



DOI: 10.18427/iri-2018-0055

The Effects of Introducing the Electronic Public Road Trade Control System

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Due to the introduction of IFRS, so the integration of international accounting standards and the compliance with the EU directives, the regulation of Hungarian accountings undergoes continual changes and legislative amendment. Not least legislators strive for introducing new laws. Thanks to the amendments and the new laws' entry into force-parallel with the changes in accountings-the national tax jurisdictions are currently being revised. Consequently and as a result of the significant increase in competitiveness, after the amendments of Tax Act-1 January 2015-the Electronic Public Road Trade Control System was introduced. The goal of the system is to reduce Value Added Tax fraud and whitening the economy. In the examined years the system had positive effects so it meant advantage to the governmental revenues as one of the determinative increment-causing increase in revenues-is the VAT. The system's disadvantage is the administrative work which causes excess costs and time and it is confirmed by-due to the investigation-the calls made in the TTCA system and the issued certificates. Transportation, as a service appears as a complex, compound operation in economic life. The EKAER provides great help for the National Tax and Customs Administration (NAV) in ex post verifications. With the help of the system, it is easy to state in a short period of time whether the taxpayer fulfils his tax liabilities or not. Moreover the EKAER provides opportunity for the tax authority to use further information or to compare existing data.

Introduction

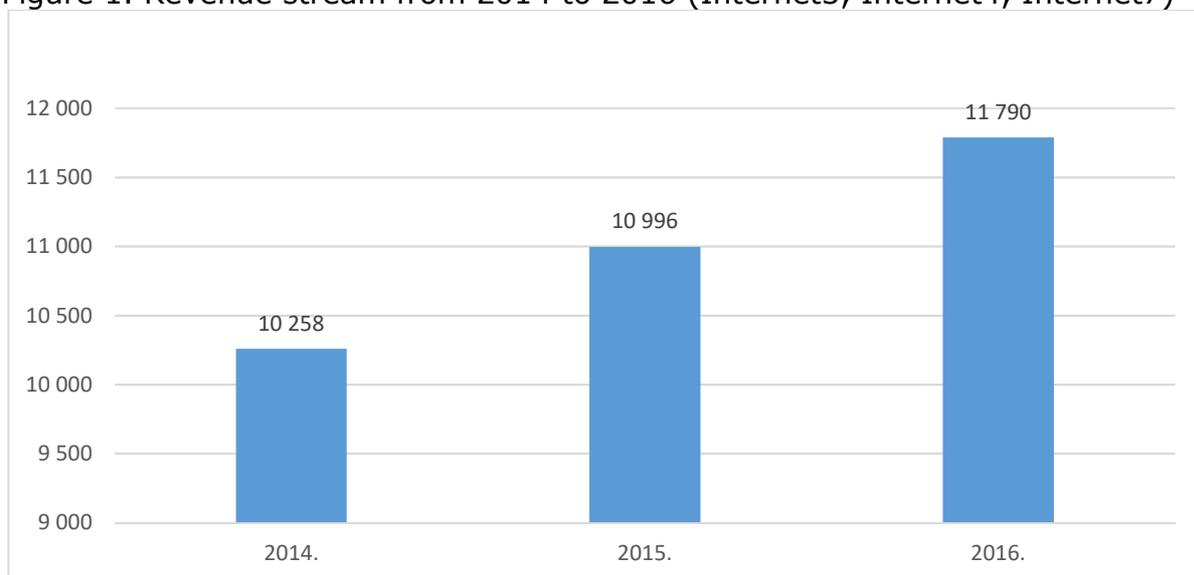
Due to the integration of international accounting standards created by the European Union, constant and significant changes are realised in the national accounting regulation. As a result of it, the national tax law also goes through significant modifications and as a part of it, the Electronic Public Road Trade Control System was introduced. The aim of the new laws is to correspond with the EU directives. Tax modification so introducing

EKAER were needed-apart from increasing competitiveness-to realise the economy's whitening and VAT fraud's elimination in the most significant way.

