NOTE BY THE SECRETARIAT

As agreed at the meeting of the Working Party on 8-9 March, the Hungarian delegation has supplied the attached Joint Decree on the system of State refund and on tax allowances relating to export.
Joint Decree
No. 63/1970 (31.XII.) PM-KRM
of the Minister of Finance and the Minister of Foreign Trade
on the System of State Refund and on Tax Allowances Relating to Export

By virtue of powers conferred by the Government Decree No. 41/1970 (27.X.) Korm., on the system of State refund designed to equalize the differences in productivity as well as on tax allowances granted for the promotion of exporting capability, the following are decreed:

SECTION 1
Effect of the Decree

The effect of this Decree covers the State enterprise and trust, other State economic organization functioning according to the economic system of enterprise, the enterprise of the social organization, the co-operative, the co-operative enterprise, furthermore – unless otherwise provided by law – associations having the status of a corporate body formed by the above organizations among themselves, or with other socialist economic organizations, or by the latter organizations among themselves (hereinafter collectively: the enterprise).

SECTION 2
The System of State Refund

(1) Enterprises taking part in the transaction of foreign trade turnover can receive State refund.

(2) The terms and conditions of the State refund, the designation of enterprises entitled to State refund and the way of recourse to refund are contained in Annex No. 1 to this Decree. This Annex should be published in the Financial Gazette.

SECTION 3
Inter-Ministerial Committees of State Refund

(1) The following inter-ministerial committees have been authorized to perform the co-ordinated administration of practical matters relating to the operation of the system of State refund:

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1Published in "Pénzügyi Közlöny" No. 31/1970
1. Inter-Ministerial Committee of State Refund ("P M Committee"). It is functioning under the direction of the Minister of Finance and its task is to elaborate the operative rules of the system of refund, to co-ordinate the inter-ministerial standpoints of the branches of economy, to approve the terms and conditions of refund, among them, the indices applicable to the amount of refund, in particular the average level for the branch concerned that can be taken as a basis.

2. The Enterprise Committee of State Refund ("KKM Committee") is directed by the Minister of Foreign Trade. Its task - within the limits and under the conditions defined by the "P M Committee" - is to fix the actual rate and the conditions of the State refund to which individual enterprises are entitled, to present suggestions, to make summary reports.

(2) The more detailed regulation of the co-operation between the inter-ministerial committees - including the more detailed definition of the powers, the scope of activity of sub-committees by trade set up within the framework of the "KKM Committee", the division of tasks concerning the preparation of materials for negotiations, the course and working order of negotiations with enterprises, the method of communicating decisions - should be laid down in the rules of procedure of the Committees.

(3) The permanent members of each committee shall be: the representatives of the National Planning Office, the Ministry of Finance, the Ministry of Foreign Trade, the Ministry of Home Trade, the National Office of Materials and Prices, the National Bank of Hungary; in matters which concern the various branches of economy, the competent ministers, the representatives of the National Office for Technical Development (OMFB), the National Association of General Consumers' Co-operatives (SZÖVOSZ) and the National Association of Industrial Co-operatives (OKISZ).

SECTION 4

Fixing and Modification of State Refund

(1) The rates and conditions of State refund fixed for enterprises constitute, in general, a lasting regulation valid for 1971-75.

(2) The modification of the fixed rate and conditions of State refund is necessary, respectively can be effected, in the following cases:

(a) Enterprises are obliged to request the modification of conditions, if the initial data furnished by them, according to which the conditions were approved, had been inaccurate (erroneous) or if they failed to provide essential data.
(b) Both the producing and the foreign trade enterprises are obliged to request the modification of the fixed rate of State refund, if their relationship on a commission or joint interest basis existing on 31 December 1970 concerning the goods (group of goods) or part thereof which were accounted for by fixing the rate of refund, is changed later to the form of settlement on own account or if there has been a modification in their scope of activity.

(c) Enterprises exporting bulk products which are especially subject to the price fluctuations in the world market can apply for the modification of the rate of refund also in the meantime, provided the special circumstances determined in advance at the time of authorizing the refund ensue, and taking into account the provisions of paragraph (4) below.

