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COMPARISON OF INCOME TAX FOR SELF-EMPLOYMENT AND ACTIVITIES OTHER THAN SELF -EMPLOYMENT IN SYRIAN AND HUNGARY

AZ ÖNFOGLALKOZTATÁS ÉS AZ ÖNFOGLALKOZTATÁSON KÍVÜLI TEVÉKENYSÉGEK JÖVEDELEMADÓJÁNAK ÖSSZEHASONLÍTÁSA MAGYARORSZÁGON ÉS SZÍRIÁBAN

JAFAAR SAKKOUR*

In the constantly evolving world of taxation, countries are always refining their systems to balance revenue generation, economic growth, and fairness. This essay provides an in-depth analysis of the income tax systems of Hungary and Syria, exploring their historical trajectories and current structures. Before 1988, Hungary had a complex tax regime, while Syria underwent a series of reforms that resulted in a comprehensive income tax law in 2003. This exploration aims to discern the strengths and weaknesses of each system by examining the realities of income tax in both nations, including the treatment of residents, taxable income, and assessment processes. Each country presents unique challenges and opportunities in their taxation policies, from Hungary's transition to a flat tax rate to Syria's progressive system and ongoing reforms. Through this comparative analysis, we seek to shed light on the broader discourse surrounding income taxation, highlighting the diverse strategies employed by different nations to achieve their fiscal objectives.

Keywords: *Hungary, Syria, Taxation, Tax reform, Fairness, Taxable income*

Az adózás folyamatosan fejlődő világában az országok folyamatosan finomítják rendszereiket, hogy egyensúlyba hozzák a bevételtermelést, a gazdasági növekedést és a méltányosságot. Ez az esszé Magyarország és Szíria jövedelemadó-rendszerének mélyreható elemzését adja, feltárva történelmi pályájukat és jelenlegi szerkezetüket. 1988 előtt Magyarországon összetett adórendszer volt, Szíriában pedig egy sor reformon ment keresztül, amelyek eredményeként 2003-ban átfogó jövedelemadó-törvény született. Ennek a feltárásnak az a célja, hogy felismerje az egyes rendszerek erősségeit és gyengeségeit azáltal, hogy megvizsgálja a jövedelemadó realitásait mindkét országban, beleértve a lakosok kezelését, az adóköteles jövedelmet és az értékelési folyamatokat. Minden ország egyedi kihívásokat és lehetőségeket jelent adópolitikájában, Magyarország egykulcsos adókulcsra való átállásától Szíria progresszív rendszeréig és a folyamatban lévő reformokig. Ezzel az összehasonlító elemzéssel igyekszünk megvilágítani a jövedelemadózás körüli tágabb

* JAFAAR SAKKOUR
PhD student
University of Miskolc Faculty of Law
Department of Financial Law
3515 Miskolc-Egyetemváros
Jafar.jft.5610@hotmail.com
https://orcid.org/0009-0004-9517-2725

diskurzust, kiemelve a különböző nemzetek által alkalmazott különböző stratégiákat fiskális céljaik elérése érdekében.

Kulcsszavak: *Magyarország, Szíria, adózás, adóreform, méltányosság, adóköteles jövedelem*

Introduction

In the ever-evolving landscape of taxation, countries continuously refine their systems to balance revenue generation, economic growth, and fairness. This essay delves into the historical trajectories and current structures of income tax systems in Hungary and Syria. Before 1988, Hungary grappled with a convoluted tax regime, while Syria navigated a series of reforms leading to a comprehensive income tax law in 2003. Analyzing the realities of income tax in both nations reveals distinct approaches to taxation, including the treatment of residents, taxable income, and assessment processes. Furthermore, contrasting the progressive system in Syria, where those who earn more pay a higher percentage of their income in taxes, with Hungary's transition to a flat tax rate prompts a discussion on effectiveness and fairness in taxation policies. Through this exploration, we aim to discern the strengths and weaknesses of each system, shedding light on the broader discourse surrounding income taxation.

1. Overview of tax law in Hungary and Syria

1.1. Historical overview

Before the 1988 tax reform, Hungary's tax system was confusing, with numerous rules and frequent changes. All companies were state-owned, complicating privatization and discouraging investment due to instability. Prior to the reform, only a small portion of government revenue came from indirect taxes, with no general sales or personal income tax in place. The 1988 reform introduced a personal income tax that applies to both foreign and domestic income, calculated based on individual rather than family income.[1] The personal income tax is also progressive, meaning those who earn more pay a higher percentage of their income in taxes. However, this tax did not generate significant revenues for the Hungarian treasury due to several drawbacks, such as inflationary "bracket creep", which shifts a larger portion of taxpayers' income to higher tax brackets but does not take into account real wage increases.[2] To address these concerns, the number of personal income tax rates was gradually reduced until it became a flat tax in 2011. The low and high tax rates in the progressive tax schedule also became closer over time. In 1988, the lowest and highest rates were 0% and 60%, by 2011, the only personal income tax rate was 16%, which was reduced to 15% in 2016 and remains a flat tax.

[1] Katie KARNOSH: The Evolution of the Hungarian Tax System. *IIP Research Paper* 2019/6, 3–4.

[2] David NEWBERY: Tax and Expenditure Policies in Hungary. *Working or Discussion Paper* 1993/4. https://doi.org/10.22004/ag.econ.294824

The Syrian tax system has evolved over the years, with the personal income tax law established in 1958. In 2003, Law No. 11 comprehensively revised the income tax, raising the minimum exemption from 1,000 to 5,000 Syrian pounds and reducing the maximum tax rate from 62% to 38%. Law No. 2 of 2003 was also introduced to address tax evasion.

The current stage aims to achieve justice and objectivity and simplify tax procedures. The highest tax rate was previously 92%, but this has been lowered to 63%. The necessary preparations are also underway for the introduction of value-added tax.[3]

1.2. The jurisprudential basis of tax law in Hungary and Syria

First, to analyze and compare the mentioned taxes more deeply, it is necessary to mention the general jurisprudential basis of tax law. In Hungary, tax jurisprudence is based on several legal and economic principles derived from national legislation and international practices, the most important of which is the constitutional and legal basis. The Hungarian Constitution or Basic Law regulates the general principles of taxation, such as the principle of tax legality, which states that no tax or fee may be imposed except following the law.[4] The general tax law is also considered one of the legal and procedural foundations for all types of taxes in Hungary. The Hungarian tax system also depends on the extent of equality before the law, as taxes must be imposed equally among all taxpayers. We must not forget to comply with European and international standards as a jurisprudential basis for Hungarian tax law. Since Hungary is a member of the European Union, tax legislation must align with European directives, such as the Value Added Tax Directives[5], with international practices, such as the Organization for Economic Cooperation standards.

