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COVERAGE OF THE HUNGARIAN BUSINESS REGISTER

Invited paper submitted by the Hungarian Central Statistical Office*

* Prepared by Mr. Zsolt Völfinger, Business Register Section, Hungarian Central Statistical Office. Paper posted on Internet as received from the author.

Overview

This paper presents the administrative system of the Hungarian business registration and the coverage of the business register. The registration covers all units with tax number; the administrative sources have no particular interest in cessation of non-active dormant units.

The statistical business register covers all registered legal units; this indicates overcoverage in the registration. The register requires an attribute for activity, 25 per cent of the registered units are considered as non-active every year. Moreover business demography investigations prove that even the definition of activity overestimates the range of relevant units.

Introduction

In Hungary the basic condition of carrying out any business activity is a valid tax number. There is no threshold in the taxation system, neither in the corporate/personal income tax system nor in the VAT taxation. All units carrying out economic activity have to register themselves and have to own a tax number.

The registration of business units

The current business registration system in Hungary is based on the unique identifier tax number. Every legally independent business unit (legal unit) is identified with an own tax number.

Companies, partnerships, sole proprietors may carry out business activities only with a tax number. A small proportion of the registered non-profit bodies and some public bodies do not have tax number, they usually do not carry out tax related activities.

Since 1997 the business register of the Hungarian Central Statistical Office is linked with the administrative bodies of the business registration. The link of the integrated registration system is the unique tax number of the registered units.

Governmental bodies of the business registration outside of the Tax Office are:

- Registry Courts - legal registration of companies and partnerships.
- Ministry of Interior - 250 registration offices of the Local Governments for sole proprietors with license.
- Ministry of Finance - registration of central and local governmental units.

The business registration system is based on the unique tax identification number. The Hungarian Statistical Office uses the common part of the tax number as well. The Business Register has got updates from all of the above-mentioned four sources via electronic data transmission. The register data are updated from the on-line connection of the sole proprietors to the monthly updates of the governmental bodies. The Registry Courts send information every day; the Tax Office does it once a week.

The sources transmit various kinds of data to the statistical business register: identification, demographic and even economic stratification characteristics. The statistical business register is updated with statistical survey data of the Hungarian Statistical Office as well. Obviously a numerous part of the small units is not observed at all by the Statistical Office, there is no survey connection between them and the register. The quality and actuality of the data of small units depend on the quality and actuality of the administrative sources of the business register.

The integrated system of registration ensures a good coverage in the Business Register. The Statistical Business Register covers all legal units with tax number. There are no thresholds in the business register; the system includes all legal units with tax number from the various sources.

Registered units of the Business Register

The registration without any threshold indicates a large number of registered units. At 31st December 2004 the Business Register covered 1 million 286 thousand registered legal units, of which 73 thousand non-profit units, 15 thousand governmental units and 1 198 thousand enterprises.

Of which: companies: 226 thousand,
partnerships: 255 thousand,
sole proprietors: 717 thousand.

The number of units compared to the 10.15 million inhabitants of Hungary is really high. It exceeds the neighboring transition countries with similar economic situation as well. The number of registered enterprises per 1000 inhabitants is 118. Of which 47 are companies and partnerships and 71 are sole proprietorships.

Reasons for the high number of registered business units

- At the beginning of the 1990's, during a few years of the transition of the Hungarian economy there was a real "enterprise boom". By the end of 1994 the number of registered enterprises exceeded 1 million. The enterprise boom was fed by the sometimes overestimated attraction of the fresh possibility of the entrepreneurial freedom, and the fear of increasing unemployment. This boom is since 1995 gone. But the relatively simple and inexpensive way of tax number registration makes the number of registered units slightly higher year by year.
- In Hungary there is a high number of the registered sole proprietors. 67 per cent of them have an entrepreneur's license; the other 33 per cent is registered only by the tax registration. (So called free lance professionals). A large part of the sole proprietors with license, 42 per cent of them are only part-time proprietors or pensioners. This proportion is more than 80 per cent by the sole proprietors without license. It is usual that employees within normal employment operate a sole proprietorship in order to carry out casual secondary jobs.

- Also has to be taken into consideration that several ten thousands of the self-employed persons most probably applied for entrepreneur's licence under the pressure of their employer. These are so called pseudo-entrepreneurs.
- The registration of incorporated bodies, mainly partnerships is quite simple and inexpensive. It is usual as well to operate a partnership in order to carry out casual jobs. There are numerous pseudo-enterprises as well, which cover employment relations.
- The policy of governmental bodies of the registration supports the expansion of the number of registered business units. The bodies of registration do not really want to cease registered units from the scope of the public administration. For instance in 2002 and 2003 the Tax Authority and the Local Governments made a complete re-registration of sole proprietors with license. More than 400 thousand sole proprietors were re-registered; 51 thousand did not apply for a new license. Nevertheless the tax authority did not cease all non re-registered units, which are registered even nowadays.

The proportion of active units

It is obvious that the administrative bodies are interested in to reach all economic operators as potential tax payers. The Hungarian Business Register is based on these administrative sources; therefore numerous dormant units are included.

Sole proprietors or legal entities starting a business activity have to register a business unit. On the contrary the incentives of registration bodies to remove units from the administrative files are not very strong. Consequently units remain within the registers even though they are not active.

