

# THE OECD TAX-BENEFIT MODEL FOR HUNGARY

Description of policy rules for 2019



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## Preface

This report provides a detailed description of the tax and benefit rules in Hungary as they apply to individuals of working age and their dependent children. It also includes outputs from the [OECD Tax-Benefit model \(TaxBEN\)](#), which puts all these complex rules into a unified methodological framework that enables international comparisons of how tax liabilities and benefit entitlements affect the disposable income of families in different labour-market circumstances.

TaxBEN calculates tax liabilities and benefit entitlements 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. Users can access the model through a user-friendly [web interface](#) that allows changing many of these family and individual characteristics. Available characteristics include the age and number of children, the economic activity of adult members, working hours, wage rates, unemployment durations, and years of social security contributions. The OECD has updated the model annually since 2001 for most OECD and EU 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 as well as maternity and parental leaves benefits are included for a subset 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 provides a detailed description of the policy rules that are within the scope of the TaxBEN model. 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 are not included in the 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, 2019**.
- **Guidelines for completing and updating this report** are provided [here](#).
- Further information on the model, model results, and related analytical reports 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.

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## The OECD tax-benefit model for Hungary: Policy rules in 2019

### 1. Reference wages

Average wage [**AW**]: The OECD tax-benefit model (TaxBEN) uses Secretariat estimates of the average full-time wage (available [here](#))<sup>1</sup>. If Secretariat estimates are not available yet, the model uses wage projections obtained by applying forecasted wage growth<sup>2</sup> to the latest available wage estimate.

Minimum wage [**MIN**]: In 2019 the statutory minimum wage is HUF 149 000 per month. The annual minimum wage is computed by multiplying the minimum monthly wage (as of January 1, 2019) by 12, i.e. HUF 149 000 \* 12 = HUF 1 788 000.

### 2. Unemployment benefits

The unemployment benefit system in Hungary consists of two schemes. i) a contributory scheme (jobseekers' benefit, *álláskeresői járadék*) and ii) a non-contributory scheme (pre-pension job-seekers' allowance, *nyugdíj előtti álláskeresői segély*). The Jobseekers' benefit is described in Section 2.1 whereas the Annex provides a description of the pre-pension job-seekers' allowance.

#### 2.1. Unemployment benefit (*Álláskeresői járadék*)

Variable names: [**UI\_p**; **UI\_s**]

This is an unemployment insurance benefit (jobseekers' benefit). It is contributory, not means-tested and 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.

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<sup>1</sup> Average Wages are estimated by the [Centre for Tax Policy and Administration](#) at the OECD. For more information on methodology see the latest [Taxing Wages publication](#).

<sup>2</sup> Wage growth projections are based on [OECD Economic Outlook](#) and [EU economic forecasts](#) (for non-OECD countries).

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

### 2.1.1. Eligibility conditions

**Age:** No age limit.

**Contribution/employment history:** payment of contributions for at least 360 days during the previous three years qualifies for the unemployment benefit. The three-year period can be extended under the circumstances listed below as long as, during these circumstances, the jobseeker did not establish any employment relationships, did not enter the public work scheme, and did not engage in entrepreneurial activities recognized as eligibility period:

- a) sickness resulting in incapacity to work;
- b) sick-leave with pay for nursing a sick child;
- c) while receiving pregnancy confinement benefits, infant care fee, child-care fee, child home care allowance, child-care allowance;
- d) 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;
- e) pre-trial detention, imprisonment, and confinement;
- f) while receiving nursing fee and child-raising support;
- g) 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.<sup>3</sup> The benefit claimant:

- is as job-seeker registered at the PES;
- co-operates with the PES;
- wishes to find employment, but his/her effort to find a job has 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 unemployment benefit is calculated on the basis of the average monthly sum comprising the labour market contribution base that the jobseeker has earned during the four calendar quarters before the time when the application for unemployment benefit was submitted. If the application for unemployment benefit is handed in later than the time when the jobseeker was registered, the amount of

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<sup>3</sup> Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated OECD reports.

unemployment benefits is calculated as the average monthly amount of the social security contribution base that the jobseeker earned during the four calendar quarters before becoming unemployed. In the process of calculating the average monthly amount, the amount of the contribution base earned during this period is divided by the number of months during which the jobseeker had any income comprising part of the contribution base. If the contribution base of a jobseeker 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 amount.

**Benefit amount:** The amount of unemployment benefit shall be 60 % of the base of unemployment benefit (of the previous average pay), whereas its upper limit shall be 100% of the amount of the minimum wage on the first day of eligibility for unemployment benefit (i.e. 149,000 HUF/month). If the job-seeker's average wage cannot be determined, the amount of the allowance is calculated on the basis of 130% of the national minimum wage.

### *2.1.3. Benefit duration*

The duration of the unemployment benefit (also referred to as “eligibility period”) is calculated on the basis of the period spent in employment (or in the public work scheme) during the three-year period preceding the date of becoming unemployed. More specifically, a jobseeker who has worked for at least 360 days in the 3 years before becoming unemployed is entitled to a jobseeker benefit of 1 day's benefit for every 10 days worked. This means that the minimum entitlement is for 36 days, and the maximum 90 days.

The same rule applies to private entrepreneurs and members of a business partnership (provided, in the latter case, that the jobseeker has satisfied the entrepreneurial contribution payment obligations during this time).

The duration of the eligibility period shall not include any period during which the jobseeker received unemployment benefits, or entrepreneurial benefits.

TaxBEN note: TaxBEN calculates benefit amounts on a monthly basis but shows results multiplied by 12 ('annualized amounts'). Because model users can choose the month of benefit receipt, when this parameter is higher than 3 months, the amount of UI for Hungary will be zero. However, if that parameter is lower than or equal to 3, the model will show the monthly amount multiplied by 12.

