be further simplified and supported, and procedures should be faster.

This requires the following:

- a review of the conflict of interest rules of the civil servant act in the interest of promoting the spinoff companies created to utilize the results of research at higher education institutions;
- facilitating the establishment of “holding” type companies owned by universities for utilizing knowledge in the interest of more flexible technology transfer processes;
- simplifying the IPARJOG (industrial law) tender system and administration to facilitate cover for industrial property right costs.

c. AmCham recommends using government support to create and continuously develop a digital information platform (communications marketplace)

The communications marketplace and knowledge center should be suitable for:

- bringing together and including in an easy-to-search platform the university innovation and research competencies and the services of knowledge transfer centers available in Hungary, at least in Hungarian and English;
- acting as an information center that small, medium-sized, and large enterprises can use as a central point of reference when seeking out research partners;
- playing a central innovation marketing role in addition to providing information on competencies;
- containing, building, and developing a continuously updated data and knowledge base that provides access to the case studies of successful instances of cooperation, including best practice solutions, for use in R&I cooperation, as well as samples of the accompanying legal documents.

The purpose of the latter is to harmonize different - but more supplementary than competing - higher education and industrial interests and provide a more stable foundation for cooperation between industry and universities by providing access to sample documents, including best practices and explanations (which taking into account the characteristics of some typical contractual forms of cooperation), that the negotiating parties find mutually acceptable as a basis for their cooperation.

- d. Making dual education more effective could offer great opportunities for innovation, but this would require a reform of business-university cooperation as the framework of the existing cooperation is rigid and inflexible with extra administrative burden.**

Dual training is an important part of the cooperation between higher education and the business sector and could form a basis for a practice and reality-based training form that makes way for the possibility of innovation developments. However, the current cooperation system used in education is unable to fill the role expected of it. Based on the feedback received from companies, it should be reformed. **The constraints of the current system limit the effective operation, its rules are very rigid, and impose excessive administrative burdens.**

*Chapter II, entitled *Competitive Workforce*, contains our proposals for dual training, but we consider it necessary to mention this topic in the Innovation and Research & Development chapter as well.*

15. We encourage to extend and broaden the innovation incentives for SMEs.

The lack of innovation capacities is one of the most burning issues in Hungary today. Although the elements of the R&I infrastructure available in other parts of the world are present in Hungary, its extent is limited and in many cases the results were not successfully transposed into practice. The technological lag of capital-poor (primarily Hungarian) SMEs is enormous.

Recommendations:

- a. The SME sector should also be involved in innovation collaborations and become part of the innovation process.**
- b. The development of a mentoring program for the next generation of family businesses should be considered.**

As part of such a mentoring program, the successor generations of family business could gain access to and take part in company-development innovation training, which would provide them with a possibility to learn about applicable practical solutions for preparing various business decisions on the basis of international examples and the models of large companies.

- c. SMEs need to be effectively assisted and encouraged to apply and write applications.**
- d. We recommend launching a tool rental service based on state-of-the-art equipment that allows SMEs (+) to perform measurements and tasks that would otherwise not be possible on their own and which support their efforts to innovate.**

In many cases, innovation is hindered by the fact that potential partners, mostly SMEs and universities, do not have access to modern machinery, tools, and measuring instruments that could greatly speed up, or make possible, innovative development and joint research. One of the most pressing reasons is the high price of such equipment. Our suggestion is the development of a support structure or tender support system which, instead of providing financial support for a given research project, could rent

these expensive instruments. Such a solution would continue to serve innovation activities between universities, research stations, and industrial partners.

e. In order to keep start-ups home, we suggest creating a more supportive start-up ecosystem with simpler regulation and fewer administrative requirements.

Start-ups should be provided a possibility for receiving company financing forms, including

- the development and provision of more flexible R&I support forms (see the basis of the SBIR program referred to in point 12/b);
- and private funds in addition to the existing investors in start-ups should be involved in Hungarian companies in the form of loans convertible into working capital in line with international practices, for which there is currently no legal possibility⁷ without amendments to the Credit Institution Act⁸ or the Collective Investment Act⁹.

16. We continue to advocate for recognition of the clinical research industry as part of the health innovation ecosystem and for supporting of its development potential in the R&D incentive scheme.

a. We recommend modifying the R&D system that takes into account the importance of clinical trials and their potential for further development.

AmCham is convinced that the government's role in providing active and substantive support in clinical trials would improve Hungary's competitiveness.

b. We recommend that investment in clinical research be recognized as an R&D expense and to make these expenditures eligible for deduction from the industry specific tax paid.

