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Tanulmányok

PARDAVI LÁSZLÓ

Elements of Sustainability in the Hungarian Tax Law

ABSTRACT

This research provides an in-depth analysis of the nexus between Hungary's tax system and sustainable development objectives, framed within the international frameworks established by the United Nations' Agenda 2030 and the Brundtland Commission's definition of sustainable development. Through examining the environmental, social, and economic dimensions of Hungary's tax system, the study explores the extent of alignment with sustainability principles and identifies areas for further enhancement. This study aims to examine the sustainability-related aspects of certain forms of taxation which, although not classified as green taxes in the strict legal sense, may nonetheless incorporate elements of environmental significance. Additionally, this study assesses the Carbon Border Adjustment Mechanism (CBAM), a key legislative component within the European Union's Green Deal. CBAM seeks to mitigate carbon leakage by implementing a carbon price on imports, promoting cleaner technologies, and fostering global decarbonization. This paper evaluates the potential economic and trade-related implications of CBAM on Hungary and highlights the mechanism's capacity to bolster domestic climate action within Hungary's economic structure.

The findings indicate that while certain sustainable elements are present within Hungary's current tax system, additional reforms are warranted to incorporate sustainability principles fully. Recommendations for the expansion of environmental taxes, the fortification of incentives for sustainable practices, and the integration of broader social and economic considerations are proposed as pathways to optimize Hungary's tax framework toward a more sustainable future.

Keywords: Hungary's tax system ■ environmental taxes ■ Carbon Border Adjustment Mechanism

I. INTRODUCTION

The basis of this study resides within the guiding principles of „Transforming Our World: The 2030 Agenda for Sustainable Development," also known as Agenda 2030, as formulated by the United Nations Economic and Social Council (ECOSOC). Agenda 2030 establishes sustainable development as a global framework, addressing critical aspects directly relevant to taxation. This document also builds upon the well-known Brundtland Commission definition of sustainable development, posited in the report „Our Common Future" (1987): „Sustainable development is a development that meets the needs of the present without compromising the ability of future generations to meet their own needs."

Building upon these foundational frameworks, the concept of sustainability has evolved into an interdisciplinary field that permeates all scientific domains, encouraging a holistic examination of sustainability from environmental, social, and economic perspectives. Sustainable development has since been embraced as a fundamental objective within the European Union, explicitly incorporated within Article 3(3) of the Treaty on European Union, which establishes sustainability as a guiding principle for policy formulation. The European Commission further elaborates on these principles, setting forth directives and tasks expected of member states through annual communications and strategic frameworks.

Within Hungary, the governmental commitment to sustainable development took formal shape in 2007 with the adoption of the National Sustainable Development Strategy, marking a significant milestone in aligning national policies with broader sustainable development goals. This commitment was further strengthened in 2013 when the National Assembly adopted the National Sustainable Development Framework Strategy, covering the period from 2012 to 2024. The preparatory work for Hungary's second National Sustainable Development Framework Strategy is currently underway, with a focus on updating and advancing the sustainability goals set in previous years.

Hungary's Fundamental Law further underscores the importance of sustainability, affirming a commitment to both social and environmental responsibility. This is articulated in the National Avowal, which emphasizes the conservation of Hungary's heritage, including natural resources and cultural assets: "We commit ourselves to promoting and safeguarding our heritage, our unique language, Hungarian culture, and the languages and cultures of national minorities living in Hungary, along with all man-made and natural assets of the Carpathian Basin. We bear responsibility for our descendants and therefore we shall protect the living conditions of future generations by making prudent use of our material, intellectual, and natural resources."

In particular, Article P of the Fundamental Law delineates the shared responsibility of the state and its citizens to protect the nation's natural resources, including agricultural land, forests, water reserves, and biodiversity, which are designated as a common national heritage to be preserved for future generations. Despite these explicit references to sustainability within the framework of Hungary's legal commitments, none of these provisions directly addresses the tax system or its role in advancing sustainable development. The tax system remains, however, an instrumental subsystem within the broader economic and social structure, intrinsically connected to these sustainability goals.

