THE OECD TAX-BENEFIT DATABASE

Description of policy rules for Hungary 2023

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BETTER POLICIES FOR BETTER LIVES

THE OECD TAX-BENEFIT DATABASE FOR HUNGARY

Description of policy rules for 2023

OECD contact: Daniele Pacifico, Jobs and Income Division, Directorate for Employment, Labour and Social Affairs. Email: Tax-Benefit.Models@oecd.org

National team:

Kovács Kinga Dóra (PM)
Gábor Csoma (Ministry of Interior)
András Györe (Ministry of Interior)
Katalin Gergely (Ministry for Economic Development)
Sándor Ádám (Ministry for Economic Development)
Varga Csilla (Ministry of Culture and Innovation)
Ildikó Kadocsa (Ministry of Culture and Innovation)
Zsófia Lővei (Ministry of Culture and Innovation)
Rebeka Havrán (Ministry of Culture and Innovation)
Krisztina Kiss (Ministry of Interior)
Katalin Szilvia Béres (Hungarian Central Statistical Office)

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Jobs and Income Division
Directorate for Employment, Labour and Social Affairs

Table of contents

Preface

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

The **main body** of the report describes the rules that are relevant for the family and labour market characteristics that are within the scope of the **TaxBEN** model (see below for the methodology and user guide). The **annex** provides information on other cash benefits and taxes on employment income that are relevant for other groups of the working-age population, but are outside the scope of the **TaxBEN** model.

TaxBEN is essentially a large cross-country calculator of tax liabilities and benefit entitlements for a broad set of *hypothetical* families ("vignettes"), e.g. a married couple of 40-years-old adults with two children aged 4 and 6 (click here for a quick overview of the **TaxBEN** model). **TaxBEN** incorporates rules on the main taxes on employment income, social contributions paid by employees and employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family and childcare benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits, maternity and parental leaves benefits are included in the model for a sub-set of countries and years. The main policy instruments that are currently not included in the **TaxBEN** model are taxes on wealth (e.g. taxes on immovable and unmovable properties), indirect taxes (e.g. VAT), early-retirement benefits, short-time work compensation schemes, sickness benefits, and in-kind benefits (e.g. subsidised transport and free health care).

Useful online resources for the OECD tax-benefit model (TaxBEN)

- **TaxBEN web calculator**
- **Methodology and user guide**
- **OECD tax-benefit data portal**
- **Network of national experts**

Guidelines for updating this report (for national experts)

General guidelines

Detailed **guidelines for updating Section 5** "Net costs for Early Childhood Education and Care"

Reading notes and further details on the content of this report

- **Reference date** for the policy rules described in this report: **January 1, 2023**.
- The symbol ⓘ in the text provides a link to the glossary of technical terms.
- Section titles provide programme names as they are known in the country: first, direct translation into English, then (*in brackets*) the name in national language.
- **TaxBEN** variables are indicated in the text using the format `[variable name]`
- Text highlighted in blue font colour signals COVID-related measures.

OECD BETTER POLICIES FOR BETTER LIVES

Jobs and Income Division
Directorate for Employment, Labour and Social Affairs

The OECD tax-benefit model for Hungary: Policy rules in 2023

1. Reference wages

- Average wage **[AW]**: The OECD tax-benefit model (TaxBEN) uses Secretariat estimates of the average full-time wage (available here) [1]. If Secretariat estimates are not available, the TaxBEN model uses wage projections obtained by applying forecasted wage growth[2] to the latest available wage estimate.
- Minimum wage **[MinWage]**: The statutory minimum wage on the 1st of January 2023 was HUF 232,000 per month. The annual minimum wage is computed by multiplying the minimum monthly wage by 12, i.e. HUF 232,000*12 = HUF 2,784,000.
- Net minimum wage of the public work on 1 January 2023: HUF 77,140 per month.
- Social reference base on 1 January 2023 **[OldAgePension]**: HUF 28,500 per month. This indicator is also called "minimum old age pension".

2. Unemployment benefits

The unemployment benefit system in Hungary consists of two schemes. i) a contributory scheme (jobseekers' benefit, *álláskeresési járadék*) and ii) a non-contributory scheme (pre-pension job-seekers' allowance, *nyugdíj elötti álláskeresési 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. *Jobseekers' benefit (Álláskeresési 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' contributions and central state budget subsidies, providing earnings-related benefits to employees.