Recognition of clinical research as the R&D activity of the final (and quite long) phase of the complex drug development process is especially important because Hungary would be able to utilize significant additional advantages in the global pharmaceutical innovation ecosystem. Traditionally, Hungary's pharmaceutical industry has strong position mainly in generic production. At the same time, **Hungary also plays a prominent role even by international standards** in a different, equally important part of drugs and technology development processes in connection with **innovative medical devices** development and the **innovative pharmaceutical** industry: **organizing and performing clinical trials**, partly because of its supply system and partly because of its public health features.

In Hungary, the pharmaceutical industry spends significant amounts on R&D, far exceeding the R&D expenditures of the IT sector or the nation's leading export sector, the automotive industry. Clinical

⁷ An example is the publication supported by the German Federal Ministry for Economic Affairs and Energy, which is a best practice guideline for R&D cooperation between universities and companies:
https://www.bmwi.de/Redaktion/EN/Publikationen/sample-agreements-for-research-and-development-cooperation.pdf?__blob=publicationFile&v=1

⁸ Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises

⁹ Act XVI of 2014 on Collective Investment Trusts and Their Managers, and Amending Certain Finance-related Act

trials have a number of advantages for healthcare, welfare, and the national economy, with helping to retain healthcare professionals in Hungary and also offering a number of other benefits.

We would also point out that the activities of innovative healthcare companies with manufacturing basis mainly located elsewhere than Hungary also contributes significantly to increasing Hungary's competitiveness in the clinical research industry and forms an important part of the innovative ecosystem, including strengthening Hungarian SMEs in addition to the above.

IV. DIGITALIZATION

17. We recommend that the government strive to make Hungary become a data-driven digital leader. This objective should be achieved through the appropriate coordination of regulatory policy and investment. At the same time, efforts should be made to create a well-constructed image of a ‘data-driven economy’.

Although there is a popular saying that “data is the new oil”, it is also important to stress that data value chains are much more complex and can be utilized only if they serve the basis of appropriate analysis and better business decisions. Artificial Intelligence plays key role in data analysis and decision support, and - in addition to being among the most disruptive technologies (and most ethically sensitive), also requires major investments. When stakeholders (in this case all economic actors) develop and train Artificial Intelligences, they are fundamentally interested in receiving the best possible results that are in line with their initial intents. An essential criterion is that data on which the process is based should be reliable.

The three dimensions to the data foundation is:

- Data collection: the process of collecting and storing data
- Data organization: unifying and making the data accessible
- Data use: the correct use of the systemized data to achieve the desired results (supporting of strategic decision, evaluation of operational effectiveness, etc.)

The need for data transparency and availability is conflicting with the need for confidentiality and security these dimensions of the data value chain. Their balance is determined not only by industry best practices, but also by regulatory factors (e.g. GDPR in Europe and Sarbanes-Oxley Act in the United States). Technological advances are more and more aligned with these regulatory systems, and this has inherent economic possibilities.

According to the forecast of IDC (International Data Corporation), spending on cognitive and artificial intelligence systems will reach USD 77.6 billion by 2022. According to 40% of marketing and sales employees, the data science that includes AI and machine learning are of critical importance to the success of their work. A Marketwatch analysis shows that the compound annual growth rate (CAGR) of the sector will reach 36.2% by 2025. The use of data is significantly increasing in all industries and areas of utilization, as do related investments.

Innovation has significantly increased in this field. In regard to the number of patents submitted in connection with artificial intelligence, an OECD survey shows increases in China, Korea, and Russia, while the EU and the USA are experiencing a decline in numbers.¹⁰ Concentrated investments are necessary to reverse this trend. Hungary is in a good position to compete in this unfolding area. As technological innovation is based on strong human resources, investments in training and retraining are crucially important for national competitiveness.

¹⁰ [OECD – Toolkit for measuring the digital economy, 2018 \(http://www.oecd.org/g20/summits/buenos-aires/G20-Toolkit-for-measuring-digital-economy.pdf\)](http://www.oecd.org/g20/summits/buenos-aires/G20-Toolkit-for-measuring-digital-economy.pdf)

We furthermore recommend that the government support economic growth based on endogenous and internal sources by using suitable investment incentives and government commitments to support the development of economic fields centered around data and data analysis. We would like to make some specific recommendations in regard to this topic:

- We suggest compliance with data standards and data security aspects as soon as possible and playing a leading role in the EU in areas like the European Statistical System (ESS).
- Transparency should be ensured regarding the method of data collection in order to prevent distortions of the resulting datasets (see Paul Romer's rethinking of the global competitiveness index).
- Support should be given to developing a GDPR-compliant SME data infrastructure.
- We propose focused support be provided to RPA (Robotic Process Automation) solutions that are required for generating anonymized datasets.
- We recommend developing standards and the harmonizing data collection processes.
- The anonymized data background connected to the economic and social indices and measures communicated by the government need to be made available, as it would greatly contribute to developing the image of a data-driven country.
- We suggest continuing the digitalization of the public sector in the interest of making data more transparent.