### *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 unemployment 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 unemployment benefits is discontinued if the jobseeker 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

### 3.1. Benefit for persons in active age (*aktív korúak ellátása*)

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 in active age, are without employment and not in education. There are two types of benefits for active age persons:

- The “Employment Substituting Support” (**ESS**) for those who are considered to be able to work (*Foglalkoztatást Helyettesítő Támogatás*);
- The “Benefit for people suffering from health problems or taking care of a child” (**HCS**) for those who are unable to work because of health problems or childcare responsibilities (*Egészségkárosodási és gyermekfelügyeleti támogatás*).

TaxBEN note: because in 2019 99.8% of HCS recipients (19 776 persons) claimed this benefit due to health problems and only 0.2% (45 persons) because of care responsibilities, TaxBEN calculations consider only the ESS but not HCS.

#### 3.1.1. Eligibility conditions

Only one household member can be eligible to this benefit, except when two claimants are entitled to different types of this benefit, i.e. when one person is entitled to ESS while the other claims HCS.

Claimants of benefits for persons in active age (both types) must have completed their 18<sup>th</sup> year of age and be below the retirement age. Other eligibility conditions include:

- Being without work (except public work, simplified employment or carrying out household work);
- Being no longer entitled to unemployed benefits (Section 2.1);
- Not receiving childcare allowance (Section 4.3) or child raising support (Section 4.4). Note: ESS and HCS can be combined with other types of benefits including the family allowance (Section 4.1), local benefits, and the regular child protection allowance (Section 4.2).
- Not having sufficient resources for living, i.e. having a monthly income per consumption unit (Section 3.1.4) below 90% of the minimum of the old-age pension.
- Not having real estate properties.<sup>4</sup>

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<sup>4</sup> The claimant is not entitled to the benefit also if the properties of other family members exceeds the limit defined by law: the value of one piece of property cannot exceed the thirtyfold of the

- Being a Hungarian citizen, or third-country national with resident or immigrant status, stateless person or person recognised by the Hungarian authorities as refugees without minimum period of residence.

Persons claiming the ESS are obliged to cooperate with the Public Employment Service (PES) and to engage in public work programmes.<sup>5</sup> Entitlement to ESS is terminated in case the claimant cannot prove that in the previous year they pursued a gainful activity or took part in a training programme or in a labour market programme for at least 30 days. Note: TaxBEN assumes that these conditions are met.

Persons claiming the HCS are not obliged to cooperate with the PES and to engage in public work. However, they must prove that they are either health-impaired or rising a child under 14 at home. If the child attends a day-care centre, the person loses eligibility to HCS.

### 3.1.2. *Benefit amount*

ESS: The monthly amount is a fixed lump-sum payment equal to 80% of the minimum old-age pension. As the minimum old-age pension was 28 500 HUF / month in 2019, the ESS was 22 800 HUF / month in 2019. Note: the sum is independent of the family composition and paid as long as the family's monthly income (Section 3.1.4) per consumption unit does not exceed 90% of the minimum old-age pension.

HCS: The monthly amount depends on the family's income (Section 3.1.4) and family structure as follows:

$HCS = (0.95 * \text{minimum old age pension} * \text{consumption unit}) - \text{family income}$ .

The consumption unit is defined as follows:

- The first adult: 1.0 (+ 0.2, if s/he is a lone 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 also healthy children, the first healthy child counts 0.8).

The family income is defined in Section 3.1.4.

The maximum monthly amount of HCS is 90% of the net minimum wage of the public work. As the net minimum wage of the public work is 54 217 HUF, the maximum HCS amount in 2019 was 48 795 HUF per month. This amount becomes 25 995 HUF if the other parent is entitled to the ESS (25 995 HUF = 48 795 HUF minus the ESS amount).

### 3.1.3. *Benefit duration*

No time limit subject to eligibility and period re-assessments (1 year for ESS and 2 years for HCS).

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minimum old age pension, or the value of the whole property cannot exceed the eightyfold of the minimum old age pension.

<sup>5</sup> For the period of public work, ESS payments are suspended as the claimant receives a wage (which is equal to the minimum wage for public work).

### 3.1.4. Means test

The reference income used to determine eligibility and entitlements for the benefit for persons is the cumulated household income of close relatives (spouse, domestic partner, a child under 20 years of age without any independent income) living in the same address. According to Act III of 1993 on Social Administration and Social Welfare Benefits, the cumulated income of other household members without close family relations is irrelevant for eligibility. Incomes enter the calculations after social security contribution and income tax payments. The following incomes are excluded from the means test:

- Extraordinary local benefit; local benefit to the costs of home maintenance, medication and debt management;
- Irregular child protection support; the regular child protection allowance (section 4.2); allowance paid to foster parents; birth grant and jubilee grant;
- Cash transportation allowances for the mobility-impaired; personal annuity for the blind; disability benefits; and the fee paid to the carer for domestic assistance.
- Payments given to the volunteers; monthly income deriving from occasional work; the fee granted to the carer in the framework of domestic assistance; the tax free income received as a member of social co-operative; in the case of public employment, only the amount of employment substituting benefit is considered.
- Energy support; tax-free income received as a member of social cooperative; income 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 and ceased duties.

TaxBEN note: the family allowance (Section 4.1) is part of the means test. As families claiming the Childcare Allowance (Section 4.3) and the Child Raising Support (Section 4.4) are not eligible for the benefit for persons in active age, TaxBEN compares the sum of the Childcare Allowance and the Child Raising Support with the HCS and selects the most generous amount.

### 3.1.5. Tax treatment

The benefit is not taxable.

### 3.1.6. Interaction with other components of the tax-benefit system

See Section 3.1.1.

### 3.1.7. Combining benefit receipt and employment/starting a new job

ESS and HCS claimants cannot pursue a gainful activity while receiving these benefits (except for public work and other types of subsidized employment). This condition applies only to the claimant but not to other family members (including the partner's claimant), who can work without restrictions.

