

THE OECD TAX-BENEFIT MODEL FOR HUNGARY

Description of policy rules for 2018



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Table of contents

<i>Preface</i>	5
<i>The OECD tax-benefit model for Hungary: Policy rules in 2018</i>	6
1. Reference wages	6
2. Unemployment benefits	6
2.1 Unemployment benefit (Álláskeresési járadék)	6
3. Social assistance and housing benefits	9
3.1 Social assistance (Employment substituting support - foglalkoztatást helyettesítő támogatás)	9
3.2 Housing benefit	11
4. Family benefits	12
4.1 Family allowance (családi pótlék)	12
4.2 Regular child protection allowance (rendszeres gyermekvédelmi kedvezmény)	13
5. Childcare for pre-school children	15
5.1 Gross childcare fees	16
5.2 Fee discounts and free provision	17
5.3 Child-care benefits for formal centre-based care	17
5.4 Child-care allowance for children not using child care centres	17
5.5 Tax concessions for childcare expenditures	19
6. Employment-conditional benefits	20
7. Social security contributions and payroll taxes	20
7.1 Social security contributions	20
7.2 Payroll taxes	22
8. Taxes	22
8.1 Personal income tax	22
<i>Annex: Other benefits and direct taxes</i>	24
Pre-pension job-seekers' allowance (nyugdíj előtti álláskeresési segély)	24
Housing benefit (mobilitási célú lakhatási támogatás)	24
Additional information on the day-care system for children:	26

Preface

The [OECD Tax-Benefit model \(TaxBEN\)](#) incorporates detailed policy rules for tax liabilities and benefit entitlements as they apply to individual families across OECD member countries. Its main use is to calculate the amount of taxes that people are liable to pay, and the government transfers they are likely to receive, in different family and labour-market situations. The model includes legal policy rules that are relevant for people of **working age** (from 18 years old until the statutory retirement age) and their dependent children. Income tax liabilities and benefit entitlements are calculated for a broad set of *stylised* families (“vignettes”, e.g. a married couple of 40 years old adults with two children aged 4 and 6 respectively). Model users are free to change many of these characteristics, including the age and number of children, activity status of adult members, hours of work, current and past earnings levels, unemployment duration, social contribution records, and housing-related costs. The model has been updated annually since the early 2000s for most OECD countries.

TaxBEN’s policy scope includes the main taxes on employment income (earnings), social contributions paid by individuals and by employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits and support for non-parental childcare are included for a sub-set of countries and years. The most important policy areas that are outside the scope of the model include taxes on wealth (e.g. taxes on immovable and unmovable properties, including local taxes), indirect taxes (e.g. VAT), early-retirement benefits, sickness benefits and in-kind transfers (e.g. free school meals, subsidised transport and free health care).

This report describes the taxes and benefits that are included in the model and focuses on the rules that are relevant for family, individual and labour-market circumstances that are within its scope. The **Annex** provides information on other cash benefits and taxes on employment incomes that can be relevant for some members of the working-age population, but which are not included in the TaxBEN model.

Reading notes and further details on the scope and content of this report

- The **reference date** for policy rules described in this report is **January 1, 2018**.
- **Guidelines for completing and updating this report** are provided [here](#).
- Further information on the model, model results, and references to reports and analytical uses is available on the [project website](#). A [methodology](#) document provides a full description of the assumptions underlying the model as well as the model choices that users can make. The symbol  in the text provides a link to a glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- In order to facilitate transparency between the policy descriptions and the associated code in the model, the **variable names** are indicated in the text in square brackets using the following format: **[variable name]**, for instance: **[AW]** for the average wage.

The OECD tax-benefit model for Hungary: Policy rules in 2018

1. Reference wages

The 2018 estimated average wage **[AW]** is HUF 4,031,276.5.¹

The minimum wage **[MIN]** in 2018 is HUF 138,000 per month. The annual minimum wage is computed by multiplying the minimum monthly wage (as of January 1, 2018) by 12, i.e. HUF 138,000 * 12 = HUF 1,656,000.

2. Unemployment benefits

The unemployment benefit system in Hungary consists of two schemes. i) a contributory scheme (job-seekers' benefit, *álláskeresési járadék*) and ii) a non-contributory scheme (pre-pension job-seekers' allowance, *nyugdíj előtti álláskeresési segély*).

Job-seekers' benefit is described in Section 2.1, pre-pension job-seekers' allowance in Section 2.2.

2.1 Unemployment benefit (*Álláskeresési járadék*)

Variable names: **[UI_p; UI_s]**

This is an unemployment insurance benefit (job-seekers' benefit). It is contributory, not means-tested but taxable.

Applicable statutory basis: Act IV of 1991 on Job Assistance and Unemployment Benefits.

Basic principles: Based on principles of social insurance, financed by employers' and employees' labour market contributions and central state budget subsidies, providing earnings-related benefits to employees.

Field of application: All insured employees and private entrepreneurs business partners specialised in SSE except employed pensioners entitled to draw pensions on their own right and further persons specialised in SSE.

The National Employment Service is the administrative body of the employment system. It consists of the Ministry for National Economy, the county government offices and the micro-region government offices of the county government offices. 

¹ AW refers to the Average Wage estimated by the [Centre for Tax Policy and Administration](#). For more information on methodology see the latest [Taxing Wages publication](#).

