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## HUNGARY 2004

### 1. Overview of the tax-benefit 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.

#### *1.1. Average worker wage (AW)*

The AW value for 2004 was HUF 1 697 268.

## 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 on the one hand, and administrative bodies on the other. The self-governing bodies are the National Conciliation Council, the Governing Body of the Labour Market Fund, and County (Capital) Labour Councils. The State Employment Service is the administrative body of the employment system. It consists of the National Employment Office, County (Capital) Labour Centres, and Labour Force Development and Training Centres.

### 2.1 Conditions for receipt

#### 2.1.1 Employment conditions

Main conditions:

- involuntary unemployment,
- no entitlement for old-age, invalidity pension or work accident-related disability pension,
- seeking employment
- co-operation with the labour centre

#### 2.1.2 Contribution conditions

Qualifying period: payment of contributions for at least 200 days during the previous 4 years.

The contribution paid by the employee is 1 per cent of his/her gross earnings. Employer's contribution equals 3 per cent of the gross wages, remuneration or earnings paid.

### 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. No ceiling.

The amount of benefit is 65% of the gross average salary. Its bottom limit equals 90% of the minimum old age pension (20,880 HUF/month). The maximum amount of the unemployment benefit is 1,8 times of the minimum old age pension (41,760 HUF).

#### 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.

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During the time of short term employment, the 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 and interaction with other benefits**

Unemployment benefits are subject to the full range of income taxation. The pension insurance contribution is 8,5%, and the years on benefit count as qualifying period for pension calculation purposes. The benefit is not subject to 4% 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**

One day of unemployment benefit is paid for every 5 days of insurance contribution period, up to a maximum of 270 days. Following the expiration of unemployment benefit, the social assistance scheme provides a means-tested regular social benefit, amounting 70% of the minimum old age pension.

### **2.5 Treatment of particular groups**

#### **2.5.1 Young persons**

No specific rules for young persons, the general rules of unemployment benefit entitlement conditions apply.

#### **2.5.2 Older workers**

Benefits provided for older unemployed:

- pre-retirement unemployment assistance: can be provided for the unemployed person if he/she is within five years of reaching retirement age, has been receiving unemployment benefit for at least 140 days, shall reach retirement age minus 5 years within 3 years after the termination of his/her unemployment benefit, has a sufficient contribution period for retirement (normally 20 years), has no prospect of finding a suitable job, and co-operates with the Labour Centre. The amount of the assistance is 80% of the minimum old age pension (18,560 HUF in 2004).
- early pension: can be provided for the unemployed person maximum 5 years before his/her official retirement age if he/she has a sufficient contribution period for retirement (normally 38 or 33 years). The amount is based on a tripartite agreement between employers, employees and the Social Insurance Pension Fund. The employer transfers the amount of old-age pension to the redundant employee due to his/her official pension age.

#### **2.5.3 Others if applicable**

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### **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***

3.1.1 *Employment conditions*

3.1.2 *Contribution conditions*

#### **3.2 *Calculation of benefit amount***

3.2.1 *Calculation of gross benefit*

3.2.2 *Income and earnings disregards*

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

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

#### **3.4 *Benefit duration***

#### **3.5 *Treatment of particular groups***

3.5.1 *Young persons*

3.5.2 *Older workers*

3.5.3 *Others if applicable*

#### 4. Social assistance

Regular social benefit: It is provided within the social assistance scheme in order to ensure a minimum standard of living. The amount of the benefit is determined by per capita income of the applicant's household. Financing: 90% by state budget and 10% by local authorities (100% by state budget in case of homeless people).

##### 4.1 *Conditions for receipt*

Those entitled to regular social support are those who have completed their 18<sup>th</sup> year of age, and:

- a) Have lost at least 67 per cent of their working ability, or are in receipt of blind persons' benefit or of disability assistance.
- b) being unemployed, but no longer entitled to income supplement for the unemployed and having no alternative source of living.