Field of application: A person who carried out gainful activity in an employment relationship, as a contractor, an agriculture entrepreneur, a self-employed or a partner in a business partnership (qualify as insured person), may be entitled to jobseekers' benefit. Retired persons are not entitled to jobseekers' benefit.

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

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[1] Average full-time wages are provided by the OECD Centre for Tax Policy and Administration. For more information on methodology see the latest Taxing Wages publication.

[2] Wage growth projections are based on the latest OECD Economic Outlook.

2.1.1. Eligibility conditions

Voluntary/involuntary unemployment: Jobseekers are eligible of jobseekers' benefit independently of the voluntary (i.e. voluntarily quitting job) or involuntarily (i.e. dismissals) ceasing of their employment if other eligibility criteria are fulfilled**.**

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 infant care allowance, adoption fee[3], child-care fee, 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 child home care fee[4], 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: Benefit recipients have to comply with the following requirements in order to keep eligibility for the unemployment benefit:[5]

- Registration as jobseeker at the PES;
- Full co-operation with the PES;
- Willingness and effort to find and take up employment;
- Not carrying any gainful activity (as employee or entrepreneur). Not receiving an old-age pension, a rehabilitation annuity or benefits for persons with changed work capacity. Not perusing studies as a full-time student.

OECE note: the TaxBEN calculations assume that these conditions are satisfied.

2.1.2. Benefit amount

Calculation base: The amount of unemployment benefit is be calculated on the basis of the average monthly amount comprising the social security contribution base that the jobseeker had earned during the four calendar quarters before the submission of the application for unemployment benefit. If the application for unemployment benefit is

[3] The adoption fee (*örökbefogadói díj*) has been in force since 1st January 2020. As this benefit is outside the scope of the OECD TaxBEN model, the programme is described in the Annex of this report.

[4] The child home care fee (*gyermekek otthongondozási díja*) has been in force since 1st of January 2019. As this benefit is outside the scope of the OECD TaxBEN model, the programme is described in the Annex of this report.

[5] Details on behavioural requirements and sanction provisions for unemployment benefits are reported in regularly updated OECD reports.

handed in later than the time when the jobseeker was registered, the amount of 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 is 60% of the base of unemployment benefit (of the previous average pay). The upper limit is 100% of the amount of the minimum wage on the first day of eligibility for unemployment benefit (i.e. 232,000 HUF/month). If the jobseeker's average wage cannot be determined, the amount of the allowance is calculated on the basis of 130% of the national minimum wage.

Frequency/periodicity of benefit payments: monthly.

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

The Jobseeker benefit is subject to the income tax (Section 8) and is not subject to social security contribution (Section 7).[6] However, pension contribution is deducted from the benefit. The pension contribution is 10%, and the years on benefit count as qualifying period for pension calculation purposes. Because the recipient pays only the pension contribution, s/he does not have any obligation to work and is not entitled for other cash benefits, e.g. sick pay for disease, during the benefit period.

[6] Because of the merging of the employee's contributions (Act CXXII of 2019), the term employees "social security contributions" includes pension contributions, healthcare services contribution, pension contributions paid under agreement, health insurance contributions.

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.

If the jobseeker who start a new job has not fully used the whole duration of his/her eligible benefit period, the entitlement period underlying the benefit duration shall be reduced according to the actual used benefit period at the next disbursement. Consequently, the jobseeker can use any unused employment/contribution requirements for future unemployment spells.

2.1.8. Benefit indexation

The jobseeker benefit is earnings-related, with a fixed maximum amount that depends on the statutory minimum wage. The minimum wage is determined by annual decision of the government. In Hungary, there is no (additional) indexation of the jobseeker benefits.