18. We recommend reducing the administrative burdens on labor processes and personnel administration through digitalization.

We recommend reducing the administration of labor processes through digitalization. When terminating an employment relationship, the employer is required to generate, complete, and print at least seven A4-sized forms, all of which then should be signed by the managing director or the director's delegate. This administrative burden in connection with the termination of employment should be decreased, for example with the use of cloud-based digital interfaces.

Additionally, we also see the following possibilities for the digitalization of labor processes: acceptance of digital employment contracts and modifications to employment contracts, digitalization and acceptance of hard-copy invoices, and lifting the requirement for retaining and presenting hard-copy invoices. NAV should clarify the cases in which it accepts digital solutions in lieu of hard-copy records.

19. We recommend the further reduction of cash use and increase the digitalization of payments in order to reduce the gray economy.

The gray economy decreases the competitiveness of the economy as a whole, including all companies, markets, and sectors, as it decreases the tax base, has a negative effect on the rate and quality of public services, distorts market competition, leads to lower growth and productivity rates, and erodes trust in economic and social institutions. One of the important tools in fighting the gray economy is expanding the e-payment infrastructure and supporting its widespread use, which can help increase the effectiveness, security, and transparency of the payment system.

AmCham welcomes the fact that reducing the use of cash and the digitalization of payment is part of the government strategy in the form of a two-year action plan for improving financial awareness. We

also appreciate the government's measures taken thus far as well as the additional measures discussed by the National Competitiveness Council and announced by the Minister of Finance:

- Continued motivation for transitioning pension and social transfer payments to bank accounts with the long-term goal of ensuring that these payments take place by bank transfer to the greatest extent possible.
- Employers with more than 5 employees are required to pay wages by bank transfer (electronically).
- Companies that use online cash registers are required to ensure a possibility for e-payment.
- Lowering the cash payment limit for transactions between companies (B2B).
- Promoting the digitalization of transactions between private individuals (C2C) and between companies and private individuals (B2C).
- Introducing social accounts.

AmCham has the following recommendations for and comments regarding the successful and effective implementation of the government strategy and plans:

a. We consider it necessary to establish a comprehensive financial education platform.

A comprehensive financial education campaign aimed at the specific target groups in question needs to be an important element of the continued digitalization of pensions and social transfer payments and of the introduction of a social account, as this would raise financial awareness and knowledge among people receiving pensions and social benefits. A wide-reaching financial education program can be truly successful if state actors (including the education system) and the representatives of the private sector band together to jointly develop and implement the education program. Considering the fact financial awareness-raising is already (or should be) taking place in a number of other areas, we recommend creating a comprehensive financial education platform with the participation of state, civilian, and private sector players.

The first phase of a cash-reduction school project, led by the Ministry of Finance, has successfully concluded with the involvement of schools. Its second phase is currently under way and aims to digitalize the cashflows of several hundred additional schools. AmCham recommends that as part of the financial awareness development strategy, the government commit to the nationwide introduction of the cashless school project. It would also be worth identifying additional areas where, similarly to the example set by the school project, the digitalization of payments be started as part of a pilot project, which can then be used to scale the program. AmCham suggests examining this possibility in the case of non-professional sports clubs and associations, where membership fees are paid almost exclusively in cash, often without the payment of taxes.

b. Incentivize electronic payments by obligation to provide electronic payment option for the followings:

- i. Companies with more than 5 employees should be required to pay wages electronically.*

One of the cornerstones in the fight against the gray economy is the issue of how the influx of cash into the economic cycle can be prevented at the head of the payment chain. The government's idea of requiring the electronic payment of wages at employers with more than 5 companies serves exactly this purpose. Accordingly, AmCham strongly supports including this measure in law.

- ii. Companies with cash registers connected to NAV should be obliged to provide electronic payment option.*

AmCham also supports that companies with NAV-connected cash registers have an obligation to provide an electronic payment option. In commerce the e-payment infrastructure is currently less developed than the online cash register infrastructure, and MNB (National Bank of Hungary) statistics show that most transactions registered by the online cash registers still involve cash. The recommended measure is also timed well with the introduction of the instant payment system, which allows businesses, especially SMEs that do not yet provide a possibility for electronic payment, to choose from several options.

- iii. It should be mandatory to provide electronic payment options in specific sectors (e.g. construction, automotive, hospitality, private medical practices, wholesale food trade and wholesale in general).*

As an analogy to the recommendation made in connection with companies that operate online cash registers, it might be worth mandating e-payment options in specific sectors. Sectors with high rates of cash flow and penetration by the gray economy should be targeted, as well as those at the top of distribution chains. Prime examples include construction, automotive, hospitality, wholesale food trade, and wholesale in general.