Revenue stream in the examined period

Ensuring the effective and productive taxes, benefits, allowances and customs suitable for the European Union's expectations is one of the main priority of the tax authority. Realising revenue existing for many years and presenting permanently increasing tendency have significant role in the life of the National Tax and Customs Administration. Due to it in 2015 tax and contribution revenues altogether amounted to 10996.3 billion HUF which exceeded the previous years' revenues. (Internet3, Internet4) In 2016 this number rose further and at the end of the year it reached the amount of 11790.3 billion HUF (Internet7).

Figure 1. Revenue stream from 2014 to 2016 (Internet3, Internet4, Internet7)



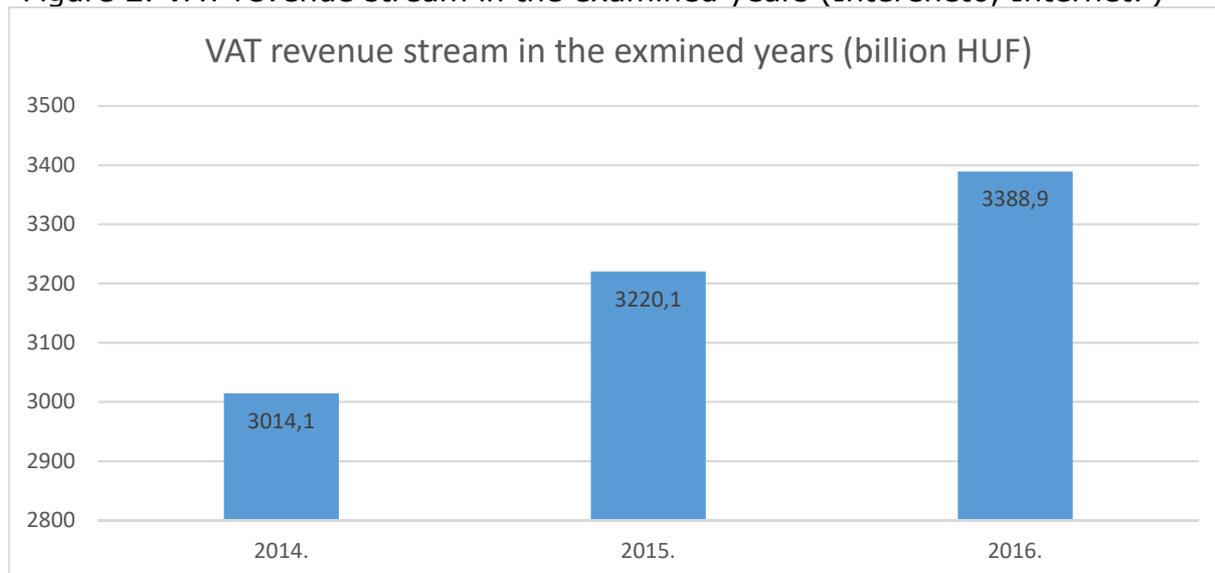
(Source: own structure)

Significant part of this increase derived from priority tax types, such as:

- social-security contribution
- value-added tax
- personal income tax
- excise tax
- corporate tax revenues.

As I examine the effects of introducing EKAER in my article, from priority tax types I only examine the value-added tax.

Figure 2. VAT revenue stream in the examined years (Internet6, Internet7)



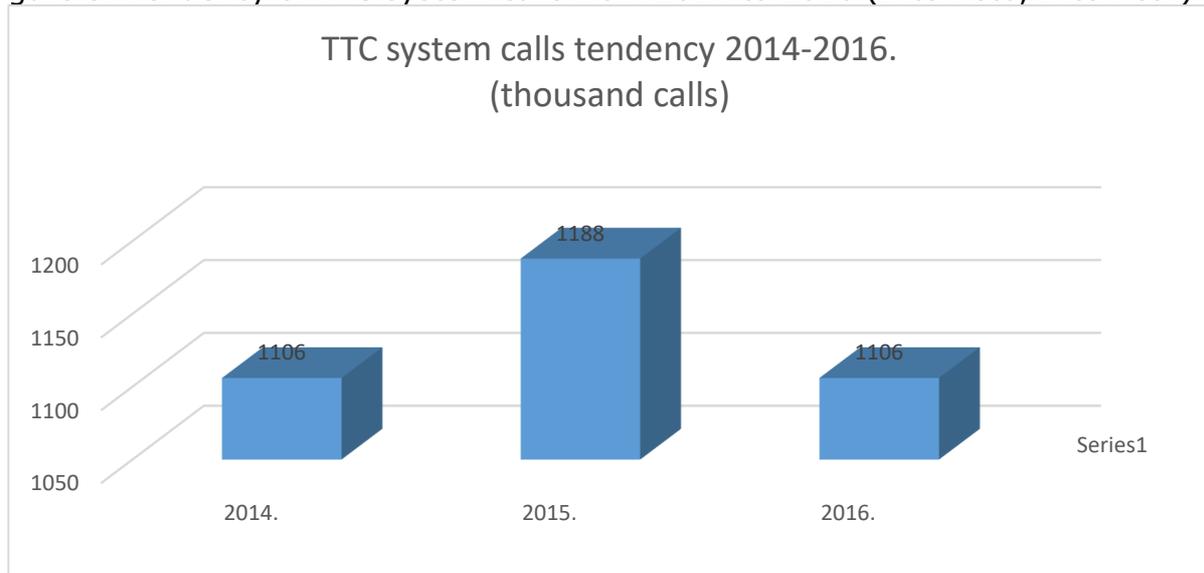
(Source: own structure)