2.2. Unemployment assistance

Variable names: **[UA]**

> *OECD note*:
>
> In many OECD countries, jobseekers who do not qualify for Unemployment Insurance (UI – Section 2.1), or whose entitlement to UI is low or has expired, have access to Unemployment Assistance (UA – this section) and/or Social Assistance programmes (SA – Section 3).
>
> UA and SA benefits are similar but not identical benefits. While they are typically both means tested, they have different purposes and reach different target groups. For instance, while the main purpose of UA is to encourage the labour market reintegration of jobseekers who have exhausted or are not eligible to the standard UI benefit, the purpose of SA programmes is to provide an acceptable standard of living for families unable to earn sufficient incomes from other sources. Conditions for UA typically include requirements to register with the public employment service and participate in active job search in a similar way as for UI. This is *not always* the case for SA benefits, for which low income is the key entitlement criterion and activation requirements exist only for those who are capable of work.
>
> Based on this definition, Hungary did not provide in 2023 a national Unemployment Assistance programme. Nevertheless, Hungary does provide a Social Assistance programme (described in Section 3.1).

3. Social assistance and housing benefits

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

This is a non-contributory benefit, 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*).[7]

> *OECD note*:
>
> According to administrative data referring to 31/12/2021, in 2021, 19041 people claimed HCS for health impairment and only 31 people claimed this benefit for caring for a child under 14. Possible reasons that explain why only few families claim HBS for childcare responsibilities are the strict eligibility conditions (see below) and number of other child-related benefits that are available in Hungary, which are often not compatible with the HBS (see Section 4 and the Annex for details).
>
> Because the vast majority of HCS recipients claimed this benefit due to health problems, the OECD tax-benefit model includes only the ESS but not the 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 18th 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 the *childcare allowance* ("*gyermekgondozást segítő ellátás*" - Section 4.3) or the *child raising support* ("*gyermeknevelési támogatás*" - Section 4.4). This requirement applies equally to ESS and HCS. Both the ESS and HCS are compatible with the receipt of the *family allowance* ("*családi pótlék*" – Section 4.1), and the *regular child protection allowance* ("*rendszeres gyermekvédelmi kedvezmény*" - 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 social reference base.
- Not having real estate properties (section 3.1.4 for details)
- 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.
- Eligibility conditions that apply for the HCS:
  - Caring for a family member that suffers from a health impairment, or
  - Caring for a family member under the age of 14, provided that: (a) no household members receives *childcare allowance* ("gyermekgondozást segítő ellátás" - Section 4.3), the *child raising support* ("gyermeknevelési támogatás" - Section 4.4), *childcare fee* (Annex), *infant care allowance* (Annex), or an *adoption*

[7] The Act III of 1993 on social administration and social benefits and the Act CXCI of 2011 on benefits for persons with reduced working capacity, define those who are unable to work due to health impairment or disability. This group includes, e.g., those who have lost at least 67% of their capacity to work, recipients of a disability allowance, or those whose health condition does not exceed 50% according to a complex assessment by the rehabilitation authority. The aim of the complex assessment is to develop a personalised and multidisciplinary expert panel opinion. The panel evaluates the submitted medical documents and papers, carries out a medical examination of the person, and determines the degree of the health condition, proposes medical rehabilitation and the duration of rehabilitation.

allowance (Annex) under the Act on Family support, and (b) the child cannot be cared for in an institution providing day care [art. 41(3) of the Child Protection Act] or in a summer holiday centre, kindergarten or school day care centre.

Persons claiming ESS are obliged to cooperate with the Public Employment Service (PES) and to be available for public work programmes.[8]

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: The OECD calculations with the OECD tax-benefit model assume that this requirement is met.

Persons claiming HCS are not obliged to cooperate with the PES and to engage in public work. However, they must be either health-impaired or have a child under 14 and live in a municipality where daily care is not ensured. If the child attends a childcare centre, the person losses eligibility to HCS.

3.1.2. Benefit amount

ESS: The monthly amount is a fixed lump-sum payment equal to 80% of the social reference base (Section 1). As the social reference base in 2023 was HUF 28,500 per month, the ESS was HUF 22,800 per month. This value 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 social reference base.

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

HCS = (0.95*Social reference base*consumption unit) – 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 (Section 1). As the net minimum wage of the public work in 2023 was HUF 77,140, the maximum HCS amount was HUF 69,430 per month. This amount becomes HUF 46,630 if the other parent is entitled to the ESS (HUF 46,630 = HUF 69,430 *minus* the ESS amount).

Frequency/periodicity of benefit payments: monthly.

3.1.3. Benefit duration

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

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

[8] For the period of public work, ESS payments are suspended as the claimant receives the minimum wage for public work (Section 1).

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.

OECD 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, the OECD tax-benefit model compares the sum of the Childcare Allowance and the Child Raising Support with the HCS and selects the most generous amount.