As for the jurisprudential basis of the tax law and income tax in Syria, it is based on a set of legal and economic principles, the most important of which are the Syrian Constitution, which stipulates the principle of social justice, transparency, and disclosure in imposing taxes, and the Basic Financial Law No. 50 of 2004, which regulates the state's public revenues and the foundations for imposing taxes and fees, and the Income Tax Law No. 24 of 2003.[6]

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3 Nada HDEWE: *Value Added Tax and its Impact on Economics and Society in Syria*. PhD thesis, Damascus University, Damascus, 2014, 15.

4 The Fundamental Law of Hungary, 25 April 2011 (consolidated text as of 1 January 2023), Article 8. https://njt.hu/jogszabaly/2011-0-00-00.0, 13. January 2024.

5 European Commission: *Summaries of EU Legislation*. https://eur-lex.europa.eu/EN/legal-content/summary/the-european-union-s-common-system-of-value-added-tax-vat.html?fromSummary=21. 23 January 2025.

6 Mohamad HALLAQ: *Tax Legislation*. Syrian Virtual University, Publications of the Syrian Virtual University, Damascus, 2018, 94.

2. The reality of income tax in both countries

2.1. The taxpayer and the tax liability

Individuals who are tax residents in Hungary pay taxes based on their domestic and foreign income, and the tax liability is on this income, excluding any income declared to be tax-exempt. The term 'Tax liability' refers to all the responsibilities imposed under this Act and the Act on the Rules of Taxation, applicable to private individuals who earn income and the paying parties involved in the taxation process. This includes tasks such as reporting, submitting declarations, assessing tax base and taxes, filing tax returns, paying tax advances and taxes, deducting taxes, maintaining records, issuing receipts, data disclosure, and document storage.[7] The tax liability also applies to non-resident persons, and the tax liability is: The source principle applies, so the income is taxed in the country in which the income was received. It includes the tax liabilities of individuals with tax residence abroad, with only income derived from Hungary, or income subject to tax in Hungary on the basis of international agreements or reciprocity. It also includes those whose center of vital interests is Hungary.

In Syria, everyone who receives a salary, wages, or compensation from a private company must pay the salaries and wages tax if he is a resident of the Syrian Arab Republic. If they reside in Syria or abroad and receive money from the public treasury, they must also pay this tax. The lump sum income tax is known as the tax imposed on everyone who practices an industrial, commercial, or non-commercial trade or profession, but it does not fall within the category of those who pay real income as profits. On the other hand, income tax is imposed on real profits on profits that come from practicing industrial, commercial, and non-commercial professions and crafts, as well as all other commercial activities, even if they are occasional, in Syria.[8]

2.2. Taxable income

When analyzing the two basic income laws in the two countries, we notice that Law No. 24 of 2003 followed the system of specific taxes on income. It adopts the system of specific taxes on the basis of distinguishing between incomes according to their sources, then subjecting each source of income to an independent specific tax that has its own base and price.[9] (The real profits income tax also regulated the rules for imposing income tax on companies in the Syrian Arab Republic. In Syria, there is no special law for companies. Rather, the legislator distinguished the tax treatment of companies from the tax treatment of individuals in their rates and some provisions.[10]

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[7] The Hungarian Personal Income Tax (Act CXVII of 1995 on the Income Tax of Individuals, 2. §, Chapter II).

[8] The Syrian Income Tax Law (Act No. 24 of 2003, §. 2-66-41).

[9] Muhammad AL-JALILATI: *The Syrian Tax System and its Reform Trends*. www.mafhoum.com/syr/articles/jlaylati/jlaylati.htm, 14. January 2024.

[10] Issam SHIHABI: *Corporate Taxes and Regulations*. https://arab-ency.com.sy/law/details/26053/4, 14. January2024.

This means that the Syrian legislator made a difference in the tax treatment between Personal companies and financial companies – non-resident income tax – lump sum income tax – salaries and wages tax – circulating capital revenue tax – real estate revenue tax – and property tax).

As for Hungary, Act CXVII of 1995 specified the categories of income subject to tax, dividing them into two parts: incomes that are collected and a single tax is imposed on them, such as income from self-employment activities, activities other than self-employment, and incomes that are subject to tax separately, such as capital gains and income from entrepreneurship. Private income, and income from the sale of real estate or movable property... We note that the Hungarian legislator followed [11] the unified tax system, relying on collecting the net income of the taxpayer from all its sources in one pool and then imposing a unified tax on the total of this income without distinguishing between the nature or source of this income and following Unified verification and collection procedures, after excluding certain amounts to take into account the personal circumstances of the taxpayer. However, the determination of taxable income remained somewhat controversial, as was the case of N.K.M. v. Hungary, in which the applicant faced a total tax burden of approximately 52% on severance pay, compared to the general personal income tax rate of 16% at the relevant time. The applicant claimed that this tax violated her right to the peaceful enjoyment of her property under Article 1 of Protocol No. 1 to the European Convention on Human Rights. The European Court of Justice recognized that severance pay constituted "possession" for the Protocol and that the tax constituted an interference with this right. The Court concluded that the tax burden imposed on the income was disproportionate, as it was imposed without an individual assessment and without providing a transitional period for adaptation to the new tax regime. The case confirms that tax laws and their application must respect the property rights of individuals as protected by the European Convention on Human Rights. Hungary, as a member of the Council of Europe, considered this precedent when assessing its legal framework to ensure that taxable income was determined and that taxation did not violate fundamental rights.[12]

Income tax is a tax that governments impose on the income earned by individuals and companies within their jurisdiction. In Syria, the income tax law covers all types of income, including legal entities, while in Hungary, it only applies to personal income. Therefore, we can only compare personal income taxes. Personal income tax is a type of income tax that is levied on an individual's wages, salaries, and other forms of income.[13]

In Syria, we have Decision 349/2008 of the Syrian Court of Cassation regarding a dispute related to the classification of the tax claim and the determination of taxable

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[11] EUGO: *Review of the Hungarian Tax System*. http://eugo.gov.hu/doing-business-hungary/taxation#Personal%20income%20tax , 15. January 2024.