This study aims to analyze Hungary's tax structure, identifying key tax sources that actively contribute to sustainability objectives and distinguishing those which do not substantively address sustainability concerns. The study's central hypothesis is that the primary function of Hungary's tax system remains focused on generating budgetary revenue, with sustainability considerations playing a secondary role at best. The research will evaluate the tax system's performance concerning sustainable development principles, with a particular focus on the economic, social, and environmental dimensions as defined by the OECD's sustainability criteria.[1]

II. BACKROUND: EVALUATION OF THE SUSTAINABILITY OF THE TAX SYSTEM

The concept of a national tax system encompasses the entirety of taxes applicable within a given jurisdiction, reflecting the structure and priorities established by the state.[2] In Hungary, the tax system comprises approximately 60 different tax categories, which apply to diverse economic activities, individual and corporate incomes, and taxpayer wealth. This broad spectrum of taxation reflects an adaptable, albeit unstable, framework that is frequently subject to modification by legislative authorities.

One of the distinguishing characteristics of the Hungarian tax system is its volatility. Taxation policies are regularly amended, with new tax categories being introduced or existing ones modified to align with shifting socio-economic priorities. While this dynamism enables the system to adapt to emerging economic, social, and environmental needs and to satisfy EU regulatory requirements, it also introduces complexity. This inherent instability can undermine administrative simplicity, one of the core attributes Joseph E. Stiglitz identifies as fundamental to an effective tax system. The primary objective of the frequent modifications is to stabilize the budget, increase revenue collection, and offset revenue losses from other channels, such as changes in the EU's economic support structure.

However, variability within the tax system does not inherently signify inefficiency. In fact, adaptability to changing conditions demonstrates the flexibility necessary for modern taxation. When examining the tax system through a sustainability lens, frequent modifications can serve dual functions: they fulfil immediate fiscal needs while enabling adjustments to incorporate sustainability goals. Such adjustments, if aligned with sustainability criteria, could facilitate a transition to more transparent tax regulations, environmental accountability, and an administratively manageable framework that supports sustainable practices.

[1] OECD, 2022.

[2] Simon, 2019, 159.

This classification framework provides a structured approach for analyzing the sustainability implications of each category. The following sections examine the sustainability dimensions of Hungary's tax structure by assessing environmental, social, and economic factors.[3]

1. The Integration of Sustainability within the Hungarian Tax System

The Hungarian Fundamental Law highlights sustainability, primarily emphasizing the need for balanced and transparent fiscal management in its budgetary provisions. According to Article N of the Fundamental Law, the state is mandated to uphold principles of "balanced, transparent, and sustainable budget management." The National Assembly, along with the Hungarian government, holds primary responsibility for adherence to this mandate, supported by the Constitutional Court, local governments, and other state organs. These institutions are collectively obligated to maintain fiscal discipline and transparency, contributing to long-term fiscal sustainability.

Despite these constitutional commitments, the practical incorporation of sustainability within Hungary's tax system remains limited. Taxes serve as the primary funding source for public programs, connecting tax revenue generation directly with public needs through shared fiscal responsibility. In this context, Hungary's tax structure includes provisions intended to support favourable demographic trends, as expressed in Article XXX of the Fundamental Law: "Everyone shall contribute to covering common needs according to his or her capabilities and participation in the economy." For individuals raising children, the Constitution further specifies that their tax contributions should account for the expenses associated with childrearing. The traces of sustainability are mostly evident in the income and value-added tax (VAT) provisions, where specific tax benefits and exemptions are structured to support demographic goals.

