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Multinationals predict shift to indirect taxes

Effective global management of VAT can produce significant opportunities

Hungary has been cited as one of the most difficult countries to do business in from a VAT perspective according to KPMG's global survey carried out in 22 countries around the world. The research indicates that in the next five years businesses expect governments to rely more on indirect taxation. According to KPMG in Hungary's Indirect Tax partner Philippe Norré, the majority of businesses view VAT as an obligation, but its effective global management can cause significant savings. To achieve success, awareness of VAT and improvements to technology will be mandatory.

Three-quarters of major global businesses believe that governments will rely more on indirect taxes (such as VAT or general sales taxes) in the future according to a worldwide survey of senior finance professionals at over 500 large corporations (15 of them Hungarian) in 22 countries, commissioned by KPMG International.

“This survey, one of the largest and most comprehensive we have ever commissioned on large multinationals' views on indirect tax, helps to confirm what we have been seeing on the ground in recent years, namely that indirect tax is becoming increasingly important for global businesses as corporate tax rates decline.” Philippe Norré, who is also Deputy Global Chair for KPMG's global indirect tax service line, said:

The research provides further evidence of the increasing importance of VAT and other indirect taxes globally. It also shows at the VAT level which global organisations are struggling to manage every day, with 82 per cent of those who responded indicating that their organization has an annual gross VAT throughput of more than USD 200 million .

The levels of VAT which global businesses are now handling are quite staggering and are clearly causing finance directors and tax professionals real concern. As the cost of getting VAT wrong is so material, it makes sense that errors in VAT compliance have now been identified as the biggest tax risk for these businesses - quite a shift in attitudes away from the traditional focus on corporate and income taxes.

Philippe Norré continued: “Our research indicates that while businesses are now becoming increasingly aware of the scale of their global VAT risks and obligations, there is still a gap

between awareness and actually investing in effectively managing the issues on a global basis. The results deliver a very strong message that if businesses want to adequately deal with the challenges which VAT is expected to present over the next five years, they will need to seriously engage and invest in areas such as employee VAT awareness training, VAT systems and technology, additional internal resources and relationship building with tax authorities and regulators.”

“There are also significant opportunities which more effective global management of VAT can produce for businesses. However, our research shows that there is currently a low level of awareness of those opportunities, especially amongst the finance directors in the sample group. Combined with the strain on internal resources within many organisations, this may be causing significant savings to be lost.

“In addition, our research shows that the majority of businesses view VAT as purely a compliance obligation. However there appears to be a growing number of businesses that see VAT in a more external, market focused way. There is a clear competitive advantage to be gained by those businesses that can achieve an optimal VAT position when making a range of business decisions from product pricing, outsourcing and new business locations. As shareholders continually challenge management to improve business performance, finance directors who now engage and invest in managing VAT risks and realising VAT opportunities can deliver real shareholder value,” Norré pointed out.

“In Hungary, VAT is even more often seen as a mere obligation, instead of a potential source of opportunities. Most of the businesses pay attention to VAT only when issues are already inevitable, such as during tax authority audits. A global, opportunity seeking approach is very rare, even among larger businesses,” Balázs Földes, Senior Manager at KPMG in Hungary’s VAT Advisory practice added.

League table of VAT-friendliness

When asked which jurisdictions the respondents had found it most easy or most difficult to do business in from a VAT perspective, the UK came out as the most “VAT-friendly” with a net 10 per cent of the sample saying it was easy. Italy was cited as the most difficult with the respondents remaining relatively neutral on other countries, according to the sample.

According to Balázs Földes, the evaluation of Hungary is, in reality, mixed.

“Many financial or VAT directors in the survey have scored Hungary more than acceptable. In our experience, the negative answers are often based on a perception that an Eastern European, compliance oriented view presides in the laws and at the authorities in Hungary, predictability is low, and an approach can sometimes be experienced during tax authority audits that focuses on finding mistakes at all costs, shows little flexibility, and can sometimes even be unfair or inequitable, or overreacts to issues. Due to these perceptions, VAT in Hungary is often seen as difficult for businesses.”

