

Reference date for all information is July 1st 2009

Country chapter for OECD series *Benefits and Wages* (www.oecd.org/els/social/workincentives)

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Introduction

Tax-benefit policy “country chapters” are made available as part of the OECD series *Benefits and Wages*. They provide detailed descriptions of tax and benefit rules in a consistent format across countries and summarize recent policy changes.

Country chapters for other countries and years are available on the Internet at www.oecd.org/els/social/workincentives.

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1. Overview of the tax-benefit system

Unemployment insurance is compulsory for everyone in employment, except employed pensioners. Unemployment benefit is paid for a maximum of 270 days. The contribution paid by the employee is 1.5 per cent of his/her gross earnings. Employer's contribution equals 3 per cent of the gross wages, while the self-employed pay 4 per cent contribution. As from 1 July 2009, employer's contribution equals until the double of the mandatory minimum wage: 1 per cent of the gross wage, over this amount: 3 per cent of the gross wages. Self-employed's contribution equals until the double of the mandatory minimum wage 2,5 per cent of the gross wage, over this amount 4 per cent. Social assistance is the ultimate financial aid available.

1.1. Average Worker wage (AW)

The AW value for 2009 HUF was 2435292 (indication by OECD).

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2. Unemployment insurance

Applicable statutory basis: Act IV of 1991 on Promoting Employment and Providing for the Unemployed. Basic principles: Based on principles of social insurance, financed by employers' and employees' contributions and central state budget subsidies, providing earnings-related benefits to employees. Field of application: All employees.

The institutional structure of the Hungarian employment policy system can be divided into two main types: *self-governing bodies* (tripartite) on the one hand, and *administrative bodies* on the other. The self-governing bodies are the National Council for the Reconciliation of Interest, the Governing Body of the Labour Market Fund, and the Regional Labour Councils. The Public Employment Service is the administrative body of the employment system. It consists of the National Employment and Social Office, seven Regional Labour Centres, and nine Regional Training Centres.

2.1 Conditions for receipt

2.1.1 Employment conditions

Main conditions:

- involuntary unemployment (has the conditions necessary for the establishment of an employment relationship, doesn't have exceeding renunciation initiated by the employer),
- no entitlement for old-age, invalidity pension or work accident-related disability pension,
- not pursuing studies as a full-time student at any educational institution,
- seeking employment (actively searching for a job on his own accord),
- co-operation with the labour centre (notifies the competent employment centre concerning any change in his/her status),
- enters into a job-seeking agreement/plan with the competent employment centre (in which the unemployed person undertake to document his/her attempts in job-seeking)
- accepts a job offer when presented for a suitable employment,
- has been admitted in the register of the labour centre as a job-seeker.

The start of the job-seeker benefit's payment can differ in the cases when the employee has voluntary quit his/her job, or when the employer has abolished the employment relationship with an extraordinary notice. In these cases the starting time of the payment can be postponed by 90 days following the date of registration.

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2.1.2 *Contribution conditions*

Qualifying period: payment of contributions for at least 365 days during the previous 4 years. If he/she spent at least 200 days in employment over the four years prior to becoming a job-seeker, the job-seeker shall be granted job-seeker aid for 90 days.

(It is worth to say, that a tax-paying period can be taken into respect only once).

The contribution paid by the employee is 1.5 per cent of his/her gross earnings. Employer's contribution equals 3 per cent of the gross wages, while the self-employed pay 4 per cent contribution. As from 1 July 2009, employer's contribution equals until the double of the mandatory minimum wage: 1 per cent of the gross wage, over this amount: 3 per cent of the gross wages. Self-employed's contribution equals until the double of the mandatory minimum wage 2,5 per cent of the gross wage, over this amount 4 per cent.

2.2 *Calculation of benefit amount*

2.2.1 *Calculation of gross benefit*

The determining factor is the gross average salary. The gross average salary of the previous 4 calendar quarters are taken as reference. The provisions of labour-related laws shall be applied for the calculation of average earnings with the exception that the amount of the personal base wage at the time of payment shall be taken into consideration.

The amount of job-seeker benefit for the initial period (not to exceed half of the period of eligibility or maximum 91 days) shall be 60 % of the gross average salary. The amount of job-seeker benefit for the second half of the eligibility period shall be 60 per cent of the mandatory minimum wage prevailing on the first day of eligibility for job-seeker benefit. If the gross average salary is lower than the minimum amount of the benefit, the job-seeker benefit shall be equal to the average income in both periods of eligibility. During the initial phase the minimum amount of the job-seeker benefit shall be 60 per cent of the mandatory minimum wage (42 900 HUF/month) prevailing on the first day of eligibility for job-seeker benefit, whereas its upper limit shall be twice of the amount thus determined (85 800 HUF/month).

2.2.2 *Income and earnings disregards for benefit recipients and those starting a new job*

Those, claiming job-seeker benefit, may not pursue any gainful activity. The only two exceptions are short term employment for up to 90 days, and employment with the occasional employment booklet. During the time of short term employment, the benefit ceases to be payable (must be suspended). Payment of job-seeker benefits shall be discontinued if the job-seeker is engaged in short-term gainful activities, not to exceed ninety days, provided the notification obligation (to the employment centre) was satisfied.

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2.3 Tax treatment of benefit and interaction with other benefits

Job-seeker benefits are subject to the full range of income taxation. The pension insurance contribution is 9,5%, and the years on benefit count as qualifying period for pension calculation purposes. The benefit is not subject to health contribution (and the claimant will not receive sick pay for disease during the benefit period, but will only receive the job-seeker benefit until the expiration of the entitlement).

2.4 Benefit duration and waiting periods

One day of job-seeker benefit is paid for every 5 days of insurance contribution period, up to a maximum of 270 days.

The claimant can re-apply only in case of conditions as in 2.1.2. It's typical in the field of agricultural employees.

2.5 Treatment of particular groups

2.5.1 Young persons

No specific rules for young persons, the general rules of job-seeker benefit entitlement conditions apply.