For this reason, the criteria of sustainability are primarily reflected in the design of tax incentives within income and sales taxes systems. However, the connection between taxes and sustainability is by no means a novel concept; in fact, sustainability elements in the modern sense, related to the economy and society, have been present in tax theory since the 18th century.[4]

The relationship between taxes and sustainability extends back to the roots of classical tax theory, wherein economic and social considerations have historically influenced taxation. Since the 18th century, economists have emphasized various sustainability elements within the context of taxation. Adam Smith, in *„The Wealth of Nations"* (1776), identified four essential characteristics of a sound tax system: fairness, certainty, convenience, and efficiency. In the 20th century, Joseph E. Stiglitz expanded upon this foundation, articulating five desirable features of taxation systems:

[3] KSH, 2022, 5.

[4] Csák – Nagy, 2020, 47.

- Economic efficiency: The tax system should not disrupt the efficient allocation of resources.
- Administrative simplicity: The tax system should be straightforward to administer and cost-effective.
- Flexibility: Tax policies should be adaptable to changing economic conditions.
- Political accountability: Tax obligations should be transparent, enabling citizens to understand their responsibilities.
- Justice: Taxation should be fair and equitable, treating individuals according to their circumstances.[5]

Applying these principles to Hungary's tax system reveals both strengths and weaknesses, especially regarding economic efficiency. Hungary's open market economy necessitates an active tax policy that accommodates both revenue generation and broader economic objectives. This interdependence between fiscal and economic policy is essential in determining how the state allocates resources for public services while distributing tax burdens among various societal groups. Consequently, Hungary's tax policy must strike a delicate balance between generating sufficient revenue and addressing sustainable development goals.

The question of the economic efficiency of the Hungarian tax system can be examined and potentially criticized from various perspectives. If we understand economic efficiency as the characteristic mentioned by Stiglitz, that the economy should not be influenced (to remain Adam Smith's "invisible hand"), then from this viewpoint, the Hungarian tax system likely does not meet this expectation. As an open market economy and a relatively resource-poor country, Hungary cannot afford to pursue a passive tax policy. Therefore, since the Hungarian transition to democracy, the government has actively sought cooperation with the economy, occasionally setting different priorities. The relationships, goals, and tools between the economy and the government are determined by the current economic and financial policy. Undeniably, the economic well-being of the country is of equal importance to the allocation of budgetary resources necessary for government tasks. However, it does matter how these resources are collected and which taxpayer groups bear the burden. Financial policy and tax policy are responsible for making these decisions. Financial policy is, of course, part of economic policy, but it is not independent of trade policy and interacts with social policy, education policy, and essentially any policy area with budgetary implications. The general objective of financial policy is perhaps to determine the government's role in the economy, specifically deciding which public tasks the state should fulfil and how to finance them.[6] This decision-making obligation and situation are highly suitable for incorporating elements of sustainable development into Hungarian taxes. In the following, we will examine some of these elements.

[5] Stiglitz, 2000, 401.

[6] Pardavi, 2022, 20.

2. Analysis of Significant Taxes with Potential Sustainability Elements

To assess the alignment of Hungary's tax system with sustainability principles, this study focuses on tax categories generating revenue above 4 billion HUF (approximately 10 million EUR) annually. According to data from the Hungarian State Treasury, the revenue of Hungary's central budget was approximately 36,358 billion HUF (88 billion EUR) in 2022. This threshold represents approximately 0.01 per cent of total budgetary revenue, allowing for a focused analysis of substantial taxes with direct sustainability implications.

Several taxes in Hungary demonstrate varying degrees of sustainability, aligning with the three pillars of sustainable development: environmental, social, and economic.