2.1.1 Eligibility conditions

Age: No age limit.

Contribution/employment history: payment of contributions for at least 360 days during the previous 3 years qualifies for jobs-seekers' benefit.² The job-seeker is granted job-seeker benefit for 90 days (a tax-paying period can be taken into respect only once).

According to Section 27 of the Act IV of 1991 on Job Assistance and Unemployment Benefits the duration of payment of job-seekers' benefits – the payment period – shall be calculated on the basis of the period spent in employment or in the public work scheme by the job-seeker during the three-year period preceding the date of becoming a job-seeker, or spent as a private entrepreneur or as a member of a business partnership, provided in the latter case that the job-seeker has satisfied the entrepreneurial contribution payment obligation during this time (collectively referred as eligibility period). The duration of the eligibility period shall not include any period during which the job-seeker was drawing job-seekers' benefits or entrepreneurial benefits. The three-year period defined above shall be extended by the following periods, or a part of such periods, if no employment relationship was established or the job-seeker did not enter a public benefit employment program during such periods, or if the job-seeker had not been engaged in entrepreneurial activities that may be recognized as eligibility period:

- a) regular and reserve military service and civil service;
- b) sickness resulting in incapacity to work;
- c) sick-leave with pay for nursing a sick child;
- d) while receiving pregnancy confinement benefits, infant care fee, child-care fee, child home care allowance, child-care allowance;
- e) period of payment of benefits provided to persons with changed working capacity, invalidity and work accident-related invalidity pension, regular social allowance, temporary annuity and miners' health damage annuity;
- f) pre-trial detention, imprisonment, and confinement;
- g) while receiving nursing fee and child-raising support;
- h) while pursuing studies as a full-time student at any educational institution.

Behavioural requirements and related eligibility conditions:  TaxBEN assumes that the following compulsory conditions are satisfied when simulating unemployment benefits.³ The benefit claimant:

- is as job-seeker registered at the PES;

² The labour market contribution paid by the employee is 1.5 per cent of his/her base for social security contributions. (Employers and insured private entrepreneurs pay social contribution tax, of which from the 1st of January 2018 79,5% is transferred to the Pension Insurance Fund and 20,5% is transferred to the Health Insurance Fund)

³ Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated companion reports, see Immervoll and Knotz (2018, forthcoming), [Langenbacher \(2015\)](#) and [Venn \(2011\)](#).

- co-operates with the PES;
- wishes to find employment, but his efforts to find a job have not succeeded and the PES is unable to offer suitable employment;
- does not carry out gainful activity (as employee or entrepreneur); is not entitled for old-age pension, rehabilitation annuity or benefits for persons with changed working capacity, does not pursue studies as a full-time student.

2.1.2 *Benefit amount*

Calculation base: The amount of job-seekers' benefits shall be calculated on the basis of the average monthly sum comprising the labour market contribution base that the job-seeker has earned during the four calendar quarters before the time when the application for job-seekers' benefit was submitted. If the application for job-seekers' benefit is handed in later than the time when the job seeker was registered, the amount of job-seekers' benefits shall be calculated on the basis of the average monthly sum comprising the labour market contribution base that the job-seeker has earned during the four calendar quarters prior to becoming a job-seeker. In the process of calculating the average monthly sum, the amount of the contribution base earned during this period shall be divided by the number of months during which the job-seeker had any income comprising part of the contribution base. If the contribution base of a job-seeker for a given month does not cover the entire month, it shall be taken into consideration as a fraction of a month for the purposes of calculating the average monthly sum.

Benefit amount: The amount of job-seeker benefit shall be 60 % of the base of job-seeker benefit, whereas its upper limit shall be 100% of the amount of the minimum wage on the first day of eligibility for job seeker benefit (138,000 HUF/month).

2.1.3 *Benefit duration*

One day of job-seeker benefit is paid for every 10 days of insurance contribution period, up to a maximum of 90 days.

2.1.4 *Means test*

The benefit is not means-tested.

2.1.5 *Tax treatment*

Job-seeker benefits are subject to the full range of income taxation. The pension insurance contribution is 10 %, and the years on benefit count as qualifying period for pension calculation purposes. The benefit is not subject to health contribution (and therefore the claimant will not receive in-kind benefits e.g. sick pay for disease during the benefit period).

2.1.6 *Interactions with other components of the tax-benefit system*

None.

2.1.7 *Combining benefit receipt and employment/starting a new job*

Those claiming job-seeker benefits may not pursue any gainful activity. The only two exceptions are short term employment for up to 120 days and occasional employment and

seasonal employment. 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 120 days provided the notification obligation (to the PES) was satisfied.

3. Social assistance and housing benefits

In Hungary, there exists one guaranteed minimum income scheme (employment substituting support, *Foglalkoztatást helyettesítő támogatás*). While local governments can provide financial aid to support housing costs in the form of a local benefit (*települési támogatás*), no representative housing benefit scheme currently exists. Housing benefits are thus not modelled in TaxBEN. However there is a housing benefit to facilitate mobility of employees (see Annex).]

3.1 Social assistance (*Employment substituting support - foglalkoztatást helyettesítő támogatás*)

Variable name: [SA_p; SA_s]

This is a non-contributory benefit which is means-tested, needs-based and not taxable.