In the examined years the VAT revenue exceeded expectations thanks to the introduction of activities causing whitening the economy, such as online cash registers and the EKAER. (Internet6)

Effects of EKAER on customer relations activities

The disadvantage of EKAER is that it gives more administrative work as it usually does. In 2014 taxpayers started 1106 thousand phone calls to the NAV while in 2015 this number increased with 7%. In the background of these calls there are questions in connection with introducing the EKAER. (Internet6) In 2016 this number declined to the number of calls realised in 2014 which contained 717 thousand successful calls. The cause of decline was-for example-the efficiency of EKAER's operation. We can mention here the so called call-and email hand which was introduced by the NAV at the end of 2016 to prevent the system's disability. Besides the 1106 thousand calls, 26595 email arrived to the National Tax and Customs Administration which were sent by the taxpayers orienting oneself and having information (Internet7).

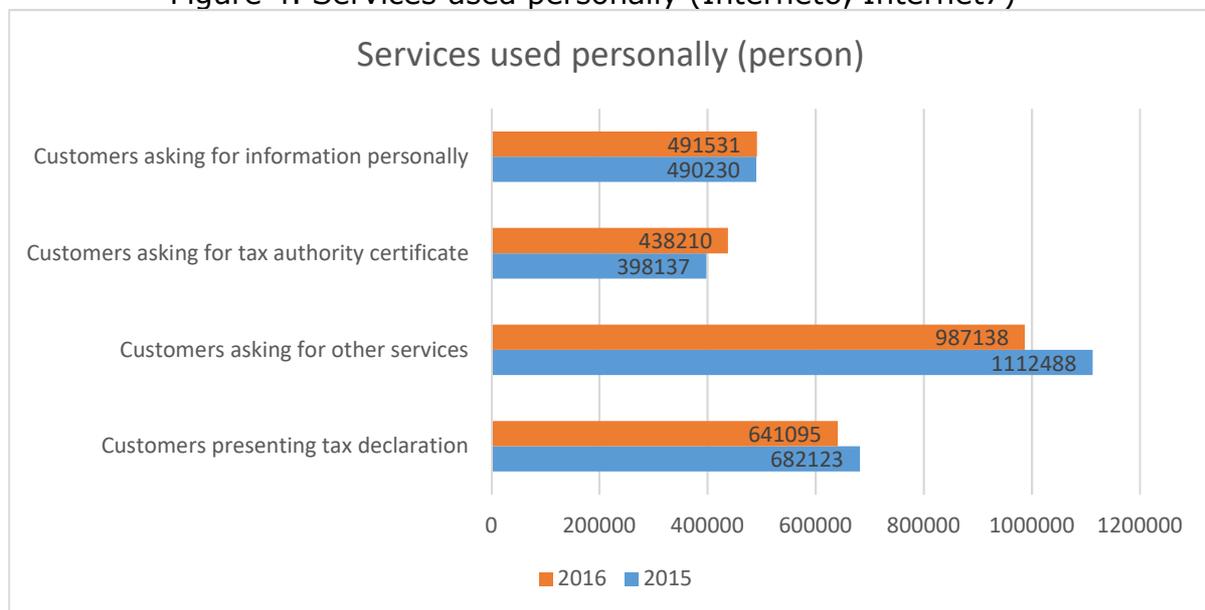
Figure 3. Tendency of TTC system calls from 2014 to 2016 (Internet6, Internet7)