The benefit is suspended if the claimant pursues a gainful activity (except for casual work and public employment). The suspension lasts until the 120<sup>th</sup> day of the gainful activity. On the 121<sup>th</sup> day, the benefit is ceased. Benefit claimants are allowed to perform temporary work (casual work), but the income is calculated in the benefit amount.

ESS claimants who start a job while taking part in a public work programme are entitled to a benefit equal to the double amount of ESS for the planned duration of the public work programme they quit.

TaxBEN note: when a person moves into work, TaxBEN assumes that the ESS recipient does not receive the double amount of ESS for the remaining duration of the public work programme.

### 3.2. *Housing benefit*

Variable names: **[HB]**

While local governments can provide financial aid to support the costs of housing in the form of a local benefit (*települési támogatás*), no national housing benefit scheme exists currently in Hungary. The Annex describes a special housing allowance for jobseekers who find employment far from their permanent residence).

## 4. Family benefits

The Hungarian family support system is universal, 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
- Regular child protection allowance (*rendszeres gyermekvédelmi kedvezmény*) – described in Section 4.2
- Childcare allowance – described in Section 4.3.
- Child raising support – described in Section 4.4.
- Family tax base allowance (*családi szja és járulékkedvezmény*) – see Section 8.1
- 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. The amount is designated by decree of the respective local government; therefore is not modelled in TaxBEN.

Note: The TaxBEN model classifies the Family tax base allowance (Section 8.1) as part of the income tax (variable name: **IT**). The Family allowance, the Regular child protection allowance, the Childcare allowance, and the Child raising support are all classified as Family benefits. The model variable **FB** includes all these benefits.

### 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 the family allowance. This benefit takes two names depending on the age of the child:

- ‘Child raising benefit’ (*nevelési ellátás*) is provided from birth up to compulsory schooling age;

- ‘Schooling benefit’ (*iskoláztatási támogatás*) is provided from schooling age until the termination of compulsory education (usually until 18 years) or secondary school education / vocational training (up to 20 years of age, or 23 years in case of special educational needs).

#### 4.1.2. *Benefit amount*

Monthly amounts in 2019:

- 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 parents 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 (Section 4.2, 4.3, 4.4 as well as other family benefits described in the annex).

#### 4.1.7. *Combining benefit receipt and employment/starting a new job*

Employment does not affect benefit eligibility.

### 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 are entitled to regular child protection allowance if the per capita monthly income of the family looking after the child does not exceed 145% of the prevailing lowest amount of old-age pension, i.e. 41 325 HUF (note: the amount of the old-age pension in 2019 was 28 500 HUF). This condition applies to single-parent families, families of disabled children, and families where the child is in full-time education and is

above the age of 18. In all the other cases, the per capita monthly income of the family should not exceed 135% of the prevailing lowest amount of old-age pension, i.e. 38 475 HUF.

#### 4.2.2. *Benefit amount*

The regular child protection allowance is provided twice a year. As of July 2019, the allowance is no longer provided in vouchers: parents receive the allowance in cash. The amount is 2x HUF 6 500 per child in case of children who are disadvantaged or multiple disadvantaged (e.g. in case of single-parent families, or in case of disabled children), and 2x HUF 6 000 per child in case of children who are not disadvantaged or multiple disadvantaged.<sup>6</sup> The eligible child may be entitled also to free daily meals, free of charge textbooks and other in-kind benefits defined by the law. TaxBEN note: the model does not simulate in-kind support benefits (e.g. free of charge textbooks).

#### 4.2.3. *Benefit duration*

The benefit is stipulated for one year. After one year the benefit must be claimed again

#### 4.2.4. *Means test*

The means test of social assistance benefit (Section 3.1.5.) applies also for the regular child protection allowance. Exceptions are also the same.

#### 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 Section 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 does not affect benefit receipt (apart from means-test).

### 4.3. *Child care allowance (Gyermekgondozást segítő ellátás ‘GYES’)*

Variable names: [\[CHILD\\_A\]](#)

This is a benefit paid to parents of children aged under 3 years of age (or aged under 10 for severely ill or disabled children), or to grandparents who care for their grandchildren older than one year in the household of the parent. As this benefit is not conditional to the use of centre-based childcare, it is classified as a Family Benefit in TaxBEN.

#### 4.3.1. *Eligibility conditions*

Entitlement is universal, providing a flat-rate benefit to all residents. As a general rule, the benefit is provided until the age of 3 years of the child (note: children who are exactly

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<sup>6</sup> 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 November), a supplement of 8 400 HUF is also granted. As parents are usually not eligible for this additional benefits, they are not modelled in TaxBEN.

three years old are not eligible). In case of twins, the allowance is paid until children reach the compulsory schooling age (usually 6 years).

#### 4.3.2. *Benefit amounts*

The amount is equal to the monthly minimum old age pension, i.e. 28 500 HUF per month in 2019. The benefit can be provided for maximum two children at the same time. In this case parents receive a double amount. In case of multiple simultaneous births, the amount is multiplied according to the number of twin children.

#### 4.3.3. *Benefit duration*

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

#### 4.3.4. *Means test*

The benefit is not means-tested.

#### 4.3.1. *Tax treatment*

The benefit is not taxable income. Pension contribution of 10% must be paid as the disbursement period is qualifying period for pension.

#### 4.3.1. *Interaction with other components of the tax-benefit system*

The child care allowance is not compatible with the receipts of unemployment benefits (Section 2.1) and social assistance benefits (Section 3.1).

If a new sibling is born in the family, the child care allowance can be claimed together with other family-related benefits as long as the youngest child was born after 31/12/2013 and other relevant eligibility conditions hold. Family-related benefits include the Infant care fee (see Annex), child care fee (see Annex), and family allowance (Section 4.1). Child raising support (Section 4.4) and regular child protection allowance (Section 4.2) are not relevant. Only one parent is entitled to these benefits for each child.