2.5.2 Older workers

Benefits provided for older unemployed:

- **early pension:**
 - **advanced pension** (*előrehozott öregségi nyugdíj*) in 2009 can be provided for women at the age of 59 and for men at the age of 60 if he/she has at least 40 years service period (or 37 years for a reduced sum) and ceasing gainful activity. In case of having at least 39 years service period, the reduction is 0,1% per every missing month, in case of 38 years, 0,2 % per every missing month, 37 years 0,3% per every missing month calculating for every missing month until reaching his/her relevant retirement age .
 - According to an other form (**employer-sponsored early retirement pension - *korengedményes nyugdíj***) the employer transfers the amount of old-age pension to the Pension Insurance Fund up to the recipient's advanced pension age (rules for 2009 - see above)..
- If the person had 3 years to reach retirement age, he or she could receive a **pre-retirement pension** financed from the Labour Market Fund. This exit-route was terminated in 1998, thus there are persons receiving this benefit, but there are no new awards.

Comment [S1]:

Act enacted on 28 May 2009, in effect as of 1 Jan 2010:

As of 2010 new rules enter into force in gradually increasing standard retirement age up to 65 years, increased by 6 months beginning with those born in 1952, linked to the year of birth. Retirement age is 65 firstly for those born in 1957. Rules on advanced pension are tightened along with the increase in standard retirement age, the 'retirement age window' is 2 years preceding the relevant retirement age, decrease in case for reaching an age 1 year under retirement age 3.6% + 0.4% for every missing month. This decrease is not extended for women born in 1952 or 1953, if they have 40 years service year.

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2.5.3 *Others if applicable*

Entrepreneurial benefits

Conditions:

- being 'job-seeker'
- spent at least 365 days in employment as a private entrepreneur or as a member in a business partnership over the four years prior to becoming job-seeker, if having satisfied the entrepreneurial contribution payment obligation during this time,
- being not eligible for invalidity or accident-related disability pensions and is not receiving sick-pay,
- wishes to find employment, but the local employment centre is unable to offer suitable employment.

Amount:

The amount of entrepreneurial benefits shall be calculated based upon the income that comprises the base for entrepreneurial contributions. The calculations shall be based on the income earned during the last calendar year during the four calendar years prior to becoming job-seeker, in which the jobless person paid entrepreneurial contributions for a period of not less than six months. In the absence of such calendar year the entrepreneurial benefits shall be based on the mandatory minimum wage prevailing during the calendar year prior to becoming job-seeker. The entrepreneurial benefit shall be 65 per cent of the monthly average of the average income defined previous.

The monthly minimum of the entrepreneurial benefits shall equal 90 per cent of the minimum old-age pension (25 650 HUF/month) in effect on the first day of eligibility for the entrepreneurial benefits; its upper limit shall be twice of the amount calculated in this fashion (51 300 HUF/month).

Part time employees:

If the average income is lower than the minimum amount of the job-seekers benefit, the job-seekers benefit shall be equal to the average income in both periods of eligibility.

Rehabilitation annuity:

The rehabilitation annuity is a new type of benefit introduced on 1 Jan 2008, which can be claimed from 1st January 2008. It is a type of provision, which is based on extent of health-damage

Conditions

- Having 50-79 per cent extent of damage on health, and from this reason he/she is unable to pursue his/her former job without rehabilitation and
- Does not take up gainful activity, or his/her earning is lower by at least 30 per cent than his/her average earning in the previous four months before his/her health-impairment and

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- Can be rehabilitated
- He /she has the minimum service period, according to his/her age and
- Do not receive any type of unemployment or social insurance allowance or pension benefit for example old age pension, advanced old age pension, early retirement pension, disability pension, accident related disability pension, widows' or widowers' pension, miners' pension, pension for artists, pension for servants of armed forces, child care allowance, sickness pay, job-seekers' benefit, job-seekers' aid, regular social allowance, disability allowance, etc.

The recipient has to cooperate continuously with the regional employment centre in order to achieve the successful rehabilitation. (In the frame of this he/she has to enter into a rehabilitation agreement with the competent employment centre.)

The amount of the rehabilitation annuity shall be 120 per cent of the amount of the 3rd type disability pension calculated according to the employment time and average income. Its minimal amount is 120 per cent of the actual minimum pension.

The benefit can be paid out for the time what is needed for the rehabilitation but maximum for three years.

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3. Unemployment assistance

Following the expiration of job-seeker benefit, job-seeker aid shall be granted on the request of job-seeker in case of having submitted the request within 30 days after the date of termination of payment of job-seeker benefits (first type of job-seekers' aid).

There are two other types of the job-seeker aid. The second type shall be granted for job-seekers, who have too short time to gain eligibility for job-seeker benefit. The third type shall be granted for jobseekers, who have max. 5 years to reach retirement age (see 3.5.2. in details).

(This aid is also based on former employment (tax-paying) period, practically this means the second part of the job-seeker benefit).

3.1 Conditions for receipt

Question of eligibility generally: see 2.1.1.

3.1.1 Employment conditions

See 2.1.1

3.1.2 Contribution conditions

See 2.1.2

3.2 Calculation of benefit amount

3.2.1 Calculation of gross benefit

The amount of job-seeker aid shall be 40 per cent of the mandatory minimum wage (28 600 HUF) prevailing at the time of submission of the application. If the average income is lower than this amount, the amount of job-seeker aid shall be the same as this average income.

3.2.1.1 Irregular additional payments

If the jobseeker needs a medical examination for his/her job-seeking, its cost can be paid for him/her.

3.2.1.2 Obligations of family members

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There is no relevance of spouse or other family members on getting unemployment assistance, therefore if spouse or other family member do not register as job-seeker, the entitled person's unemployment assistance can not be reduced.