- iv. Focus should be given to growing online commerce and obliging webstores to provide digital payment options.*

Once again based on the example of the proposed online cash register solution, focus should be given to the ever-increasing online commerce, as - despite the digital nature of commerce - the percentage of cash payments (cash on delivery) is around 60%. Providing a possibility for electronic payment in the case of online commerce is even simpler due to the absence of physical equipment, especially with the introduction of the instant payment system. It is therefore justified to obligate webstores to provide a digital payment possibility. The measure could be further supplemented and strengthened with the legislator setting a maximum limit for the amount of cash that couriers may handle – AmCham recommends that couriers not be allowed to handle (keep on their person) cash above a certain limit. This latter measure would also improve public security.

c. NAV should pay special attention to the control of sectors or businesses where at least 80-20% of cash and electronic payments are consistently underperforming.

NAV should play an important role in whitening the economy. Currently, the ratio of cash to electronic transactions is approximately 80-20% in the economy as a whole. We recommend that NAV should pay special attention to the control of sectors or businesses where at least 80-20% of cash and electronic payments are consistently underperforming.

In the case of products burdened by excise tax, the regulator has successfully excluded the possibility of cash payments in B2B transactions. The range of products regulated by these rules should be expanded: a good basis would be the products for which a public health product tax had been previously charged.

d. We recommend limiting cash payments (raising the limit for B2B transactions to HUF 500,000, introducing a limit for B2C and C2C transactions).

The direct restriction of cash payments is another recommendation that has AmCham's support. In line with NAV's and MNB's recommendations, AmCham also supports changing the HUF 1.5 million limit in place for B2B transactions to HUF 500 thousand. Additionally, in line with the examples of other countries, the same limit should be applied to B2C and C2C transactions. The limits involving customers could be introduced in stages, for example by emphasizing certain sectors – such as the sale and purchase of real estate, vehicles, and car parts, which in general result in higher cash flow and where the gary economy is stronger.

e. We recommend investigating areas of the public sector where electronic payment is still lacking and to develop appropriate electronic payment infrastructure in these areas as well.

The digitalization of payments can be greatly promoted and accelerated if there is a possibility to make all payments to the state electronically. Recently great strides have been taken in this field, but underutilized areas remain. To decrease bureaucracy, we recommend exploring areas of the public sector where electronic payment is still lacking and developing appropriate electronic payment infrastructure in these areas as well. Requiring electronic payments in the case of local payments (to local governments) with the use of an online local government platform could prove to be an especially interesting issue. Although there have such initiatives in certain cities, the majority of local payments still take place in cash. It would be justified to create an IT platform that could be used by local governments to provide residents with an easy way of electronic payment and administration.

f. It is recommended that certificates printed by POS terminals be sufficient for cost accounting purposes in the case of more services.

Much like in the case of payments in restaurants, it is recommended that certificates printed by the POS terminals be sufficient for cost accounting purposes for more services in the interest of promoting the use of company bank cards. This is possible where merchandise stocks are not purchased and there is no need for a merchandise stock voucher. Examples include taxi services, retail purchases (not stock purchases), and postal services. A related long-term goal could be the integration of various purchase vouchers so that - optimally - the issuance of one document would be enough to satisfy all tax and accounting requirements.

g. We recommend linking various governmental programs and grants for business development and digitalization with measures to digitize payments.

Finally, AmCham recommends that the government, thus especially the Ministry of Finance and the Ministry for Innovation and Technology, examine how the various company development and digitalization government programs and subsidies can be connected with the measures put in place for the digitalization of payments. As part of these efforts, we also recommend the government consider the fact that they support market initiatives with the same intent, which may lead to cross-sector solutions and programs for dealing with the issue.

20. We recommend supporting smart city solutions in the areas of administration, transportation, IoT infrastructure, healthcare, sustainability, utilities, public security, telecommunications and the digitalization of public services.

AmCham welcomes the expansion of government e-services and the steps already taken as part of the Digital Welfare Program to digitalize the public sector. We consider it important to establish the 5G Coalition and the Artificial Intelligence Coalition, both of which will support the realization of the above goals and show that these areas should be given priority. In addition to the steps taken thus far, AmCham recommends taking the following factors into account in connection with smart city development:

a. Integrated approach in creating smart city strategy.

When developing the smart city strategy and the smart city related-cooperation, we suggest applying an integrated approach that covers all of the city's functions, handles those in their relations to each other, and involves all affected actors (government, local governments, public service providers, economic operators, populace, etc.). The strategy for a smart city needs to be accepted, well-known, and measurable to the main actors and the general populace, as national and regional level cooperation in strategic development is one of the keys to success. A seamless connection between endpoints is fundamental for all possibilities of smart cities.

b. We advocate for an effective digitalization of public services.