#### 4.3.2. *Combining benefit receipt and employment/starting a new job*

Above 6 months of age of the child, the parent can work and the child can be placed in a formal childcare centre without losing eligibility for the allowance.

### 4.4. *Child raising support (gyermeknevelési támogatás)*

Variable names: [\[CHILD\\_R\]](#)

This a universal, flat-rate benefit for large families.

#### 4.4.1. *Eligibility conditions*

Entitlement is universal for families with three or more children under the age of 18. The benefit is provided from the age of 3 years of the youngest child until she/he reaches the age of 8 years.

#### 4.4.2. *Benefit amounts*

The amount, irrespectively to the number of children in the family concerned, equals the minimum old age pension.

#### 4.4.3. *Benefit duration*

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

#### 4.4.4. Means test

The benefit is not means-tested.

#### 4.4.5. Tax treatment

The benefit is not taxable income. Pension contribution of 10% must be paid as the disbursement period is qualifying period for pension.

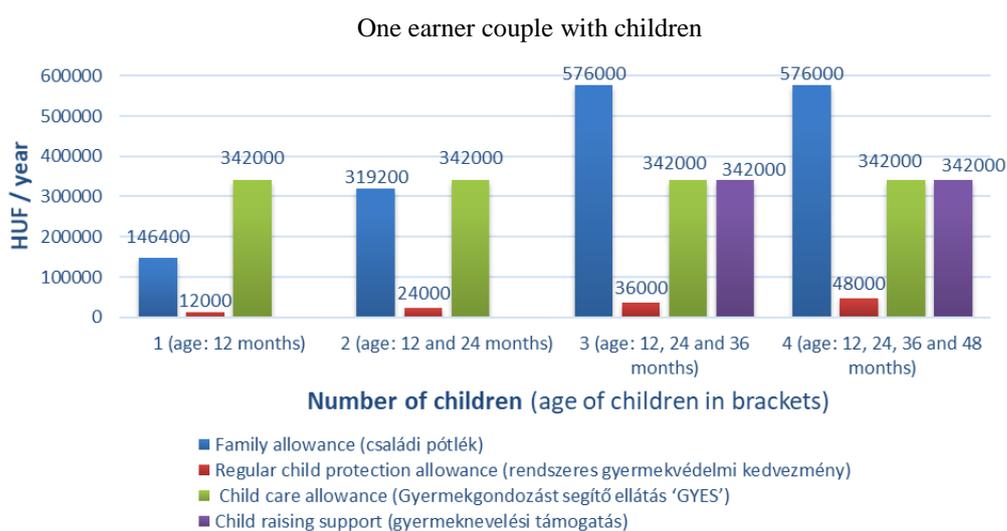
#### 4.4.6. Interaction with other components of the tax-benefit system

Parents entitled to child raising support cannot be entitled to social assistance benefits (Section 3.1). Similarly, child raising support and unemployment benefits (Section 2.1) are not compatible.

#### 4.4.7. Combining benefit receipt and employment/starting a new job

The beneficiary can pursue a gainful activity up to 6 hours a day (30 hours / week) or without time restriction at home. TaxBEN note: the model assumes that the beneficiary is the partner with the lowest work activity. In the case of a two-earner couple, if both partners work more than 6 hours a day, the family loses eligibility.

### Amount of family benefits by type and number of children



Notes:

1. The total amount of family benefits received by each of the four families is the sum of the individual benefit amounts.
2. For all the four families, the working parent has annual gross earnings (before social security contributions and income taxes) equal to 584 280 HUF / year.
3. In all four scenarios, income tax liabilities are nil because of the effect of the Family tax-base allowance (*Családi kedvezmény*, Section 8.1.1). This tax allowance partially offsets also social security contribution payments (health and pension contributions) when income tax liabilities are lower than the family tax base (Section 8.1.1 for details). The net (refundable) amount of the Family tax-base allowance are HUF 120006 479988, 1188000, and 1188000 for scenario 1, 2, 3 and 4 respectively.
4. The family allowance (Section 4.1) as well as the child care allowance and the child raising support (Sections 4.3 and 4.4) enter the means test of the Regular child protection benefit (Section 4.2).

Source: [OECD tax-benefit model](#), 2019.

## 5. Net costs of Early Childhood Education and Care

In Hungary, pre-school children under the age of three receive childcare services in day-care nurseries. Older pre-school children go to kindergartens. While nursery attendance is not mandatory for children under the age of three, kindergarten attendance is obligatory – at least 4 hours per day – from the age of three. School attendance is obligatory from the age of six. Annex 2 provides more information on the system of childcare services in Hungary.

The majority of childcare services, nurseries and kindergartens, are provided and managed by local authorities. Relevant local authorities are in general the municipalities. In large cities, the relevant public authority is the individual municipal district (e.g. Budapest has more than 20 districts). Only about 5% of the existing nurseries and kindergartens are maintained by the non-governmental sector.

### 5.1. Gross childcare fees

Variable names: `[cc_cost]`

The Child Protection Act defines the rules for calculating parental fees for children's meals and the available support (discounts and free provisions, See Section 5.2).

In nurseries and kindergartens, parents pay in general only for the meals, which cost between HUF 8 000 and 10 000 per month per child.<sup>7</sup>

As of January 2012, nurseries can charge parents also a fee for the care service (on the top of the fee for the meals), whereas public kindergartens provide the care service always free of charge. Responsible local authorities, which in general are the municipalities (or the individual municipal districts in big cities, e.g. Budapest), specify by decree the fee for the care service. They have the flexibility to not charge parents at all for the care service, or to apply a reduced fee where it is justified by the income circumstances of the parents. In any case, the maximum amount of the fee cannot exceed the amount of the 'institutional fee'.<sup>8</sup>

In 2019, 44% of the nurseries charged a fee for the care service and 27.8% children enrolled in nurseries paid a positive fee for this service. The average amount of the fee was HUF 5600 per child per month at the national level (on the top of the fee for the meals), with significant variability across regions. The table below shows the average costs for the meals and the care service in selected local authorities. Data refers to 2018.