(d) In the cases described under sub-paragraphs (a) to (c), the authority fixing the State refund can order the revision of the conditions approved. The approved (determined) rates or other conditions can be modified also when substantial changes take place in the production or marketing situation or in the legal rules related to the economic regulators.

(3) In modifying the State refund - whether initiated by an enterprise or by the authorities - the following general conditions must be complied with:

(a) Modifications - except for the cases described in paragraph (2), sub-paragraphs (a) and (b) - cannot be made with a retroactive effect.

(b) Apart from justified exceptions, a six months later date should be set for the putting into force of the modification, so that

- if possible, this date should fall on the beginning of the following year, or in mid-year on the beginning of a quarter year;

- this six months waiting period should be reckoned:

- in case of requests by enterprises, from the date of submission of the request;

- in case of initiation by authorities, from the date when the inter-ministerial committees of State refund notified the enterprise about the ordering of revision, or when they invited the enterprise to supply the necessary data.

(4) The justifiability and extent of modification shall be judged and the modified conditions shall be determined in each case having regard to the reserve fund for import and export price differences or other material resources established to cover changes which can be considered from the point of view of the modification, which are at the disposal of the enterprise.
SECTION 5

Accounting and Recording by Enterprises

(1) For accounting the State refund, the stipulations for the scheme of accounts of branches are authoritative.

(2) Enterprises obtaining State refund are bound to render accounts and keep records in such a way that the data relating to the amount of refund obtained, the basis of its calculation, the fulfilment of conditions of the utilization of refund, etc. are continuously recorded and can be checked at any time.

SECTION 6

Tax Allowance Relating to Export

(1) The guiding rules for authorizing tax allowance, its scope of application, extent, and special conditions, if any, are determined by the body competent for the approval of the State refund (see Section 3) by the appropriate application of the relevant rules of procedure.

(2) The detailed conditions of granting tax allowance and the method of calculation are defined in Annex No. 2. This Annex should be published in the Financial Gazette.

(3) Enterprises to which the right of use of tax allowance is granted in the course of the procedure under paragraph (1) should be notified of this decision in accordance with the practice adopted in the case of State refund.

(4) The amount of tax allowance is calculated by the enterprise itself when making the annual balance sheet and it may be deducted by the enterprise from the amount of profit tax due according to the stipulations of income (profit tax) regulation valid for the enterprise. The general regulations should be applied for the further use of the amount retained for the development or divisible funds of the enterprise.

(5) The obligation for accounting, supply of data and rendering of account of the enterprise obtaining tax allowance is established by a separate decree.

(6) Enterprises cannot obtain more than one kind of incentive simultaneously in the system of State refund and tax allowance related to export. Accordingly neither the excess allocation given to enterprises which produce foreign exchange under more favourable conditions than the average State refund for the branch, nor the tax allowance connected with economical export can be authorized, so long as the enterprise concerned makes use of the tax allowance according to the Joint
Instruction No. 1/1969 (Kk.É.9.) KKM-PM of the Minister of Foreign Trade and the Minister of Finance. In such a case it is up to the enterprise to propose whether it wishes to maintain the former form of incentive - as long as it is in force - or, instead, it wishes to receive the tax allowance regulated by the present Decree.

**Transitional Provisions**

**and Provisions of Putting into Force**

**SECTION 7**

Pending questions concerning transitional measures taken and issued in the form of a circular with regard to State refund for export deals concluded in 1970 but executed after 1 January 1971, shall be decided by the Inter-Ministerial "PM Committee" of State Refund.

**SECTION 8**

(1) The present Decree shall come into force on the day of its promulgation; its provisions, however, shall be applied only in respect of the export turnover executed after 1 January 1971.

