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A Candle in the Wind? The Tax Autonomy of Hungarian Municipalities in Light of the Coronavirus Pandemic

Abstract: This article aims to offer a brief introduction to the system of local tax autonomy in Hungary, primarily by accentuating its peculiar features compared to other systems used in the region. Particular attention is paid to the local business tax, a less typical source of local revenue, which constitutes the backbone of the Hungarian system, and to the relatively recently introduced possibility for local authorities to levy so-called 'settlement taxes' on an open-list basis. The author then describes how the coronavirus pandemic and the measures aimed at mitigating its economic consequences affected local governments' financing mechanism and fiscal capacity. Finally, by drawing conclusions from these occurrences, the resilience of local tax autonomy in Hungary is evaluated.
Keywords: tax autonomy, fiscal autonomy, Hungary, local government, local taxes

Introduction

According to the OECD, tax autonomy refers to the ability of sub-central governments to make their own decisions about taxation (OECD, 2020, p. 3). The broader the local or regional government's possibilities are in introducing its own taxes and determining their base, rate, and other elements, the higher the degree of tax autonomy is. Tax autonomy is inherently connected to sub-central governments' fiscal autonomy – in fact, it can be regarded as its key element. According to J. S. H. Hunter (1977, p. 45), the essence of fiscal autonomy is that a given tier of government, within its sphere of competence, must be reasonably free to vary its revenues and expenditures. Similarly to others (see Blöchliger & King, 2006, p. 9), Hunter also highlighted the principal role of taxes among different revenue types. Yet other authors go even further by practically associating fiscal autonomy with tax autonomy. For example, Hooghe et al. (2016, p. 28) define fiscal autonomy as 'the extent to which a regional government can independently tax its population'. In any case, one can safely conclude that taxing powers are the most apparent manifestation of local fiscal autonomy.

During the constitutional reform carried out after the fall of the communist regime in Hungary, a strong emphasis was placed on decentralization. Local government was seen as having a natural legal character (Kecső, 2016a, p. 205). In line with this, rules aimed at protecting local self-government, including financial safeguards, found their way into the thoroughly amended Hungarian Constitution of 1949.[1] Its Article 42 guaranteed the right of local communities to self-government, while Article 44/A stipulated that local representative bodies shall, among other things, independently manage local government revenues, be entitled to their own revenues, and determine the types and rates of local taxes under the framework established by law.

Still, the detailed constitutional regulation could not secure the proper functioning of local governments (Kecső, 2016a, p. 217). While the reasons for this are out of the scope of this article, the experience contributed to the revision of the system of local governance, and when the current constitution, the Fundamental Law of Hungary, was adopted, many of the rules mentioned above fell out of the constitutional framework. Unlike the previous constitution, the Fundamental Law does not refer to the right of self-government for local communities nor explicitly mention their own revenues. However, one crucial feature of local fiscal autonomy was kept: the authority of local governments to decide on the types and rates of local taxes within the framework of statutes (Article 32, para. 1).

The right to levy local taxes therefore currently enjoys a unique position of being guaranteed at a constitutional level. Accordingly, statistics suggest that this right is also implemented in practice: total revenues from local taxes represented 27% of all the annual budgetary revenues of Hungarian local governments (excluding loans) in 2017 (Parliament of Hungary, 2018). Yet, as shown below, most of these revenues stem from a single source, a fact which carries inherent risks. Extensive reliance on one specific type of tax can adversely affect the stability of local tax autonomy.

Building upon this presumption, I formed a hypothesis that the present imbalanced system of local tax autonomy in Hungary lacks resilience against external shocks. This hypothesis will be tested by studying the impact of the coronavirus pandemic on the local tax revenues of Hungarian municipalities, which will require the description of the measures introduced in response to the pandemic. Consequently, the methods of analysis and synthesis will be used to draw conclusions regarding

1 After the fall of the communist regime in Hungary, the constitution adopted in the early years of communist rule was not formally substituted with a new document. Instead, it underwent substantial changes to address the social and political changes of 1989 and the years that followed.

their impact, along with quantitative methods involving a statistical survey of tax revenues in selected municipalities. However, to provide necessary context, the foundations and central characteristics of Hungarian local tax autonomy will first need to be concisely described and analysed, also using some numerical indicators.

