
HUNGARY 2001

1. Overview of the system

Unemployment insurance is compulsory for everyone in employment, except self-employed persons and employed pensioners; unemployment benefit is paid for a maximum of 9 months. Social assistance is the ultimate financial aid available. Non means tested family benefit is available for one or two adults raising a dependent child. Three further specific means tested child raising benefit types may be claimed by those raising a minor aged child. The tax unit is the individual. Average Worker (AW) earnings in 2001 is equal to HUF 1 259 940.

2. Unemployment insurance

2.1 *Conditions for receipt*

Unemployment benefit may only be granted to unemployed persons. Those entitled to old age pension do not qualify as unemployed.

For age limits of old age pension for women and men see 2.5.2.

2.1.1 *Employment conditions*

Unemployment benefits are due to an unemployed person who meets the following criteria:

- at least 200 days of insured employment during the last four years prior to becoming unemployed
- not entitled to old-age, disability or accident related disability pension, nor receiving sickness benefits
- who are willing to work but the Labor Center is unable to offer them a suitable job,
- registered and co-operating with the labour centre in seeking employment

2.1.2 *Contribution conditions*

The contribution paid by the employee is 1.5 per cent of his/her gross earnings. Employer 's contribution equals 3% of the gross wages, remuneration, earnings paid.

2.2 Calculation of benefit amount

2.2.1 Calculation of gross benefit

The benefit equals 65 per cent of the gross average earnings in the four calendar quarters prior to becoming unemployed. Its bottom limit equals 90 per cent of the minimum old-age pension and its upper limit equals two times the bottom limit (in 2001 these were HUF 16 480/month and HUF 32 960 respectively).

2.2.2 Income and earnings disregards

Those claiming unemployment 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 benefit ceases to be payable (must be suspended). If the unemployed person has performed work with the occasional employment booklet, then the unemployment benefit must be reduced by the daily amounts of the unemployment benefit for the number of days spent in employment.

2.3 Tax treatment of benefit

The unemployment benefit is subject to tax in accordance with general rules. The pension insurance contribution is 8 per cent, and the years on benefit count as qualifying period for pension calculation purposes. The benefit is not subject to 3 per cent health contribution (and the claimant will not receive sick pay for disease during the benefit period, but will only receive the unemployment benefit until the expiration of the entitlement).

2.4 Benefit duration

The shortest period of unemployment benefit disbursement is 40 days, and the longest 270 days. Five days in employment corresponds to one on benefit. For those commencing the training supported by the labour centre during the benefit period, within 180 days from the first day of benefit disbursement, and the benefit period expires during the training course, unemployment benefit must be paid for the remaining part of the training but for no longer than 365 days from the commencement of the training.

2.5 Treatment of particular groups

2.5.1 Young persons

There are no specific rules, the general rules of unemployment benefit entitlement conditions apply.

2.5.2 *Older workers*

Elderly unemployed persons, or persons close to pension may be granted pre-pension unemployment allowance by way of unemployment assistance.

The unemployed person is entitled to pre-pension unemployment allowance if

- a) at the time of submitting the claim she/he is a maximum of 5 years away from the retirement age applicable to them,
- b) she/he has been receiving unemployment benefit for at least 140 days, and is no longer entitled to it,
- c) completed his/her age as in a) above within three years following the end of the benefit entitlement period,
- d) he/she has the qualifying period required for old age pension,
- e) there is no realistic chance of ensuring him/her a suitable job.

The pension age indicated in a) above is a function of the year of birth, and equals, in the case of women

55 years if born prior to 1 January 1940

56 years if born in 1940,

57 years if born in 1941,

57 years if born in 1942,

58 years if born in 1943,

59 years if born in 1944,

60 years if born in 1945,

61 complete years if born in 1946.

62 complete years shall be applicable to those born after 1 January 1947.

The old age pension age limit for men shall be

60 years of age if born prior to 1 January 1938,

61 complete years if born in 1938.

62 complete years shall be applicable to those born after 1 January 1947.

The sum of the pre-pension unemployment allowance equals 80 per cent of the minimum old age pension of the time, amounting to HUF 14,648 in 2001. (80 per cent of the minimum old age pension is HUF 18,310.)