(2) The Joint Instruction No. 114/1967 (PK.12.) PM of the Minister of Finance and the Minister of Foreign Trade on the system of State refund shall cease to have effect from 1 January 1971. However, this legal rule shall continue to be applied to the accounting and financial settlement of State refund in respect of export deals executed until 31 December 1970. After 1 January 1971, no new agreement can be concluded on the basis of the Joint Instruction No. 1/1961 (Kk.É.9.) KKM-PM of the Minister of Foreign Trade and the Minister of Finance on refund of taxes for export; but the authorizations in force at present shall remain valid until the date of expiry, unless the enterprise renounced its right to the refund of tax in accordance with Section 6, paragraph (6).
ANNEX 1

to the Joint Decree No. 63/1970 (31.XII.) PM-KKM

THE SYSTEM OF STATE REFUND

1. The role of State refund in the system of economic regulators

1. The State refund is one of the elements of the management of foreign trade by means of economic instruments. Its purpose, through the application of directives and conditions laid down in the Decree, is to make such export activities possible which are durably disadvantageous for the enterprise concerned from the viewpoint of its interest in profit - calculating with the external price converted by the official, uniform price multiplier, which activities, however, are indispensable at a given period due to national economic interests.

1.2 By supporting the necessary exports and encouraging economic exports on the one hand, and by curbing uneconomical ones on the other hand, the system of State refund should

- encourage - within the limits of the given plan targets - to improve the efficiency of export and to decrease the specific level of subsidy, both at the level of exporting enterprises and of the individual branches, as well as among the different branches;

- promote a gradually more favourable development of the structure (commodity pattern) and market directions of foreign trade turnover, as well as the establishment of a lasting equilibrium of the internal market.

1.3 Within the frame of enterprise management - irrespectively of the method of accounting and recording - the State refund should be considered as being of the nature of price receipts and thus the State refund functions through the profit motive. Beside making possible even disadvantageous export up to a determined degree, it encourages to improve the pattern of enterprise production and export, to decrease expenditure, to improve the foreign exchange prices, etc. (e.g. through the improvement of quality, assortment and up-to-dateness, shorter delivery terms, etc.).

1.4 In order to achieve the objectives set out in paragraphs 1.1 and 1.2 above, the conditions of allocations to be applied within the frame of the system of foreign trade regulators which support and encourage export, shall be such

- that they make it possible more than before to take into consideration the differences in productivity in the different branches, in enterprises belonging to the same branch, and with due regard to this;
possibilities for a more rapid development should be secured for branches and enterprises exporting economically, whilst the development possibilities of branches and enterprises producing foreign exchange under disadvantageous conditions should be restricted;

- the system of refund should constitute a lasting regulation for the management of the enterprises concerned, in securing safe management on the one hand, and avoiding incidental and subsequent claims for support on the other.

2. The object and basis of State refund

2.1 Enterprises engaged in the transaction of foreign trade turnover can receive State refund, if

- their export activities show a continuous loss. To measure this loss, comparison must be made between: on the one hand the production costs augmented with the profit, either calculable in domestic prices or taking into account the real profit of the basic period which is the base of fixing the rate of refund and the costs of export, on the other hand the foreign exchange receipts converted by the uniform foreign trade price multiplier (elsewhere referred to as "index of foreign exchange production").

- the elimination of this loss - in spite of the profit interest which induces the enterprise to improve its result - can be expected or demanded only gradually or at a later date,

- but it is a national economy interest to maintain the export activities of the enterprise concerned.

2.2 Whether it is justified to allocate State refund to an enterprise because of the loss of its export activity as per paragraph 2.1 above shall be, as a rule, examined and determined separately in regard to exports of ruble or dollar settlement. The refund always refers to the turnover taken as a whole for countries of ruble settlement and of dollar settlement respectively (in the following: the two principal areas of settlement) and within the scope of this, the result of advantageous or disadvantageous export products is expressed as a global (average) result.

2.3 Contrary to the provisions of paragraph 2.2 above, in certain specific cases, when it is justified because of the circumstances of management of an enterprise, or if it is found desirable due to national economic interests, it can be stipulated that an enterprise is entitled to State refund only if

2.3.1 its total export activity (taken as a whole, without differentiation according to the two principal areas of settlement) shows a loss; or
2.3.2 Due to the loss of its export activity, the management of the enterprise as a whole (including the result of its internal turnover) shows a loss.

2.4 From 1971 on, in fixing the State refund, generally the index of foreign exchange production calculated at average branch level is taken as a basis. The indices of foreign exchange production of a branch are derived from the global data of enterprises belonging to the same branch. In this context the classification to branches of enterprises may differ from the statistical classification otherwise applied to these enterprises.