We recommend digitalizing public services as effectively as possible, introducing such solutions as widely as possible, and using cloud-based and modern ICT technologies in the public sector, which contribute to the continued reduction of bureaucracy, the improvement of the transparency of processes, and whitening the economy. To this end, we suggest introducing automated invoicing/payment services, increasing the number of official procedures that can be conducted online, and continued promotion of electronic invoicing. In connection with the above, we would like to emphasize the importance of the continued spread in the use of e-services that needs to be supported by developing user and customer friendly systems, education programs, developing the digital competences of civil servants, and the widespread promotion of online solutions.

c. Continued development of the ICT infrastructure and transportation.

We consider it important to continue the development of digital infrastructure. Hungary has excellent characteristics as regards the ICT infrastructure. We therefore support the continuation of 5G-based developments and the implementation of high-speed, reliable, and high-capacity (5G) networks in cities. This requires the availability of broadband internet and WiFi access. It is important to apply open international standards and reference systems in the interest of enabling the interoperability of the large number of devices connected to the internet, improving communication and understanding between people and companies participating in the development of smart cities. Increasing cybersecurity is also an important factor: in addition to providing firewall protection, all used devices must be protected. The continued digitalization of transportation along the lines of global best practices and standards is also necessary to improve stakeholder experiences in traffic as well as of the populace in general. Cities face a great number of transport-related challenges: congestions caused by

overburdened infrastructure and longer travel times are typical of growing cities, with older cities struggling from aging infrastructures. Our proposal involves introducing smart traffic management using traffic sensors placed alongside roads and sending real-time traffic updates to travelers. We also recommend the introduction of smart parking, equipping parking spaces with sensors, and smart infrastructure design, which can be used for data collection and forwarding the data to simulation programs to assist infrastructure design and development.

d. The promotion of 'big data'-based analyses in healthcare.

In connection with healthcare, we recommend promoting big data-based analyses by making public data available for use, increasing Hungary's expertise in various image processing and transfer methods, and supporting the widespread use of these technologies. Processing image information for statistical purposes and making those available to Hungarian institutions and companies could be an effective and cost-efficient way to increase the quality of services in certain areas. New technologies could potentially change the provision, effectiveness, waiting time, and efficacy of healthcare services in cities. To this end, we suggest increasing the percentage of electronic systems and thereby introducing healthcare analyses and quality indicators. This would allow hospitals and service providers to use predictive analytics to assess the risks associated with various diseases and medical conditions. Cities could make strategic healthcare infrastructural decisions using the EHR (Electronic Health Record) system used by the general population. A telemedicine service should be introduced in specialist care to alleviate the shortage of professionals, which would assist holding remote visits and consultations.

e. We recommend using new regulations and technologies to make buildings more energy efficient and environmentally friendly.

Smart cities should use new policy approaches and technologies to increase the energy efficiency and environment friendliness of buildings in the interest of increasing the health and the quality of life of their inhabitants. We recommend promoting the proliferation of smart buildings (which extends to smart lighting, automated security systems, energy management systems, water management systems, and smart energy grids), the use of wireless sensors, and the introduction of 'Building Information Modelling', which provides insight into the possibilities of truly smart design, construction, and management of buildings and infrastructure, thus facilitating the modernization of construction affairs, developing the construction economy, and improving productivity.

f. In the area of utilities and environmental sustainability, we recommend encouraging new technologies and smart grids for better water and wastewater management.

In the area of utilities and environmental sustainability, we recommend promoting new technologies and smart grids for better water and wastewater management, which collects real-time data from energy providers and consumers to enable real-time observation, reaction, forecasts, and greater reliability.

g. We encourage the promotion of technologies that support public security.

We believe technology should be used to support an issue that is extremely important to citizens, namely public security, as the changes in the external environment necessitate smart public security

in the interest of allowing technology to help authorities make well-informed decisions regarding safety in general. Specialized apps could also be used for the purpose: fast emergency calls, the use of drones, installation of urban sensors, and the smart supervision of all the above.

ANNEXES

<p style="text-align: center;">Annex 1 to Chapter I point 3 The Chamber's proposals regarding local business tax administration</p>

1. Rounding

Part I of Annex 2 to the Rules of Taxation Act provides for the deadlines for submitting tax returns to the tax authority and specifies the data in the return in the case of returns to be submitted to the state tax authority. With certain exceptions, the data should be rounded to the nearest thousand HUF. It does not contain any provisions regarding rounding in respect to the returns to be submitted to local tax authorities, thus including the local business tax return.