3.2.2 *Income and earnings disregards for benefit recipients and those starting a new job*

See 2.2.2

3.3 *Tax treatment of benefit and interaction with other benefits*

See 2.3

3.4 *Benefit duration and waiting periods*

Job-seeker aid shall be provided for 90 days or for 180 days if the job-seeker has reached the age of fifty at the time the application was submitted (only in case of the first type of job-seeker aid). The claimant can re-apply only in the case of 2.1.2. It's typical in the field of agricultural employees.

3.5 *Treatment of particular groups*

3.5.1 *Young persons*

3.5.2 *Older workers*

3.5.3 *Others if applicable*

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4. Social assistance

Benefit for people in active age:

It is provided within the social assistance scheme in order to ensure a minimum standard of living for those, who are not employed, and who are in active age (18-62 years). The eligibility is depending on the income of the family. The benefit for persons in active age has no time limit.

Comment [S2]: The whole system has changed as from 2009.

There are two groups of persons entitled to benefit for persons in active age:

a) Persons capable of performing work are entitled to **availability support**. Persons who belong to this scope are obliged to cooperate with the Public Employment Service and to take part in public work for at least 90 days per year. Young people under 35 who have not completed the 8th class of the primary school have to attend training. For the period of public work, wage is paid (at least the minimum wage). The availability support is paid, when the person is not involved into public work.

b) Persons incapable of performing work are entitled to **regular social benefit** (health impaired, people who are more than 55 years old, as well as persons who bring up a child under 14, and the attendance of the child at an institution providing daily care is not ensured). The calculation of regular social benefit is determined on the grounds of the composition and income of the family.

4.1 *Conditions for receipt*

Those entitled to benefit for persons in active age are those who have completed their 18th year of age, and:

- a) Have lost at least 67 per cent of their working ability, or are in receipt of blind persons' annuity or of disability assistance.
- b) Being unemployed, but no longer entitled to income supplement for the unemployed (or not entitled for income supplement at all, in this case a certain period of cooperation with the public employment service is needed)

and having no alternative source of living.

A person does not have alternative source of living, if the family's monthly income per consumption unit does not exceed 90 % of the minimum old-age pension. The definition of consumption unit: see 4.2.1.

Persons who are entitled to availability support are obliged to cooperate with the Public Employment Service and to take part in public work for at least 90 days per year. Young people under 35 who have not completed the 8th class of the primary school have to attend to training. Persons who are entitled to regular social allowance have to cooperate with the designated body in order to remain entitled to the benefit. The cooperation involves registering and creating and fulfil an adaptation programme.

The benefit can be received at the same time with other social benefits or incomes.

4.2 *Calculation of benefit amount*

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4.2.1 Calculation of gross benefit

The monthly amount of the availability support is fixed, it is equal to the minimum old-age pension (28 500 HUF). In case of people who received regular social benefit in December 2008, and its amount was higher than 28 500 HUF, the monthly amount of the availability support in 2009 is the same as the amount of the regular social benefit paid in December, 2008. For the period of work wage is paid (at least the minimum wage, the gross amount of which is 71 500 HUF, the net amount is 57 815 HUF). The average length of public work was 5,4 months in 2009.

The regular social benefit is calculated with the help of "consumption unit", which shows the structure of the family. Instead of a fixed amount, the benefit depends on the income of the family. The income of the family is supplemented to 90 % of the minimum old-age pension per consumption unit.

The calculation of social assistance:

$SA = (0.9 * \text{minimum old age pension} * \text{consumption unit}) - \text{household income}$

The **consumption unit** is as follows:

The first adult: 1,0 (+ 0,2, if he/she is a single parent)

Spouse or partner: 0,9

First and second child: 0,8

Third and other children: 0,7

Disabled child: 1,0 (if there are disabled and healthy children, the first healthy child counts 0,8).

If the first adult or the spouse (partner) is receiving disability benefit, they count 1,0+0,2, or 0,9+0,2

Since 1st January 2007, the amount of the social assistance is limited: the maximum amount is the net minimum wage, 57 815 HUF in 2009.

In case of finding a job, the benefit (both types of benefits) is paid for over six months in a decreasing amount), so that the anti-work effect of the benefit will be diminished.

According to the rules in 2009, in two-adults' households both adults could get the "availability support". Rules are changed as of 15 November 2009. From that time only one person/family can be eligible for the allowance. Furthermore, the new rules allow families to have one person entitled to the availability support and at the same time another one entitled to regular social benefit. In families, where two persons were eligible for the availability support before 15 November 2009, the eligibility of one person had to be ceased in 31 December 2009.

4.2.1.1 Irregular additional payments [NEW ITEM]

The benefit claimant may receive another supports (e.g. heating supplement, seasonal supplement) if he/she complies with the conditions of the measure.

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4.2.1.2 *Obligations of family members* [NEW ITEM]

4.2.2 *Income and earnings disregards for benefit recipients and those starting a new job*

Various benefits and allowances for persons suffering from serious health damage, such as blind person's annuity or disability assistance etc. do not count as income. Benefit recipients are allowed to perform temporary work (casual work), but the income is calculated in the benefit amount.

In the **household income** housing benefits are not included.

4.3 *Tax treatment of benefit and interaction with other benefits*

Not subject to taxation

4.4 *Benefit duration and waiting periods*

No time limit. It depends only on the way of discontinuing

The unemployed person's social assistance can be re-applied within 36 months from expiring, without fulfilling the preliminary collaboration obligation (if the other entitlement conditions are existing).

4.5 *Treatment of particular group*

No.

4.5.1 *Young persons*

4.5.2 *Older workers*

4.5.3 *Others if applicable*

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5. Housing benefits for rented accommodation

The home maintenance aid is a means-tested benefit, which is provided as social assistance by the local government for a family or individual who lives in a home not exceeding a specified minimum size, provided that there is no income from the use of that home.