1. Local taxes in Hungary

The above-mentioned constitutional rule on local taxation is embodied on the statutory level in Act No. C/1990 on Local Taxes (the Act on Local Taxes). Its first article entrusts local authorities with the competence to introduce local and settlement taxes within their administrative territories. While such a distinction may cause confusion to someone who is not familiar with the Hungarian regulation, both local and settlement taxes roughly correspond to what legal theory conceptualizes under the term 'local taxes'.[2] The main difference between the two categories lies in the degree to which local governments can influence the elements of these taxes. Consequently, when it comes to Hungary, it is helpful to distinguish between local taxes in a narrower sense, referring to those types of taxes which are labelled as 'local' by the Act and which should be distinguished from settlement taxes; and local taxes in a broader sense, as a larger group of taxes that encompass local taxes in a narrower sense and settlement taxes as well.

Sections 6 and 7 of the Act delimit the taxing powers of local authorities concerning local taxes in the narrower sense. According to these provisions, local governments are, among other things, authorized to decide whether they wish to introduce a specific type of local tax enumerated by the Act, establish their exact rate considering the maximal rate set out in the Act, and grant additional tax exemptions and allowances besides those listed in the Act. Accordingly, in the case of local taxes in the narrower sense, subjects and objects of taxation as well as tax bases are centrally determined by the legislature. Besides, local governments are bound by maximal limits on tax rates, enumerated in the Act, and are obliged to respect the exemptions and allowances stipulated by statutory provisions. According to Section 9 of the Act, local taxes in the narrower sense are administered by the tax authority of the municipality which decided to introduce them on its territory.

Despite the above limitations, Hungarian local taxes in a narrower sense can be considered 'local' under Article 9 para. 3 of the European Charter of Local Self-Government, as they fulfil the criteria formulated within the framework of the Charter's

2 While there is no broad consensus on the precise definition of local taxes, one can quite safely determine the essential qualities of taxes operational in practice that can be categorized as local. According to Radvan (2017, p. 12), local taxes are financial levies determined to the municipal budget that can, at least in a certain way, be influenced by the municipality (e.g. in terms of the tax base, tax rate, or correction elements).

monitoring process: they constitute local revenue, they are levied by the local authorities themselves, and their rate can be, within certain boundaries, determined by local governments in municipal by-laws, along with some correction elements (Wienen, 2020, pp. 36–37).

The Act lists five types of local tax in the narrower sense: buildings tax, land tax, local (communal) tax for private individuals, tourist tax, and local business tax. The list is exhaustive; Hungarian municipalities cannot introduce other local taxes in the narrower sense. Buildings tax can be levied on buildings or their parts serving residential and non-residential purposes, while land tax may be charged for plots of land. Local (communal) tax for private individuals may only be imposed on individuals owning buildings or plots of land and individuals renting residential premises from non-natural persons.[3] Tourist tax is paid by non-permanent residents spending at least one guest night within the municipality's jurisdiction, while local business tax may be levied on business activity carried out within the administrative territory of the municipality.

It is not this paper's goal to thoroughly describe all five types of the above-mentioned local taxes in the narrower sense, as spatial constraints do not allow this. If one aims to outline the cornerstones of the Hungarian system, this is not even truly necessary, as one type of local tax dwarfs all the others in terms of significance: the local business tax. Its impact can be illustrated by comparing the share of the revenue from different types of local taxes: in 2019, revenues from local business tax accounted for 81.2% of total revenues from all kinds of local taxes in the narrower sense. It was followed by the buildings tax at 13.1%, land tax at only 2.5%, tourist tax at 1.7%, and the local (communal) tax for private individuals at 1.5% (Hungarian Central Statistical Office, 2022). For this reason, I have chosen to describe only the local business tax, as, from a systemic perspective, this is the only local tax having a genuinely significant impact on the system of local fiscal autonomy in Hungary. The paragraphs below will thus be dedicated to this type of local tax.

2. Local business tax

As shown above, local business tax constitutes the backbone of the Hungarian system of local taxation. The use of a local tax on business is a relatively uncommon method of local government financing in the region. The German *Gewerbesteuer* is based on a similar concept; nevertheless, there are notable differences between the Hungarian and German solutions, especially concerning their tax base (Kecső, 2016a, p. 384). Thanks to the peculiar definition of its tax base, the Hungarian local business tax is somewhere between a profit and a turnover tax (Kecső & Tombor, 2020, p. 57).