*An income related criterion*: per capita monthly income in the family does not exceed 80 per cent of the minimum level of the old age pension of the time (the old age pension was HUF 24 700 in 2004), and a person's own monthly income does not exceed:

In the case of a) 80 per cent of the minimum old age pension applicable at the time (in 2004: 19,760 HUF).

In the case of b) 70 per cent of the minimum old age pension applicable at the time (in 2004: 17,290 HUF).

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 (in 2004: 19,760 HUF).

In the case of b) 70 per cent of the minimum old age pension applicable at the time (in 2004: 17,290 HUF).

###### 4.2.2 *Income and earnings disregards*

Various benefits and allowances for persons suffering from serious health damage, such as blind person's allowance or disability assistance etc. do not count as income. Benefit recipients are allowed to perform temporary work. No support is payable for any day worked.

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

Not subject to taxation.

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**4.4**      *Benefit duration*

No time limit.

**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**

The home maintenance support 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:

- the costs of home maintenance are equal to 25% or more of the total monthly income of the household
- the monthly income per person does not exceed 150% (200% in case of persons living alone) 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)

**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.

**5.3 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**

## 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,
- child home care allowance,
- child raising support;

Regular child protection support is social assistance-based, provided by the local government, if the per capita income does not exceed the amount of the minimum old-age pension, provided that staying in the family is not harmful to the child concerned. 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 0-16 years), then for secondary school education or vocational training, up to 23 years of age.

Regular child protection support: is provided if the income per person in the family does not exceed the amount of the minimum old-age pension, provided that staying in the family is not harmful for the child. Irregular child protection support is paid for families with temporary cash flow problems or facing emergency situations that seriously threaten their standard of living.

### 6.2 Calculation of benefit amount

#### 6.2.1 Calculation of gross benefit

Family allowance:

- for one-child family: 4,900 HUF,
- for one-child, single-parent family: 5,700 HUF,
- for two-children family: 5,900 HUF per child,
- for two-children, single parent family: 6,900 HUF per child,
- for families with three or more children: 7,500 HUF per child,

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- for single parent families with 3 or more children: 8,000 HUF per child,
- for families with severely ill or disabled child: 13,300 HUF
- in case the child concerned is in foster home  
or lives with foster parent: 6,900 HUF

In July the amount provided for families is doubled. The benefit is paid by the family benefit pay-office of the employer or by the regional directorate of the Hungarian State Treasury.

Regular child protection support: the amount is 5,104 HUF per month which can also be provided as an in-kind support.

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

#### 6.2.2 *Income and earnings disregards*

See 6.1.

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

Not subject to taxation.

#### 6.4 *Treatment of particular groups*

##### 6.4.1 *Young persons*

##### 6.4.2 *Older workers*

##### 6.4.3 *Others if applicable*

Single parents are entitled to higher amounts of benefits. (see 6.2.1.)

## 7. Childcare for pre-school children

The Hungarian health insurance scheme provides the following cash benefits:

pregnancy confinement benefit

The other category of these benefits are those provided by the central budget:

- birth grant
- child care fee
- child home care allowance

Compulsory schooling in the primary education starts normally at the age of 6, however, children shall start their schooling by the latest in the academic year when they become 8.

### 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 who are liable to receive the so called regular child benefit, get 100% reduction, families with three children or more, get 50% reduction, families with child who is permanent ill or disabled get 50% reduction.

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 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

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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 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.

### 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. 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 stay away from work to 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). 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 83,000 HUF, introduced by 1 January 2003.

Child home care allowance: the amount equals to the monthly minimum old age pension (in 2004: 24,700 HUF), in case of twins, the amount is doubled (in 2004: 49,400 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*

No.

### 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.
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

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taxable together with the allowance. Pension contribution must be paid after it as the disbursement period is qualifying period for pension.

4. Child care benefit is disbursed on an insurance basis, and is proportionate to earnings, and therefore counts as a taxable income.

#### 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*

**9. Lone-parent benefits**

See at point 6.