Problem:

- in absence of rounding, in the case of taxes calculated to an accuracy of six decimal places and broken down for a number of sites, it is not guaranteed that the amounts calculated by the taxpayer and the tax authority are identical. Experience shows that the tax amounts calculated by the taxpayer and by local government tax authorities (thus including the amounts of advance taxes) show discrepancies of a few HUF. Due to the difference between the tax and the advance tax, the majority of local tax authorities require the taxpayer to correct the difference, referring to an error in the calculations. Sometimes, they make the corrections themselves and inform the taxpayer of having done so, but other times they even fail to notify the taxpayer, who learns of the discrepancy only afterwards, in the form of a surcharge included in a current account balance statement.
- when allocating the local business tax, it often happens that taxpayers with more than one site end up with local business tax amounts of just a few hundred HUF, and even less than HUF 200 per site (of which there may be several hundred). The general provision under point II of Annex 3 to the Rules of Taxation Act does not provide a solution to handling these small amounts which do not reach the payment threshold of HUF 1000. As a result, local governments are not able to collect these tax amounts, some succumb to the statute of limitations, but they still must be kept in the books, and their advances and differences have to be calculated and rolled forward. Despite of earlier beneficial discounts regarding rounding, the rule pertaining to rounding advance amounts has been removed from the Act, resulting in a task that is more difficult than before and that results in significantly more administrative tasks.

Recommendation:

The handling, record-keeping, accounting, and administration of taxes of less than HUF 1000 result in costs to both the taxpayer and the tax authority that are many times the amount of the tax. In light of the reduction of administrative burdens, for the purposes of cost efficiency, and taking into account both the problems incurred in practice and the fact this amount is not a significant source of revenue for local governments, the data of local business tax returns should also be determined in thousand HUF, similarly to the returns to be submitted to the state tax authority.

We furthermore recommend that rounding take place to the nearest HUF 5000 in the case of companies classified as large companies under the SME Act.

2. Determining and paying the amount of local business tax payable

Under the Rules of Taxation Act in effect until 31 December 2017, taxpayers had to pay the difference between the advance on the local business tax payable to local government tax authorities and the actual annual payment obligation rounded to the nearest HUF 100. In accordance with practical requirements (e.g. return forms based on calculations developed by local tax authorities), advances were also reported in line with the payable amount, based on tax amounts rounded to the nearest hundred.

According to the introduction to Chapter II (Payments made to local government tax authorities) of Annex 3 to the Rules of Taxation Act in force starting from 1 January 2018, if the amount of local business tax or vehicle tax is less than HUF 1000, it shall be payable by the taxpayer only if the total amount of tax as yet unpaid and due in the future exceeds HUF 1000. No late fee may be charged for due taxes of less than HUF 1000, until such time as the tax payment obligation for the tax type exceeds HUF 1000. Local government tax authorities shall not return overpayments of less than HUF 1000 in any given tax type but will devote such amounts to taxes or other public burdens due in the future – and registered by the given local government tax authority.

If the amount of the tax advance, advance supplement, or the difference between the actual amount due for the year amounts to only a couple hundred HUF, under the present rules a payment obligation will be incurred only if its amount, calculated together with another obligation (e.g. the advance reported for the subsequent year) exceed the HUF 1000 value limit. However, advances and differences shall be continuously recorded, registered, and rolled forward on the tax current account even if the amount is not expected to exceed HUF 1000 within the statute of limitations.

Problem:

- record-keeping of and rolling forward small amounts of local business tax until they reach the HUF 1000 value limit results in a significant administrative burden
- the local government determined the tax amount and expects/calls upon the taxpayer to pay the tax, or imposes a surcharge

Recommendation:

The amount of local business tax payable should be rounded to the nearest HUF 1000, similarly to the other tax types. We furthermore recommend that rounding take place to the nearest HUF 5000 in the case of companies classified as large companies under the SME Act.

3. Valuation of assets in the case of taxpayers preparing their annual reports according to the IFRS

The allocation of local business tax is based on the values of the tangible assets belonging to the various settlements and used during the tax year for the business activity. According to the position of the Ministry of Finance, the IFRS does not recognize the definition of tangible asset, which can be only an owned, leased, or rented asset that can be a tangible asset as defined by the Accounting Act.

Problem:

- Entities that keep their books according to the IFRS register those assets as such that qualify as assets according to the IFRS at the value as specified by the IFRS. As the definitions of asset

and historical value under the Accounting Act is not the same as the definitions provided by the IFRS, taxpayers who prepare their annual reports according to the IFRS have to keep concurrent records to comply with the provisions of the Local Business Tax Act when determining the data for allocating the tax base, which is contrary to the principle of reducing administrative burdens.

- Settlement of financial lease: the determination of the asset value to be taken into account when allocating tax causes a problem not only in connection with depreciation write-off. It is also a problem when a solution involving a rental fee is classified by the IFRS as a financial lease. In this case, no rental fees are incurred by the lessee, according to the IFRS, as the leased asset is entered in the books and depreciation is accounted therefor. Lessor companies applying the IFRS remove these tangible assets from their books and do not apply depreciation. As a result, this requires separate records.