It is provided in order to ensure a minimum standard of living for those who are not employed (except of those in public employment, simplified employment or carrying out household work), and who are in active age (18 – retirement age). The eligibility is depending on the income of the family. The benefit for persons in active age has no time limit.

More precisely, persons capable of performing work are entitled to employment substituting support (ESS, *foglalkoztatást helyettesítő támogatás*). Persons who belong to this scope are obliged to cooperate with the Public Employment Service and to take part in public work. For the period of public work, wage is paid (at least the minimum wage of the public work) and the paying out of the benefit is suspended. The employment substituting support is paid, when the person is not involved into public work or training. The entitlement to the benefit is terminated in case the person cannot prove that in the previous year (s)he pursued a gainful activity, or took part in a training programme or in a labour market programme for at least 30 days. When social assistance is included in the modelling, the person is assumed to remain entitled to the benefit throughout their unemployment spell.⁴

3.1.1 Eligibility conditions

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

⁴ Persons incapable of performing work are entitled to benefit for people suffering from health problems or taking care of a child (BHTC, *egészségkárosodási és gyermekfelügyeleti támogatás*). This scheme is not modelled in TaxBEN.

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 consumption unit is defined 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).

Only one person in a family can be eligible to ESS.

Persons who are entitled to ESS are obliged to cooperate with the Public Employment Service and to take part in public work.

3.1.2 Calculation of gross benefit

The monthly amount of ESS is a fixed lump-sum payment equal to 80 % of the minimum old-age pension (22,800 HUF). The sum is independent of the family composition and paid as long as the family's monthly income per consumption unit does not exceed 90 % of the minimum old-age pension. For the period of public work wage is paid (at least the minimum wage of the public work, the gross amount of which is 81,530 HUF, the net amount is 48,795 HUF).

3.1.3 Benefit amount

See Section 3.1.2.

3.1.4 Benefit duration

No time limit subject to eligibility. After expiry re-application is possible within 36 months, without need to fulfil the preliminary collaboration obligation (if the other entitlement conditions are met).

3.1.5 Means test

Benefit is paid until the family's monthly income per consumption unit does not exceed 90 % of the minimum old-age pension and that the family has no property.

All types of income are taken into account, except: extraordinary local benefit (rendkívüli települési támogatás): local benefit providing support to the costs of home maintenance, medication and debt management, irregular child protection support (rendkívüli gyermekvédelmi támogatás), the component of the regular child protection allowance provided in vouchers (rendszeres gyermekvédelmi kedvezmény), fee and allowance paid for foster parents (nevelési díj és külön ellátmány), birth grant (anyasági támogatás), jubilee grant (szépkorúak jubileumi juttatása), in cash transportation allowances for the mobility-impaired (a súlyos mozgáskorlátozott személyek pénzübeli közlekedési kedvezményei), personal annuity for the blind (vakok személyi járadéka), disability support (fogyatékosági támogatás), assignment given to the volunteers (az önkéntesnek biztosított juttatás), the monthly income deriving from occasional work, the fee granted to the carer in the framework of domestic assistance (a házi segítségnyújtás keretében kapott

tiszteletdíj) and energy support (energiafelhasználáshoz nyújtott támogatás), tax free income received as a member of social co-operative; value coming from the sale of a real estate where the claimant lives, or the right which is connected to this real estate for a one year long period after the sale; cancelled debt, ceased duty.

The claimant is not entitled to the benefit if the property of his/her family exceeds the limit defined by law. The limit is set as follows: the value of one piece of property cannot exceed the thirtyfold of the minimum old-age pension (öregségi nyugdíj minimum) (HUF 855,000) or the value of the whole property cannot exceed the eightyfold of the minimum old-age pension (HUF 2,280,000).

Property includes usable real estate, the rights associated with that real estate and vehicles. However, it does not include the real estate where the claimant lives, the right which is connected to this real estate and the vehicle which is used to transport a mobility-impaired person.

The benefit is suspended if the person pursues a gainful activity (except for casual work). The suspension may last until the 120th day of the gainful activity. On the 121th day the benefit is ceased. Benefit recipients are allowed to perform temporary work (casual work), but the income is calculated in the benefit amount.

Various benefits and allowances for persons suffering from serious health damage, such as personal allowance of the blind or disability benefit etc. and special types of income defined by the Social Act, e.g. extraordinary benefits, benefits for housing and medical purposes, do not count as income.

3.1.6 Tax treatment

The benefit is not taxable.

3.1.7 Interaction with other components of the tax-benefit system

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

The beneficiaries are entitled to health services without contribution payment.

3.1.8 Combining benefit receipt and employment/starting a new job

See Section 3.1.5.

3.2 Housing benefit

Variable names: **[HB]**

While local governments can provide financial aid to support housing costs in the form of a local benefit (*települési támogatás*), no representative housing benefit scheme currently exists. Housing benefits are thus not modelled in TaxBEN. However there is a housing benefit to facilitate mobility of employees (see Annex).