5.1 Conditions for receipt

The benefit is particularly justified if (normative type):

- the costs of home maintenance are equal to 20 % or more of the total monthly income of the household
- the monthly income per person does not exceed 150% of the current minimum amount of old age pension.
- Or: at the time of taking part in debt reducing service (there are no other conditions in this case)

Beyond that, the local government can provide sc. local (or “equity”) form as an independent benefit or as a supplement as well.

5.2 Calculation of benefit amount

5.2.1 Calculation of gross benefit

The minimum amount of the benefit is 2,500 HUF.

5.2.2 Income and earnings disregards

No.

5.2.3 Costs eligible for housing benefits

The expenses listed in the Act III of 1993 on Social Administration and Social Benefits:

1. house rent or sublease fee
2. instalment to redeem a home loan by a financial institution
3. distance heating service fee
4. common costs
5. sewer use fee
6. garbage removal costs
7. costs of electricity, water and gas consumption, and fuel.

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5.3 *Tax treatment of benefit and interaction with other benefits*

Not subject to taxation.

5.4 *Treatment of particular groups*

No.

5.4.1 *Young persons*

5.4.2 *Older workers*

5.4.3 *Others if applicable*

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6. Family benefits

The Hungarian family support system is a universal scheme, thus every Hungarian national, long-term residents, migrant workers or refugees who are parents (foster and stepparents as well) or guardians (including foster home managers), and who have children up to a certain age (23), may be entitled to various family support benefits. These benefits are financed out of the central budget. The family support system provides:

- family allowance,
- regular child protection allowance
- irregular child protection support

Regular child protection support has been dissolved into the family allowance the families in need are entitled to regular child protection allowance.

Irregular child protection support is social assistance-based, provided by the local government for families having temporary cash flow problems or facing emergency situations that seriously threaten their standard of living.

6.1 Conditions for receipt

General eligibility for every parent raising a child to family allowance. This benefit is provided from birth to the termination of studies in compulsory education system (usually 0- 18 years), then for secondary school education or vocational training, up to 23 years of age.

Regular child protection support has been dissolved into the family allowance, the families in need are entitled to regular child protection allowance.

She/he is entitled to regular child protection allowance if the per capita monthly income in the family looking after the child does not exceed 140% of the prevailing lowest amount of old-age pension, in case of single-parent families, or the child is permanently ill or seriously disabled, or if the child is more than 18 years old and attending to secondary or higher education, in any other case if the per capita monthly income in the family looking after the child does not exceed 130% of the prevailing lowest amount of old-age pension.

(The aim of determining such an entitlement is to justify that the child according to his social conditions is entitled to get the normative allowance of daily meals, free of charge textbooks and other support).

Irregular child protection support is paid for families with temporary cash flow problems or facing emergency situations that seriously threaten their standard of living.

Comment [S3]: As from 1st September 2009

Comment [S4]: As from 1st September 2009

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6.2 Calculation of benefit amount

6.2.1 Calculation of gross benefit

Family allowance: (the amounts remain same as in 2008)

for one-child family:	12 200 HUF,
for one-child, single-parent family:	13 700 HUF,
for two-children family:	13 300 HUF per child,
for two-children, single parent family:	14 800 HUF per child,
for families with three or more children:	16 000 HUF per child,
for single parent families with 3 or more children:	17 000 HUF per child,
for families with severely ill or disabled child:	23 300 HUF per child,
for single parent families with severely ill or disabled child	25 900 HUF per child,
in case the child concerned is in foster home:	14 800 HUF
in the case of full aged disabled child:	20 300 HUF

. The families with three or more children have a **tax credit** of 4 000 HUF/month/child, in case their income does not exceed a certain limit (6 000 000 HUF/year in families with three children, 8 000 000 HUF/year in families with seven children).

In the framework of regular child protection allowance cash benefit (2 x 5800 HUF, for the bearer 2 x 8400 HUF in 2009), subsidized meals for children and other kinds of support are provided. Each year the amount of the support will be established by the Parliament, in the act on the budget.

Irregular child protection support: the amount is designated by decree of the respective local government.

6.2.1.1 Irregular additional payments

There's no irregular additional payment.

6.2.2 Income and earnings disregards

See 6.1.

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6.3 *Tax treatment of benefit and interaction with other benefits*

Not subject to tax

6.4 *Treatment of particular groups*

6.4.1 *Young persons*

6.4.2 *Older workers*

6.4.3 *Others if applicable*

Single parents and parents with severely ill or disabled child are entitled to higher amounts of benefits. (see 6.2.1.)

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7. Childcare for pre-school children

Participation rates in day care and pre-school for children under six years:

Under 3 years 9%
3 years 71%
4 years 92, 3%
5 years 97, 8%

The compulsory schooling starts when the child is 6 years old.

7.1 *Out-of-pocket childcare fees paid by parents*

At the centre-based institutes providing the day-time provisions for children the care is free of charge, the family have to pay only for the meal. The average fee is: 6 000 Ft/person/month. The basis of calculation: The cost of the raw material for one person.

After children suffering from permanent disease or being seriously disabled or those living in families with 3 or more children, the families are entitled to pay 50% reduced fee for the daily meals. Free of charge meals are provided for children entitled to regular child protection allowance in crèches, nurseries and in the first four grades of primary schools.

At the form of the child-minding care at home the fee is based upon the hours being in care, but can not be more than 15% of the monthly income of the parents. If the care includes meal, can not be more than 20% of that.

The fees are legislated: The Act of Protection of Children 1997 XXXI regulates the question.

They are not tax deductible.

The liability for social support gives possibility for reduction of the fees.