No gainful activity may be pursued while claiming pre-pension unemployment allowance. Disbursement of the pre-pension unemployment allowance ceases to be payable (must be suspended) for the period of pursuing a gainful activity.

If the person claiming pre-pension unemployment allowance pursues employment that qualifies as occasional employment, then the monthly sum of the allowance must be reduced by the daily amounts of the allowance for the number of days spent in employment.

The pre-pension unemployment allowance is paid until the unemployed person becomes entitled to old age, disability, or accident related disability pension.

3. Unemployment assistance

Mainly long-term unemployed persons whose unemployment benefit entitlement expired and who satisfied certain specific criteria were eligible to so-called *income subsidy* in accordance with Act III of 1993 on Social Administration and social benefits (this type of support was terminated on 1 May 2000, but those who acquired entitlement may receive the assistance for several years).

3.1 *Conditions for receipt*

Those unemployed persons no longer entitled to benefit shall be eligible to income subsidy

- in whose family the per capita income does not exceed 80% of the lowest sum of the old age pension of the time (that is, does not exceed HUF 14 648 /month in 2001),
- who are not eligible to unemployment related or other regular financial benefit,
- who co-operate with the labour centre as well as with the local government in finding a job, and are available for work.

3.2 *Calculation of benefit amount*

The income subsidy of the unemployed is determined by the local government.

The maximum amount of the income subsidy equals 80% of the lowest sum of the old age pension of the time (HUF 14 648 in 2001), and its lowest permissible amount is HUF 1,000. For unemployed persons with some income the monthly amount of the benefit shall be established so that it should amount to HUF 14 648 together with other income of the unemployed person.

3.2.1 Earnings and income disregards

A person who receives an income subsidy may engage in occasional employment providing earnings up to 50 per cent of the maximum benefit (HUF 7 324/month). If earnings exceed HUF 7 324/month, the benefit will be suspended.

3.3 *Tax treatment of income subsidy*

The income subsidy is exempt from taxation and from any other contributions.

3.4 *Duration of income subsidy*

The income subsidy was provided up to 24 months. As said above, this benefit has been suppressed on 1 May 2000.

4. **Social assistance**

Regular social support:

Those entitled to regular social support are those who have completed their 18th year of age and

a) have lost at least 67% of their working ability, or are in receipt of blind persons' benefit or of disability support,

b) **are unemployed**, and are no longer entitled to income supplement for the **unemployed**,

and have no alternative source of living.

Regular social support is paid by the local governments.

4.1 *Conditions for receipt*

An income related criterion: per capita monthly income in the family does not exceed 80% of the minimum level of the old age pension of the time (the old age pension was 18 310 HUF in 2001), and a persons own monthly income does not exceed:

- in the case of a) 80 per cent of the minimum old age pension applicable at the time (HUF 14,648 per month in 2001)
- in the case of b) 70 per cent of the minimum old age pension applicable at the time (HUF 12,817 per month in 2001)

The active age unemployed claimant must co-operate with the local government or with any social institution appointed by it.

4.2 *Calculation of benefit amount*

4.2.1 *Calculation of gross benefit*

- in the case of a) 80 per cent of the minimum old age pension applicable at the time (HUF 14,648 per month in 2001)
- in the case of b) 70 per cent of the minimum old age pension applicable at the time (HUF 12,817 per month in 2001)

4.2.2 *Income and earnings disregards*

Various benefits and allowances for persons who suffered serious health damage, such as allowance for blind people travel discount for disabled persons etc. do not count as income. Benefit/support recipients are allowed to perform temporary work. No benefit/ support is payable for any day worked.

4.3 *Treatment of Benefit*

Not subject to taxation

4.4 *Benefit duration*

Regular social support has no limitation in time; it is payable until the disbursement criteria apply.

4.5 *Particular groups*

4.5.1 *Young persons*

No details known

4.5.2 *Older employees*

No details known

5. **Housing benefits**

This assistance type (means tested) *flat maintenance support* is available to help maintain the dwelling place, and is meant to contribute to the costs of using the flat (rent, mortgage to a lending institution, heating bill, public utilities, etc.). The *flat maintenance support* is specified and disbursed by the local government.