	Average fee for the care service (HUF/child/month)	Average fee for the meals (HUF/child/month)
Salgótarján	2477	515
Budapest - district 1	8408	n.a.
Budapest - district 2	10273	n.a.
Budapest - district 4	9637	n.a.
Budapest - district 7	30857	n.a.

<sup>7</sup> The fee for child catering in nurseries and kindergartens is determined by a local government decree, taking into account the daily amount of the raw material cost of the food, the related amount of the value added tax, and the number of meals prepared. Meals are free of charge for about 78% of the children attending centre-based institutes.

<sup>8</sup> The institutional fee is the difference between the non-investment cost of the care service spent by the local government and the support provided by the central budget.

Budapest - district 8	8708	457
Budapest - district 11	18084	n.a.
Budapest - district 12	25200	n.a.
Budapest - district 13	20205	n.a.
Budapest - district 14	14879	n.a.
Budapest - district 15	3514	n.a.
Budapest - district 16	2733	n.a.
Budapest - district 17	9981	n.a.
Budapest - district 19	19800	n.a.
Budapest - district 20	3344	n.a.
Budapest - district 22	2703	n.a.
Miskolc	Free of charge	413
National level	5600	9000

*Notes:*

1. The average monthly fee for the care service is calculated dividing the total revenues from the care service fee by the number of children for whom care service fee was paid in a given month. The missing districts of Budapest are those that do not charge any fees to parents for the care service (Budapest has 23 districts).
2. The fee for the meal is determined by relevant local government decrees. Results in the table shows the fee only for three selected local governments (Salgótarján, Budapest district 8 and Miskolc). These amounts are converted into HUF/child/month multiplying the daily amount by 22, which is the average number of days that the fee for the care service is charged to parents (per month). The notation “n.a.” means “not available”.

TaxBEN note: The model uses the rules defined by Budapest - District 8 when calculating childcare costs. This district is not necessarily representative at the national level, but can be considered a good approximation for the majority of the districts of the city of Budapest (based on the average amounts provided above). This district charges a fee for the care service that depends on the amount of the monthly per capita net income of the family (as defined in Section 5.2):

Per capita household net income (HUF/month)	Fee for the care services (HUF/child/day)
0 - 70,000	0
70 001 – 100 000	210
100 001 – 130 000	350
130 001 – 150 000	450
150 001 – 200 000	600
200 001 – 250 000	800
> 250,001	1 000

Note: For lack of income certification, the fee for the care is 1 500 HUF/child/day. The cost of the meal is not included; the amount is 457 HUF/child/day. Daily amounts are converted into monthly amounts multiplying the values by 22.

### 5.1.1. Discounts for part-time usage

There is no nursery service provided on a part-time basis. Nurseries provide care for children at least for 4 hours per day. In general, a child receiving care services attends the nursery 21-22 days/month and spends on average 8 hours in the nursery.

## 5.2. Childcare benefits

### 5.2.1. Fee discounts and free provision

Variable names: `[cc_benefit]`

In nurseries and kindergarten, children eligible for free meals are those who:

- Live in families with a monthly per capita income less than HUF 128 810 in 2019 (i.e. 130% of the *net* minimum wage for a single person). The definition of the family's net per capita income is provided below;
- Eligible for the Regular child protection allowance (Section 4.2);
- Suffer from a permanent disease or disability;
- Live in families with a child suffering from permanent disease or disability;
- Live in families with 3 or more children under 18 years of age,
- Live in child protection care.

According to the Child Protection Act, the care service is provided free of charge to the following groups of children:<sup>9</sup>

- Eligible for the Regular child protection allowance (Section 4.2);
- Live in families with a child suffering from permanent disease or disability;
- Live in families with 3 or more children under 18 years of age,
- Temporarily placed at a foster parent or in a children's home;
- Foster children
- Live in child protection care.

According to the Child Protection Act, the sum of the fee for the care service and the meals cannot not exceed 25% of the family's net per capita income (20% without the meal costs).

The family's net per capita income is the sum of the following components: i) regular net income from work / pension / business income (all net of income tax and social security contribution payments) and ii) other regular net revenues (e.g. property rental income, fixed savings), and iii) regular cash benefits (including social assistance, family and housing allowances). This amount is then divided by the number of individuals living in the household.

### 5.2.2. *Child-care allowances for children using centre-based care*

There are no national benefits at the national level whose eligibility depends on the use of childcare centres. Local governments can provide this type of benefits. The reference local government for the OECD tax-benefit model (Budapest) does not provide this type of benefits.

### 5.2.3. *Child care allowance for children not using child care centres*

There are no national benefits whose eligibility depends on NOT using of childcare centres (e.g. “home-care” and “child-rising” allowances). Local governments can provide this type of benefits. The reference local government for the OECD tax-benefit model (Budapest) does not provide this type of benefits.

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<sup>9</sup> The list is similar but not identical to the list of exemptions for the meal costs. For instance, a family with a per capita income less than 130% of the minimum wage is not automatically exempted from the payment of fee for the care services.

#### 5.2.4. Tax concessions for childcare expenditures

Fees for the care service or the meals are not tax deductible.

### 6. Employment-conditional benefits

None.

### 7. Social security contributions and payroll taxes

#### 7.1. Employee Social security contributions

Variable name: **[SSC]**

##### Pensions:

The employee's individual pension contribution was 10% in 2019. The upper limit of the employees' contribution has been ceased from 1 Jan 2013.