(Source: own structure)

By the available data in 2015, 398137 people asked for tax certificate which also shows significant increase on the field of administrative work as in 2014 80000 less people used this type of service of the tax authority. (Internet6) In 2016 this number increased further and reached the 438210 pieces which shows that in the past two years the number of customers asking for certificate increased with 100000 people. (Internet7)

Figure 4. Services used personally (Internet6, Internet7)

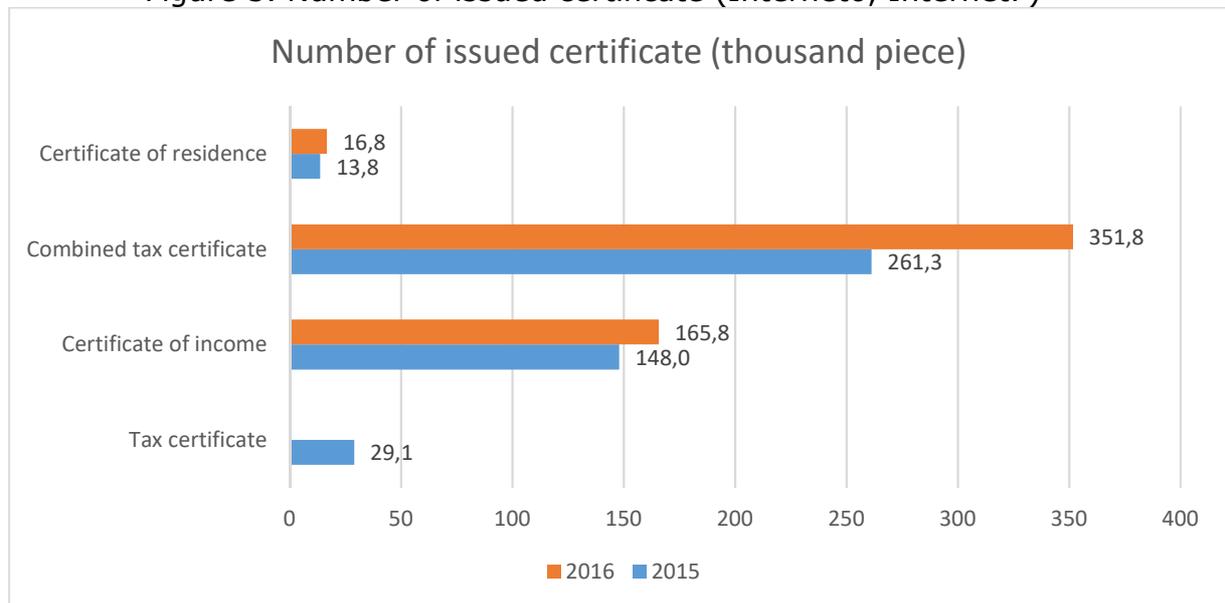


(Source: own structure)

Due to the contraction of tax and custom invoice, the IGAZOL form was converted-easing the excess work of the tax authority-and with the help of it the tax authority issued 261.3 thousand pieces of combined tax certificate in 2015. (Internet6) In 2016 further increment could be experienced so the

number of combined tax certificate issued reached 351.8 thousand pieces. (Internet7)

Figure 5. Number of issued certificate (Internet6, Internet7)