Recommendation:

Providing a possibility for taking assets qualified as such by the IFRS into account when allocating local business tax.

4. The definition of mediated services

When defining 'mediated services', both the Accounting Act and the Local Business Tax Act stipulate that the invoice issued by the mediator has to make it clear that the service is mediated. However, the two pieces of legislation have slightly different definitions for mediated service: the Accounting Act does not require the contract to be written, while the Local Business Tax Act does.

Problem:

- taxpayers provide a significant amount of services that, according to their actual content, meet the definition of mediated services (the taxpayer received and provides the service, i.e. it resells it in an unchanged format) though no written contract is concluded due to the nature of the activity (e.g. services provided in retail sales). In this case, the fact that the service is mediated can be set out in the general terms and conditions instead of a written contract. These taxpayers suffer a serious disadvantage if they cannot reduce their LBT bases with the amounts of the mediated services that they resell in setups where a written contract is not possible.
- there are cases, based on the requirements of relevant legislation or only on available possibility, where the mediator does not issue an invoice (mediated services within the VAT group should be stressed first and foremost), in which case the group members issue an accounting document amongst themselves, which fails to comply with the conditions of the Local Business Tax Act pertaining to mediated services.

Recommendation:

- The definitions for service are slightly different: the Accounting Act does not require the contract to be written, while the Local Business Tax Act does. This makes it significantly more difficult to qualify and account the various items. Accordingly, we recommend including the same definition in the two acts and deleting the requirement pertaining to a written contract from the Local Business Tax Act.

In the interest of ensuring legislative coherency, it would be worth expanding the definitions and supplement them with those of vouchers and accounting documents in addition to invoices.

5. Electronic data reporting, registration, change reports, and authorizations with the use of the general form-filing program (ÁNYK)

Local government tax authorities have to use the forms specified by the effective Ministry of Finance decree for the reporting and change reporting obligations in connection with local business tax, for fulfilling building and land tax data reporting obligations, and for using the authorizations necessary for the procedure. The tax authority may supplement the data reporting and return forms only in the interest of executing the exemption and discount provisions regulated by the decree on local government taxes and of determining the amount of taxes payable.

Problem:

- although the forms specified by the decree are available, local governments may supplement those, as a result of which it is not possible to use standard forms
- in absence of a unified form, there is no possibility for a unified procedure or digital development: forms have to be completed one at a time, manually, according to the individual expectations of each local government
- there is no unified (!) digital solution for submitting forms; different requirements have to be met in the course of the procedures,
- this is a difficult and lengthy administrative burden for taxpayers, as there is no possibility for creating and forwarding forms in large numbers
- if a site is terminated, the closing local business tax return has to indicate the reason for termination, after which a separate change report also has to be submitted, which also asks for the reason of termination: this is duplicate administration

Recommendation:

In connection with the government's program to reduce bureaucracy and administration, and in the interest of providing from the principle of a single procedure, we recommend creating uniform reporting and change reporting forms and forms for the reporting of all exemption and discount provision possibilities for building and land taxes. We also propose that all these be submitted via the state tax authority, including the forms pertaining to authorizations. Similarly to the electronic local business tax return, the data reporting, reporting, and change reporting form and the authorization form should be forwarded to local government tax authorities by way of the state tax authority. Providing for the possibility of forwarding forms through the ÁNYK program in bulk would reduce administrative burdens and would replace the other individual, time-consuming formats available on other on-line interfaces (our last recommendation already contained proposals to this effect). When submitting local business tax returns, if the return included the reason for the termination of the site, a separate change report should not be necessary.

6. Collection letter – retention – enforcement

According to the relevant provisions of the Act on Tax Authority Enforcement Procedures, the local government tax authority may contact, without issuing a prior collection letter, the state tax and customs authority once a month, by the 15th day of the month following the target month to enforce claims of at least HUF 50 thousand.

Under Section 76 of the Rules of Taxation Act, the local government tax authority shall retain the overpayment due the taxpayer to the amount specified in the notice issued by such tax authority. The tax authority shall inform the taxpayer of such retention in an order.

