

## **HUNGARY**

### **1999**

#### **1. Overview of the system**

Unemployment insurance is compulsory for everyone with an employment legal relationship except for self-employed persons and pensioners in employment. Unemployment benefit is paid for a maximum of 12 months. A social assistance benefit exists as a last resort financial aid. Non means-tested family benefits are available for singles or couples with dependent children, as well as three specific means-tested child-care benefits for persons with young children. The tax unit is the individual. The 1999 APW level is HUF 926 244.

#### **2. Unemployment insurance**

##### **2.1 *Conditions for receipt***

To be under 60 years old for men and 56 for women, and actively searching for a job.

##### **2.1.1 *Employment conditions***

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

- at least one year 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
- actively seeking employment
- 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. The sum of the 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 old-age pension and its upper limit equals two times the bottom limit (in 1999 these were HUF 13,815/month and HUF 27,630 respectively).

### **2.2.2 Income and earnings disregards**

An unemployed person may pursue a gainful activity for up to 50 per cent of the statutory minimum wage (in 1999 it was HUF 11,250/month ) and continue to receive his/her initial unemployment benefits. If earnings exceed HUF 11,250/month, the benefit is withdrawn completely.

## **2.3 Tax treatment of benefit**

Unemployment benefits are taxed at 8 per cent for pension insurance and is subject to the full range of income taxation.

## **2.4 Benefit duration**

The duration varies from 90 days to 360 days, depending on employment record.

Period of contribution (days)	Duration (days)
360-479	90
480-599	120
600-719	150
720-839	180
840-959	210
960-1079	240
1080-1199	270
1200-1319	300
1320-1439	330
Over 1440	360

For those who have exhausted their benefit period, the benefit may be granted again if, contrary to the above, they have spent at least another 180 days in employment. If the period in employment is between 180 and 359 days, the prolonged period for benefits equals 45 days.

## 2.5 *Treatment of particular groups*

### 2.5.1 *Young persons*

Unemployment benefits for school leavers was terminated as from 1<sup>st</sup> July 1996. Passive benefit payments have been replaced by active support that promotes the placement of youth in employment (for details 12.1).

### 2.5.2 *Older workers*

The institution of *pre-pension*, introduced to provide for unemployed persons close to old age pension was discontinued on 1 January 1998, and the institution of *pre-pension unemployment support* was introduced with stricter eligibility criteria.

The unemployed person is entitled to pre-pension unemployment support, if

- a) he/she has no more than five years left before reaching the old age pension age (61 years for men and 57 for women in 1999)
- b) was recipient to unemployment benefit for at least 180 days, and is no longer entitled to receive any more unemployment benefit,
- c) completed the age as in a) above within 3 years following the expiration of the unemployment benefit
- d) has the qualifying period required for the old age pension, and
- e) there is no likelihood of finding suitable employment for him/her.

The amount of the pre-pension unemployment support equals 80% of the lowest sum of the old age pension of the time (12,280 HUF in 1999).

The disbursement of the pre-pension unemployment benefit must be discontinued in the event that:

- a) The unemployed person engages in a wage earning activity from which his/her monthly revenue exceeds 50% of the statutory minimum wage (except farmers selling their own produce),
- b) The unemployed person failed to comply with his/her obligation to co-operate with the labour centre,
- c) The disbursement of the pre-pension unemployment benefit must be discontinued for 90 days in the event that the unemployed person failed to comply with his/her obligation to report his/her wage earning activity as required by legislation.

The pre-pension unemployment benefit shall be disbursed as long as entitlement to old age pension is acquired.

### **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 benefits of unemployed persons (this type of support was terminated on 1 May 2000).

#### **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 12,280 HUF/month in 1999),
- - who are not eligible to unemployment related or other regular financial benefit,
- - who cooperate 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 settlement's local government.

The amount of the income subsidy equals 80% of the lowest sum of the old age pension of the time (12,280 HUF in 1999), and its lowest permissible amount is 1,000 HUF. For unemployed persons with some income the monthly amount of the benefit shall be established so that it should amount to 12,280 HUF 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 6,140/month). If earnings exceed HUF 6,140/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 are of working age and

- ~ have lost at least 67% of their working ability, or claim allowance for blind people
- ~ **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 settlements' 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 15,350 HUF in 1999), and a persons own monthly income does not exceed:

- ~ for members of the first group: 80% (12,280 HUF in 1999), and
- ~ for members of the second group: 70% (10,745 HUF in 1999)

of the minimum level of the old age pension.

*Co-operation obligation:* with the local government and any social institution that it may appoint.

#### **4.2 Calculation of benefit amount**

##### **4.2.1 Calculation of gross benefit**

The support may not exceed

- ~ for members of the first group: 80% (12,280 HUF in 1999), and
- ~ for members of the second group: 70% (10,745 HUF in 1999)

of the minimum level of the old age pension.

##### **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. Recipients of regular social support may work part-time, from which they may derive up to 50% of the benefit they receive for that period.