##### Sickness:

The rate of health security contribution amounts to 7 per cent of gross earnings in 2019.

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

##### Unemployment:

The worker must pay, as employees' contribution, 1.5 per cent of gross earnings in 2019.

*Note:* Only earned income is liable to unemployment benefit and health security contributions. As a result, workers pay an overall contribution of 18.5% (10%+7%+1.5%) and unemployed pay only 10%.

#### 7.2. Employer social security contributions

Variable name: **[SSCR]**

Employers pay a 'training contribution' equal to 1.5 % the gross wage in 2019.

In addition, as of 2012, employers pay also the 'social contribution tax', which has replaced from 2012 onwards the following contributions: employers' pension insurance contribution, employers' health insurance contribution and labour market contribution.<sup>10</sup> The rate of the social contribution tax in 2016 was 27% of gross wage. The rate was reduced by 5 percentage points (i.e. to 22%) from the 1<sup>st</sup> of January 2017, and by 2.5 percentage points (i.e. to 19.5%) from the 1<sup>st</sup> of January 2018.

An additional 2-percentage point tax cut was introduced on the 1<sup>st</sup> July 2019, thus the rate reduced to 17.5%. TaxBEN note: as the reference date of the model is 1<sup>st</sup> January, the rate for the 2019 model is 19.5%. The 2-percentage cut introduced in the 1<sup>st</sup> of July 2019 will appear in the 2020 model update.

For employees with a gross wage equal to the minimum wage, the overall amount of employer's contribution (i.e. the sum of social contribution tax rate and vocational

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<sup>10</sup> From the 1<sup>st</sup> of January 2019, 70.22% of the social contribution tax is transferred to the Pension Insurance Fund, 27.31% is transferred to the Health Insurance Fund and 2.47% is transferred to the National Employment Fund.

contribution rate payable by the employer) is 0% in the first two years of employment, and 11.25% in the third year. For those who had been out of work for at least 6 months out of the preceding 9 months and for mothers raising three or more children, the overall amount of contribution is 0% in the first three year of employment and 11.25% in the fourth and fifth year. If the wage exceeds the minimum wage then the part of the wage that is under the minimum wage is taxed with the above mentioned decreased tax rates, the part of the wage that's over it is taxed with the general tax rate. TaxBEN note: these reduced rates are not simulated.

From 1<sup>st</sup> of January 2019, employers pay the same social security contributions for both part-time and full-time workers. Previously, in the case of part-time workers, employer's contributions were proportional to the hours worked.

From 1<sup>st</sup> January 2019, new "targeted" reliefs were introduced. The new reliefs reduce the standard rate of the employers' contributions up to the cap of the minimal wage.

The new reliefs reduce the employers' tax rate by 50% of the current tax rate for employees working in elementary and in agricultural occupations. There is also a temporary reductions (21% in the first two years of the employment, and 50% of the current tax rate in the third year) for employees returning to labour market (those who had been out of work for at least 6 months out of the preceding 9 months became entitled for a new type of tax allowance). Finally, there is a temporary reduction (21% in the first three years of the employment, and 50% of the current tax rate in the fourth and fifth year) for mothers with 3 or more children

From 1<sup>st</sup> January 2019, retired workers (i.e. those receiving an old age pension) do not have to pay 19.5% (17.5% from 1<sup>st</sup> of July) of social security contributions.

TaxBEN note: the targeted reliefs in the employers' contributions are not considered in the TaxBEN model.

## 8. Income taxes

### 8.1. Personal income tax

Variable name: **[IT]**

#### 8.1.1. Tax unit

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

#### 8.1.2. Tax base

Taxable income includes, among the others, employment income and unemployment benefits. Note: the family benefits listed in Section 4 are not part of the taxable income. The relevant employment income for the definition of the tax base is the employee's gross wage.

The employee social security contributions do not reduce the tax base. The tax base allowances for families and first marriage reduce the taxable income (see below).

#### 8.1.3. Reductions to the tax base

In 2019 there were the following reductions to the tax base:

**Family tax base allowance (*Családi kedvezmény*):** For families with dependent children, the income tax base can be reduced by the family tax allowance:

- HUF 66 670 per month for families with one dependent child,
- HUF 133 330 per month per child for families with two dependent children,
- HUF 220 000 per month per child for families with three or more dependent children. The maximum tax allowance per month for families with more than three children is HUF 660 000.

A dependent child is defined as aged 17 or younger, or aged 24 or younger if they are in full-time secondary education. Dependent children cannot be married or cohabiting.

Considering that in Hungary there is a flat income tax at 15%, the amounts of the Family tax base allowance corresponds to the following maximum tax credits (per child per month):

- HUF 10 000 for families with one child (i.e. HUF 66 670 times 0.15),
- HUF 20 000 for families with two children,
- HUF 99 000 for families with 3 or more children.

**Tax base allowance for first marriage:** From 1st January 2015, for newly married couples (where it is the first marriage for at least one of the parties), the basis of income tax can be reduced by HUF 33 335 per month for one person of the couple for 24 months.

Couples can 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.

Both allowances are non-refundable if they are higher than the total tax liability. However, if the tax base is not sufficient to receive the full amounts of the allowances, one can claim the unused part of these allowances against their social security contributions for health (7%) and pensions (10%). Working married couples can also slip the allowances between them if their personal incomes are not enough to receive the entire allowances.