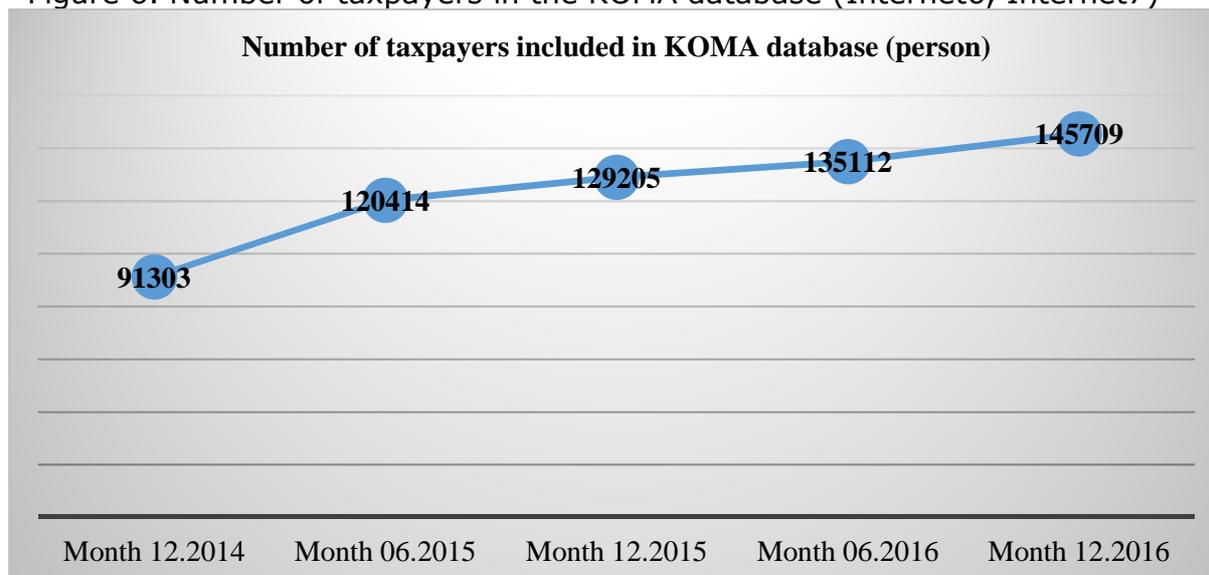


(Source: own structure)

Besides IGAZOL form in connection with the KOMA, so the public debt free taxpayer database form changes were realised. In the database at the end of 2015, 37902 more people were counted than in 2014 (Internet6) and this number increased further and in the first half of 2016 the number of taxpayers increased further with another 6000 people in the database. At last at the end of 2016 this number reached 145709 people that was 16000 more than in 2015. (Internet7)

Similar to the application of EKAER number in case of paying risk security, the value of the transported product must be known. It is necessary because the amount of risk security is the 15% of the turnover 45 days before notification that the taxpayer has to store tied as security. (Internet1) If the enterprise transacting transportation is included in the database of public debt free taxpayers (KOMA) or in the database of qualified taxpayers than taxpayers get security free status in EKAER. (Internet8)

Figure 6. Number of taxpayers in the KOMA database (Internet6, Internet7)



(Source: own structure)

The taxpayer is obliged to apply for EKAER number in that case if the movement of products which pose a risk does not happen with toll vehicle or the value of products without tax is more than 250 thousand HUF-transported to the same addressee-and its weight exceeds the 200 kilograms. In case of other products which pose a risk, the value of transported products without tax must be higher than 1 million HUF and its weight have to exceed 500 kilograms. (Internet8) In case of transportation, movement and delivery of products which pose a risk, the taxpayer must ensure risk security. (Internet1) The list of products which pose a risk is detailed by the Regulation of the Ministry of National Economy (NGM) with headings, such as:

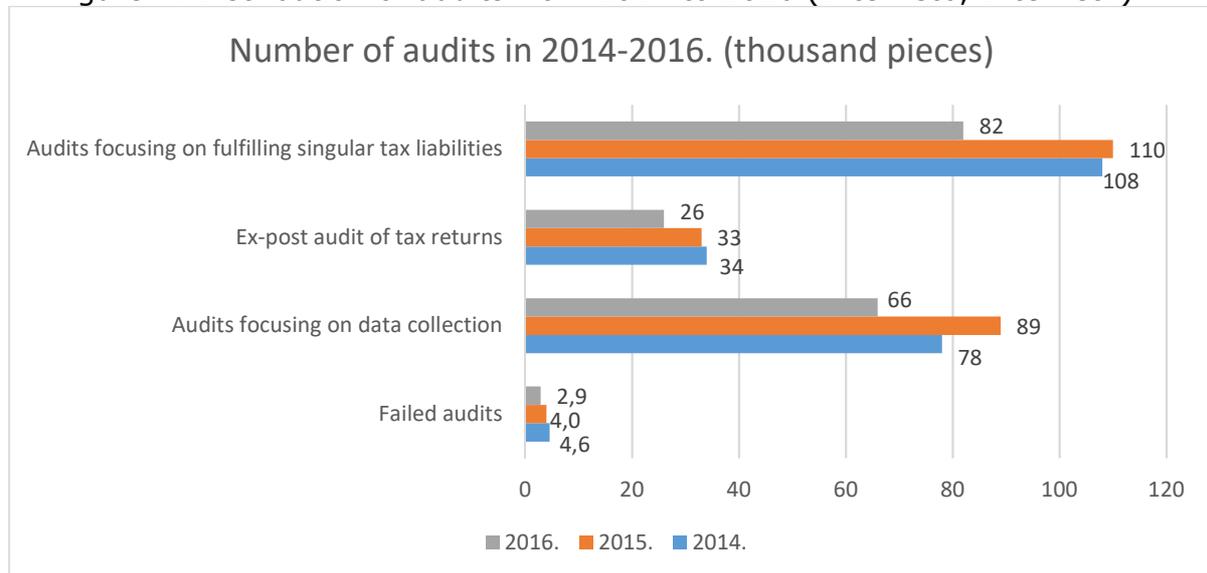
- 0201 fresh or chilled meat of cattle
- 0406 cheese or quark
- 0804 fresh or chilled date, fig, pineapple, avocado, quajava, mango and mangosteen
- 2309 animals feeding products
- 6209 baby clothes and their accessories (Internet5)

Experiences happened in the audit field

Transportation- the service- appears as a compound, complex operation in economic life. Therefore the tax authority examines not only the relationship of the buyer and seller in case of audit but it attaches the carriers' relation to both the buyer and the seller. (Internet2) The number of audit increased with 5.7% in 2015 compared to the data of 2014 which means –quantified-13 thousand more audit. Half of the total audit number was given by the audits directed towards fulfilling singular tax liabilities. In 2015 the authority made 27 thousands VAT audits which increased significantly compared to the previous year. (Internet6) In 2016 the tax

authority made 177153 pieces of audit totally from which 26 thousands were ex-post audits. Decrease was due to the fact that the workers of the NAV made direct audits so they focused on risky taxpayers and the taxpayers doing risky activities. (Internet7)

Figure 7. Distribution of audits from 2014 to 2016 (Internet6, Internet7)



(Source: own structure)

EKAER gives great help to the NAV in case of ex-post audits. Through the system in a very short period of time, it can be easily determined if the taxpayer fulfils his VAT tax liabilities or not, as it requires an even closer cooperation with the involved partners and it also secures real time traceability and controllability for the tax authority, with which legislators strive for repelling VAT fraud and fraudulent transactions. In case of chain transactions the control of notional transactions becomes traceable thanks to the EKAER. In case of notional transactions the connected economic events bring significant tax saving with which tax return becomes unauthorized. It is spread not just among domestic taxpayers but among foreign ones too. (Internet6) After introducing the EKAER system to December 2015, taxpayers submit EKAER notifications in almost 1 million cases and 60% of them happened in case of domestic with domestic cases. The tax authority made roadside controls 65 thousand times at this time from which 42.5 thousands taxpayers submitted their own notification on their own, in case of the other cases the tax authority fixed the EKAER number. (Internet6) In 2016 877 thousand EKAER recommendations were made which disclosed 34.8 billion HUF of tax difference by the tax authority after the ex-post audits. (Internet7)

Summary

In Hungary after January 1. 2015-after the modification of tax law- a new regulation system was introduced. The Electronic Public Road Trade Control System is a control system which was worked out by the legislators to reduce VAT fraud. The disadvantage of EKAER is that it gives more administrative work than before for entrepreneurs and traders which is confirmed by the TTC system and the number of issued combined tax certificate. The advantage of it is that it secures real time traceability and controllability for the tax authority. Thanks to it, significant increase in the control of some tax liabilities' fulfilment and low level of decrease in the ex-post audit of tax returns on the basis of the available data can be realised. The Electronic Public Road Trade control System gives opportunity for the tax authority to use further information and compare them with the available data. This procedure is really efficient in the audit process. The EKAER is an extremely compound and complex system which helps the selection, the first step of the control process. Due to the system's harmony, a now efficiently operating 'organisational unit' was formed which means some kind of approach for reducing VAT fraud.

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