#### **4.3 Treatment of Benefit**

Not subject to taxation

#### **4.4**     ***Disbursement period***

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 available

##### **4.5.2**    ***Older employees***

No details available

### **5.**     **Housing benefits**

This support type (means tested) benefit to maintain the dwelling is a contribution to the costs of living in an apartment (rent, repayment of loan to a lending institution, heating bill, public utility bills, etc.). The benefit to maintain the dwelling is determined and disbursed by the settlement's 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 15,350 HUF in 1999).
- ~ *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 settlement's local government, and it may not be less than 1,000 HUF.

### 5.2.2 *Income and earning disregards*

There are no limitations to the way in which additional income is generated.

### 5.3 *Taxation of housing benefit*

Not subject to taxation.

### 5.4 *Treatment of particular groups*

No details available.

## 6. **Family benefits**

The family allowance is a 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 education institution. The allowance is payable regardless of age, even in adulthood after a permanently ill or seriously disabled person.

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	3,800 HUF
in the case of a single parent raising a child	4,500 HUF
in the case of a two child family	4,700 HUF
in the case of single parent raising two children	5,400 HUF
in the case of a family with three or more children	5,900 HUF

in the case of a single parent raising three or more children	6,300 HUF
in the case of permanently ill and seriously disabled children	7,500 HUF
in the case of a child living in a children's home or placed with a foster parent	5,400 HUF

#### 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 1999 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).

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.

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 support.

## **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 (15,350 HUF in 1999)
3. Child raising support is equal to the minimum amount of the old age pension (15,350 HUF in 1999)

### **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 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

#### **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 family allowance, paid after children is higher for those who raise their children on their own. After the expiration of income subsidies for the unemployed, they are entitled to regular social assistance afterwards. This provision is disbursed by local governments.

#### **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 million.

Tax credits for children: For one or two dependants HUF 1,700 per month/each dependent; for three or more dependants HUF 2,300 per month/each dependent; for severely disabled dependants HUF 2,600 per month/each dependent.

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 - 400 000	20
400 001 - 1 000 000	30
1 000 001 +	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. The maximum annual amount of this contribution is HUF 55,626.

#### 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 1,854,200.

## **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***

From 1 January 1998 the amendment of the Employment Act extended the list of possible job creation by a provision that enables the assistance of employers who contribute to the mitigation of labour market tensions by hiring at least 300 new employees through manufacturing state-of-the-art products and bringing in new professional culture, mainly to industrially handicapped regions hit by high rates of unemployment.

On 1 January 1998 the restrictive provision was taken out of effect whereby, if the last employment relationship of the unemployed person was terminated so that he/she received severance pay, then he/she may only receive unemployment benefit after as many months following the termination of the employment relationship as the number of months for which his/her average wages would equal the severance pay received.

On 1 January 1998 the institution of *pre-pension*, introduced to provide for unemployed persons close to old age pension was discontinued, and the institution of *pre-pension unemployment benefit* was introduced with stricter eligibility criteria (see above in 2.5.2).

On 1 January 1998, the amended Employment Act extended the possible claims of funds from the central part of the Labour Market Fund by further entitlements. Such new entitlements for claims include subsidy for creating modern jobs, or assistance to programmes contributing to the preparation process of our EU accession. A wider range of assistance is now available even from the decentralised part of the employment fund segment for NGOs whose activities are aimed at preventing unemployment and promoting the employment of persons with disabilities and school leavers.

## **12.2 Policy changes announced**

Act CXXII of 1999 on the Amendment of certain employment and social legislation significantly transforms the benefit system of the unemployed. The Employment Act amended in the same process extends the various options for public benefit employment, and enables the local governments to organise subsidised public work projects, and, as a new element, it provides the services that the employment service may offer. These are as follows:

- a) provision of labour market and employment related information;
- b) counselling on job seeking, career management, rehabilitation, and local (regional) employment;
- c) brokerage service

1 January 2000 marks the end of the availability of subsidies for part-time employment as a way of preserving jobs.

From 1 February 2000 onward, instead *of* and *besides* a set of subsidies under a number of legal titles available for unemployed persons a new regulation enables the assistance of complex labour market schemes.

Also from 1 February 2000 onward, as opposed to the previous requirement of 360 days of employment during the four years prior to becoming unemployed, unemployed persons remain entitled for benefit with only a minimum of 200 days. At the same time, in order to encourage individual initiative to find employment, the maximum period of benefit was reduced from 360 to 270 days. Along with this measure, another loses effect, namely the one whereby on calculating the benefit amount, unemployed persons whose qualifying periods differ but fall within a given range, receive the benefit for equal lengths of time. In the new system, five days in employment are worth one on benefit.

The new regulation encourages benefit claimants the undergo training as those who enroll in training - subsidised by the labour centre - in the first six months of their unemployment, and their benefit entitlement would cease while the training is still on, receive the benefit for the remaining period of the training, for up to 365 days from the inception of the training (i.e. the extreme length of benefit disbursement is one and a half years).

