Hungary: New taxes on utility and energy sector – no exemption for transmission operators

As part of its efforts to keep its state budget deficit under 3% in 2013 and thus lead the European Union terminate its Excessive Deficit Procedure against Hungary, the Hungarian government has imposed a tax on the utility network lines. It has also raised the rate of corporate tax on energy service providers.

On the basis of Act No. 168 of 2012 on the utility line tax, as of 1 January 2013, owners of water, sewage, gas, district heating, electricity and telecommunications lines, as well as operators of state or municipality-owned utilities companies, are subject to the tax.

The basis of the tax is the length of the public utility lines, with the annual levy amounting to HUF 125 (app. EUR 0.44) per meter. Telecommunication companies with a network shorter than 300,000 meters may enjoy a gradual discount on the tax that qualifies as a de minimis state aid, as it is referred to by the relevant law establishing the tax. The government expects HUF 30 billion (app. EUR 105 million) revenues from the new tax. However, the exact amount cannot be estimated since the precise length of utility networks is as yet unknown.

Originally, the transmission system operator of state-owned Hungarian Electricity Works (MVM) and FGSZ Foldgazszallito, the transmission operator of oil and gas company MOL, were exempted from the tax. However, three days after the utility line tax act was enacted, a bill to eliminate the above exemptions was submitted to the parliament, which approved the bill on November 27.

As a further measure, the government decided to raise the corporate tax on energy service providers to 31% from its current level of 8%. The amount of profit-tax may be reduced by up to 50% by deducting the costs of investments. The act implementing the above raise has also been approved and enacted by the parliament.

Although Hungary is said to have sufficient reserve generation capacities at the moment, most of the major energy plant investments have been put on hold due to the increasing amount of relatively cheap imported energy and the uncertain investment environment in the country.