[12] *N.K.M. v. Hungary* (66529/11Judgment 14.5.2013 [Section II]).

[13] Julia KAGAN: *What Is Income Tax and How Are Different Types Calculated*. https://www.investopedia.com/terms/i/incometax.asp, 15. January 2024.

income, where it addressed a dispute over the fictitiousness of the lease contract, where the plaintiff considered that the contract was fictitious and that its purpose was to evade the tax, and thus affect the tax base. The court had to verify whether this contract concealed real profits that were not declared, which directly affected the value of the imposed tax. The court considered that the lawsuit was related to a claim for the entitlement to seized items (such as real estate), while the appellant considered that the lawsuit was related to preventing an opponent from collecting the real profits tax. Here it appears that the dispute over the legal classification has an impact on the subject of the tax and its base, as determining the nature of the lawsuit determines whether the discussion revolves around the validity of the amount of the imposed tax (tax base) or another issue.

In Syria, determining the tax base was pivotal to ensuring tax justice and preventing tax evasion, as the court focused on the need to calculate real profits based on objective evidence to ensure transparency and protect public revenues. In the Hungarian case, the lack of accurate determination of the tax base resulted in a disproportionate tax burden on the end-of-service gratuity, which resulted in a violation of property rights and was considered inconsistent with the principles of justice and proportionality. In particular, accurately determining the tax base is essential to ensuring the fairness of the tax system.

2.3. Rules for income from self-employment in Hungary and Tax on profits from industrial, commercial, and non-commercial professions and crafts in Syria:

2.3.1. Rules for income from self-employment in Hungary

First, by referring to the 1995 law, we find that its definition of self-employment is not clear and concise. It specified in its texts the activities subject to this tax as follows:

Any activity that results in an individual earning income and is not included in non-independent activity or other activities and income subject to tax separately

1. Withdrawal of entrepreneurship from self-employed workers
2. Basic farmer income
3. Owner activity (exception: for the municipality)
4. Activities of the elected auditor
5. Member of the European Parliament
6. Local advisor
7. Agency relationship (commission fees)
8. Income from intellectual activities that are not carried out in the context of the employment relationship.[14]

Dr. György Herich mentioned that independent activities are any activities the result of which the individual receives income and which don't fall under this scope of non-independent activities, like an individual entrepreneur, private procedure,

[14] The Hungarian Personal Income Tax, (Act CXVII of 1995 on the Income Tax of Individuals 1. § Chapter VI).

lessor, elected auditor, moveable and immovable utilities, sale of standing crop, and entrepreneur.[15]

In Hungarian law, the definition of self-employed workers lacks clarity. Academic scholars also employ varied or ambiguous terms when discussing this aspect of the labor market. Before the enactment of the EU Directive on Equal Treatment and Working Conditions, the absence of a precise definition in academic literature was not emphasized. The alignment of EU labor law served as the primary motivation for examining the definition of self-employment in Hungarian legislation, particularly in clarifying the personal scope outlined in Directive 86/613/EEC. Self-employment includes civil law contracts for sole entrepreneurs, sole proprietorships, and personally contributing members of business associations (mostly limited partnerships), whether or not they have employees. To summarize, there is no legal definition of self-employment, and even the academic literature regarding this concept is not uniform or clear. Self-employed workers are those who do not work under an employment contract, and the civil law contract is the only contractual form of self-employed activity due to the bilateral structure of employment relations. Casual workers are officially employed and, therefore, not self-employed. Additionally, members of various forms of cooperatives are not employees, but cooperatives often function similarly to employers or even temporary work agencies.[16]

But we also notice in Chapter x Section 49/A:

The Hungarian legislator has subjected private entrepreneurs to a specific tax on their entrepreneurial income. This tax is not combined with the unified tax base that applies to other forms of income, such as wages or investment income. Rather, it is calculated independently, ensuring that business profits are taxed separately.

The entrepreneurial profit base is derived from the taxable income from entrepreneurship. To calculate this base, certain adjustments are made:

Asset transfers: When a tangible asset is transferred without consideration, and the entrepreneur has previously deducted the cost of the asset from his taxable income, part of the value of the asset is added back to the business income based on the period for which the entrepreneur has held the asset.

Depreciation adjustments: If an asset has started to be depreciated, any part of the expenses that reduced the business profit base in previous years must be added back to the income. This ensures that the tax benefits are distributed appropriately over time.

Investment costs: Investment-related expenses that were used to reduce the business profit base are also adjusted if the asset is sold or if the business is terminated.

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15 HERICH György: *Adótan 2021*. Penta Unió, Budapest, 2021, 164.

16 GYULAVÁRI, Tamás: Self-employment in Hungarian Law. *Acta Universitatis Lodziensis. Folia Iuridica* 2023/103, 213. https://doi.org/10.18778/0208-6069.103.07 December 13, 2023.

It is noteworthy that the Hungarian tax system for private entrepreneurs is designed to be comprehensive and fair. The system effectively separates entrepreneurial income from other types of personal income, ensuring that business profits are taxed independently. This allows for a more accurate reflection of business performance and ensures that personal and business finances are not mixed. The rules on asset transfers and depreciation encourage entrepreneurs to hold assets for longer periods and invest in their businesses. By introducing tax benefits for investments in stages and penalizing rapid disposals, the system promotes stability and long-term planning.

2.3.2. Tax on profits from industrial, commercial, and non-commercial professions and crafts In Syria

This tax deals with the profits in which labor and capital share together without distinguishing between the percentage of participation of these two factors, as in the income tax resulting from self-employment in Hungary, which considered this tax to include any activity that produces income for the individual and is not included in the group of non-independent activity. Income tax in the Syrian Arab Republic is also considered a general law tax for the rest of the specific taxes, as Article 2 specifies the application of this tax to sources of income that are not subject to another income tax, which is achieved through two methods. The real profit method (real profits tax) and the simulated profit method (lump income tax).[17]

Real profits tax:

Real profits tax is a type of tax that applies to profits earned from commercial, industrial, and non-commercial professions and crafts, as well as all other commercial activities. Additionally, it is applicable to other sources of income that are not subject to any other income tax. This tax differs from income tax resulting from self-employment in Hungary, as it is considered an income tax for companies, and all companies are subject to it. The tax applies to institutions that maintain accounting records, as well as individual persons like import and export traders. In Hungary, individual income taxes only apply to individuals, not legal persons. Legal persons, such as companies, partnerships, and other entities, are subject to corporate income tax or relevant taxes based on their legal status and activities. Individual income taxes in Hungary include personal income tax (PIT), which is levied on income earned by individuals from various sources, including employment, self-employment, investments, and other forms of income.