2.5 The requests of individual enterprises for State refund based on the price loss as per 2.1-2.3, shall be judged on the one hand related to the uniform price multiplier, on the other hand to the level of the average branch index of foreign exchange production.

2.6 Apart from the system of branches, the State refund can be fixed

2.6.1 also on the basis of data at enterprise level, if the enterprise, due to its special professional (technical) characteristics, cannot be ranked into any of the branches determined for the purpose of the application of the Decree;

2.6.2 The refund may, exceptionally, be fixed also in respect of products or groups of products in the following instances:

- if the products (groups of products) in question constitute a significant part of the export of an industrial enterprise and the production of this product (group of product) is not related to the production of the rest of the products of the enterprise, including even the possibility of redirection of labour;

- in the case of products of agricultural origin, if the export activity of the enterprise is made up of products (groups of products) which are not related to one another in production, purchase and sale.

3. Aspects taken into consideration in fixing the State refund at branch level valid from 1971

3.1 For the purpose of determining the rate of State refund according to branches, it is necessary to establish the average index of foreign exchange production (see paragraphs 2.1 and 2.4) based on the domestic prices which can be attained by producers (which are actually attained by them in the period serving as a basis for fixing the index).

3.2 The average indices of foreign exchange production for different branches established according to paragraph 3.1 above serve only as a starting point for determining the rate of State refund for branches, they can, however, be modified taking into account the following aspects:
- development concepts for the plan period,
- anticipated requirements of external markets and sales possibilities,
- result of the plan co-ordination among socialist countries, requirements of other markets, bearing in mind the correlation of imports and exports,
- domestic price and subsidy policy applied.

3.3 Enterprises should be classified to the following groups and the rate of State refund should be fixed for them in the following way, according to how they are related to the average branch index of foreign exchange production.

3.3.1 Enterprises whose index of foreign exchange production is situated between the uniform price multiplier and the average branch index of foreign exchange production can continue to receive State refund having the nature of price receipts. Such enterprises - regardless of their actual index of foreign exchange production - receive, as a rule, a uniform rate corresponding to the average branch level of refund.

3.3.2 Cases when enterprises require support above the uniform rate of refund of their branch have to be considered individually and they may receive State refund of an individual - single - rate.

In fixing the individual rates of State refund, distinction must be made among enterprises as to what extent their index of foreign exchange production, and their requirement for refund respectively, deviate from the uniform branch rate of refund applied.

In this context:

(a) in the case of enterprises exporting at a level approximating the level of refund of the branch, the State refund having the nature of price receipts should, as far as possible, be fixed at an annually decreasing rate, with a view to gradually establish a uniform level for the branch;

(b) in general, no State refund having the nature of price receipts can be paid to enterprises whose export is substantially inferior to the level of the branch; it is only possible to complement directly the divisible funds of such enterprises for a transitional period of one or two years, at the most, required for the change-over.

4. Designation of the subject (recipient) of the State refund

4.1 State refund shall be paid to enterprises which, from the point of view of accounting their results, are directly connected with the State budget.
4.2 The following enterprises can be designated as recipients of State refund — in whose favour the State refund is allocated and with whom financial settlement is effected:

4.2.1 Producing enterprises

It is to be regarded as the basic form that State refund should be allocated to the producing enterprise (enterprise manufacturing the export product). In line with the regulation of the relationship among enterprises participating in the transaction of foreign trade and of the system of the exchange of products, the following solutions, deviating from the above basic form, may be applied:

4.2.2 Trading enterprises

(a) Domestic trading enterprises

They can be recipients of State refund if they are entitled to export directly, or carry on foreign trade activities on commission basis. Among them can be ranked e.g. the primary export contractors, enterprises dealing in means of production and other wholesale enterprises, agricultural purchasing enterprises and trusts.

(b) Foreign trade enterprises

From among foreign trade enterprises which continue to work on own account (not as agents or commission agents), those enterprises can receive State refund — depending on the special decision of the Inter-Ministerial Committee of State Refund — "FM Committee" — whose trade is composed of several types of products supplied by a great number of producers each of which, however, supplies goods in small volumes.