**9.1** *Conditions for receipt*

**9.2** *Calculation of benefit amount*

**9.2.1** *Calculation of gross benefit*

**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*

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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 must be calculated as 18 per cent of wage income earned (with the monthly maximum of HUF 9 000). This tax credit is applicable to workers whose annual income does not exceed HUF 1 950 000. In the case of employees having annual income between HUF 1 350 000 and 1 950 000, a reduced amount of tax credit has been applicable.

###### Supplemental employment tax credit:

If the private individual's total annual income below HUF 720 000 supplemental tax credit must be calculated from the annual income the part that is in excess of 18 per cent of the amount received by multiplying the months of eligibility with HUF 50 000, or maximum HUF 540 for each month of eligibility. This tax credit is applicable to workers whose annual income does not exceed HUF 756 000. In the case of employees having annual income between HUF 720 000 and 756 000, a reduced amount of tax credit has been applicable.

###### Tax credits for children:

For one dependant HUF 3,000 per month; for two dependants HUF 4,000 per month/each dependant; for three or more dependants HUF 10,000 per month/each dependant. The tax credits may be claimed by one or split between the spouses.

#### 10.1.2 Income tax schedule

Gross (wage and unemployment) earnings.

Taxable income (HUF)	Tax rate (%)
0 – 800 000	18
800 001 – 1 500 000	26
1 500 001 +	38

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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 contribution schedule*

*10.3.1 Pensions*

A new pension system became effective on 1 January 1998. The pension system has now three pillars and consists of a PAYG mandatory social pension insurance scheme, a mandatory private scheme and a fully funded voluntary private scheme. As from 2003, participation in the public scheme and the mandatory private scheme is mandatory for all employees under the age of 42 who first join the social security system. (Other private persons had the right to join a mandatory private pension fund until 1 September 1999.) As from May 2004, those who first join the social security system in Hungary but previously had mandatory pension insurance abroad may enter a mandatory private fund on a voluntary basis within 3 months. Employees remaining in the public scheme continue to pay 8.5 per cent contributions to the social insurance pension fund (the PAYG scheme). Members of the mixed system pay 0.5 per cent contribution into the social insurance pension scheme and 8 per cent contribution to the mandatory private scheme. Employers pay 18 per cent contribution to the social insurance pension scheme (regardless of whether the employee is member of the mandatory private pillar). For the purpose of this report, a pension contribution (payable to the state pension fund) of 8.5 per cent has been taken into account. The maximum annual amount of this contribution is HUF 451 095.

*10.3.2 Sickness*

The rate of the employees' health contribution amounts to 4 % of gross earnings. Employers pay 11% contribution.

*10.3.3 Unemployment*

The worker must pay, as employees' contribution, 1% of gross earnings. Employers pay 3%.

Contributions	Percentage of gross earnings
Unemployment	1.0
Social security (other)	12.5

Note: Only earned income is liable to unemployment insurance and sickness contributions. That is, workers pay 13.5 per cent and unemployed pay 8.5%. The maximum level of yearly income subject to employees' pension contribution is a yearly HUF 5 307 000 (daily HUF 14 500).

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**10.4**      *Treatment of particular group*

10.4.1      *Young persons*

10.4.2      *Older workers*

10.4.3      *Others if applicable*

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## **11. Part-time work**

### ***11.1 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 circumstances:

- ~ Persons employed between 50-75% 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% 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. The lump-sum contribution for health care is HUF 3450 per person per month. This is paid by the employer for each employee, irrespective of the wage and the length of daily working time of each employee. Employers employing long-term unemployed over 50 years of age or recipients of child care allowance or child raising support are exempt from lump sum contribution for health care.

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## 12. Policy developments

### 12.1 *Policy changes introduced during the previous year*

As from January 2004, the ceiling of employees' pension contribution (for public and mandatory private pillar combined) has been increased from a daily HUF 10,700 to HUF 14,500. Employees' health insurance contribution has been increased from 3 per cent to 4 per cent of earnings. Employers employing long-term unemployed over 50 years of age or recipients of child care allowance or child raising support are exempt from lump sum contribution for health care.

### 12.2 *Policy changes announced*