Taxes	Revenue: 2020 (million EUR)	Revenue: 2021 (million EUR)	Revenue: 2022 (million EUR)	Revenue: 2023 (million EUR)
Environmental protection fee	1.225	1.2	1.175	1.175
Mining allowance	9.5	9.25	9.25	9.25
Suppliers' income tax	18.575	18.675	21.05	22.6
Tax on public utilities	13.5	13.5	13.5	13.5

Table 1: "Green" taxes
(Source: Hungarian Central Statistical Office (KSH))

The Registration Tax, Tax on Company Cars, and Tax on Motor Vehicles are associated with the registration and ownership of motor vehicles, and they include elements that can be classified as environmentally friendly and sustainable by reducing the tax rates. This is achieved by linking the environmental classification of vehicle engines to the tax rates, and currently, electric and plug-in hybrid electric vehicles enjoy transitional tax exemptions.

Taxes	Revenue: 2020 (million EUR)	Revenue: 2021 (million EUR)	Revenue: 2022 (million EUR)	Revenue: 2023 (million EUR)
Registration Tax	6.5	6.85	7.05	7.25
Tax on company cars	9.55	9.975	10.375	19.7
Tax on motor-vehicles	12.875	13.250	13.625	25.125

Table 2: "Vehicle" taxes
(Source: KSH)

These numbers show a significant increase compared to revenues attributed to explicitly environmental taxes. From this trend, it can be concluded that it is in the government's interest to maintain these taxes as they provide a steady and reliable source of revenue for the state budget, and the environmental incentives have not resulted in a substantial decline in tax revenues.

3. Social Sustainability and Demographic Support through Taxation

Hungary's tax system emphasizes social sustainability through tax provisions intended to support demographic trends, cultural heritage, and public welfare initiatives. For instance, the Personal Income Tax (PIT) framework includes deductions and benefits aimed at young individuals, families, and individuals raising multiple dependents. These benefits are legally grounded in Article XXX, Paragraph 2, of the Fundamental Law, which stipulates that tax contributions should reflect the costs of raising children and supporting dependents.

Social sustainability has also received special attention in Hungarian tax policy, particularly in terms of supporting demographics, sports, and film production. Here, we will only present the revenues from two taxes.

Taxes	Revenue: 2020 (million EUR)	Revenue: 2021 (million EUR)	Revenue: 2022 (million EUR)	Revenue: 2023 (million EUR)
Personal income tax	652.25	710.25	774.5	1015.0
Corporate tax	125.275	135.85	145.825	251.0

Table 3: The biggest income taxes
(Source: KSH)

In terms of the cultural aspect of sustainability, the Corporate Tax recognizes the amount that can be offered to support specific goals related to taxation burdens.

The institution of tax allocation (provision on tax) provides an opportunity for corporate taxpayers to allocate up to 80 per cent of their corporate tax, advance tax, or advance tax supplement to supported purposes according to the legislation. They can offer this allocation while still benefiting financially from providing support.

The mentioned supported purposes can include:

– Support for film production
– Support for visual team sports.

Visual team sports include football (soccer), handball, basketball, water polo, ice hockey, and volleyball.

For both income taxes, it can be observed that revenues have significantly increased in recent years, despite the regulations not undergoing significant changes. One possible explanation for the revenue growth is the high inflation in recent years, accompanied by wage increases and revenue growth. The volume of the aforementioned tax benefits related to sustainability mentioned above has also increased as a result. Therefore, Hungary has performed well in this area, improving certain segments of social well-being.

4. Legal Analysis of Carbon Adjustment Method (CBAM)

The CBAM, a key component of the European Union's "Fit for 55" green legislative package, can be understood as a European CO_2 tax mechanism aimed at supporting decarbonisation strategies and combating so-called carbon leakage. Carbon leakage occurs when carbon dioxide prices and other EU measures lead to increasing costs and competitive pressures in emission-intensive sectors. Consequently, companies relocate production facilities to non-EU countries where there is no CO_2 tax, or they substitute EU products with imports from third countries with higher emission intensity. Thus, greenhouse gas emissions do not decrease globally; they simply shift to countries with lower climate protection goals and measures.