Article 2 of Income Tax Law No. 24 of 2003 and its amendments specify the taxpayers subject to this tax, which includes 33 taxpayers subject to tax, such as public sector economic institutions and companies, joint-stock companies, limited liability companies, import and export traders, real estate, and industrial facilities if the total value of the facilities and machinery used in them exceeds Industrial work: two million Syrian pounds.

[17] Syrian Income Tax Law (Act No. 24 of 2003, § 2).

Lump sum income:

The lump sum income tax is a levy that applies to individuals who work in a trade or industrial profession, regardless of whether they operate on a commercial or non-commercial basis. This tax encompasses a broad range of taxpayers located in different cities, governorates, rural areas, and neighborhoods. It is calculated based on the taxpayer's net annual profits, which are determined by a classification committee appointed by the Minister of Finance. The government has specified around 300 items that are subject to this tax, including interest on crafts and remuneration paid by lawyers, doctors, hotels, restaurants, and tourist accommodation providers.

2.4. Income from activities other than self-employment in Hungary and taxes on income resulting from work (salaries and wages tax in Syria)

Income from activities other than self-employment includes, in particular, activity in an employment relationship or in public works (a legal basis is an employment contract). The personal contribution of an individual member of the partnership, the income of the company's CEO, the activities of legally elected officials, the work of non-self-employed people within the scope of an international treaty, the activities of adoptive parents, activities as members of Parliament, citizenship advocacy activity, the status of the project resident in the state[18] as for the payroll and wages tax. In Syria, the salaries and wages tax is imposed on a person who receives a salary, wages, or compensation from a private treasury if he is a resident of the Syrian Arab Republic and from a public treasury if he is a resident of the Syrian Arab Republic or abroad.[19]

The failure to define the nature of entrepreneurial activities from non-entrepreneurial activities and their profits often raises numerous lawsuits regarding the income tax due, as happened in Syria, where two women bought a property in Lattakia in 1977, then sold it with the same specifications without modifying it at a price lower than its actual price. However, the Lattakia Finance Department imposed an income tax on this sale, claiming that it represented a real estate trade. Each of the two women filed a lawsuit with the Lattakia Court of First Instance, in which they demanded an opposition to the income tax and a request to suspend the execution. The Lattakia Court of First Instance ruled that this tax was illegal, given that the statements of the defendant (the State Litigation Department) were devoid of evidence so that they could also be called traders, and that the delay of seven years until the property was disposed of is not evidence that this delay was intended for trade, and the collection of the income tax subject to the warning was suspended.[20] Therefore, we see that the Hungarian law was comprehensive and clearer in defining

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[18] The Hungarian Personal Income Tax, (Act CXVII of 1995 on the Income Tax of Individuals 24. § Chapter VI.)

[19] HDEWE op. cit. 32.

[20] Mohamad HALLAQ: Tax dispute before the Syrian judiciary. *Faculty of Law Department of Public Law University of Damascus* 2005/21, 25.

the nature of entrepreneurial work and its profits and separating entrepreneurial or commercial income from other types. From personal entry.

3. Material scope and tax assessment process in both systems

3.1. Material scope

For Hungary:
Resident individuals are subject to tax liability for all their income (global tax liability). Tax liability for non-resident individuals applies to income that arises in Hungary as a place of profitable activity or is taxable in Hungary under an international agreement or reciprocity (limited tax liability).[21]

Regarding income from self-employment activities, the country in which the private individual resides. However, if the private individual carries out self-employment activities through his workplace (permanent establishment), it is the State in which that workplace is located (permanent establishment);

d) concerning income from activities other than self-employment, the country in which the activities are typically carried out; if the place where the activities are usually carried out cannot be identified, including, in particular, if the place where the activities are carried out cannot be recognized by several different addresses or the designation of a significant geographical area:

d) If the individual performs a gainful activity under an employment relationship with a local workplace (permanent establishment), branch, or business representation of the employer (principal), the place of the gainful activity must be Hungary;

d.b) In cases not covered by subparagraph d), with respect to any income calculated in proportion to activities carried out in Hungary, the place of the gainful activity must be Hungary.[22] In conclusion:

Income is subject to tax as follows if the income is local:
If it comes from a local employer or a local manager
Resulting from work performed locally or from property within the country
Foreign income:
from a foreign employer or manager
It arises from activities conducted abroad or from assets abroad
covers the income of individuals and payers.

In Syria, there is a tax on profits earned from industrial, commercial, and non-commercial professions and crafts. This tax applies to natural and legal persons who earn profits from work within the Syrian Arab Republic. If a taxpayer has multiple branches, the tax is levied on the profits of all branches at the main center, regardless

[21] The Hungarian Personal Income Tax, (Act CXVII of 1995 on the Income Tax of Individuals 2. § Chapter VI).
[22] The Hungarian Personal Income Tax, (Act CXVII of 1995 on the Income Tax of Individuals 3. § Chapter III).

of whether their accounts and businesses are unified or independent. If the main center is located outside Syrian territory, the tax is levied on the profits of all branches that operate in the Syrian Arab Republic at the branch center located in the Syrian capital or the branch with the broadest operation.

It is important to note that profits earned outside Syrian territory are not subject to income tax.

Regarding the salaries and wages tax, it includes everyone who receives a salary or compensation, including employees, company directors, members of the board of directors, accounts commissioners, and artists. If you are a resident of Syria or receive compensation for services provided in Syria from a private treasury, you must pay income tax on this amount. This applies to everyone, regardless of their nationality and regardless of whether the private treasury is located in Syria or not. It also applies regardless of whether the income was received in Syria or abroad. If the income is paid from a private treasury as compensation for services performed in Syria, the beneficiary of the income is subject to tax, regardless of their nationality or place of residence.[23]

Overall, Hungary has greater scope by taxing residents on their global income, while Syria focuses primarily on income generated within its borders.