- 3.2.1 *Eligibility conditions*
- 3.2.2 *Calculation of gross benefit*
- 3.2.3 *Benefit amount*
- 3.2.4 *Benefit duration*
- 3.2.5 *Means test*
- 3.2.6 *Tax treatment*
- 3.2.7 *Interaction with other components of the tax-benefit system* 
- 3.2.8 *Combining benefit receipt and employment/starting a new job*

4. 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, besides newly married couples are entitled to a specific tax allowance. These benefits are financed out of the central budget. The family support system provides:

- family allowance (*családi pótlék*) – described in Section 4.1
- family tax base allowance (*családi szja és járulékkedvezmény*) – see Section 8.1
- regular child protection allowance (*rendszeres gyermekvédelmi kedvezmény*) – described in Section 4.2
- child-care benefits (*gyermek után járó ellátások*) – described in Section 5.4.
- family tax allowance for first marriages (*első házások kedvezménye*) – not modelled in TaxBEN
- Families having temporary cash flow problems or facing emergency situations that seriously threaten their standard of living may ask for local benefit from the local governments (*települési támogatás*). The amount is designated by decree of the respective local government; therefore not modelled in TaxBEN.

4.1 Family allowance (*családi pótlék*)

Variable names: **[FAMBEN]**

This is a non-contributory, non-taxable and not means-tested benefit.

4.1.1 Eligibility conditions

Every parent raising a child is generally eligible to family allowance. This benefit is provided from birth up to compulsory schooling age as child raising benefit (*nevelési*

ellátás) and from schooling age until the termination of studies in compulsory education system (usually 0-18 years), then for secondary school education or vocational training, up to 20 years of age, or 23 years in case of special educational needs as schooling benefit (*iskoláztatási támogatás*).

4.1.2 Benefit amount

Family allowance amounts in 2018:

- 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.

4.1.3 Benefit duration

The benefit can be received as long as the eligibility conditions hold.

4.1.4 Means test

The benefit is not means-tested.

4.1.5 Tax treatment

The benefit is not taxable.

4.1.6 Interaction with other components of the tax-benefit system

Family allowance can be granted together with other family benefits.

4.1.7 Combining benefit receipt and employment/starting a new job

Employment doesn't affect benefit receipt.

4.2 Regular child protection allowance (*rendszeres gyermekvédelmi kedvezmény*)

Variable names: [\[SUB_Meals\]](#)

This is a non-contributory, needs-based and means-tested benefit. It is not taxable.

4.2.1 Eligibility conditions

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 145% (in 2018: 41,325 HUF) 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 135% (in 2018: 38,475 HUF) 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.)

4.2.2 Benefit amount

In the framework of regular child protection allowance a benefit in-kind (voucher) is provided twice a year. The amount of the voucher is 2x HUF 6,000 in case of children who are not disadvantaged or multiple disadvantaged, and 2x HUF 6,500 in case of children who are disadvantaged or multiple disadvantaged. Each year the amount of the support will be established by the Parliament, in the act on the budget.⁵ Above the voucher, the child might be entitled to normative allowance of daily meals, free of charge textbooks and other kinds of support defined by law. The voucher is modelled in TaxBEN, though, not the other types of support (other “in-kind” benefits are not necessarily claimed by the family - for instance young children do not need textbooks- and the value of these benefits cannot be calculated generally).

4.2.3 Benefit duration

The benefit can be received as long as the eligibility conditions hold.

4.2.4 Means test

See Section 4.2.1.

4.2.5 Tax treatment

The benefit is not taxable.

4.2.6 Interaction with other components of the tax-benefit system

Other social benefits (unless those detailed among the exceptions in point 3.1.5.) are taken into account as income while calculating the monthly income of the family.

4.2.7 Combining benefit receipt and employment/starting a new job

Employment doesn't affect benefit receipt (apart from means-test).

Besides the regular child protection allowance, bearers (or guardians), who receive a pension, a pension-like benefit, or old-age allowance are entitled to a cash benefit of 6,270 HUF/month/child. Twice a year (in August and in November) a supplement of HUF 8,400 is also granted. That means that parents are usually not eligible to this benefit but rather grandparents being guardians. This benefit is therefore not modelled in TaxBEN.

5. Childcare for pre-school children

The **reference date** for the policy rules described in this section is **January 1, 2018**.

Participation rates in kindergarten (school year 2017/2018):

- Under 3 years 12.6 %
- 3 years 84.4 %
- 4 years 95.1 %
- 5 years 95.8 %
- 6 years 62.9 %
- 7 years 3.7 %.

In numbers, it means 11 630 children below 3 years of age and 311 111 children between 3 and 7 years are enrolled in kindergarten care.

Early childhood education and care (ECEC):

The Hungarian government's priority is to increase the number of day-care places available for children under the age of 3 from the current 44,000 to 60,000 in the period from 2014 to 2020. For this purpose a significant amount of resource is available. According to the data of the Hungarian Central Statistical Office released on 31 May 2017, the total number of 0-2 years old was 283,507. The number of placements was 46,487, thus 16,2% of the relevant age group can access to one type of ECEC service.