The Employment Act provides limited possibilities for wage earning activities for claimants of unemployment benefit or pre-pension unemployment benefit (see 2.2.2 and 2.5.2), which discourages unemployed persons from seeking employment. Therefore the Act prohibits wage earning activities for claimants of unemployment benefit or pre-pension unemployment support. The

only exception is short wage earning for no longer than 90 days, during which the disbursement of either benefit/ support is suspended.

From 1 February 2000 onward - in the light of the reduction of the longest period benefit disbursement - the qualifying period for pre-pension unemployment support likewise reduces from 180 days down to 140 days. Apart from that, the law provides cases whereby unemployed persons claiming pre-pension unemployment support perform some wage earning activity qualifying as occasional employment. In such a case, the monthly sum of the pre-pension unemployment benefit is reduced by the sum earned while working with the occasional employment booklet.

As part of the transformation of the cash benefit system of unemployed persons, following the amendment of Act III of 1993 on Social administration and social benefits the social type income subsidy of unemployed persons ceased on 1 May 2000. For those unemployed persons who exhausted their entitlement for benefit, and are socially dependent on assistance, local governments ensure the possibility of public work or public benefit work, and thereafter only those unemployed persons will be entitled to regular social support who are willing to undertake this type of employment (for details see point 4 above).

## HUNGARY

### The annual tax/benefit position of an unemployed single person 1999 (in forint)

	Unemployment insurance	Social assistance
<b>A. Taxable benefits</b>		
<b>Means-tested benefits</b>		
<b>Non-means tested benefits</b>		
Unemployment benefits	331 560	
<b>Total taxable benefits</b>	<b>331 560</b>	<b>0</b>
<b>B. Income tax and social security contributions</b>		
Income tax allowances	0	
Taxable income	331 560	
Total income tax (before tax credits)	66 312	
Tax credit	6 631	
Social security contributions	36 472	
<b>Total income tax and social security contributions</b>	<b>96 152</b>	<b>0</b>
<b>C. Non-taxable benefits</b>		
<b>Means-tested benefits</b>		
Social assistance	0	128 940
Housing benefits	12 000	12 000
<b>Non-means tested benefits</b>		
Family benefits	0	0
<b>Total non-taxable benefits</b>	<b>12 000</b>	<b>140 940</b>
<b>D. Net income out of work (A-B+C)</b>	<b>247 408</b>	<b>140 940</b>
<b>E. Net income in work</b>	<b>510 440</b>	<b>510 440</b>
<b>F. Net replacement rate (D/E) (per cent)</b>	<b>48</b>	<b>28</b>

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### The annual tax/benefit position of an unemployed married couple with two children (6 and 4 years old)

1999

(in forint)

	Unemployment insurance	Social Assistance
<b>A. Taxable benefits</b>		
<b>Means-tested benefits</b>		
<b>Non-means tested benefits</b>		
Unemployment benefits	331 560	
<b>Total taxable benefits</b>	<b>331 560</b>	<b>0</b>
<b>B. Income tax and social security contributions</b>		
Income tax allowances	0	
Taxable income	331 560	
Total income tax (before tax credits)	66 312	
Tax credit	47 431	
Social security contributions	36 472	
<b>Total income tax and social security contributions</b>	<b>55 352</b>	<b>0</b>
<b>C. Non-taxable benefits</b>		
<b>Means-tested benefits</b>		
Social assistance	0	128 940
Housing benefits	12 000	12 000
<b>Non-means tested benefits</b>		
Family benefits	112 800	112 800
<b>Total non-taxable benefits</b>	<b>124 800</b>	<b>253 740</b>
<b>D. Net income out of work (A-B+C)</b>	<b>401 008</b>	<b>253 740</b>
<b>E. Net income in work</b>	<b>664 040</b>	<b>664 040</b>
<b>F. Net replacement rate (D/E) (per cent)</b>	<b>60</b>	<b>38</b>

## HUNGARY

### The annual tax/benefit position of an unemployed lone parent with two children (6 and 4 years old)

**1999**

(in forint)

	Unemployment insurance	Social Assistance
<b>A. Taxable benefits</b>		
<b>Means-tested benefits</b>		
<b>Non-means tested benefits</b>		
Unemployment benefits	331 560	
<b>Total taxable benefits</b>	<b>331 560</b>	<b>0</b>
<b>B. Income tax and social security contributions</b>		
Income tax allowances	0	
Taxable income	331 560	
Total income tax (before tax credits)	66 312	
Tax credit	47 431	
Social security contributions	36 472	
<b>Total income tax and social security contributions</b>	<b>55 352</b>	<b>0</b>
<b>C. Non-taxable benefits</b>		
<b>Means-tested benefits</b>		
Social assistance	0	128 940
Housing benefits	12 000	12 000
<b>Non-means tested benefits</b>		
Family benefits	129 600	129 600
<b>Total non-taxable benefits</b>	<b>141 600</b>	<b>270 540</b>
<b>D. Net income out of work (A-B+C)</b>	<b>417 808</b>	<b>270 540</b>
<b>E. Net income in work</b>	<b>680 840</b>	<b>680 840</b>
<b>F. Net replacement rate (D/E) (per cent)</b>	<b>61</b>	<b>40</b>