3 Buildings are understood as objects which would be taxable by buildings tax.

The object of the Hungarian local business tax is business activity carried out within the municipality's territory of jurisdiction. The tax is paid by entrepreneurs and enterprises conducting such activity. To simplify the application of the tax, Section 37 of the Act on Local Taxes establishes a legal presumption, according to which the entrepreneur or enterprise is carrying out a business activity within the municipality's area of jurisdiction if he/she/it has a seat or an establishment within this territory, regardless of whether the actual activity is carried out in whole or in part outside the mentioned premises.[4]

At the time of its introduction into the Hungarian tax system in 1991, the local business tax was a tax on the annual net revenue from the products sold or the services provided. At that time, it was not possible to deduct any expenses from the tax base. However, over the years, several options for deducting certain expenses from the net revenue gradually appeared among the rules on local business tax (Kecső & Tombor, 2020, pp. 41–47). As of today, the tax base of local business tax is the net revenue, which may be lowered by the following expenses: a) the combined sum of the purchase value of goods sold and the value of services mediated; b) the value of subcontracted performances; c) the cost of materials; and d) the direct costs of basic research, applied research, and experimental development accounted for in the given tax year. It is essential to add that the deduction of expenses according to point a) (purchase value of goods and mediated services) is progressively limited: the higher the total value of expenses under point a), the lower the percentage of what can be applied as a deduction. This measure negatively affects businesses that rely greatly on the resale of goods and services, such as retailers or energy suppliers (Kecső, 2016a, p. 386).

The Act specifies another, special way of determining the tax base. Small businesses meeting the requirements set by paragraph 1 of Section 39/A may choose to determine their tax base using fixed amounts listed in the Act. Depending on their actual annual revenue, businesses are divided into groups encompassing a certain range of revenues. One fictive tax-base value is assigned to each group, with each value being significantly lower than the minimal actual revenue falling into the given group. This solution largely simplifies the tax-base assessment and practically establishes the possibility of a lump-sum tax for small businesses.

As stated above, the Act on Local Taxes specifies only the upper limit of the tax rate that local authorities can determine. In the case of the local business tax, this

4 For the purposes of the Act, establishment *(telephely)* means the permanent business establishment (property) of the taxable person (regardless of the legal title of use) where s/he carries out business activities in whole or in part, including, in particular, a factory, plant, workshop, warehouse, mine, oil or natural gas well, water well, wind or solar power plant, office, branch, representative office, agricultural land, rented or leased property, and public road or railway track that can be used in return for compensation (Section 52, subpara. 31 of the Act).

limit is set at 2% of the annual tax base. However, it is important to add that while the municipalities formally have the freedom to decide on the tax rate anywhere between 0% and 2%, this ability is severely restricted in practice. The reason is that the rules on the allocation of central transfers are based on the concept of the so-called 'taxing power capacity', calculated from the annual tax base multiplied by a hypothetic tax rate of 1.4% (Ministry of Finance, 2023). This means that if the local business tax rate is lower than 1.4%, the given municipality will not receive more central transfers than it would have if it used the 1.4% rate. The only thing a municipality would achieve by a lower rate is thus lowering of its own revenues. Consequently, there is no point in setting the local business tax rate outside the scope of 1.4% to 2%.

While local authorities may grant certain exemptions and allowances from the local business tax, their leeway in this regard is also limited by the Act on Local Taxes. The most significant restriction is that exemptions or allowances cannot be granted to businesses whose tax base exceeds HUF 2.5 million in the given year. The scope of exemptions and allowances granted by local authorities must, moreover, be identical for all businesses. This means that, in practice, municipalities can only grant exemptions and allowances for smaller firms in a sector-neutral manner (Kecső, 2016a, p. 387).

Section 36/A of the Act on Local Taxes specifies that the revenue from local business tax should primarily be used for the performance of tasks connected to the operation of the local public transport system. If the revenue exceeds the amount necessary for performing these tasks, the excess amount should be spent on the provision of municipal social services. The provision expressly prohibits the payment of municipal employees' personal benefits (and related contributions) from local business tax revenues. This measure can be seen as a protection against economic mismanagement of self-governing units (Kecső, 2016a, p. 388).