7.2 *Child-care benefits*

Birth grant is a universal benefit provided for every mother (or adopting parents) right after giving birth. Pregnancy-confinement benefit is insurance-based, for the period of the maternity leave, namely 24 weeks (4 weeks before, 20 weeks after planned date of birth, or 24 weeks after the date of birth, as the choice of the mother). Child care fee is insurance based, provided from after the period of pregnancy confinement benefit to the age of 2 years of the child. Child home care allowance (provided also for grandparents): entitlement is universal, providing flat-rate benefit to all residents. As a general rule, the benefit is provided until the age of 3 years of the child. In case of twins, the benefit is provided until the twins enter into primary education. In case of a child being severely ill or disabled, the benefit is provided until the age of 10 years of the child. Child raising support: entitlement is universal, providing a flat-rate benefit, provided that there are three or more minor children (being under the age of 18) raised in the

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family. The benefit shall be provided from the age of 3 years of the youngest child until she/he reaches the age of 8 years.

Regular child protection support dissolved into the family allowance, the families in need are entitled to **regular child protection allowance** (see section 6).

Irregular child protection support is social assistance-based, provided by the local government for families having temporary cash flow problems or facing emergency situations that seriously threaten their standard of living. (see section 6).

7.2.1 *Conditions for receipt*

Birth grant is conditional upon that the mother completed at least four prenatal medical examinations (one in case of premature birth). Pregnancy-confinement benefit is provided if the insured mother (or adopting mother) was insured for at least 180 days during the last two years prior to childbirth and gave birth to the child during being insured or within 42 days after having been terminated the insurance or during paid sick-leave. Conditions of the child care fee: the parent has to be insured, and needs at least 180 days of insurance during the last two years before delivery, the child lives with the claimant's family, and one of the parents is obliged to stay at home and care for the child. Child home care allowance: for parents who care for their children aged under 3 years (aged under 10 for disabled children) or for grandparents who care for their grandchildren aged between 1-3 years in the household of the parent. In case of twins the allowance is paid until children will reach the compulsory schooling age (usually 6 years). After the child's 1st birthday, the parent is allowed to work full-time while receiving the benefit. Child raising support: see 7.2.

7.2.2 *Calculation of benefit amount*

7.2.2.1 Calculation of gross benefit

Birth grant: one off lump-sum payment, 225% of the minimum amount of old-age pension per child or 300 % of the minimum of old-age pension per child in case of twin-children. Pregnancy-confinement benefit: 70% of the daily average gross earnings of the previous year.

Child care fee: the amount of benefit is defined as 70% of the previous average daily income, with a ceiling of maximum 100 100 HUF, introduced by 1 January 2009.

Child home care allowance: the amount equals to the monthly minimum old age pension (in 2009: 28 500 HUF), in case of twins, the amount is doubled (in 2009: 57 000 HUF). Child raising support: the amount, irrespectively to the number of children in the family concerned, equals to the minimum old age pension.

7.2.2.2 Income and earnings disregards

There are no disregards.

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7.2.3 *Tax treatment of benefit and interaction with other benefits*

1. The pregnancy-confinement benefit is disbursed on an insurance basis, and is proportionate to earnings and therefore counts as taxable income and interact only with child home care allowance.
2. Child care allowance is not taxable income as long as no extra wage earning activity is performed besides, however, as soon as this happens, the earnings thus generated will be taxable together with the allowance and the tax calculated on the allowance is deductible. Pension contribution must be paid after it as the disbursement period is qualifying period for pension.
3. Child raising support is not taxable income as long as no extra wage earning activity is performed besides, however, as soon as this happens, the earnings thus generated will be taxable together with the support and the tax calculated on the support is deductible. Pension contribution must be paid after it as the disbursement period is qualifying period for pension.
4. Child care fee is disbursed on an insurance basis, and is proportionate to earnings, and therefore counts as a taxable income and can interact with child home care allowance.
5. Birth grant is not subject to taxation.

7.2.4 *Treatment of particular groups*

See above.

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8. Employment-conditional benefits

None.

8.1 *Conditions for receipt*

8.2 *Calculation of benefit amount*

8.2.1 *Calculation of gross benefit*

8.3 *Tax treatment of benefit and interaction with other benefits*

8.4 *Benefit duration*

8.5 *Treatment of particular group*

8.5.1 *Young persons*

8.5.2 *Older workers*

8.5.3 *Others if applicable*

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9. Lone-parent benefits

See 6.2.1.

9.1 Conditions for receipt

9.2 Calculation of benefit amount

9.2.1 Calculation of gross benefit

9.2.1.1 Irregular additional payments

9.2.2 Income and earnings disregards

9.3 Tax treatment of benefit and interaction with other benefits

9.4 Benefit duration

9.5 Treatment of particular group

9.5.1 Young persons

9.5.2 Older workers

9.5.3 Others if applicable

Reference date for all information is July 1st 2009

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10. Tax system

10.1 Income tax

10.1.1 Tax allowances and credits

10.1.1.1 Standard allowances

None.

10.1.1.2 Standard tax credits

Employment tax credit:

- This credit is calculated as 18 per cent of wage income earned, with a monthly maximum of HUF 11 340. If the worker's annual income exceeds HUF 1 250 000, the tax credit is reduced at the rate of HUF 0.09 for every HUF 1 above this limit. The credit is fully extinguished once income reaches HUF 2 762 000.

Tax credits for children:

- For families having at least three children, tax liability can be reduced by the child tax credit, which amounts to HUF 4 000 per month/each dependent. This credit can be applied by a pregnant woman (or her husband) as from the 91st day after conception until birth of the child. The tax credit may be claimed by one spouse or be split between the spouses. If parent's total annual income exceeds a limit defined in the legislation (the income limit differs according to the number of children, e.g. for families with three children it amounts to HUF 6 million), the credit is reduced at the rate of HUF 0.2 for every HUF 1 above the limit.

10.1.2 Income tax schedule (central government income tax)

Taxable income (HUF)		Tax on lower limit (HUF)	Tax rate on income in bracket (%)
Lower limit	Upper limit		
0	– 1 900 000	0	18
1 900 001	and above	342 000	36

Private persons with a combined annual income (gross annual income taxed progressively) of more than HUF 7 446 000 must pay a surtax. The tax base is the portion of the income over HUF 7 446 000; the tax rate is 4 per cent.