Forms of ECEC services (until 2018):

- The Act XXXI of 1997 on the protection of children and the administration of guardianship (furthermore: Child Protection Act), and the Act CXC of 2011 on public education (furthermore: Public Education Act) are the relevant pieces of legislation for nurseries and kindergarten. Nurseries and kindergartens are public centres, providing full time care and education. In nurseries parents have to pay for the meals (but meals for 70% of the children are free) and in some nurseries for the care.
- The majority of the services are still provided directly by local authorities. Only about 5% of the existing crèche and kindergarten places for children are maintained by the non-governmental sector.
- From January 1, 2017, the day-care system for children has been transformed (see Annex).
- From January 1, 2018, the normative funding of crèches and mini crèches has been replaced by task-based financing, in which the central budget provides for the institution's wage subsidy (average wage-based subsidy for mandatory staff prescribed by law) and for operational support (taking into account the tax capacity of the settlement) to provide effective and long-term operational performance.

5.1 Gross childcare fees

Variable names: [HUcc_cost]

The Child Protection Act includes the rules for calculating parental fees for children's meals and the available normative support (discounts).

At the centre-based institutes providing the day-time provisions for children the care is free of charge; families have to pay only for the meal. The average fee is approx. 8,000 – 10,000 Ft/person/month. The basis of the calculation: the cost of the daily raw material for one person. From 1st of January 2012 the maintainer has the opportunity to request parental fees for children's care in nurseries.

Under the current rules there are two groups based on the fee payable for the meals:

- those receiving free meals,
- those paying full cost.

Free of charge meals are provided for children entitled to regular child protection allowance in nurseries, kindergartens, primary schools and day care services for disabled people. Free of charge meals are also provided for children receiving care and young adults receiving after-care in the child protection system from July 1st 2015.

In general in the nurseries families have to pay only for the daily meals, unless the operator of the nursery prescribes otherwise. Upon this scenario, the families have to pay for the daily meals and nursing too. In 2017 43% of the nurseries determined a fee for their nursing services, which meant an additional expenditure of HUF 6,900/month for the families' budget. However the families' expenditure is reduced by the extended free meal opportunity in nurseries which came into effect from 1 September 2015. In 2015 15% of the children, then in 2016 and 2017 about 70% of the children were eligible for free meal in nurseries.

In nursery and kindergarten children eligible for free catering are those who are:

- eligible for "regular child protection allowance",
- living in families with a monthly per capita income less than 130% of the minimum wage (HUF 119,301 in 2018) and are not eligible for "regular child protection allowance"
- suffering from permanent disease or being disabled,
- healthy children living in families with a child suffering from permanent disease or being disabled,
- children living in families with 3 or more children
- children living in child protection care.

All children attending nurseries (ECEC services for children under the age of 3) receive meals in the nursery. 70% of them receive free meals. 320,529 children received meals in kindergarten, among them 253,530 (79.1%) received it free of charge in school year 2017/2018.

As a specific item of the national central budget, free catering for children in need during summer break has been financed through tenders for the local governments since 2002. The amendment of the Child Protection Act applied in the 2016 spring break for the first

time, made it obligatory for the local governments to ensure free catering for children in need during all school holidays (total of 70 days per year) and during the closing times of nurseries and kindergartens. In the spring break 95,557 children, in the summer break 133,521 children, in the autumn break 104,559 children, in the winter break 112,927 received free catering in 2017, based on parents' request.

The fees are not tax deductible.

The law on the national budget regulates the financing source of free meals and the amount of the normative support for this purpose.

Note that while TaxBEN models the fees for meals (including meals free of charge for relevant groups as specified above), fees for nurseries are not taken into account.

5.2 Fee discounts and free provision

See Section 5.1.

5.3 Child-care benefits for formal centre-based care

None.

5.4 Child-care allowance for children not using child care centres

Variable names: [\[CHILD_C\]](#)

The following childcare benefits are granted after children regardless of being placed or not in centre-based care and are therefore counted as part of family benefits [\[FB\]](#) in TaxBEN.

Birth grant is a universal benefit provided for every mother (or adopting parents) right after giving birth.

Infant care fee 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 after the period of infant care fee as long as the insurance period of the parent takes, but maximum to the age of 2 years of the child. The objective of **Child care fee Extra** benefit package is to ensure that to have children should not exclude individuals from the labour market.

Child care allowance is provided for parents who care for their children aged under 3 years (aged under 10 for severely ill or disabled children) or for grandparents who care for their grandchildren older than one year in the household of the parent.

Child raising support is a universal, flat-rate benefit, provided that there are three or more minor children (being under the age of 18) raised in the family.

TaxBEN models [Child care allowance](#) and [Child raising support](#). For coherence, the following sub-sections will anyway give information on all benefits listed above.

Regular child protection support dissolved into the family allowance, the families in need are entitled to regular child protection allowance (see Section 4.2).

Families having temporary cash flow problems or facing emergency situations that seriously threaten their standard of living may ask for local benefit (települési támogatás) from the local governments. Not modelled in TaxBEN (see Section 4).

5.4.1 Eligibility conditions

Birth grant is conditional upon that the mother completed at least four prenatal medical examinations (one in case of premature birth).

Infant care fee is provided if the insured mother (or adopting mother, or in certain cases (e.g. the mother deceased) the father) was insured for at least 365 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.