One important asset of the local business tax is that it can create an effective link between local revenues and the level of economic activity in a municipal territory. A local tax akin to the local business tax gives the residents, who are bearing any negative consequences of the operation of local industrial and business establishments, their fair share of the economic benefits these activities may yield. Such a link is much weaker in the case of local tax systems primarily relying on property taxes. On the other hand, while local business taxes may prove very profitable in times of economic prosperity, they are volatile due to their dependency on commercial success. Excessive reliance on these types of taxes renders the budgets of municipalities far more vulnerable to economic hardships compared to property taxes, which tend to be more stable in such circumstances. Another substantial disadvantage is that without extensive compensation schemes, local business tax aggravates the economic differences between self-governing units. This can be illustrated by statistical data from Hungary: even though the local business tax was introduced by 91.2% of all municipalities as of 2021, 90% of all revenues from local taxes came from only 8.5% of municipalities (State Audit Office, 2021, pp. 12, 19–20). For these reasons, discussions on how to grant local governments additional possibilities of taxation have emerged in Hungary, mainly over the last decade.

3. Settlement taxes

Concrete proposals on allowing municipalities to introduce local taxes on an open-list basis appeared at the beginning of the 2010s (Kecső, 2016b, p. 20). However, it was not until 2015 that the final regulation on this possibility went into effect. The respective amendment introduced Section 1/A into the Act on Local Taxes, which stipulated that local authorities may introduce by decree settlement taxes that are not prohibited by law. This negative definition embodies the open-list approach to local governments' tax-levying power, as, unlike in the case of local taxes in the narrower sense, the legislature does not positively specify tax elements for settlement taxes (Borsa et al., 2022, p. 26). Moreover, paragraph 2 of Section 1/A clarifies that, besides Section 1/A itself, only three other provisions of the Act on Local Taxes apply to settlement taxes: one granting local governments the right to levy taxes, one on the obligation to provide information on taxes introduced by them, and one establishing the possibility of regulating certain procedural matters not regulated by general laws in municipal by-laws.

However, Section 1/Aa of the Act also sets various important limitations concerning settlement taxes. One of them is the rule that settlement tax cannot be levied on a taxable object already falling under the scope of a public burden regulated by law. Another is that the state, municipalities, organizations, entrepreneurs, and enterprises cannot be subjects of settlement taxes. These restrictions significantly limit the attractivity of settlement taxes in practice.

The limitation on the object of taxation leaves local authorities with minimal leeway in establishing new forms of taxes, since almost all possible sources of taxation are already subject to some payment obligation (Borsa et al., 2022, p. 26). Moreover, no legislative guidance exists as to what exactly falls within the scope of public burdens (Kecső, 2016b, p. 21), causing uncertainty when considering the introduction of a new settlement tax. In addition, according to the opinion of the Curia (the Supreme Court of Hungary), settlement taxes cannot be used to circumvent local taxes in the narrower sense and eliminate the limitations specified by the Act in relation to them (Decision of the Curia's Municipal Council 2017). The exclusion of entrepreneurs and enterprises from the circle of possible tax subjects is also a significant limiting factor, as it rules out the taxation of the most 'profitable' group of taxpayers.

The Act also binds local authorities as to the purposes for which the revenue from settlement taxes can be used. According to the fifth paragraph of Section 1/A, these include development purposes and the financing of social services falling within the competence of local authorities. While the term 'development purposes' may well be interpreted broadly, the restriction prevents local authorities from financing their operational costs and public services (excluding social ones) from settlement taxes (see Borsa et al., 2022, p. 30). According to Bordás (2015, p. 7), unrestricted use of revenues from settlement taxes could increase the motivation of municipalities to pursue financial independence much more.

Settlement taxes were introduced to the Hungarian tax system to tackle the uneven structure of local tax revenues and the general lack of own local government resources by providing additional revenue-generating possibilities. After eight years of existence, it is clear that settlement taxes have failed to provide local authorities with an impactful volume of additional resources (Bordás, 2021). Since their enactment, the share of Hungarian municipalities that have decided to introduce at least one settlement tax has hovered around 3% (State Audit Office, 2021, p. 13). Their share among local tax revenues in 2019 accounted for 0.07%, while 99.93% came from local taxes in the narrower sense (Hungarian Central Statistical Office, 2022). Moreover, since a peak in 2017, there has been a significant decline in the total sum of revenues from settlement taxes, signalling that local governments may have decided to look for alternative ways of securing additional resources (Borsa et al., 2022, p. 29).