The purpose of CBAM is to prevent these circumventions by requiring the payment of a carbon price equivalent to the EU's internal carbon dioxide price upon the import of so-called CBAM products into the EU. In the future, companies will need to purchase CBAM certificates in the amount corresponding to this calculated price. These certificates and the amount paid for them can be considered as a type of specific environmental duty, as their introduction will be integrated into the prices of the relevant goods, thereby influencing their demand. However, the primary objective of CBAM is not to influence demand or protect domestic (or EU) goods but rather to incentivize the reduction of CO_2

emissions, facilitating the transition towards low-carbon economies. At the same time, CBAM will indirectly protect domestic producers who would suffer disadvantages compared to those operating in countries where their products are not subject to CO_2 tax. Additionally, CBAM will incentivize third countries to adopt more environmentally friendly technologies.

By integrating carbon pricing mechanisms into international trade systems, CBAM aligns economic incentives with environmental goals, thereby promoting pathways to sustainable development. Furthermore, CBAM serves as a catalyst for innovation, stimulating investments in clean technologies and facilitating the transition towards more resource-efficient and resilient production systems.

At the same time, in the absence of capital and subsidies, not all states and not all of their producers will be able to adapt to the new EU regulations, thus jeopardizing their economic development. This led to a proposal from Joel Trachtman and Dr Jan Yves Remy[7] to establish a Global Sustainable Trade Fund, to be financed through carbon border adjustments, with financial resources allocated and distributed by independent organizations such as the World Bank, in cooperation with the International Trade Centre.

CBAM also offers Hungary an opportunity to strengthen its domestic climate strategy while improving its competitiveness in global markets. By incorporating environmental costs related to carbon dioxide emissions, CBAM encourages domestic industries to adopt cleaner technologies and practices while protecting the economic interests of the European Union and Hungary.

Moreover, from 2025 onwards, CBAM will become a source of revenue for the EU budget, with 25% of the collected amount allocated to the member state and 75% to the Union, similar to customs duties. The price of CBAM certificates, representing revenue, will be calculated by the European Commission as an average of the closing prices of EU ETS emission allowances on the auction platform for each calendar week, in accordance with the procedure defined in Regulation (EU) 1031/2010.

CBAM Products: From October 1, 2023, importers or their indirect customs representatives must report the release into free circulation of certain products, such as cement, electricity, fertilizers, iron and steel products, and hydrogen, or the importation of processed products resulting from active processing of these goods. Reports must be submitted to the European Commission quarterly. Every importer established in a Member State intending to import such goods into the EU must request authorized CBAM declarant status, as after the transitional period, starting from January 1, 2026, this will be the only way to be eligible for the release for free circulation customs procedure.

[7] Tarchtman – Remy, 2023.

III. METHODOGY

1. Conceptual Framework

This study employs a historical analysis and comparative method to examine the integration of sustainability principles within the Hungarian tax system. The research focuses on synthesizing and reflecting upon existing literature, with a particular emphasis on the analysis of internal legal legislation from a legal science perspective.

To achieve the study's objectives, the following methodological steps were undertaken:

- Historical Analysis: The research traces the evolution of Hungary's tax system in the context of sustainable development, considering both national and international frameworks such as the UN's Agenda 2030 and the EU's sustainability directives.
- Legal Analysis: A detailed examination of Hungary's legal provisions related to taxation was conducted, with particular attention to laws and regulations that directly or indirectly promote sustainability.
- Quantitative Assessment: The study also involves a quantitative analysis of the financial impact of taxes with sustainability elements, using an exchange rate of 1 Euro = 400 HUF for consistency in financial comparisons.
- Synthesis of Literature: The research synthesizes findings from specialized literature to provide a comprehensive understanding of the current state of sustainability in Hungary's tax system and to propose potential areas for further integration of sustainability principles.

This multi-faceted approach allows for a thorough investigation of the sustainability elements within Hungary's tax laws, identifying gaps and opportunities for improvement. The findings are contextualized within the broader framework of Hungary's commitments to sustainable development at both the national and international levels.