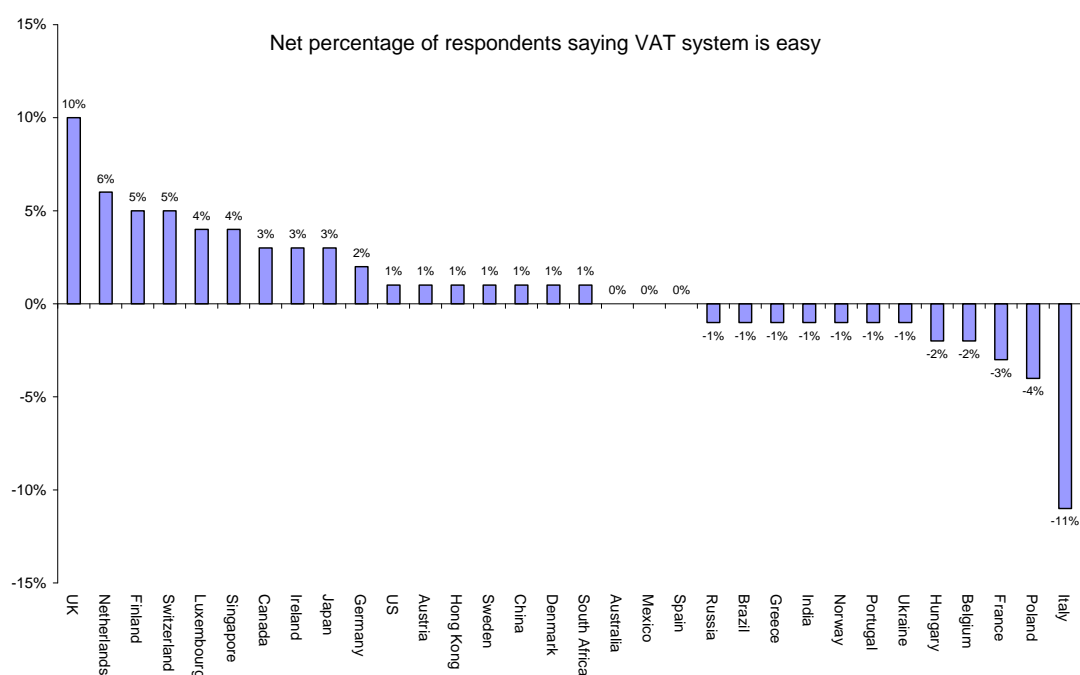
“It should also be considered that the survey was based on the businesses' experience prior to the introduction of the new Hungarian VAT law. The implementation of new rules always causes some difficulties initially, but on the long run, the simplified concepts of the new law may improve the scores achieved by Hungary. There is still room for improvement, however, in the law for simplifications and business-friendly solutions. Furthermore, the perception of Hungary in this field is determined not only by its laws, but also by the practice of taxation and tax procedure, as well as by the attitude of the authorities and their audits.”

Notes to Editors

The survey conclusions:

- 75 per cent of global businesses expect governments to rely more on indirect taxation in the next five years
- 50 per cent of global finance directors rated errors in VAT compliance as the top global tax risk for their organisation, significantly ahead of corporate tax risks (38 per cent)
- 82 per cent of global businesses prepared to give an estimate said their total annual VAT throughput was more than USD 200 million
- Hungary ranked 29th in the league table of VAT-friendliness in KPMG International survey
- Complex VAT legislation is the number one issue for global businesses in the next five years, concerning two-thirds of those interviewed, closely followed by compliance obligations (55 per cent concerned) and the threat of penalties (45 per cent concerned).
- Investment in training and technology were key priorities for effective VAT management: 66 per cent of global businesses believe that their organisations need to invest in training to raise employee awareness of VAT and 42 per cent believe that investment should be made in improved VAT systems and technology
- Low level of awareness of opportunities presented by VAT: only 11 per cent of finance directors identified VAT as a potential source of competitive advantage.

League table of VAT-friendliness



The KPMG's survey was carried out by Lighthouse Global on behalf of KPMG International. It consisted of 521 telephone interviews in 22 countries around the world carried out during March and April 2008. All respondents were senior finance professionals at large multinational companies; 40 percent were finance directors and the remainder were senior tax or VAT directors or managers.

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