Treatment of self-employment income:
Hungary examines the location of self-employment activities and tax residence. The establishment of tax residence has become more important with Hungary's accession to the European Union, the increase in the number of international agreements, and the entry into force of Directive 2004/38/EC of the European Parliament and the Council on the free movement of persons. Under the previous paragraph, declared nationality and residence do not automatically lead to tax residence. The Hungarian Personal Income Tax Act (Law CXVII of 1995) contains detailed regulations on the determination of residence, and the determination of residence requires a complex test[24]. The Syrian regime seems to focus more broadly on earnings derived from work within the country.

Foreign income treatment:
In the international context there are many cases where an individual takes up a job in the territory of another country, the relationship between international agreements and national law can lead to misunderstandings, which in the worst case can have serious consequences. In general, international tax disputes can arise from differences in tax systems, and sometimes from their similarities. Based on this formulation, we have the problem of double taxation. To avoid such international tax

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23 Syrian Income Tax Law (Act No. 24 of 2003, § 3-66).

24 Éva ERDŐS – Zsófia, RICZU: Issues Of International Double Taxation, In Particular To The Issues Of Employment. *Curentul Juridic, The Juridical Current, Le Courant Juridique*, Petru Maior University, Faculty of Economics Law and Administrative Sciences and Pro Iure Foundation, March 2023/92, 83.

disputes and similar ones, the conclusion of international bilateral agreements between countries provides a solution.

Hungary, as a member of the European Union, adheres to the OECD guidelines. Hungary taxes foreign income based on the source of income and implements international tax treaties. To prevent double taxation, double taxation agreements have been and are now being concluded between Hungary and most countries. Accordingly, under a number of bilateral tax agreements, the amount of tax paid in the country of employment is included in the tax due in the country of residence; In other cases, income earned in the country of employment may only be taxed in that country, and thus the income in question is exempt from tax in the country of residence,[25] while Syria exempts profits earned outside its territory from income tax despite entering into several agreements to avoid dual nationality, influenced by the ongoing recommendations of the Arab Council for Tax Reform to integrate tax systems between Arab countries, but circumventing the two double taxation agreements.[26]

I think That the Hungarian system, with its global tax approach, may provide broader revenue sources and perhaps more equitable treatment for residents. Syria's land-based system may simplify tax administration, but it could discourage international investment. Each system has strengths and weaknesses, and its suitability depends on the specific context and objectives of each country.

3.2. Tax assessment process:

In Hungary, as a general rule, the taxable income must first be determined:

As for the income resulting from self-employment activities, regardless of the activities carried out in private entrepreneurship, it is the total income, deducting all expenses. All taxable revenues that an individual receives from others are considered income, or the part of this income along with the expenses recognized in this law, the expenses that can be claimed without verification and the expenses of the fixed amount deducted, or a certain percentage thereof stipulated in this law, with the exception of the amounts that are not included in income, but costs are only expenses directly related to profitable activities, which were actually paid during the tax year exclusively for the purpose of profitable activities and follow-up activities, and which have been duly proven.[27]

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[25] Éva Erdős – Zsófia Riczu: "Issues Of International Double Taxation, In Particular To The Issues Of Employment". *Curentul Juridic, The Juridical Current, Le Courant Juridique* Petru Maior University, Faculty of Economics Law and Administrative Sciences and Pro Iure Foundation, March 2023/92, 87–88.

[26] *Tax System Reform and Speed of Change*. https://www.elbalad.news/4603104, 24 January 2025.

[27] The Hungarian Personal Income Tax, (Act CXVII of 1995 on the Income Tax of Individuals, 3. §, chapter VI).

The taxpayer may choose from two methods of accounting for expenses:

Itemized expense accounting (based on expenses actually arising) or 10 percent of revenue can be calculated without certification.[28]

Income from activities other than self-employment includes all income received by an individual in connection with such activities or as a result of any legal relationship underlying such activities. This includes, in particular, wages, compensation for work in the public interest, bonuses or honoraria, any amounts received as bonuses, fuel allowance or reimbursement of expenses, and any taxable insurance premiums paid by others. All income from other activities other than self-employment is recognized as income, except for amounts received as reimbursement for expenses in connection with said activities other than self-employment, the expenses of which are approved in accordance with the provisions of subsection.[29]

As we mentioned previously, the unified tax base includes all income earned by the individual during the tax year through self-employment and activities other than self-employment, in addition to other revenues. Moreover, concerning fixed taxes, the consolidated income is calculated from the revenues of private entrepreneurial and all small agricultural activities.

But here we ask the question: What is income from other activities, and what does it include? Income from activities other than self-employment includes all income that an individual receives in relation to these activities or as a result of any legal relationship on which these activities are based. This includes, in particular, wages, compensation for work in the public interest, bonuses or honoraria, any amounts received as bonuses, fuel allowance or reimbursement of expenses, and any taxable insurance premiums paid by others. All income from activities other than self-employment shall be recognized as income, except for amounts received as compensation for expenses related to said activities other than self-employment, the expenses of which are approved in accordance with the provisions of this subsection.[30]

Unified tax base:

1. Determine the tax calculated on the income to be distributed through determining revenues. It is necessary to determine whether they are revenues (the item is not included in the tax base and is not calculated as an expense; for example, it is exempt).
2. 2: After determining the revenues, if they are subject to the unified tax base, it must be proven whether they arise from self-employment activities, activities other than self-employment, or fall within another category.

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[28] EUGO: *Review of the Hungarian Tax System*. http://eugo.gov.hu/doing-business-hungary/taxation#Personal%20income%20tax, 15. January 2024.

[29] The Hungarian Personal Income Tax. (Act CXVII of 1995 on the Income Tax of Individuals, 25. §, chapter VI).

[30] HERICH György: *Adótan 2021*. Penta Unió, Budapest, 2021, 159.