2. Applied Case Study

The direct connection between taxation and sustainability is rarely demonstrated in the rulings of Hungary's highest court, the Curia. However, in some of its decisions, the Curia has nonetheless addressed issues related to taxation and sustainability.

In the case Kfv.I.35.488/2018/7, the Curia of Hungary, acting as the court of review, adjudicated a dispute concerning the local business tax and the deductibility of printing costs incurred by the claimant in relation to book publishing. The central issue was whether the costs related to printing services could be deducted from the local business tax base.

a) Background of the Case

The Metropolitan Administrative and Labor Court's prior judgment ruled that the claimant could not treat printing costs as deductible expenses for the purposes of calculating the local business tax. The defendant, the first-instance tax authority, had determined that the printing services ordered by the claimant did not result in a "finished product" and, therefore, the expenses related to those services were not deductible. In contrast, the claimant argued that the printed books constituted finished products, not merely services, thus making the associated costs deductible. According to both the tax authority and the court, the printing process was not considered the final stage in producing a tangible product but rather a part of a larger process completed by the publisher.

b) The Claimant's Arguments

The claimant contended that the books produced by the printer were finished products, citing royalties to support the deduction of printing costs from the tax base. It was emphasized that the publisher printed works that were protected by copyright, for which royalties were paid, thereby rendering the printed books as completed products. The claimant insisted that these costs should be deductible from the local business tax base, as they were integral to producing the final product sold to consumers.

c) The Curia's Ruling

The Curia upheld the lower court's decision, confirming that the printing services did not result in finished products and that the costs associated with them could not be deducted from the tax base. The court reaffirmed that the printing services did not constitute the creation of a final product, as the printed books could only be marketed and sold in conjunction with the publishing rights. The Curia emphasized that the work performed by the printer was merely part of the overall process, which was controlled and directed by the publisher.

In its judgment, the Curia underscored that the contract between the claimant and the printers should be classified as a service contract, as the printing activities were carried out according to the publisher's specifications. Furthermore, the court clarified that in the context of the local business tax system, the costs associated with printing services could not be classified as material costs or as the cost of goods sold.

d) Consequences

The legal implication of this ruling is that the costs of printing services cannot reduce the tax base for local business tax purposes, as printed books cannot be considered standalone products without being connected to the publishing rights.

By ruling in this manner, the Curia shifted the traditional practice, which previously allowed businesses certain tax base deductions. This has implications for sustainability considerations as well, as changes in cost-reduction structures in specific industries, such as the printing sector, may indirectly affect both economic sustainability and broader economic factors.

IV. RESULTS AND CONCLUSIONS

The Hungarian tax system shows traces of sustainability through various taxes and provisions. In terms of environmental sustainability, there are taxes such as the Environmental Protection Fee and the Mining Allowance that contribute to the protection of the environment. Additionally, certain taxes related to vehicles, such as the Registration Tax and the Tax on Motor-Vehicles, include elements that promote environmentally friendly practices.

From a social sustainability perspective, the Personal Income Tax includes several deductions and incentives aimed at supporting families, young people, and individuals with multiple dependents. These provisions align with the goal of promoting social well-being and addressing demographic challenges.

In terms of economic sustainability, the tax system incorporates measures to attract foreign investment, particularly in industries such as automotive manufacturing. However, the extent to which these industries contribute to overall sustainability, given their potential environmental impact, is a matter of concern.

While the Hungarian tax system demonstrates some elements of sustainability, there is room for further improvement and expansion. The system could benefit from additional environmental taxes, incentives for sustainable practices, and measures to address the social and economic aspects of sustainability more comprehensively.

Overall, the study suggests that while the primary sustainable purpose of taxes in Hungary is revenue generation, there are elements within the tax system that align with sustainability principles. Enhancing and expanding these elements could contribute to the country's overall sustainable development goals.

This study also aims to provide a comprehensive understanding of the Carbon Adjustment Method's implementation in Hungary, shedding light on its effectiveness, challenges, and implications for the country's economy, trade relations, and environmental sustainability.