The reasons for this failure may be found in the restrictions mentioned above on objects, subjects, and revenue usage, but also in the imprecise legislative framework. Authors point out that the list of provisions applicable to settlement taxes is too narrow, causing uncertainty and leaving out various vital rules, such as the prohibition on increasing the tax burden during a given taxable period (Kecső, 2016b, p. 23) or the definition of a public burden (Bordás, 2021; Kecső, 2016b, p. 23). While the unorthodox idea of introducing local taxes on an open-list basis strengthens local fiscal autonomy, and certain municipalities may indeed profit from this possibility, an unclear legislative framework may cause harm in the form of confusion and instability, which can ultimately outweigh the benefits.[5] Enough time has passed to come to the recognition that it is necessary either to review the regulation of settlement taxes or to reconsider whether their existence is truly worthwhile.

4. Measures affecting the tax autonomy of Hungarian municipalities during the COVID-19 pandemic

The coronavirus pandemic and the measures aimed at mitigating its consequences disrupted the evolution of local tax autonomy by bringing rapid and severe changes into the system. Numerous measures implemented by the central govern-

5 The concept of open-list taxation is exceptional among the countries in the region (Borsa et al., 2022, p. 31). For a comparison between the countries of the Visegrád Group, see Hulkó (2021).

ment to gather additional funds for combatting the pandemic or easing the financial pressure on certain subjects negatively affected local governments' financial autonomy and overall economic condition.

One such measure affected the primary income source from shared taxes, the motor vehicle tax. Before the pandemic, 40% of the revenue from this tax was redistributed to municipalities, who were responsible for its collection. These resources were valuable to municipalities, as there were no restrictions on how it was spent (Siket, 2021, p. 209). The Governmental Decree No. 92/2020 assigned the revenue from motor vehicle tax to a special fund for combatting the epidemic. With this step, local authorities lost all notable revenue from shared taxes. The legality of this measure was unsuccessfully questioned before the Hungarian Constitutional Court (Decision of the Constitutional Court, 2020; Rámhápné Radics, 2023, pp. 91–92). Despite the conclusion of the epidemiological emergency, the provision that allocated a share of motor vehicle tax revenues to municipalities was not reinstated in the Central Budget Act for 2023, suggesting that the measure may be becoming permanent.

Considering the difficult situation in the tourist industry, the government also suspended the tourist tax by Decree No. 140/2020. This measure directly interfered with local governments' tax autonomy, given that the tourist tax is a local tax in the narrower sense listed by the Act on Local Taxes. Nor were other local taxes bypassed. Governmental Decree No. 535/2020 prohibited local authorities from raising the tax rates of all local and settlement taxes during the tax years of 2021 and 2022 above the rate that was applicable on 2 December 2020. All exemptions and allowances effective on this day had to be guaranteed during this period, while there was a legislative ban on introducing any new types of local or settlement taxes.

A distinct measure targeted the linchpin of Hungarian local tax autonomy. With Decree No. 639/2020, the central government set the maximum tax rate of local business tax for small and medium-sized businesses at 1%. This step significantly limited the local tax nature of the local business tax and was particularly painful for local authorities given its budgetary impact. The measure was effective until the end of 2022 (Krokovay & Eurofound, 2021).

While the local business tax reduction and cap concerned smaller businesses, another proposal brought worries to municipalities playing host to sizeable enterprises. Governmental Decree No. 135/2020 authorized the central government to declare by decree so-called 'special economic zones' around objects of strategic economic importance. Where such a zone was declared, the competencies of the local government, along with the property necessary for their fulfilment, were transferred to the regional government, including the authority to levy local taxes. The revenue from these taxes was also diverted from the municipality to the region, leaving the former with fewer resources, although the general tasks and responsibilities of local authorities were left untouched.

The governmental decree on special economic zones has since been replaced by a statute (the Act on the Special Economic Zone, 2020), and the rules connected to taxation were integrated into the Act on Local Taxes. With this, the temporary measures initially labelled as necessary for stabilizing the national economy in times of emergency gained a permanent nature. The measure was understandably criticized for several reasons: for rendering municipalities defenceless against the discretionary decisions of the central government (Nagy, 2023, p. 166); for breaching the principle of subsidiarity; for being unsystematic by endowing selected regional authorities (which otherwise have very narrow self-governing competencies and no tax-levying authority) with broad competencies (Siket, 2021, p. 222); and for being economically harmful by dissuading local authorities from attracting large-scale investment (Hulkó & Pardavi, 2022, p. 45).