Then we calculate what the basis of the tax will be. For non-self-employed, gross income, for self-employed, 90% of income equals income, if other, all income[31]. (Act CXVII of 1995, Section 47, Chapter IX)

The next step is to deduct the benefits that reduce the tax base from the consolidated tax base. Thus, we obtain the tax basis on which an income tax of 15% is imposed.[32]

In Syria, the situation is different, as there is no unified tax base and no flat tax rate for the real profits tax. The tax is subtracted based on the net profit achieved during the business year. The year is calculated from January 1 to December 31, and the net profit consists of the sum of the total revenues of the taxpayer's business subject to this. Tax of all types after deducting the burdens and expenses required by its practice or that are associated with the type of work. It is one of the most important deductible expenses. Rental allowances for shops prepared for carrying out work, salaries, wages, and incentives paid to employees and workers in exchange for their services, payment for the employer's share in social insurance, taxes and fees imposed in the Syrian Arab Republic on the taxpayer and paid during the year in which the profits were achieved.[33]

It is worth noting that in Decree No. 51/2006:
The legislator invented the idea of senior taxpayers when he created a new section called the Senior Taxpayers Department, which left the Minister of Finance the right to set the criteria by which taxpayers can be considered senior and imposed on them the obligation to register themselves with these departments opened in the finance directorates in the governorates[34] in exchange for giving them some privileges when considering their objections, auditing their accounts, and calculating their net profits Because their percentage is relatively small.

The Syrian financial regime follows two methods for calculating the tax:

The proportional tax method is applied to large companies such as banks, insurance companies, joint-stock companies, and limited liability companies whose assets exceed 5 million SYP. The tax rate varies in each company according to its type. For example, banks are subject to a tax of 25%, and joint-stock companies are subject to a tax of 22%.

Progressive taxation method:
It applies to all those charged with the real profits tax, except for the large companies we mentioned previously, including import and export merchants. The tax is divided into five types:

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31 The Hungarian Personal Income Tax, (Act CXVII of 1995 on the Income Tax of Individuals, 47. §, chapter VI).
32 HERICH György: *Adótan 2021*. Penta Unió, Budapest, 2021, 161.
33 Syrian Income Tax Law (Act No. 24 of 2003, § 6–7–8).
34 Legislative Decree 51 of 2006, article 1.

The tax is imposed on net profits in accordance with Legislative Decree No. 51 of 2006, according to income brackets.

- 10% for the portion of net profit falling between the exempt minimum mentioned in the text of Article 20 of this law up to the amount of 200,000 SYP.
- 15% for the portion of net profit that exceeds 200,000 SYP and up to 400,000 SYP
- 20% from 400,000 SYP to 700,000 SYP
- 23% 700,000 SYP and up to 1,000,000 SYP
- 26% from 1,000,000,000 SP and up to 2,000,000 SP
- 29% from 2,000,000 SP and up to 3,000,000 SP[35].

For the lump sum income tax, taxpayers are not required to submit accounting books. Instead, their tax is estimated by the financial department using an arbitrary method. In 2015, several amendments were made to this tax through Legislative Decree No. 10. Taxpayers are now divided into four categories, each with its own classification period. These categories include senior taxpayers of the lump sum income tax, average taxpayers of the lump sum income tax, remaining taxpayers, and those with scientific professions.[36] The profit percentages for each profession are determined according to its type in the tax guide written by the Central Classification Committee. An appropriate tax is then imposed for each profession based on these percentages.

Salaries and wages tax:
Legislative Decree No. 30 of 2023 amending some provisions of the Income Tax Law specified the brackets subject to tax according to a progressive rate:
5% for the portion of monthly net income falling between the exempted minimum and 250,000 SYP.
7% for the portion of monthly net income between 250,001 and 450,000 SYP.
9% for the portion of monthly net income falling between 450,001 and 650,000 SYP.
11% for the portion of monthly net income falling between 650,001 and 850,000 SYP.
13% for the portion of monthly net income falling between 850,001 and 1,100,000 SYP.
15% for the portion of monthly net income that exceeds 1,100,000 SYP.[37]

4. General Notes

4.1. Progressive or flat tax

As mentioned, Hungary eliminated its progressive income tax rate in 2011 as part of a broader tax reform effort. The decision to eliminate the progressive tax rate was primarily motivated by the government's goal of stimulating economic growth,

[35] Mohamad Hani KIKI: *Direct Taxes in Syria from the Perspective of Tax Justice*. https://www.researchgate.net, 24, 17. January 2024.

[36] Mona IDLIBI: Tax on Lump-Sum Income in Syria as per Legislative Decree No. 10 of 2015. *Al-Baath University Journal*. 2023/10., 73.

[37] Syrian Ministry of Finance: https://www.syrianfinance.gov.sy/ar/page/, 1. February2024.

attracting foreign investment, simplifying the tax system, and alleviating administrative burdens. The previous personal income tax system (which followed the progressive tax) had a transparent basis. The tax is payable on income was created in a uniform (calculated) tax base. If this figure did not exceed 5 million forints, then 17% of the consolidated tax base was payable. If the base was higher than 5 million forints, then 850,000 forints were payable plus 32% of the excess amount of 5 million forints. The year 2011 led to a decrease in the highest marginal tax rate from 32% (36% in 2009) to 16%, which is a fixed rate, while the opposite is true in Syria. The tax system there still adheres to the progressive system, but the question arises: Which of the two systems is better and more effective?

To answer this question, several aspects must be discussed:
In terms of tax justice, tax justice requires distributing the tax burden among all people who can contribute to public burdens. Both tax systems can be considered fair, meaning that they are consistent and apply a rational approach to taxation.[38]

Both tax systems can be considered fair, meaning that they are consistent and apply a rational approach to taxation. However, they differ in the treatment of wealth. Advocates of progressive taxes say that they promote equality. by imposing taxes at a higher rate on higher incomes and thus reducing the tax burden on the poor.[39] However, the progressive method widely used in Syria, in order to be effective, must be imposed on a unified tax that falls on total income (this is taking into account the principle of tax according to tax capacity For the taxpayer) and not on specific taxes that affect some sources of income, which leads to a move away from the first requirement for progress, which is tax justice, as the owner of multiple incomes does not suffer from this increase. On the other hand, the one-income person is the one who suffers from the increase. This is the same reason that prompted Hungary to abandon its progressive system.

In the fixed tax system, although it appears fair on the surface, all taxpayers will contribute to public expenditures in the same proportion. Although the rich pay more, the percentage will be the same, which seems fairer, but on the surface.[40]

In analyzing Hungary's flat-rate tax system, which was introduced in 2011, it becomes clear that it has significant implications for tax fairness. The system contrasts with the progressive tax models common in many EU countries, where higher earners pay a higher percentage of their income in taxes. Hungary's flat-rate tax imposes the same rate across all income levels, which can disproportionately

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38 Richard A. MUSGRAVE – Peggy B. MUSGRAVE: *Public Finance in Theory and in Practice*. McGraw-Hill Book Company, New York, 1989, 227.