4.3 If a trust is designated as recipient of the State refund according to paragraph 4.1 above, and it comprises enterprises which carry on production, etc. activities differing from each other, or if the State refund refers to a group of products as per paragraph 2.6, even though the justifiability of refund shall be investigated on the basis of their price relations and shall be approved according to this division, in this case, too, the recipient of the State refund — from the point of view of financial accounting — can only be the trust being directly connected with the budget.

5. Forms of application and special conditions of State refund

5.1 The rate of State refund approved for an enterprise can be determined in the following form:
5.1.1 Refund proportionate to the turnover (linear refund).

The recipient enterprise receives an allocation from the budget - a State refund - of a determined rate on all price receipts from export. This can be expressed:

(a) in terms of an amount per foreign exchange unit of the price receipts (Ft/Ruble, Ft/Dollar);

(b) as a percentage of the foreign exchange receipts converted into forint by means of the uniform foreign trade price multiplier.

5.1.2 State refund subject to a specified volume of turnover.

The forms of this refund may be the following:

(a) Refund fixed at a single amount (according to enterprises or principal areas of settlement).

The single amount of refund is fixed for an enterprise for given years of the subsidizing period. This amount means an upper limit.

If the enterprise fails to achieve the foreign exchange earning on which the refund was made conditional, it is entitled only to a reduced part of the refund (other than the proportionate part) fixed in advance.

(b) Linear refund subject to an upper limit.

Refund can be granted according to a linear rate, on condition that the enterprise receives it only if the volume of turnover specified in advance for given years is not exceeded. (E.g. the State refund amounts to x Ft/Ruble or Ft/Dollar, but in the given year the enterprise is entitled to this refund only up to a maximum of y Ruble or Dollar of price receipts and refund cannot be claimed for turnover exceeding this limit.)

5.2 Special conditions can be stipulated in connexion with any form of the State refund, e.g. such as:

- It may be stipulated that in case of failure to meet obligations assumed in government agreements or to export goods of special importance for the national economy, the enterprise is entitled only to a portion of the refund, reduced to a predetermined extent.

- It may be set as a condition that the enterprise should make its export more profitable (more advantageous) and until this aim is achieved, the refund allocated to it will decrease each year according to a predetermined extent.
In respect of enterprises whose export shows a great loss or in other cases justified by economic policy reasons, it is possible to apply other restrictive stipulations as well. (E.g. maintenance of the ratio of turnover between the principal areas of settlement, ensuring that domestic needs are met in certain specially important products for the population, undertakings for a development aiming at the reduction of costs and obtaining a higher price abroad, prohibition concerning the extension of capacity by new investment projects, the condition that products, groups of products which are particularly uneconomical, cannot be taken into account in fixing the average rate of justified support, etc.)

6. Utilization (rendering payable) of State refund

6.1 The basis of calculation of the State refund is the price receipts according to which the refund has been authorized.

6.1.1 If the recipient of the refund is an enterprise entitled to export directly— including the case when the producing enterprise transacts export actually through a commission agent or foreign trade agency — and the fixing is related to foreign exchange earnings, the basis of calculation is the net foreign exchange earning calculated in free dollars or transferable rubles (a price on free Hungarian frontier basis, commission and rebates deducted), or its forint equivalent converted by the uniform foreign trade price multiplier.

6.1.2 If the refund has been fixed according to paragraph 2.3, the basis of calculation — in line with the authorization — is the forint amount, taken altogether, of the price receipts calculated for each of the two principal areas of settlement for export, as per 6.1.1.

6.1.3 If the recipient of the refund is an enterprise whose products are exported by a foreign trade enterprise on own account, the basis of calculation — unless otherwise provided for in the decision on the fixing of the rate of State refund — shall be the price receipts paid to the producing enterprise in domestic price by the foreign trade enterprise.

6.2.1 If the basis of refund is the price receipts in foreign exchange, the granting of refund can be requested

- in the case of cash sales, on the day when the exchange earning is actually received (including exchange amounts paid to the commission agents),

- in case of granting export credit, when the credit granted in foreign exchange is refinanced in accordance with the regulations of the National Bank of Hungary (including the payment of the forint countervalue of medium- and long-term credits).
6.2.2 If the basis of the refund are earnings received from a foreign trade enterprise working on own account, the payment of refund shall become due on the day when the deposit account of the enterprise is credited with the earning.