5.1 *Conditions for receipt*

- ~ *Income related criterion:* per capita monthly income in the family does not exceed twice the minimum level of the old age pension of the time (old age pension was HUF 18 310 in 2001).
- ~ *Apartment size:* size is the input to the means test in the function of the number of persons living in it.
- ~ *Amount of dwelling maintenance expenses:* the justified total monthly costs of maintaining the flat reach or exceed 35% of the monthly total income of the household, and the monthly total costs of heating the flat reach or exceed 20% of the monthly total costs of the household.

5.2 *Calculation of benefit amount*

5.2.1 *Calculating of gross benefit*

The sum of the benefit to maintain the dwelling is specified by the local government, and it may not be less than HUF 1,000 per month.

5.2.2 *Income and earning disregards*

There are no restrictions on the income to be earned while claiming this support.

5.3 *Taxation of housing benefit*

Not subject to taxation.

5.4 *Treatment of particular groups*

No details known.

6. **Family benefits**

The family allowance is a set monthly flat sum. It is payable to families that raise in their own household a child younger than 16 year of age, or one aged 16 to 20 who studies in a primary or secondary public education institution. The allowance is payable regardless of age, even in adulthood after a permanently ill or seriously disabled person.

From 1 July 2001 onward adult persons (above 18 years of age) receive the raised sum of the family allowance in their own right.

From 1 October 1999 onward school age children receive the family allowance at the same conditions under the title of *schooling benefit*.

6.1 Conditions for receipt

No insurance legal relationship needs to be certified, there is general eligibility for every parent raising a child to family allowance. On 1 January 1999 even the income criterion was eliminated.

6.2 Calculation of benefit amount

6.2.1 Calculation of gross benefit

The sum of the family allowance per month and per child

| | |
|---|-----------|
| in families with one child | HUF 3,800 |
| in the case of a single parent raising a child | HUF 4,500 |
| in the case of a two child family | HUF 4,700 |
| in the case of single parent raising two children | HUF 5,400 |
| in the case of a family with three or more children | HUF 5,900 |
| in the case of a single parent raising three or more children | HUF 6,300 |
| in the case of permanently ill and seriously disabled children | HUF 7,500 |
| in the case of a child living in a children's home or placed with a foster parent | HUF 5,400 |

6.2.2 Income and earnings disregards

There is general eligibility for family allowance to every parent raising a child, therefore the income or the earnings do not need to be examined.

6.3 Tax treatment of family benefits

Not subject to tax.

6.4 Treatment of particular groups

Single parents are entitled to a higher amount of benefit.

7. Child care benefits

Support of persons raising children: There were three types of benefit in 2001 to make up for the lost earnings of parents who decided to raise their children themselves in their own household.

1. Pregnancy and confinement benefit
2. Child care allowance
3. Child raising support

7.1 *Conditions for receipt*

1. Pregnancy and confinement benefit is an insurance type benefit, based on 180 days of qualifying period during the two years prior to confinement, and is available for 24 weeks.
2. Child care allowance is available until the child reaches three years of age, or ten years of age if the child is permanently ill or seriously disabled. It is based on general eligibility for any parent raising a child (i.e. father or mother). From 1 May 2001 the child care allowance may be paid even to either grandparent if the parents so agree, and if the child is past one year of age, and if even the grandparent satisfies the eligibility criteria.

In accordance with the Labour Code, employers must grant unpaid leave to the person claiming child care allowance, however, when the child reaches 18 month of age, the parent is allowed to work part-time (no more than 4 hours a day) whilst on benefit. If such allowance is disbursed to either grandparent, the grandparent is not allowed to work extra.

3. Child raising support is available to the parent who raises at least three minor age children where the youngest is between three and eight years of age. The parent claiming child raising support is allowed to work part-time (no more than 4 hours a day) whilst on benefit.

7.2 *Calculation of benefit amount*

7.2.1 *Calculation of gross benefit*

1. Pregnancy and confinement benefit equals 70% of the previous average wage.
2. Child care allowance is equal to the minimum amount of the old age pension (HUF 18 310 in 2001)
3. Child raising support is equal to the minimum amount of the old age pension (HUF 18 310 in 2001)

7.2.2 *Income and earning disregards*

1. In the case of pregnancy and confinement benefit, when calculating the average earnings serving as the basis of the benefit, every earnings must be taken into account after which contribution is to be paid.
2. In the case of child care allowance no investigation of earnings or income is necessary, in spite of the fact that limited employment is allowed while receiving the allowance
3. In the case of the child raising support no investigation of earnings or income is necessary, in spite of the fact that limited employment is allowed while receiving the support.