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10.1.3 State and local income taxes

In Hungary there is no local personal income tax system supplementing the central one. More precisely, the total income tax collected is split between the central government and local governments. At the same time, the local governments can levy taxes on sites and buildings, tourist facilities and activities, employment and business activities.

10.2 Treatment of family income

The tax unit is the individual. Spouses are taxed separately.

10.3 Social security contributions and payroll taxes

10.3.1 Contributions payable by employees and benefit recipients

Pensions

A new pension system became effective on January 1 1998. The pension system now has three pillars and consists of a PAYG mandatory social insurance public scheme, mandatory fully funded private pension funds and supplementary voluntary mutual pension funds. Participation in the public scheme is obligatory for all employees. At the same time, those employees who first join the social security system in general and had not reached the age of 35 at that time are obliged to enter a private pension fund (2nd pillar. Those who had joined the social security scheme earlier and had not reached the age of 30 had/has the opportunity to enter a private pension fund. Employees remaining in the public scheme continue to pay 9.5 per cent contributions to the state pension fund (the public scheme). Members of the mixed system pay the same contribution rate, though 8% to the private scheme and 1,5% to the public scheme. The maximum annual amount of this contribution is HUF 707 370. (The ceiling for annual income subject to employees' contributions in 2009 is HUF 7 446 000 (daily HUF 20 400).

Sickness

As from 1 January 2008 the rate of the employee's health contribution decreases to 6% of gross earnings (out of which 4% is meant for the coverage of in-kind benefits and 2% for the coverage of cash benefits).

Unemployment

The contribution paid by the employee is 1.5 % of his/her gross earnings The self-employed are to pay 4% "entrepreneurs' contribution" in return for which they can earn entitlements for job-seeker benefit.

Contributions	Percentage of gross earnings
Unemployment	1.5
Social security (other)	15.5

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Note: Only earned income is liable to job-seeker benefit and sickness contributions. That is, workers pay 17 per cent and unemployed pay 9,5%. The maximum level of yearly income subject to employees' contributions in 2008 is HUF 7 137 000 (daily HUF 19 500).

10.3.2 Contributions payable by employers

Pensions

From 2008 employers pay 24 per cent contribution to the social insurance pension scheme (regardless of whether the employee is member of the mandatory private pillar).

Sickness

The rate of health security contribution amounts to 5 per cent of gross earnings in the period January-June 2009. As from July 2009 the rate of health security contribution is 2 per cent on the gross earnings not exceeding twice the minimum wage, and 5 per cent on the gross earnings exceeding twice the minimum wage. In 2009, the minimum wage amounts to HUF 71 500 per month.

Unemployment

The employer has to pay 3 per cent of gross earnings (employer's contribution) in the period January-June 2009. As from July 2009 the rate of employer's contribution is 1 per cent on the gross earnings not exceeding twice the minimum wage, and 3 per cent on the gross earnings exceeding twice the minimum wage.

10.3.3 Payroll taxes

The employer contributions also reflect payroll taxes that consist of the employee lump sum health contribution as well as a percentage rate training contribution. The lump sum health contribution (EHO) amounts to HUF 1 950 per month (HUF 23 400 on a yearly basis). The training contribution amounts to 1.5 per cent of salaries paid.

10.4 Treatment of particular group

10.4.1 Young persons

As from October 2005, employers taking on career starters with a '**Start Card**' (which is valid for two years after completing studies before reaching age 25, or age 30 in the case of a higher degree) are exempt from lump sum health insurance contribution. Furthermore, these employers are liable to a lower rate of social security contribution (10 per cent in the first year of employment, 20 per cent in the second year as opposed to the general 27 per cent rate). However, this lower rate can only be applied up to 150 per cent of the minimum wage (or 200 per cent in the case of a higher degree).

Supporting Qualified Entry-level job seekers in gaining work experience: Since mid-2009, Labour centres can award grant to help new entrant young people for gaining work experience, essential for their employment. An employer may be eligible for such grant if it undertakes to employ a young entry-level job seeker for a period of at least 1 year in a job that suits his/her qualification.

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10.4.2 *Older workers*

Employers hiring previously long-term unemployed people over 50 years of age or with only elementary qualification with a '**Start Extra Card**' (which is valid for two years) can apply for a reduction in the employer's social security contributions. The reduction is 100 per cent in the first year of employment. In the second year employers are liable to pay 10 per cent of the gross income as social security contributions.

10.4.3 *Others if applicable*

Employers of previously long-term unemployed people or recipients of any of the various child care benefits with a '**Start Plus Card**' (which is valid for two years) are entitled to the same allowance as set out under section 10.4.1.

Start Region Programme: Employers engaging Start Extra cardholders - who were job seekers, eligible for availability assistance before application for the Card, or who are domiciled in the most disadvantaged regions or settlements, while considering their economic, infrastructural and employment situation - are totally exempted under this programme from the payment of contributions for a period of three years. This programme was launched as from 1 January 2009.

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11. Part-time work

11.1 Special benefit rules for part-time work

11.2 Special tax and social security contribution rules for part-time work

Part-time workers pay the same social security contributions as full-time workers, a contribution calculated as a per cent of earnings. From 1st November 2005 the fixed sum contribution for health care amounts to HUF 1950 per person per month. This is paid by the employer for each employee, irrespective of the wage of each employee. In the case of part-time employees the amount of the lump sum health care contribution may be reduced proportionally with the working time down to 50 per cent at most. Employers employing long-term unemployed over 50 years of age are exempt from the fixed sum contribution for health care.

12. Policy developments

12.1 Policy changes introduced in the period of 01.07.2008 – 01.07.2009.

Employee's health contribution is 6% of wages and employer's contribution is 5%, remaining the same as in 2008. In 2009 employees remaining in the public scheme pay 9.5 per cent contributions (the same in 2008) to the social insurance pension fund (the PAYG scheme), those participating in the mixed system pay 8% to the private pension pillar and 1.5% to the PAYG scheme. Employers pay 24 per cent contribution to the social insurance pension scheme (same as in 2008).