Child care fee: the parent has to be insured, and needs at least 365 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 care fee Extra benefit package: after the 6th months of age of the child, parents receiving child care benefits (child care fee or child care allowance) can pursue a gainful activity without time limit. Mothers who are not entitled to child care fee due to the lack of a gainful activity, but who have completed at least two active semesters in higher education are entitled to child care fee until the child reaches 2 years of age. Fathers are entitled to this form of child care fee if the mother dies or is not entitled to the benefit. The parent does not lose entitlement to child care benefit, even if during the eligibility period of the benefit a new child is born (applicable to children born after 31 December 2013). In this case, the parent is allowed to apply for benefit with regard to the new child, and is allowed to keep the former benefit, as well. In case of twins the eligibility period of child care fee is extended by a year. That means that child care fee can be granted up to the third birthday of the children.

Child care allowance: 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 allowance is paid until children will reach the compulsory schooling age (usually 6 years). Above 6 months of age of the child, the parent can work without time restriction (the child can be in a formal childcare centre without losing the allowance). The grandparent cannot pursue a gainful activity under 3 years of age of the child, while above 3 years, the beneficiary can pursue a gainful activity no more than 30 hours a week, or without time restriction at home.

Child raising support: entitlement is universal. The benefit shall be provided from the age of 3 years of the youngest child until she/he reaches the age of 8 years. The beneficiary can pursue a gainful activity up to 6 hours a day or without time restriction at home.

5.4.2 Benefit amounts

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.

Infant care fee: 70% of the daily average gross earnings of the previous year.

Child care fee: the amount of benefit is defined as 70% of the daily average gross earnings of the previous year, with a ceiling of 70 % of the double of the minimum wage (193,200 HUF in 2018)

Child care fee Extra - in case of mothers on student status: generally 70% of the minimum wage (96,600 HUF) or in the case of BA or PhD studies: 70% of the

guaranteed wage minimum (126,350 HUF), from which the 10% pension contribution and the 15% personal income tax are deducted.

Child care allowance: the amount equals to the monthly minimum old age pension (in 2018: 28,500 HUF), irrespective of the number of children in the family. In case of multiple births the amount is multiplied according to the number of children. Parents can get the child care allowance for maximum 2 children at the same time, but twins count as one child in this respect.

Child raising support: the amount, irrespectively to the number of children in the family concerned, equals to the minimum old age pension.

5.4.3 *Benefit duration*

The benefit can be received as long as the eligibility conditions hold.

5.4.4 *Means test*

See above.

5.4.5 *Tax treatment*

Birth grant is not taxable income.

Infant care fee is disbursed on an insurance basis and is proportionate to earnings, and therefore counts as taxable income and interact with child care allowance and child care fee (claimed not for the same child). Taxes levied on entire income.

Child care fee (Extra) is disbursed on an insurance basis, and is proportionate to earnings, and therefore counts as a taxable income and can interact with child care allowance and infant care fee (claimed not for the same child). Pension contribution must be paid as the disbursement period is qualifying period for pension.

Child care allowance is not taxable income. Pension contribution must be paid as the disbursement period is qualifying period for pension.

Child raising support is not taxable income. Pension contribution must be paid as the disbursement period is qualifying period for pension.

5.4.6 *Interaction with other components of the tax-benefit system*

Multiple child care benefits (infant care fee, child care fee, child care allowance) can be claimed in case of having more than one child within the eligibility period, provided that the youngest child in the family was born after 31 December 2013.

5.4.7 *Combining benefit receipt and employment/starting a new job*

See 5.4.1.

5.5 *Tax concessions for childcare expenditures*

None.

6. Employment-conditional benefits

None.

7. Social security contributions and payroll taxes

OVERVIEW: Public burden on gross incomes in 2016	
Paid by the employer	Paid by the employee
Social contribution tax: 19,5% Vocational contribution: 1,5%	Pension contribution 10%
	Health insurance and labour market contribution 8.5% = 4% in-kind health ins.contr. + 3% in cash health ins.contr. + 1.5% labour market contr.
	Personal income tax: 15 % (see Section 8)

7.1 Social security contributions

Variable names: [SOCSEC_1; SOCSEC_2; SSCR_1; SSCR_2; PAYROLL_TAX_1; PAYROLL_TAX_2]

7.1.1 Employee contributions

Pensions:

The employee's individual pension contribution is 10 %. The upper limit of the employees' contribution has been ceased from 1 Jan 2013.

From 2014 employees' pension contribution and health insurance contribution also serve as a basis of the family tax base allowances.⁶

Sickness:

The rate of health security contribution amounts to 7 per cent of gross earnings.

From 2014 employees' pension contribution and health insurance contribution also serve as a basis of the family tax base allowances.⁷

⁶ This means: families whose combined PIT base is not sufficient to claim the maximum amount of the family tax allowance can deduct the remaining sum from the 7 % health insurance contribution and the 10 % pension contribution.

Unemployment:

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

Note: Only earned income is liable to job-seeker benefit and sickness contributions. As a result, workers pay 18,5 per cent and unemployed pay 10 %.

7.1.2 *Employer contributions*

Pensions: None.

Sickness: None.

Unemployment:

Instead of employers' pension insurance contribution, employers' health insurance contribution and labour market contribution, employers shall pay a **social contribution tax** since 1 January 2012. The name and the legal nature have changed while the rate has remained 27% in 2016. The rate of the employers' social contribution tax was reduced by 5 percentage points to 22% from the 1st of January 2017 and by 2.5 percentage points to 19.5% from the 1st of January 2018. That would be followed from 2019 by four more 2-2 percentage point tax rate decrease steps each year after real wages in the private sector has increased by 6 per cent.