Problem:

- experience shows that the appearance of the debt on the taxpayer's current account is usually due to technical problems or accounting errors (e.g. the local government tax authority records the advance paid to the account of another taxpayer, such as a subsidiary), based on which the local government initiates proceedings on the taxpayer's account

Annex 2 to Chapter I point 4 The Chamber's recommendations regarding associations and foundations
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Recommendations for Government Concerning Governance of Associations and Foundations:

1. Associations and foundations should benefit from the same administrative and procedural regulations as the private sector. For example, courts should adopt strict deadlines of 15 business days for association and foundation governance registration matters. It may be advisable to return to a system in which no action by the registration court within a specific time period results in approval of the application.
2. The current simple templates used by courts should be expanded to include the most common change requests to a deed of association or a deed of foundation.
3. Decisions on governance matters should be predictable. Laws covering associations and foundations should be clarified to avoid contradictory interpretations and circumstances when a judge needs apply 'judicial discretion'.
4. Tax incentives for individual (private person) donations to associations and to foundations should be reintroduced.
5. Pro bono services to all associations and foundations should be encouraged with specific tax incentives for service providers.
6. Independent financial audits, and their public disclosure, should be required of all larger associations and foundations.

Detailed explanation to Recommendation No 1.

A major obstacle to associations and foundations is the complicated and uncertain regulatory environment. Registering an association or foundation or changes to it may take up to a year, even when the process occurs without any problems. Associations and foundations should be able to benefit from the same uncomplicated administrative and procedural regulations. The current state of this sector does not allow for effective compliance and governance because of high costs and a lack of capacity.

Hungarian law requires prior registration by the court of most governance changes including the establishment, a change in the articles, the composition of the board and the registration of a new manager.

The long registration processes therefore often cause legal uncertainty in many areas of daily operation, such as signing contracts, indicating the new registered seat on invoices, and opening, modifying and transacting on bank accounts, etc. The delays to quickly implementing natural operational and governance developments are contrary to responsible best practice governance, frustrating and sometimes even disheartening the leadership, who are often sourced from the corporate sector.

It should therefore be ensured that courts abide by strict deadlines for registrations the same way as in the corporate sector. As in the corporate sector, changes should be automatically registered if the courts fail to meet certain deadlines. Public interest would be sufficiently safeguarded because the public prosecutor would still have the right to challenge automatically registered changes.

Detailed explanation to Recommendation No 2.

Court practices on associations and foundations have become so complex and disparate that even experienced legal experts cannot guarantee a swift registration of changes to the articles. In fact, many experts differ on interpretation.

To allow for swift and seamless registration and the ensuing governance changes, current standard forms should include more options so that more associations and foundations can use them (such as more complex management structures, the inclusion of managers or simply a Board member changes). This would also reduce the necessity to involve professional consultants, thus considerably reducing the administration costs and saving time.

Detailed explanation to Recommendation No 3.

One of the reasons that court practices have become unpredictable is the incoherency between the Civil Code and legislation that has been adopted before the new Civil Code, mainly the “Civil Law” (Act. No. CLXXV of 2011). We as AmCham have in fact experienced such inconsistencies directly as have many of our members. Sometimes this unpredictability leads to well-intentioned applications that are deemed inappropriate despite being strategically rational positions given the membership or stated goals. Hence time and effort are wasted by both the association and foundation practitioners and the judges who must assess these inconsistencies. This uncertainty frustrates particularly the leadership of associations and foundations, who are often well-intentioned volunteers. Again, we believe the public prosecutor, and even the tax authorities (particularly for foundations) should provide safeguards for public interest. Clarifying these uncertainties would also raise the trust in these sectors.

We therefore recommend that a comprehensive review of applicable legislation be done so that all relevant rules be included in one legal act, preferably the Civil Code.

Detailed explanation to Recommendation No 4.

Tax deductions should be reintroduced for individuals and expanded for corporates to benefit associations and foundations. It is recommended that individual taxpayers should be permitted to deduct 100% of their donation from their tax base. This method of reducing the tax base is a well-accepted approach in many European Union countries and in the United States. To balance against tax evasion, deductions should be limited to a recommended 30% of the aggregate tax base. Legislators should consider refining the current tax regime and introduce new solutions to better encourage corporate donations to associations and foundations. Since these approaches would require individuals and companies to have sufficient declared income in order to truly benefit from the deduction, it should also indirectly help “whiten” the economy.

Detailed explanation to Recommendation No 5.

The general state of compliance and governance of associations and foundations could be improved if associations and foundations would be supported by professional service providers on a pro bono basis. Therefore, legal, accounting, and audit services should be encouraged by specific tax incentives based on legally binding commitments. This tax incentive should be limited to pre-defined maximums. Should associations and foundations be able to receive more assistance their effectiveness and impact would increase.

Detailed explanation to Recommendation No 6.

The threshold for mandatory auditing should be adjusted in order to capture more associations and foundations. Closely tied with the recommendation to incentivize pro bono service work, and the goal to create greater transparency with the primary point of interest being the usage of membership fees and donations, it is recommended to consider all annual income (including donations/non-business activities) when assessing whether an audit should be compulsory. This recommendation would complement the current system, under which all annual reports prepared and submitted by foundations must be published online.