39 Julia KAGAN: *Is a Progressive Tax MoreFair Than a Flat Tax*. https://www.investopedia.com/ask/answers/042815/progressive-tax-more-fair-flattax.asp#:~:text=Progressive%20taxes%20are%20a%20system,of%20their%20income%20in%20taxes, 3.February 2024.

40 ERCSEY, Zsombor: The Current Personal Income Tax Regime in Hungary. - *150 Studia Iuridica Auctoritate Universitatis Pecs Publicata*. 2012/57., 60.

affect lower-income earners. In fact, those with lower earnings face a higher relative tax burden, as they pay the same percentage as higher-income individuals.

Furthermore, Hungary's system is particularly challenging for childless taxpayers. Without tax credits or allowances aimed at alleviating the tax burden for lower-income individuals, those earning around 50% of the average wage face the highest tax burden in the EU. This exacerbates income inequality, as low-income earners bear a heavier relative burden compared to other countries with more progressive systems.

For low-income earners, Hungary's flat tax system is regressive, as it lacks mechanisms like tax credits or allowances to ease the burden on those with fewer resources. This results in low earners paying a higher percentage of their income in taxes compared to wealthier individuals. In contrast, progressive tax systems in other countries provide targeted relief to lower-income individuals, improving fairness in the system and helping to reduce income inequality.[41]

In conclusion, while both progressive and flat tax systems aim for fairness, their implementation and effects on different income groups vary. Progressive systems, when applied comprehensively, can better address wealth inequality, while flat systems, though simple, may inadvertently worsen disparities.

As for the economic benefit and encouragement of investment, we can definitely say that a fixed tax is much better. According to the World Bank's World Development, a single-rate corporate and individual tax often stimulates investment and economic growth, especially in the early stages of economic development.[42] When the wealthy face higher tax rates, through progressive taxes, this may lead to a slowdown in the economy. The idea is that if wealthy individuals and companies have to pay more taxes, they may be less likely to invest or expand, limiting overall economic activity, job creation, and overall consumer spending.[43]

This is what happened in Hungary. Despite the negative results of imposing the flat tax, the government is still very committed to the flat tax system and claimed that it has provided higher income to the budget since its implementation (an additional 60 billion Hungarian forints, in addition to the relevant social security contribution), stimulated the economy, and enhanced job opportunities.[44]

In Syria, we note that the legislator tried to make many amendments to the percentages and brackets in the progressive tax, as it became 10% for the portion of the annual net profit that falls between the exempted minimum and /10,000,000/ ten

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41 KREKÓ Judit – ERŐS Hanna – GRESKOVICS Bori – HAJNAL Áron – SCHARLE Ágota*:* The redistributive effect of the Hungarian flat tax and family allowance system. *Acta Oeconomica*2023/73 (4), 481–503.

42 The World Development Report (WDR) 2019, 11.

43 KAGAN, Julia: *Is a Progressive Tax More Fair Than a Flat Tax*. https://www.investopedia.com/ask/answers/042815/progressive-tax-more-fair-flattax.asp#:~:text=Progressive%20taxes%20are%20a%20system,of%20their%20income%20in%20taxes, 6. February 2024.

44 ERCSEY Zsombor: The Current Personal Income Tax Regime in Hungary. *150 Studia Iuridica Auctoritate Universitatis Pecs Publicata* 2012/57, 62.

million Syrian pounds in Legislative Decree No. 30 of 2023 after it was 24% in Law 51 of 2006,[45] all intending to stimulate investment, which has not improved due to tax evasion that exists within progressive taxes and the use of legal loopholes.

Secondly, In Hungary, we note that the contribution of personal income taxes as a whole in Hungary is about 14% (2023) of total revenues[46], and the income tax and social security contributions of employers together constitute 60% (2023) of the total tax bracket.[47]

As for Syria, because the method of dealing with income taxes is different, the income tax on industrial, commercial, and non-commercial professions and crafts constitutes up to 32% (2018) of total revenues, including public and private companies' tax and salaries and wages tax, amounting to 7% (2018) of total tax revenues. This percentage is considered low compared to international monetary statistics (IMF Data), as income taxes must reach between 50 and 60% of the total tax revenue, which is the figure achieved more by Hungary.[48]

The rate of tax evasion in Syria is very high, reaching an estimated 2,000 billion liras (12% of the ratio of tax revenues GDP).[49] As for Hungary, it is estimated that the tax base avoided by the self-employed was about 8% of GDP, which means that the tax revenue thus lost was 4% of GDP. This is due to several reasons.

The first and most important reason is the continuity of the Syrian tax system by adopting a system of specific taxes on income. This tax is imposed on every type of taxpayer's income according to its source, and I believe that the Syrian legislator must move from a system of direct, specific taxes to a unified tax system, as is the case in Hungary. As we mentioned previously, it must be divided into two types: the first is the tax on natural persons, and the second is the tax on companies, especially since the private sector's contribution to the current real profits income tax applied in Syria is very low, as studies indicate, and is not proportional to the size of its contribution to the GDP. This is due to many factors, most notably the massive tax evasion, as we mentioned, in addition to the presence of an informal sector that is not subject to tax.

Thirdly tax legislation that is simple and easy to understand is more likely to be followed correctly. This helps both taxpayers and tax administration work together more efficiently in collecting the taxes that are due. With clear guidelines, there is

[45] Syrian Ministry of Finance: https://www.syrianfinance.gov.sy/ar/page/, 7. February2024.

[46] Cecilia PEREZ WEIGEL – Daniel BUNN: *Taxes in Hungary*. https://taxfoundation.org/location/hungary/, 7. February 2024.

[47] *Taxing Wages 2024: Tax and Gender through the Lens of the Second Earner*. OECD Publishing, Paris, 2024. https://doi.org/10.1787/dbcbac85-en.

[48] Fatima AL-HINDI: The Impact of the Economic Crisis – the War on Tax Revenues in Syria. *Damascus University Journal of Economic and Political Sciences* 2021/3, 47.

[49] The head of the Accounting Department at the Faculty of Economics at Damascus University, Ibrahim Adi, said that the volume of tax evasion is currently estimated at 2,000 billion liras, and this number is somewhat equivalent to the total values of social support in the current year's budget.

no room for confusion or misinterpretation.[50] Unfortunately, this does not apply to tax legislation in Syria, where the tax law (Income No. 24 for 2003) has undergone numerous amendments that are still ongoing. We can deny that many tax laws contain confusing articles and amendments that make it difficult to understand and correctly apply the law, but this can lead to an increased burden on taxpayers and encourage them to seek ways to avoid paying taxes.