Up to a tax base of HUF 100,000 per month the aggregate 21% rate of the social contribution tax and the vocational training contribution payable by the employer is reduced to 11.25% in the case of employing persons younger than 25 years. If the employee below 25 years of age is also a career starter, the employer is exempted from all of these taxes up to HUF 100 000 in the first two years of employment.

Up to a tax base of HUF 100,000 per month the aggregate 21% rate of the social contribution tax and the vocational training contribution payable by the employer is reduced to 11.25% in the case of employing persons older than 55 years of age.⁸

⁷ See footnote 6.

⁸ Other particular cases which are not modelled in TaxBEN include: Up to a tax base of HUF 100 000 per month the aggregate 21% rate of the social contribution tax and the vocational training contribution payable by the employer is reduced to 11.25% in the case of workers employed in unskilled positions.

Up to a tax base of HUF 100 000 per month the aggregate 21% rate of the social contribution tax and the vocational training contribution payable by the employer is reduced to 0% in the first two years of employment in the case of workers employees considered to be long-term unemployed (who have been registered as unemployed for over 6 months) and persons hired after having received child care fee or during or after the disbursement of child care allowance or child raising support. For this group, a 50% tax reduction applies to the third year as well (which translates into a tax rate of 11.25%). For families with three or more children the duration of the latter tax break is longer (100% reduction in the first three years and 50% reduction in the fourth and fifth year of employment).

Employers employing more than 25 persons on average must pay rehabilitation contribution if the proportion of persons with disabilities or with impaired health within their staff does not reach 5% (mandatory level). The level of the contribution is based on the number of workers with disabilities required to reach the mandatory level (HUF 1,242,000 per person per year). The contribution is payable quarterly on the basis of the average headcount of the given quarter.

In the case of part-time workers the social contribution tax and the vocational training contribution allowances (except in case of persons hired after having received child care fee or during or after the disbursement of child care allowance or child raising support) are proportional to hours worked.

From 1st of January 2018 the revenue from social contribution tax is divided among Pension Insurance Fund and Health Insurance Fund.

7.2 Payroll taxes

The training contribution amounts to 1.5 per cent of salaries paid.

8. Taxes

8.1 Personal income tax

Variable names: [F_INCTAX_1; F_INCTAX_2]

The tax unit is the individual. Spouses are taxed separately. However, the family tax base allowance and the tax base allowance for first marriage can be split between spouses.

In Hungary there is no local personal income tax system supplementing the central one. More precisely, until 2013 the total income tax collected was split between the central government and local governments. From 2013 the total income tax is part of the revenue of the state, due to the redistribution of local tasks between the local governments and the state. At the same time, the local governments can still levy taxes on sites and buildings, tourist facilities and business activities.

8.1.1 Tax allowances

Family tax base allowance: For families having children, the basis of income tax can be reduced by the family tax allowance, which amounts to HUF 66,670 per month for each dependent child for families having one child, HUF 116,670 per month for each dependent child for families having two children and HUF 220,000 per month for each dependent child for families having at least three children. From 2014 employees' pension contribution and health insurance contribution also serve as a basis of the allowance.⁹ From 1st January 2015 for newly married couples (where it's the first marriage for at least one of the parties) the basis of income tax can be reduced, in 2018 by HUF 33,335 per month for one person of the couple for 24 months. According to a

Part-time workers pay the same social security contributions as full-time workers, a contribution calculated as a per cent of earnings. With the revision, and afterwards the abolishment (as of 2009) of the fixed amount health care contribution, tax burden on employers is proportional to hours worked. Act CXXIII/2004 introduced a reduced social security contribution for employers in case of part-time (re)employment of a mother receiving child care benefit and employing parallel the substitute also part-time. Employer is entitled to reduced contribution. Instead of 19.5 % social security contribution, he can pay only 12.5% social security contribution in case of part time employment of both employees. But the amount of reduction is capped at twice the minimum wage.

⁹ See footnote 6.

change newlywed (the wedding is after 31th December 2014) couples could be entitled to the family tax base allowance and the tax base allowance for the first marriage at the same time. The first marriage allowance is not modelled in TaxBEN. The tax credits are wastable.¹⁰

8.1.2 Tax base

The tax base shall comprise the income after deductions (costs, family tax allowance) made according to PIT Act.

8.1.3 Income tax schedule

The Hungarian income tax schedule applies a flat-rate of 15% on personal income.

8.1.4 Tax credits

Personal Tax Credit only for severely handicapped individuals: a person suffering from certain diseases, or who receives invalidity related benefits may deduct 5 per cent of the minimum wage (HUF 6,900) from the tax on the consolidated tax base every month. The tax credit is wastable. This tax credit is not modelled in TaxBEN.

¹⁰ Particular cases which are not modelled in TaxBEN include: From 2015 the tax reliefs for parents with small children have been widened under the Job Protection Act. In case of those employees, who are working part-time, from 2015 onwards, there will be no rule of proportion. This means that irrespective of the working time, in case of the employment of parents with small children the tax relief can be validated up until 100,000 HUF gross monthly income. See footnote 8.