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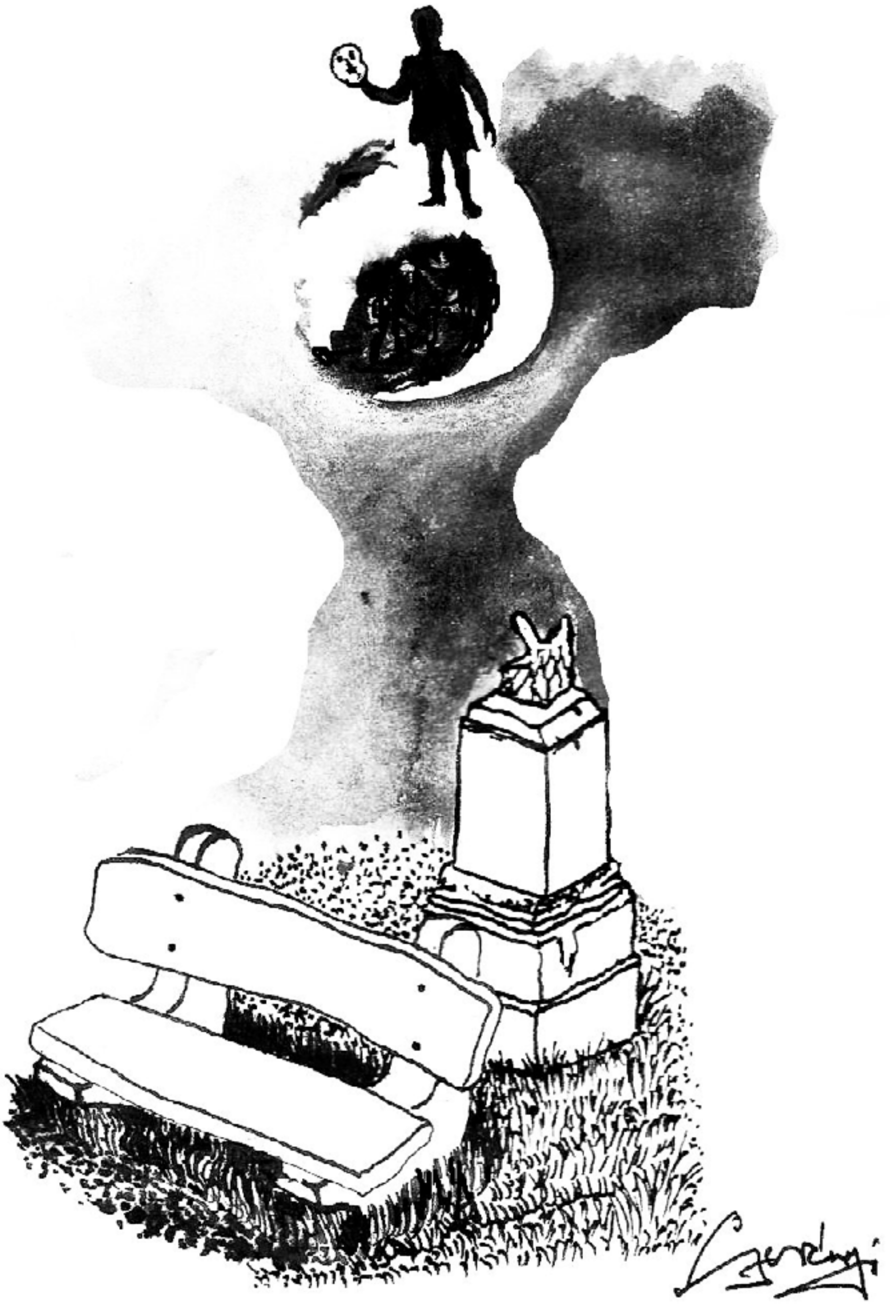

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