6.3 Enterprises can only request the payment of refunds falling due at stated intervals (e.g. in ten-day periods).

6.4 The correctness of the use of refund shall be checked subsequently by the Income Board of the Ministry of Finance, through the competent first instance tax office.

6.5 The detailed provisions of the Joint Instruction No. 120/1968. (PK 13) PM-KK of the Minister of Finance and the Minister of Foreign Trade shall continue to govern the basis of calculation, maturity, and the order of payment of the State refund.

6.6 In respect of claiming, return, payment, checking and contravention of regulations ascertained in the course of checking, the regulations concerning the order of economic and financial control, as well as the regulations concerning the rules of procedures for tax administration of enterprises and co-operatives, for the transaction of their budget connexions and financial checking shall be applied.

7. Fixing the rate of State refund for enterprises, supply of information by enterprises

7.1 The method of fixing the rate of State refund due to enterprises, based on the data for the branch concerned, shall be the following:

7.1.1 In classifying the enterprises into branches, taking into consideration the statistical classification of the Central Statistical Office, in particular the following shall be taken into account: the similarities in the export activities, production and export market situation of enterprises, in other words, such features characteristic of them jointly, which constitute a realistic basis for forming a uniform judgment of the rate and conditions of State refund. Such enterprises constitute a branch in the further developed system of State refund.

7.1.2 The Enterprise Committee of State Refund ("KKM Committee"), or its sub-committees set up by trades,

- partly from the supply of data about the years 1968 and 1969 received from enterprises based on Instruction No. 114/1967. (PK 12) of the Minister of Finance, section 11 and in the unified form prescribed therein,
and partly by analysis of the 1969 balance sheet of the enterprise concerning the trends of prices, domestic and external, and the proportions of profitability according to principal markets (domestic export to ruble and to dollar settlement areas) and the indices of foreign exchange production at enterprise level, furthermore

taking into account other aspects of national economy,

elaborate the specific average rates of State refund for branches that can be taken as a basis for further regulation.

7.1.3 Then it has to be examined how the indices of enterprises belonging to the same branch are related to the average rate stated in accordance with 7.1.2 and accepted as a basis for regulation.

7.1.4 On the basis of the proposal of the Enterprise Committee of State Refund ("KKM Committee"), prepared according to the above procedure, the Inter-Ministerial Committee of State Refund ("PM Committee") decides on the areas where the change-over to the system of refund for branches should, and can be, effected.

It also decides

(a) the specific extent of State refund in such branches, which can be uniformly allocated to each enterprise belonging to the branch from 1971 on, with the exception of enterprises receiving tax refund even in 1971, under the Joint Instruction No. 1/1969. (KKE 9) KKM-PM on the refund of tax on the increase of export; (see 3.3.1)

furthermore

(b) it designates those enterprises or a certain scope of them, whose claim for a higher refund than that allocated according to sub-paragraph (a) above, should be discussed individually (see 3.3.2) provided that the enterprise concerned files simultaneously a specific application presenting the data prescribed and other motivation of its claim. In these special cases, it defines the scope of enterprises for which it is justified

(ba) to fix an annually degressive rate of State refund (see 3.3.2(a)), or

(bb) to apply restrictive conditions of support (see 3.3.2(b)).

7.2 Rates and conditions of State refund which can be authorized for enterprises claiming a higher rate than the average fixed for the branch, are decided upon by the committees of State refund, through direct negotiations with the enterprises concerned, in accordance with the relevant rules of procedure.
7.3 The justifiability of State refund shall be judged and its rate shall be fixed by taking into consideration the circumstances of management of the enterprise (proportion of export in its production, internal and external price relations, position of profitability and market situation of most important products, possibilities for readjustment of production capacity, structure, perspectives and profitability of turnover by principal areas of settlement, anticipated effect of investments under way, etc.).