Annex: Other benefits and direct taxes

This section provides a brief description of other cash benefits and taxes on employment incomes in Hungary that are relevant for some members of the population below the statutory retirement age, but which are not included in the OECD tax-benefit model.

Pre-pension job-seekers' allowance (nyugdíj előtti álláskeresői segély)

The pre-pension job-seekers' allowance is based on Act IV of 1991 on Job Assistance and Unemployment Benefits.

Pre-pension job-seekers' allowance is non-contributory (though previous contribution to unemployment insurance and contribution to public pension is required), not-means tested and not taxed.

Those job-seekers are eligible for the pre-pension job-seekers' allowance who

- meet the requirements of the job-seekers' benefit (as detailed in 2.1.1);
- received job-seekers' benefit for at least 45 days and the period of payment of benefit comes to an end, or their job-seekers' benefit was terminated due to employment and they are not entitled again to job-seeker benefit;
- shall reach retirement age in not more than 5 years, or within 3 years after the termination of the job-seeker benefit;
- is not receiving benefit prior to retirement age, service benefit for armed forces, life annuity for ballet artists, or transitional annuity for miners;
- has a sufficient contribution period for retirement (normally 15 years);
- fulfils the mandatory retirement age within 5 years.

The benefit is 40% of the minimum wage.

Pre-pension job-seekers' allowance shall be provided until the job-seeker gains eligibility for old-age pension or for benefits for persons with changed working capacity.

Pre-pension job-seekers' allowance is not subject to taxation. 10% pension contribution is deducted from the pre-pension job-seekers' allowance.

Pre-pension job-seekers' allowance is suspended for the period during which the recipient performs a wage-earning activity (regardless its length).

Housing benefit (mobilitási célú lakhatási támogatás)

Housing benefit can be granted only for employment and property in the territory of Hungary. The district office may exercise discretion in granting the housing benefit and in determining the amount and the period. The housing benefit can be used for renting fees, including public utility fees.

Eligibility conditions

A non-refundable housing benefit can be granted for a job seeker, who

- have been registered as a job seeker for at least one month,
- enters into an employment relationship lasting for at least 6 months and 20 hours per week, in which case the distance is more than 60 km between their permanent residence and the place of employment,
- has no residential property at the place of employment, or closer than 60 km
- enters into an employment relationship with a new employer, unless the place of employment is different,
- who intends to lease a property at the place of employment or closer than 60 km and
- receives on other grounds no financial assistance for housing or utilities at the date of request.

Further conditions for beneficiaries:

with the help of housing benefit, earning regular income, and

the upper limit of the gross wage per month shall be 300% of the amount of the minimum wage, and

the employment is justified by a valid employment contract containing the place of employment, and

the leasing is justified by a lease contract for at least half of the benefit's period, for a property located at the place of the employment.

Calculation of gross benefit

The amount granted for one property, for one person is limited to 100 000 HUF per month.

The amount granted for one property, for minimum 2 close relatives fulfilling the conditions, is limited to 150 000 HUF per month.

The amount granted for one property, for minimum 3 people fulfilling the conditions, is limited to 200 000 HUF per month.

The amount shall be apportioned equally to each person fulfilling the conditions, requesting the housing benefit and moving into the property at the same time

Benefit duration

The duration is limited to 12 months. A further housing benefit may be established 24 months after the benefit period ends.

Means test

The benefit is not means-tested.

Tax treatment

The benefit is not taxable.

Interaction with other components of the tax-benefit system 

None.

Additional information on the day-care system for children:

From January 1, 2017, the day-care system for children has been transformed. The purpose of the transformation is to create a flexible system that in addition to institutional frameworks can provide day-care and day-to-day supervision in family-like forms of child-care in private homes or at workplaces, in response to local needs, in line with the parents' work schedules. All forms of education and care for children under the age of 3 are considered crèches.

From January 1, 2017, day-care for children is provided in 2 institutional forms (crèche, mini crèche) and 2 service form (family nursery, in-office crèche).

- Crèche:

Complex institutional care, 12-14 children are provided by 2 early childhood educators and 1 childcare worker assistant in a crèche group. In 2018 the central budget will provide funding in order to operate the crèche. The normative funding of crèches and mini crèches has been replaced by task-based financing (wages and operation).

- Mini crèche:

An institutional service similar to the crèches but with simpler establishment and operating conditions. In the mini crèche, day-care for up to 7 children is provided by 1 early childhood educator and 1 childcare worker assistant. The mini crèche can be linked to a kindergarten. Like the crèche, for the operation of the mini crèche, the central budget provides task-based financing (wages and operation).

- In-office crèche:

In-office crèche can be created by the employer for the children of persons engaged in employment in the property owned or rented by the employer for this purpose. The maximum number of children in an in-office crèche group is 7, the person providing the services is 1 service provider or early childhood educator (2 separate jobs) and 1 assistant. There can be several groups in in-office crèches. The central budget provides the source for the in-office crèche.

- Family nursery:

Due to the nature of the service, the family crèche can be formed much simpler and faster than the institutional services – either in the service provider's own home or in other rooms designed for this purpose. In the family nursery day-care for up to 5 children is provided by 1 service provider or early childhood educator (2 separate jobs). If 1 assistant is employed, the maximum number of children can be 7. The central budget provides the source for the operation of the family nursery.