As of July 2009, employers' contributions were reduced, in total, by 5 percentage points for income up to twice the minimum wage. A progressive social security scheme was introduced. The maximum level of yearly income subject to employees' contributions in 2009 is daily HUF 20 400 (in 2008: HUF 19 500).

The standard retirement age is unisex 62 years as of 1 Jan 2009, rule announced in 1997. (Retirement age is changed in effect as of 2010, announced in 2009. – See 12.2.)

13th month pension is eliminated for early retirees (only those are eligible who have reached the standard retirement age, 62) and the maximum amount is set at HUF 80,000 (equivalent to the average pension) for other pensioners from 2009. (Rules are changed in effect as of 2010, see 12.2.)

Advanced pension rules are changed as of 1 Jan 2009, announced in 1997. See 2.5.2. – Benefits provided for older workers. (Rules are changing in line with increase in standard retirement age, announced in 2009, in effect as of 2010, See 12.2.)

With effect of 1 July 2009 the 2009 tax table changes for the entire year (i.e. with retroactive effect to 1 January 2009). While the rates of 18 and 36 percent remain unchanged, the lower bracket increases to HUF 1,900,000 from HUF 1,700,000. The rules on tax credits shall not change as compared to the present ones.

Comment [b5]: We propose the deletion of this sentence for it could be misleading, as the system has not changed at all, only the rate of contribution.

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Tax on the consolidated tax base of:

1. HUF 0 - 1,900,000 - 18%
2. over HUF 1,900,001 - HUF 342,000 and 36% of the part above HUF 1,900,000.

The reform of the social assistance system entered into force in 2009. The objective was, that persons capable of working, permanently unemployed, receiving social allowance should participate to a greater extent than before in some form of public work to enable them to obtain regular labour income and get closer to the world of labour.

The persons in active age may obtain entitlement to **benefit for persons in active age**. For the detailed rules see point 4.

12.2 *Future policy changes enacted/announced after 01.07.2009.*

The amount of minimum old-age pension has remained on the 2008 level, there was no increase on 1st January 2009.

The system of parental leaves and childcare benefits has been modified from 1st May, 2010. In case of the insurance-based benefits, the necessary insurance period is increasing (from 180 days to 365 days), and the length of the benefit period is going to be as long as the persons insurance period (maximum up to the 2nd birthday of the child). The eligibility period to the childcare allowance is 2 years in case of children born after 30 April 2010. The eligibility period does not change in case of twins and sick children.

The restructuring of the childcare benefits system is accompanied by the improvement of the availability of the different childcare institutions.

From 30th August 2010, the eligibility period of the family allowance is decreasing: it will be paid up to the end of the school year in which the child reaches 20 years of age (instead of 23 years). In order to ensure the children's regular attendance at school, from 30th August, the family allowance is paid as schooling benefit (iskoláztatási támogatás) to the families whose children are in the age of compulsory schooling. In case of a certain extent of unjustified absence of the child from school, the benefit has to be suspended. If the child is attending to school again, the suspended amount of the schooling benefit has to be paid to the family in kind.

As for 1 Sept 2009 the birth grant rules are different for the children born after 1 April 2010. Birth grant is not taxable income as long as no extra wage earning activity is performed besides, however, as soon as this happens, the earnings thus generated will be taxable together with the allowance and the tax calculated on the allowance is deductible.

From 15th November 2009 only one person/family can be eligible for availability support.

Change in retirement age (rule announced in May 2009, in effect as of 2010): Retirement age is gradually increased (by half a year for every age cohort), reaching age 65 in 2022 for those born in 1957 and after, the first regarded persons are those born in 1952, see as follows:

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Year of birth	Retirement age
Before 1 Jan 1952	62
1952	62.5
1953	63
1954	63.5
1955	64
1956	64.5
1957 and after	65

Changes as of 1 Jan 2010:

- Changes in contribution rates: the employee's contribution (unemployment) and health contribution will be united in "health insurance and labour market contribution" that equals 7,5% of gross earnings. Out of this 6% is meant for the coverage of the health insurance (4% for in-kind benefits, 2% for cash benefits) and 1,5% for the labour market contribution. Health insurance and labour market contribution paid by employers equals 3%, out of which 2% is meant for the coverage of the health insurance (1,5% for in-kind benefits, 0,5% for cash benefits) and 1% for the labour market contribution.
- Income tax schedule (central government income tax)

Taxable income (HUF)		Tax on lower limit (HUF)	Tax rate on income in bracket (%)
Lower limit	Upper limit		
0	– 5 000 000	0	17
5 000 000	and above	850 000	32

- ◆ The minimum wage from 01 Jan 2010 is 73,500 HUF.
- ◆ The fixed-amount healthcare tax (EHO) of HUF 1950 per person per month shall be cancelled from 01 Jan 2010.

Information in the context of economic and financial crisis:

The global crisis hit Hungary at a time, when the country was just in the middle of implementing an ambitious and demanding budgetary stabilisation programme, launched by the Government in 2006 and its economy was already in a downward cycle. This stabilisation programme aimed at a sizable reduction in the budget deficit by 2008. Therefore many parallel measures are launched, aiming not only at the crisis management.

Measures announced especially for the crisis management in 2009:

- One shot financial assistance (HUF 20 000 – 50 000) as a not reimbursable subsidy, for people in crisis situation, rule in effect from 1 July 2009.
- Pension: switch-over to the new methods of indexation, preservation of the pensions' real value will be tied to the economic performance (GDP growth), rule announced in May 2009, in effect as of 1 Jan 2010. See as follows:

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Annual adjustment in January according to rules related to GDP growth as follows.