This is exactly what happened in Hungary before the tax reform in 1988. Its tax system was created when Hungary decided to implement privatization. The Hungarian tax system before the reform was described as "confused and ambiguous." There were many different rules, allowances, exemptions, subsidies, etc., and these rules and exceptions were constantly changing, so it was difficult to implement privatization. Therefore, these shortcomings were eliminated when the Hungarian legislature enacted Law No. 5 on value-added tax, Law No. 6 concerning income tax, and Law No. 9 regarding corporate profits tax, all of which became effective on January 1, 1988.[51]

Based on empirical studies, according to the study Tax Policy and Inclusive Growth by Ruud A. de Mooij, which presents a set of key ideas that focus on improving personal tax systems to achieve tax justice and enhance the fair distribution of wealth. The second study issued by the Arab Monetary Fund entitled Tax Justice by Walid Bin Talha, which addresses the subject of tax justice and measuring the tax burden in Arab countries. Several conclusions are drawn related to the fixed-rate tax system applied in Hungary and the progressive tax system applied in Syria:

- In the case of progressive tax systems (such as Syria), these systems can provide social justice by imposing higher taxes on high-income earners, which reduces economic inequality. However, this type of system can suffer from tax evasion due to its complexity and multiple sources of income that may not be subject to the same tax treatment. Studies have shown that this type of system can lead to widespread tax evasion and inequality in the application of tax justice, as in the case of Syria, where the report indicated high tax evasion (2,000 billion liras) due to the variation in taxes according to the type of income. While a flat tax system (such as in Hungary) may seem fair on the surface, it burdens low-income groups more than the rich. The flat system causes a relatively higher tax burden for low-income, and the absence of facilities such as tax credits or exceptions for low-income groups increases the burden on them. This inequality contributes to increasing social inequality.
- A flat tax system like Hungary's could be more effective in attracting investment and increasing economic growth. World Bank studies confirm that applying flat taxes enhances economic growth and encourages investment,

[50] Iyad Saleh HAMAYEL: *Tax Evasion in Syria with a Review of the Experiences of Other Countries in Reducing Tax Evasion*. Dissertation for MBA (Business Law), Damascus, 2023, 47.

[51] KARNOSH op.cit. 3–4.

especially in the early stages of economic development. Hungary has also shown that this system led to increased revenues after its implementation, which helped stimulate the economy and create jobs. In contrast, in Syria, attempts to amend progressive taxes have not contributed significantly to improving investment due to widespread tax evasion and an informal sector that is not subject to taxes.

- A zero-tax bracket or basic deduction should be established, ensuring that low-income individuals pay no taxes or only nominal amounts. This will help reduce the impact of the progressive system on individuals who rely on a single income or limited sources. In Hungary, a minimum (zero bracket) could be established from which the basic income received by an individual is exempted, thus easing the burden on the most vulnerable groups without compromising the economic benefits of the fixed system.
- Tax laws should be reviewed and restructured to be clear and easy to understand, with a reduction in exemptions and deductions that are exploited by high-income earners, and a focus on providing facilities to the vulnerable classes in Syria. Mitigation mechanisms (such as tax exemptions and credits) should be introduced to reduce inequality without affecting the economic environment that is attractive to investments in Hungary.

4.2. Notes on the method of collecting tax:

We also note that in Syria in 2016, 44% of the total taxes came from the salaries and wages tax,[52] and this is a very large percentage, especially since it is deducted from the source. This means that there is a problem with tax collection and tax administration. To collect these taxes, the Syrian legislator follows complex, varying, and outdated methods. In addition to the deduction at the source that follows it, there is the method of submitting accounting books for the real profit's income tax, which is easy to manipulate, and the method of arbitrary estimation by the financial departments of those who pay the lump sum income tax, which is a method that is far from fair tax. Large amounts of public funds are lost, but in Hungary,[53] personal income tax declaration is followed based on self-assessment. Individuals who are not entrepreneurs may request assistance from the Tax Authority to prepare their tax returns. Employers and payers are obligated to subtract taxes and advance tax payments from wages and other payments they make. This method has proven effective because it helps simplify tax procedures, enhances transparency in addressing issues related to tax collection and administration, ensures compliance, and reduces revenue losses.

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[52] Fatima AL-HINDI: The Impact of the Economic Crisis – the War on Tax Revenues in Syria.-*Damascus University Journal of Economic and Political Sciences* 2021/3, 50.

[53] EUGO: *Review of the Hungarian Tax System*. http://eugo.gov.hu/doing-business-hungary/taxation#Personal%20income%20tax, 9. February2024.

Finally, we note that in Syria, because it is a country of farmers, the legislator did not impose an income tax on agricultural investors,[54] Agricultural investors who collect and sell crops and fruits resulting from land they own or invest, and this leads to the absence of many tax liabilities, while we note that in Hungary, despite the fact that the agricultural sector in it plays a role Vitally, farmers and agricultural activity are included in the category of self-employment activities, with many advantages such as writing off deferred losses from their income from small-scale agricultural activities and giving small farmers the advantage of choosing fixed taxes if the revenues from this activity do not exceed ten times the annual minimum wage per year tax.[55]

Conclusion

In conclusion, the comparative analysis of income tax systems in Hungary and Syria provides valuable insights into the diverse approaches adopted by different nations to address fiscal challenges. Hungary's transition from a complex tax regime to a simplified flat tax rate reflects a pragmatic response to issues such as tax evasion and administrative burdens. In contrast, Syria's progressive system and ongoing reforms demonstrate a commitment to fairness and simplicity in taxation policies.

The examination of key aspects such as the treatment of residents, taxable income, and assessment processes highlights the strengths and weaknesses of each system. Hungary's global tax liability offers broader revenue sources and may provide more equitable treatment for residents. On the other hand, Syria's land-based system simplifies tax administration but could deter international investment.

Ultimately, the suitability of each system depends on the specific context and objectives of the respective countries. While Hungary's flat tax rate may promote simplicity and efficiency, Syria's progressive system aims to ensure fairness and social justice. By understanding the intricacies of income tax systems in different nations, policymakers can make informed decisions to achieve an optimal balance between revenue generation, economic growth, and fairness in taxation.

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