It is thus clear that the fiscal autonomy of local authorities suffered heavily as a consequence of various emergency measures implemented during the COVID-19 pandemic. As Lentner and Hegedűs have noted (2022, p. 58), the revenue capacities of local governments were severely curtailed during the temporary economic downturn, which adversely affected their freedom of management and the quality of the tasks performed. At the same time, the central government argued that the municipalities had to play their part in combatting the pandemic (Lentner & Hegedűs, 2022, p. 58; Siket, 2021, p. 211).

5. The impact of COVID-19 pandemic measures on local tax revenues in Hungary

To illustrate the financial impact of the above measures more concretely, I have analysed the economic data of 25 randomly chosen Hungarian municipalities of different sizes and characters by comparing their tax revenues from the last entirely pre-pandemic year of 2019 with the respective figures from 2020 and 2021.[6] All municipalities studied were collecting local business tax and had introduced at least one type of property tax by 2019, which made it possible to study how local business tax revenues and property tax revenues responded to the mentioned measures and the degree of correlation between these types of revenues and total tax revenues. The results of the analysis are summarized in Table 1.

6 To mitigate the distortion arising from various differences between municipalities, I have analysed the final accounts of several categories of municipalities for the budgetary years 2019, 2020, and 2021: five districts of Budapest (Districts II, IX, XI, XVI, and XXI); five municipalities with more than 100,000 inhabitants (Debrecen, Kecskemét, Miskolc, Pécs, and Szeged); five municipalities with fewer than 45,000 but more than 25,000 inhabitants (Esztergom, Gyula, Nagykanizsa, Pápa, and Vác); five municipalities with 6,000 to 11,000 inhabitants (Vásárosnamény, Celldömölk, Kunhegyes, Kunszentmárton, and Mindszent); and five municipalities with a population below 3,000 (Nyírbogát, Kevermes, Nagycsécs, Bakonyszombathely, and Kéty).

Table 1: Average volume of total tax revenues, local business tax revenues, and total property tax revenues of selected Hungarian municipalities in 2020 and 2021 (in %) compared to the respective volume in 2019 (2019 = 100%)

Types of revenue / *Types of municipality*	Total tax revenues (2020)	Total tax revenues (2021)	Local business tax revenues (2020)	Local business tax revenues (2021)	Total property tax revenues (2020)	Total property tax revenues (2021)
Districts of Budapest	85.65%	94.31%	86.46%	95.98%	97.84%	105.87%
Major cities (pop. >100,000)	89.10%	91.15%	90.95%	92.55%	99.03%	101.14%
Mid-size cities (pop. 25–45,000)	84.25%	86.98%	84.21%	85.29%	113.79%	119.08%
Small towns (pop. 6–11,000)	77.51%	84.06%	79.82%	87.01%	103.50%	105.50%
Small municipalities (pop. <3,000)	85.61%	93.96%	93.10%	104.08%	104.82%	105.91%
Average of all municipalities studied	84.42%	90.09%	86.91%	92.98%	103.80%	107.50%

Source: Own calculations (based on the data published in the final accounts of the selected municipalities)

Several conclusions can be drawn from Table 1's data. Firstly, the results do not show major differences between the various categories of municipalities.[7] Hence, it is possible to recognize certain common trends. The aggregated data from the final accounts of all the municipalities studied reveals a significant decline in total tax revenues. On average, there was a drop of over 15% in 2020 compared to the 2019 level, and this reduction persisted in 2021, with a 10% decrease still evident. The decrease was largely attributable to noticeably lower local business tax revenue during both years.