7.3 *Tax treatment of benefits*

1. The pregnancy and confinement benefit is disbursed on an insurance basis, and is proportionate to earnings, and therefore counts as taxable income.
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. 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 gainful activity is performed besides, however, as soon as this happens, the earnings thus generated will be taxable together with the allowance. Pension contribution must be paid after it as the disbursement period is qualifying period for pension

7.4 *Treatment of particular groups*

7.4.1 *Young persons*

None

7.4.2 *Older employees*

None

8. **Employment-conditional benefits**

None

9. Lone-parent benefits

Single parents have no specific support. However, the child raising assistance types (family allowance, schooling benefit) is higher for those who raise their children on their own.

10. Tax system

10.1 Income tax rate schedule

10.1.1 Tax allowances and credits

Tax allowances:

None.

Tax credits:

Employment tax credit: This must be calculated as 10 per cent of wage income earned in the tax year, with the annual maximum of HUF 36 000. This tax credit is applicable to workers whose annual income does not exceed HUF 1.25 million. In the case of employees having annual income between HUF 1.05 million and HUF 1.25 million, a reduced amount of tax credit has been applicable.

Tax credits for children: The tax can be reduced by the family allowance, which is for one dependent HUF 3000 per month; for two dependants HUF 4000 per month/each dependant; for three or more dependants HUF 10000 per month/each dependant.

Employees' social security contribution: 25 per cent of pension contributions (8%) can be deducted from the tax payable.

10.1.2 The definition of taxable income

Gross (wage and unemployment) earnings.

10.1.3 The tax schedule

| Taxable income (HUF) | Tax rate (%) |
|-------------------------|-----------------|
| 0 - 480 000 | 20 |
| 480 001 - 1 050 000 | 30 |
| 1 050 001 + | 40 |

10.2 Treatment of family income

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

10.3 *Social security contribution schedule*

Pensions

A new pension system became effective on January 1, 1998. The pension system has now three pillars and consists of a public scheme, a mandatory private scheme and a voluntary private scheme. Participation in the public scheme and the mandatory private scheme is obligatory for all employees under the age of 42 who first join the social security system after 30 June 1998. Other private persons had the right to join a mandatory private pension fund until 1 September 1999. Employees remaining in the public scheme continue to pay 8 per cent contributions to the state pension fund (the public scheme). For the purpose of this report, a pension contribution of 8 per cent has been taken into account because it may be assumed that most average production workers are still fully covered by the state pension fund.

Sickness

The rate of the health contribution amounts to 3 per cent of gross earnings.

Unemployment

The worker must pay, as employees' contribution, 1.5 per cent of gross earnings.

| Contributions | Percentage of gross earnings |
|-------------------------|------------------------------|
| Unemployment | 1.5 |
| Social security (other) | 11 |

Note: only earned income is liable to unemployment insurance contributions. That is, workers pay 12.5% and unemployed pay 11%. The maximum level of income subject to pensions and health contributions is HUF 2 197 300.

11. **Part-time work**

11.1 *Special benefit rules for part-time work*

The promotion of part-time employment is governed by the Employment Act. This scheme is designed to resolve, through part-time work, the problems faced by certain employee groups threatened by unemployment. Assistance for the purpose of job preservation is designed to promote the part-time employment of specific groups of workers and individuals. Accordingly assistance may be granted under the following circumstance:

- persons employed between 50 and 75 per cent of a full-time employee
- persons raising a child under the age of ten while working part time
- persons employed reaching retirement age within five years
- persons having lost at least 40 per cent of their working ability

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. In 1999 the lump-sum contribution for health care was HUF 3,600 per person per month. This is paid by the employer for each employee, irrespective of the wage and duration of each employee. Employers paying less than average wages (i.e. part-time wages) may request central subsidies to offset this cost.