7.4 Enterprises claiming State refund are bound to make available all necessary data, documentation and information required for judging the justifiability of refund - in the form and at a time proscribed or specified in the special invitation as well as to support the reality of their proposal by appropriate motivation.

7.5 Foreign trade enterprises - regardless of the form of relationship existing between them and the enterprise claiming refund - are obliged to make available to the enterprise applying for State refund the relevant foreign trade particulars and information, to take part in the preparation of the application, and to attach to it a detailed motivation in their own name, too.

7.6 Applications of enterprises elaborated in the above way shall be submitted to the Ministry of Foreign Trade (Budapest V., Honvéd utca 13-15) addressed to the Enterprise Committee for State Refund ("KKM Committee").

1Note: The preparatory work concerning the fixing of State refunds for 1971 to 1975 - on the basis of decisions taken earlier on the methods and guiding principles - has practically been finished. Enterprises entitled to the State refund uniform for their branch as per 7.1.4(a) have already been notified of the respective decision, other enterprises concerned have received notification about their designation as per 7.1.4(b) and other enterprises concerned falling under the provisions of 7.1.4(b) have already been notified of the respective decision.
ANNEX 2

to the Joint Decree No. 63/1970 (31.XII.) PM-KKM

TAX ALLOWANCE RELATING TO EXPORT

With a view to intensifying our participation in the international division of labour, tax allowance relating to export can be granted to enterprises which produce economically goods of an up-to-date standard, adapted to the requirements of different markets.

1. In order to promote economical export, tax allowance can be granted to enterprises, which

   (a) earn foreign exchange through their export activities more advantageously than the uniform foreign trade price multiplier,

   (b) enterprises whose foreign exchange production does not exceed substantially the uniform foreign trade price multiplier,

   (c) enterprises which renounce their right to tax refund assured by the Joint Instruction No. 1/1969 (Kk.E 9.) KKM-PM on the refund of taxes given for increased export, and wish to take part in the system of tax allowance in accordance with the present Decree, provided that they do not receive State refund and do not apply for State refund.

2. The main criteria according to which the tax allowance is determined, are as follows:

   - They take into consideration the importance of export in the activity of the enterprise as a whole; from the normally payable profit tax the same share can be retained as allowance, as the share represented by export turnover which can be taken into account for this purpose in the entire income receipts (excluding the State refund) of the enterprise;

   - the system of tax allowance is in close connexion with the income regulation of enterprises; the tax which can be retained should be calculated and can be deducted separately from the tax on the divisible fund and on the development fund;

   - it is of the net system: it is directly the divisible fund and the development fund with which the tax retained shall be increased; the division of allowance according to interestedness follows the proportions between the funds of interest of the enterprise;

   - there is a uniform method (formula) for calculating the retainable tax;
- in harmony with the objectives of export promotion of the national economy, the amounts of tax allowance are determined in a way as to exert a differentiated influence on interestedness.

3. The amount which can be retained from the tax on the profit proportion of the divisible and development funds of enterprises receiving tax allowance, which amount can be directly added to the divisible or development funds, shall be calculated by the application of the following formula:

(a) Amount of tax allowance which can be added to the divisible fund:

$$E_h \cdot \text{tax } R \cdot C \quad \text{(Ft)}$$

(b) Amount of tax allowance which can be added to the development fund:

$$E_h \cdot \text{tax } F \cdot C \quad \text{(Ft)}$$

in which:

$$E_h$$ - represents the proportion of export turnover calculated by the uniform foreign trade price multiplier, entitled to allowance, in the total price receipts of the enterprise,

tax R - tax on the part of profit available for division,

tax F - tax on the part of profit available for development,

C - permanent coefficient established for the area for which the incentive is determined.

4. The extent of the permanent coefficient C is determined for a longer period, usually for the whole of the period of the Fourth Five Year Plan.

5. In order to give a greater stimulus to export promotion, a higher tax allowance is granted - by the application of the different rates of coefficient C - on an increment achieved in proportion to the turnover of the base period, than the allowance to which the enterprise is entitled to maintain its turnover at the level of the base period. In the course of the period of the Fourth Five Year Plan, the base of export increment is the year when the enterprise achieved the highest export turnover since 1970.