Interestingly, revenues from property taxes managed to increase over this period, showing that they were much less sensitive to the crisis situation than local busi-

7 The primary objective of the analysis was to obtain reliable aggregate data for all Hungarian municipalities. I engaged 25 municipalities in the research, which I believe provides a reasonably accurate depiction of the overall situation. I acknowledge that a limited sample of municipalities was involved in the research for the separate categories and that the inclusion of other municipalities (especially in categories encompassing smaller municipalities) could have led to different results for certain categories. Nevertheless, the consistent alignment of data across all categories with the overall results seems to support the representativeness of the data from each category.

ness tax revenue.[8] Nevertheless, the fact that total tax revenues declined slightly more than local business tax revenues indicates that other measures, such as the complete loss of revenue from motor vehicle tax, aggravated the situation further. Despite their increase, the relatively low volume of property tax revenues compared to local business tax revenue could not effectively mitigate the overall drop in total tax revenues. On average, municipalities have seen the disappearance of almost one-sixth of their total tax revenues in 2020 and one-tenth in 2021, showing structural problems in the Hungarian local tax autonomy system.

The purpose of the study was to investigate the annual tax revenues, not the total revenues of Hungarian municipalities. The volume of total revenues may show a different picture, mainly depending on the amount of transfers received from central government. Most municipalities did receive compensation for the revenue lost as a consequence of reducing the maximal tax rate of local business tax. Thanks to Governmental Decree No. 61/2022, municipalities with a population of 25,000 or less received full compensation for the lost local business tax revenue (Section 3, paragraph 1), while according to paragraph 2, those with a larger population received full, partial, or no compensation at all depending on their 'taxing power capacity' with respect to local business tax (see Section 2 of this article). If a municipality had an above-average taxing power capacity, no compensation was due. Therefore, the costs of the local business tax cap were ultimately borne by economically more affluent municipalities. However, the loss of revenue caused by other measures was not handled by this scheme.

While most measures directly limiting the tax autonomy of local authorities have been lifted by now, some others were left in place even after the repeal of the state of emergency. The economic condition of municipalities was thus not only weakened temporarily but to a certain extent also in the long term. Balázs and Hoffman (2020, pp. 13–15) note that the strengthening of centralization and improvised decision-making are natural responses to crises. These occurrences were not unique to Hungary during the coronavirus outbreak (see Ferraresi & Gucciardi, 2022, pp. 3–4). But when some of their results are here to stay even after the end of the crisis, they must be subjected to stricter scrutiny (Balázs & Hoffman, 2020, pp. 13–15). While the investigation of whether the above measures were justified and proportional is out of the scope of this paper, the pandemic showed how fragile and vulnerable local governments' tax autonomy is in times of crisis.

8 Property taxes include land tax, buildings tax, and local (communal) tax for private individuals.

Conclusion

The sections above have shown that local tax autonomy in Hungary is highly reliant on one pillar, the local business tax. The attempt to reduce municipalities' overdependence on local business tax by introducing settlement taxes on an open-list basis was unsuccessful. The present situation carries inherent risks, caused by the high responsiveness of local business tax to economic changes. This was illustrated by the effects of the pandemic on municipal budgets, when most of them, especially the smaller ones, saw a dramatic drop in their tax revenues. It can thus be concluded that the above hypothesis has been confirmed, as the current system of local tax autonomy is struggling to provide financial stability for Hungarian municipalities in turbulent times, leaving them especially vulnerable to economic downturns.

With the pandemic barely subdued, the ongoing economic downturn continues to threaten already-exhausted Hungarian local governments. Adjustments aimed at stabilizing the current system are increasingly necessary. However, as Kecső (2016a, p. 446) argues, the solution is not the replacement of the local business tax, which has plenty of relative advantages compared to other types of local tax. Instead, he suggests elevating another type of local tax to a dominant position besides local business tax. I share this view: an ideal equilibrium could be achieved if, besides the very profitable but volatile local business tax, local governments could rely on another, more stable element of local tax autonomy. One solution would be to put more emphasis on property taxes, which are already part of local tax systems, albeit, compared to other countries of the region, playing a much less relevant role in terms of revenue.[9] Increasing revenues from property taxes during the pandemic showed that they might be capable of fulfilling such a complementary function. Another option could be introducing an entirely new type of local tax. A surcharge on personal income tax could also provide local governments with a significant amount of stable revenue.

Given that all components of the tax system are interconnected, thorough reforms would undoubtedly require reconsideration of the whole domestic tax structure, which demands careful preparation and precise execution. The real question is whether, in these challenging times, the central government is willing to prioritize the issue of local tax autonomy enough to provide sufficient financial and human resources to carry out these reforms.

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9 For a more detailed view on local property taxes in Hungary, see Fehér & Hulkó (2021).

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