12. Policy developments

12.1 *Policy changes introduced in the last year*

At the end of June 2000 a cabinet reshuffle took place. Act LXXXIX of 2000 transferred the administration of employment policy and the employment service from under the Ministry of Social and Family Affairs under the Ministry of Economic Affairs. The Minister of Economic Affairs controls the Labour Market Fund, in tandem with the Governing Body of the Labour Market Fund (MAT). Responsibilities of employment rehabilitation continue to be under the Ministry of Social and Family Affairs.

In 2000 Minister of Social and Family Affairs Decree 30/2000 (IX.15.) GM provided in detail the conditions of providing labour market and employment related information, work/employment search, career counselling, rehabilitation, local (regional) employment counselling, and job placement services. The Decree also provides for the possibility of supporting market actors (public benefit **organisations**, economic partnerships, entrepreneurs) in the event that they render labour market services to social groups in a disadvantaged labour market position living in handicapped regions or to unemployed persons who have been granted assistance by the labour centre but the latter could not itself deliver the service for lack of capacity. The unemployed person may be paid income subsidy if they attend a job club or seek employment actively. The maximum amount of income subsidy may be the bottom limit of the unemployment benefit, and may be disbursed for up to 90 days per calendar year.

As from 1 July 2001 Act XXIV of 2001 amending the Employment Act changed the name and the composition of the labour market **organisation**. The new name of the labour market organisation is the Public Employment Service, and it consists of the following agencies: Employment Office, the county (capital city) labour centres, and work force development and training centres.

The Employment Office as a medium level administration agency has taken over from the Ministry the operative tasks and the exercise of official powers at a secondary level. It manages the labour centres, ensures the methodology for assistance disbursement for unemployment persons, employment promotion aid, and labour market services, and provides for the information technology for their operation.

The Act has also changed the part in the former employment legislation concerning the definition of *unemployed*. The amended version has made it clear that support and services provided by the Employment Act are primarily meant to ensure active age unemployed persons access to a gainful activity.

The amendment has placed unemployed persons' co-operation with the labour market agencies on a new footing by setting this as an obligation for all registered unemployed. (Previously only those in receipt of unemployment assistance had to co-operate with the labour centres or their local offices.)

The legislative amendments have also brought along changes in the rules of active labour market policies as well. A larger number of persons may now benefit from training subsidy. In addition, the training of young persons, and of those in receipt of child care allowance, child raising support, pregnancy/confinement benefit, child nursing fee or care fee may be assisted even if these persons had not previously been registered as unemployed.

As from 2002 the amendment once more ensures the possibility of channelling assistance from the Labour Market Fund for purposes of job creation and job maintenance. The detailed rules of such assistance are provided by Ministerial Decree 1/2002. (I.25.) GM.

By way of supporting job creation non-repayable capital grant may be applied for by legal entities, economic partnerships with no legal personality, and private entrepreneurs in order to create such new jobs or extending such workplaces, procuring hardware and intangible assets to install such new technology as ensure long-term employment through increasing the staffing level.

Job maintenance support may be granted to those employers that intend to terminate the employment relationship of an employee through ordinary notice for a reason related to the employer's operation. The form of the support is non-repayable support for up to 25-75 per cent of the wages and wage costs, or in certain specific cases, (if employment is at the minimum wage level, or the persons in question are of a changed working capacity or work part time) up to 50-90 per cent.

Budgetary agencies may not be granted job creation or job maintenance support.

Act LXXVIII of 2001 amending Act IV of 1991 ensures harmony between Hungarian legislation on unemployment assistance and employment promotion support and the relevant EU legislation. It amends the provisions of the Employment Act to facilitate receipt of EU funding, and creates the conditions of co-financing labour market schemes with EU resources.

The provisions of the Act amending Act IV of 1991 enter effect on 1 January 2002, and/or on the day on which legislation of the international agreement concerning our accession to the EU is announced.

Pákozdi I.:

The amendment of the Employment Act extended the list of job creation.

12.2 Policy changes announced

The new government formed in 2002 place the responsibilities of employment policy under the jurisdiction of the newly established Ministry of Labour and Employment. The

government programme promises changes in the unemployment assistance system. The details of the change have not yet been elaborated.