#### 8.1.4. Income tax schedule

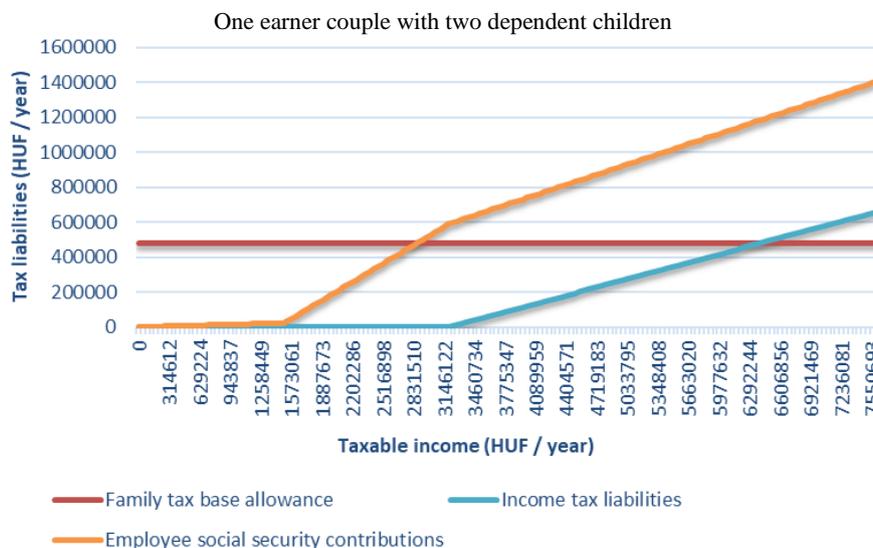
In 2019, the Hungarian income tax schedule applied a flat rate of 15% on the tax base.

#### 8.1.5. Tax credits

In 2019, there was is a Personal Tax Credit 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 7,450) from the tax on the consolidated tax base every month. The tax credit is non-refundable. This tax credit is not modelled in TaxBEN.

**Table 1. Summary of tax liabilities on gross incomes in 2019 (1<sup>st</sup> January)**

Paid by the employer	Paid by the employee
<b>Social contribution tax: 19.5 %</b> <b>Vocational contribution: 1.5 %</b>	<b>Pension contributions: 10 %</b>
	<b>Health insurance and labour market contributions: 8.5 %</b> = 4% in-kind health ins. contr. + 3% in cash health ins. contr. + 1.5% labour market contr.
	<b>Personal income tax: 15 %</b> (see Section 8)

**Figure 3. Tax liabilities by taxable income (2019)**

Notes: The taxable income includes the annual wage of the employee (before employee social security contributions). At low earnings levels, the sum of income tax and employee social security contributions is not enough to claim all the Family tax base allowance. In this case, TaxBEN assumes that the employee first claims the allowance against his/her income tax liabilities. If income tax liabilities are not enough to receive all the allowance, the employee claims the residual part against his/her social security contributions for health insurance and pensions.

Source: [OECD tax-benefit model](#), 2019.

## 9. Selected output from the OECD tax-benefit model (TaxBEN)

This section shows selected output of the TaxBEN model for Hungary 2019 (Figure 4). TaxBEN by default produces the following output: 1) net household incomes (**black lines**) and 2) related income components (**coloured stacked areas**) for selected family and individual circumstances (e.g. a lone parent working at different earnings levels with two children aged 4 and 6 respectively – users are free to select many of these circumstances using the [online web calculator](#)). Figure 4 shows outputs for four scenarios:

- By percentage of the average wage (**Panel A**);
- By unemployment duration (in months) for a jobseeker claiming unemployment benefits (**Panel B**);
- By previous gross earnings levels for a jobseeker claiming unemployment benefits (**Panel C**);
- By previous employment record, for a jobseeker claiming unemployment benefits (**Panel D**).

The stacked areas shows the household income components. Note that each component can contain more than one benefit. The table of content of this report describes which benefit is included in each category.

Results in Figure 4 refer to a couple with two children. Adults are both 40 years old whereas children are 4 and 6 years old respectively. Social assistance and housing benefit supplements are assumed to be available in all the four scenarios provided that the

necessary income and eligibility requirements are met. Where receipt of social assistance or other benefits is subject to activity tests (such as active job-search or being available for work), these requirements are assumed to be met.

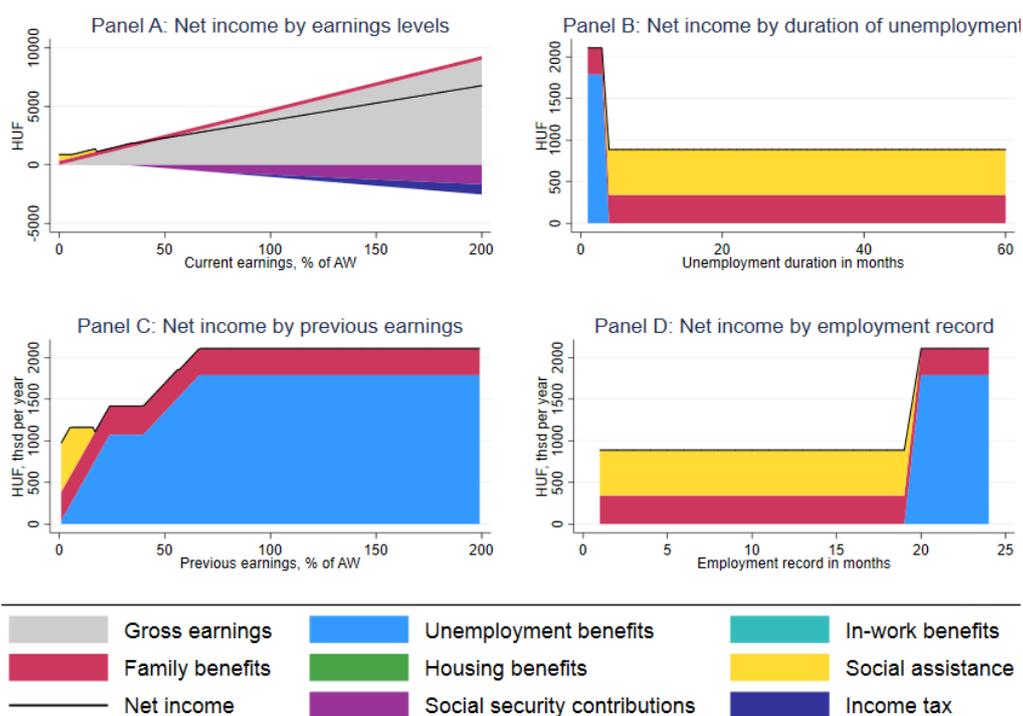
Panel A assumes that one of the two adult members (the ‘second adult’, using the TaxBEN terminology) is out of work and not eligible for unemployment benefits (e.g. because they have expired) whereas the other adult member (so-called ‘first adult’) is employed full-time and full-year at different earnings levels ranging between 0 and 200% of the Average Wage (AW). When earnings of the first adult are precisely 0% of the AW this person is assumed to be out of work without receiving unemployment benefits but claiming social assistance, as applicable.