In this situation there is a need to create an attribute to every legal unit in the Business Register to decide a unit is active or not. The Hungarian Statistical Office considers units as active:

- which were established in the reference year or in the previous year,
- or were data supplier in the reference year or in the previous year,
- or had tax reports (corporate tax, VAT, etc.) with any turnover or investment or labour cost.

Enterprises which fulfil one of these conditions are marked as active, and the rest of the enterprises are marked as not active, dormant. Only the active units are included in the survey frame of the next year's business surveys.

Number of registered and active units in the BR (31 Dec 2004)

	Registered units	Active units
Companies	226 143	196 926
Partnerships	255 162	218 953
Sole Proprietors	717 323	456 077
<i>Of which: sole proprietors with license</i>	482 768	408 936
<i>Sole p. with tax number</i>	234 555	47 141
Enterprises total	1 198 628	871 956

At the end of 2004 only 73 percent of the enterprises within the Business Register were considered as active, 27 percent were dormant. The 872 thousand considered as active enterprises form the 2005 survey frame of the yearly HCSO business statistical surveys. The ratio of the active enterprises is quite stable in the last few years; it usually is around 75 per cent.

The ratio of active enterprises differs very much according to legal form. 86 per cent of the companies and partnerships are considered as active, the similar ratio of the sole proprietors is only 64 per cent. 31 December 2004 the range of the sole proprietors covered 483 thousand registered units with license with an activity ratio of 85% and 235 thousand sole proprietors with tax number with an activity ratio of only 20 per cent. This very low activity ratio indicates the slight statistical relevance of this kind of sole proprietorships.

Every year around 25 per cent of the registered units are out of scope of the HCSO business statistical surveys. The ratio of the companies and partnerships and the proprietors with license out of scope is 12-14 per cent. Only the economic non relevant units are kept out from the general statistics. For statistics on economic variables, e.g. the statistics on items from the accounts, the impact is negligible.

Estimations for the really active units of the survey frame

The above described definition of the activity has no thresholds; therefore even the group of active units of the register could include not really relevant units. The definition could overestimate the number of the statistically relevant units, which are in the scope of the business survey frame.

From 2003 the HSCO produces business demography data according to Eurostat methodology. Using the produced business demography data we found that a smaller part of active units have not completed any economic activity during the years when they have been part of the survey frame.

The business demography applies a more strict methodology than the definition of activity of the Hungarian survey frame. The business demography requires any turnover or employment from every active unit in the reference years.

Business demography data indicates that only 85 per cent of the active units of the business register have either turnover or employment in the reference years. From 2005 the enterprise statistics publications of the HCSO are based on the results of the business demography, the publications apply the activity definition of the business demography.

*Number of active units according to the BR and to business demography methodology
(last available data for 2003)**

	Active units in the BR	Active units according to business demography methodology
Companies	185 606	153 201
Partnerships	223 659	164 165
Sole Proprietors**	420 605	384 156
Enterprises total	829 870	701 522

*Active units of the business register 31 December 2003, business demography defines the activity for the whole year of 2003.

**Only sole proprietors with license, units only with tax number are out of scope of business demography investigations.

For the year 2003 85 per cent of the survey frame enterprises were confirmed as active using business demography data. This proportion was 78 per cent by the companies and partnerships; 91 per cent by the sole proprietors. This means that according statistical surveys and tax data for the year 2003 15 per cent of the active enterprises of the business register survey frame had not carried out economic activity. The ratio is similar for 2001 and 2002 as well.

There were run several tests to check the relevance of very small units in the active units of the business demography project. 8 per cent of the active units according to business demography did not reach the 1000 € turnover in 2003, 31 per cent of the active units had less than 5000 € in the reference year. Obviously it is difficult to decide a unit is relevant or not for statistical purposes, but units with as slight as 1000 € turnover probably cover secondary or part-time jobs or activities of pensioners.

Undercoverage of the business register

The integrated business registration system provides a full coverage for the business register, however some units are out of scope.

Some units are reactivated by the tax authority every year. At the moment of the cessation the registration system sends the event to the business register, but in some cases the reactivation is not reported to the register. The 2003 tax data included only 500 units from the close to 700 thousand, which were reactivated without sending a notice to the BR. These wrongly coded units were out of the scope of the registered units. The two datasets are harmonized every year. Improvements on data linkage with the tax office hopefully can get rid of similar errors in the future.

Coverage of other types of statistical units

For other types of statistical units administrative sources currently are not available in Hungary. The local units are updated with statistical surveys. The most influential enterprises are splitted into local kind of activity units. The HCSO business register covers the variables of 400 enterprise groups as well.

Summary

- The administrative system of the Hungarian business registration covers all units with tax number.
- The administrative bodies have no particular interest in cessation of non active dormant units.
- The business register of the HSCO covers all registered legal units and this indicates overcoverage in the registration.
- The business register requires an attribute for activity, 25 per cent of the registered units are considered as non-active. Moreover in Hungary even the definition of activity overestimates the range of relevant units.
- Business demography investigations show overcoverage as well.
- Even one part of the active units with turnover or employment seems to be non-relevant; these units cover part-time jobs and are “pseudo enterprise” relations.
- Different definitions of activity and different thresholds of the business registers can hurdle international comparisons.