- GDP growth under 3% - 100% consumer prices
- GDP growth 3-4% - 80% consumer prices 20 % net average monthly earnings
- GDP growth 4-5% - 60% consumer prices - 40% net average monthly earnings
- GDP growth above 5% - 50% consumer prices - 50% net average monthly earnings (Swiss indexation)

- Elimination of the 13th monthly pension in 2009 - See 12.1.
As of 1 Jan 2010 13th month pension is ceased. The payment is not abolished, but the so-called “pension premium” is adjusted to expected GDP growth. Rule announced in May 2009, in effect as of 1 Jan 2010. The pension premium is due above 3.5% of GDP growth.
- Rescheduling of the pension correction programme – in 2009 the actual phase of the programme was ceased, in 2010 the 2009 rules are re-introduced and the rules set formerly for 2010 are ceased.
- The relevant pension insurance institutions may authorize special pension benefit or extraordinary increase of pension benefit.
- Tax Base Complementing Element: As of 1 January 2010, the so-called “super gross income” will be introduced, i.e. the base for personal income tax will contain all dependent, independent and other sources of income and a tax base increasing element (gross up). The tax base is to be grossed up by the social security to be paid by the employer (27% - out of which: 24 % for the social insurance pension scheme, 3% for the “health insurance and labour market contribution”), or in the absence of Hungarian social security coverage, the mandatory health care charge (27%). When calculating the tax gross up, non-taxable income should not be taken into account.
- Termination of the majority of Tax Credits – but the tax credit for children remains the same. For families having at least three children, the tax can be reduced by the child tax credit, which still amounts to HUF 4 000 per month/each dependent. Dependent means a child after the person is entitled family allowance (in detail see 10.1.1.2.)
- Changes of the tax rates and tax brackets and changes of the employment tax credit reduce the tax burden of private individuals to a great extent.
- Termination of the 4 per cent surtax paid by private persons.
- Job-retention package adopted in January 2009:

1. Wage subsidy for job retention. A wage subsidy can be paid for a minimum of three and a maximum of 12 months, provided that - after the subsidy expires - the employer keeps on the worker for a period equivalent to that of the subsidy. This measure provides State support for job retention by reducing the costs to the employer of employing someone. The rate of subsidy ranges from 25% to 75% of the total wages of the workers concerned and the related costs paid by the employer (depending on the total number of employees working for the employer).

2. Shorter working hours combined with future-oriented training. The employer has the option of easing the employment difficulties he faces as a result of the recession by introducing shorter working hours in order to avoid redundancies. In such cases, the employer may receive financial

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support to compensate the worker concerned for lost wages corresponding to working time during which he has not actually worked. The maximum rate of subsidy is 80% of the basic wage and corresponding contributions. The programme also offers the possibility of involving the worker on short-time work in training during working time that he has not actually worked. The maximum subsidy is 80% of the cost of the training, the duration of which cannot exceed 12 months.

3. Wage subsidy and training subsidy for re-employment. : These subsidies can be used for workers who have lost their jobs owing to mass layoffs where the employer has notified the layoffs to the competent local employment office on 1 October 2008 at the earliest. Employers who intend to employ such workers can receive wage subsidies covering the workers concerned. The rate of subsidy is similar to that for wage subsidies for job retention. Employers can also apply for support for training new workers to acquire the skills needed for the job. The subsidy may not exceed 80% of the training costs.

4. Subsidy to provide special service in the event of dismissals: Employers can receive subsidies for calling on the services of an external organisation/service provider for professional help or human support in handling the difficult situation triggered by redundancies. The external organisation/service provider is there to help the employer prepare the redundancy process and to provide guidance to the workers made redundant in how to handle the psychological consequences of losing their jobs, restore their self-confidence and find new prospects. The subsidy ranges from 60% to 100% of the cost of the redundancy process.

5. Commuting subsidy: This subsidy supports travel between the place of residence/permanent address and the workplace for a maximum of 12 months. It may be used indirectly by employers employing people who have recently become job-seekers and directly by the new workers.

ANNEX

DEFINITION OF SOCIAL SECURITY CONTRIBUTIONS AND PAYROLL TAXES.

The following text has been adapted from Annex A of the OECD *Revenue Statistics*.

Social security contributions to general government

Classified here are all compulsory payments that confer an entitlement to receive a (contingent) future social benefit. Such payments are usually earmarked to finance social benefits and are often paid to institutions of general government that provide such benefits. However, such earmarking is not part of the definition of social security contributions and is not required for a tax to be classified here. However, conferment of an entitlement is required for a tax to be classified under this heading. So, levies on income or payroll that are earmarked for social security funds but do not confer an entitlement to benefit are excluded from this heading and shown under personal income taxes or taxes on payroll and workforce. Taxes on other bases, such as goods and services, which are earmarked for social security benefits are not shown here [...] because they generally confer no entitlement to social security benefits.

Contributions for the following types of social security benefits would, *inter alia*, be included: unemployment insurance benefits and supplements, accident, injury and sickness benefits, old-age, disability and survivors' pensions, family allowances, reimbursements for medical and hospital expenses

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or provision of hospital or medical services. Contributions may be levied on both employees and employers.

Social security contributions paid to institutions outside general government

Contributions to social insurance schemes which are not institutions of general government and to other types of insurance schemes, provident funds, pension funds, friendly societies or other saving schemes [are included here if they are compulsory or quasicompulsory (e.g., by virtue of agreement with professional and union organisations)]. Provident funds are arrangements under which the contributions of each employee and of the corresponding employer on his/her behalf are kept in a separate account earning interest and withdrawable under specific circumstances. Pension funds are separately organised schemes negotiated between employees and employers and carry provisions for different contributions and benefits, sometimes more directly tied to salary levels and length of service than under social security schemes.

Payroll taxes

This heading covers taxes paid by employers or employees either as a proportion of payroll or as a fixed amount per person, and which do not confer entitlement to social benefits. Examples of taxes classified here are the United Kingdom national insurance surcharge (introduced in 1977), the Swedish payroll tax (1969-1979), and the Austrian Contribution to the Family Burden Equalisation Fund and Community Tax.