Panels B to D assume that the second adult is out of work and not eligible to unemployment benefits whereas the first adult is also out of work and claiming unemployment benefits. In Panel B and C the first adult is assumed to have a ‘long’ employment record of 264 consecutive months before the job loss. The x axis in Panel B measures the time of benefit receipt, starting from the first month. The x axis in Panel C shows the amount of previous gross earnings (before any social contribution payments). Results in Panels C and D refer to the 2<sup>nd</sup> month of unemployment benefit receipt whereas Panel D consider the case of previous earnings equal to the average Wage. Previous earnings in Panel B are also equal to the average wage.

All results assume a private market rent plus other relevant charges amounting to 20% of the full-time average wage in all the four scenarios.

**Figure 4. Selected output from the OECD tax-benefit model**

Couple with two children.



Note: Section 9 provides more information on the simulation settings that apply to the four panels. Amounts are calculated on a monthly basis and then annualized by multiplying by 12.

Source: [OECD tax-benefit model](#), 2019.

## Annex 1: 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 that are outside the scope of the OECD tax-benefit model.

### *Pre-pension unemployment allowance (nyugdíj előtti álláskeresési segély)*

Pre-pension unemployment 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 unemployment allowance who:

- meet the requirements of the unemployment benefit (as detailed in 2.1.1);
- received unemployment benefit for at least 45 days and the period of payment of benefit comes to an end, or their unemployment 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, within 3 years after the termination of the unemployment 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 unemployment allowance is provided until the jobseeker gains eligibility for old-age pension or for benefits for persons with changed working capacity. Pre-pension unemployment allowance is not subject to taxation. 10% pension contribution is deducted from the pre-pension unemployment allowance. The benefit is suspended for the period during which the recipient performs a wage-earning activity (regardless its length).

### *Housing allowance for jobseekers (lakhatási támogatás)*

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

#### *Eligibility conditions*

A non-refundable housing allowance can be granted for a job seeker and for someone registered as a jobseeker on the day before entering an employment contract, who:

- has no residential property at the place of employment (or within 60 km from the place of employment),
- has been registered as a jobseeker for at least one month,

- enters into an employment relationship lasting at least 6 months for 20 hours / week,
- The new employment relationship is with a *new* employer, unless the place of employment with the old employer is different,
- The distance between his/her permanent residence and the place of employment is more than 60 km;
- Intends to rent a property at the place of employment or within 60 km,
- Receives no financial assistance for housing or utilities at the date of request.
- The upper limit of the gross wage per month cannot be higher than 300% of the amount of the minimum wage;
- Valid employment contract containing the place of employment;
- The rent is justified by a contract for at least half of the allowance'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 allowance and moving into the property at the same time.

#### *Benefit duration*

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

#### *Means test*

The allowance is not means-tested.

#### *Tax treatment*

The allowance is not taxable.

#### ***Birth grant (Anyasági támogatás)***

A universal benefit provided for every mother (or adopting parents, guardian) after giving birth. It is conditional upon that the mother completed at least four prenatal medical examinations (one in case of premature birth).

Birth grant: one off lump-sum payment, 225% of the minimum amount of old-age pension per child (HUF 64,125) or 300 % of the minimum of old-age pension per child (HUF 85,550) in case of twin-children. The birth grant is not taxable income.

### *Infant care and Child care fee (Csecsemőgondozási díj és gyermekgondozási díj)*

The **Infant care fee ('CSED')** is an insurance-based benefit paid during 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). The **Child care fee ('GYED')** is an insurance based benefit that is paid after the period of the infant care fee as long as the insurance period of the parent takes, but maximum to the age of 2 years of the child. Note: Mothers who are not entitled to child care payment due to the lack of a gainful activity, but who have completed at least two active semesters in tertiary education are entitled to the child care fee until the child reaches 2 years of age. In this case, the benefit is referred to as "**Degree holder's child care fee**". Fathers are entitled to this payment if the mother dies or is not entitled to the benefit.

#### *Eligibility conditions*

**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. 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 31/12/2013). In this case, the parent can 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 payment can be granted up to the third birthday of the children.

#### *Benefit amounts*

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

**Child care fee:** 70% of the daily average gross earnings of the previous year, with a ceiling of 70% of the double of the minimum wage (gross amount: 208,600 HUF in 2019)

**Degree holder's child care fee** - in case of mothers on student status: generally 70% of the minimum wage (gross amount: 104,300 HUF) or in the case of BA or PhD studies: 70% of the guaranteed wage minimum (gross amount: 136,500 HUF), from which the 10% pension contribution and the 15% personal income tax are deducted.

#### *Tax treatment*

**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). Personal income taxes levied on entire income.

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

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

Multiple payments 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 31/12/2013.

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

Wage-earning activities can be carried out without any limitation while receiving GYED already from the day when the infant care benefit (CSED) expires, or from the 169th day calculated from the birth of the child.