Asset test

The district offices are responsible for asset test. The regulation is nationally uniform (Act III of 1993 on Social Administration and Social Benefits - 1993 *évi III. törvény a szociális igazgatásról és szociális ellátásokról*).

Assets affect only the eligibility for the ESS and HCS, not the calculation of benefit amounts.

The relevant properties for the asset test are defined by the law. With some exceptions (listed below), properties included in the asset test are (a) *usable* immovable properties (i.e. properties not used for the claimant's living accommodation), (b) motor vehicles (either cars or motorbikes), (c) financial/movable assets,[9] (d) any other real rights held by the claimant that cannot be considered as income.

The following exceptions apply:

(a) Regarding immovable properties, the asset test does *not* consider the property, or any other real rights attached to it, that the claimant may have on the house where they habitually reside or domicile. Only one house can be considered as occupied for the purpose of living. Any other property which is not used for the claimant's living accommodation is considered as property and is part of the property test. This includes rented and not rented residences, farmed and unfarmed lands.

[9] Movable assets included in the asset test are: (1) amounts held in a regular payment (current) account. (2) Amounts deposited in a credit institution under a deposit agreement or a savings deposit agreement (or similar agreements), held by the claimant and *managed by the credit institution*. (3) amount deposited in the credit institution under a deposit agreement or a savings deposit agreement against a savings certificate of deposit (or other deposit instruments) *managed directly by the claimant*; (4) other amounts to be repaid by the credit institution at the disposal of the claimant

(b) Regarding the property of vehicles, the asset test does *not* consider the vehicle used for the purpose of mobility restrictions.[10] Only one car per household can be considered as a vehicle reserved for a disability. For claimants without health impediments, the ownership of a vehicle, car or motorbike, is fully included in the asset test.

(c) Household appliances and personal belongings are *not* included in the asset test.

The asset test consists of an evaluation, based on market value, of the relevant assets (listed above). The claimant passes the test if the following conditions are met:

- The market value of each asset, calculated separately from the others, is thirty times the amount of the social reference base (HUF 28,500.00 x 30=HUF 855,000)
- The combined market value of all the assets is more than eighty times the amount of the social reference base (HUF 28,500.00 x 80=HUF 2,280,000). If even one of the assets exceeds the eligibility limit of HUF 855,000, no further assessment of the combined value is required.

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 pursues a gainful activity while receiving these benefits. 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 clamant pursues a gainful activity. The suspension lasts until the 120th day of the gainful activity (except for public employment). On the 121th 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.

> *OECD note*:
>
> When ESS recipients take up employment, the OECD tax-benefit model assumes that these persons are *not* participating in public work programmes, and therefore they are not entitled to the double amount of ESS.

3.1.8. Benefit indexation

The benefit amount is linked to the percentage of the social reference base. There is no other indexation.

3.2. Housing benefit

Variable names: **[HB]**

[10] The claimant must attach to the claim any relevant documentations that justifies the use of the vehicle for mobility restrictions. Relevant documentation may include the decision on the disability allowance, the expert opinion on the assessment of mobility, the decision on transport benefits for severely disabled persons, sale contract, etc.

While local governments in Hungary can provide financial aid to support the costs of housing in the form of a local benefit (*települési támogatás*), no national housing benefit exists currently in Hungary.[11] The Annex describes a special housing allowance for jobseekers who find employment far from their permanent residence.[12]

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 (*gyermekgondozást segítő ellátás*) – described in Section 4.3.
- Child raising support (*gyermeknevelési támogatás*) – described in Section 4.4.
- Family tax base allowance (*családi szja és járulékkedvezmény*) – see Section 8.1
- Family tax allowance for first marriages (*első házasok 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.

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 TaxBEN 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;

[11] The "home maintenance allowance", as a central national benefit ceased to exist in 2015. Local governments have the jurisdiction to provide financial help to housing costs (as local benefit). Budapest as capital has no jurisdiction to provide local housing benefits, only the districts can.

[12] Municipalities may provide cash support as well as in-kind accommodation support to socially deprived persons, in addition to the benefits provided for by the Social Welfare Act (Section 3.1). The Council of Representatives determines by municipal decree the purposes for which, the amount of and the conditions under which the assistance is granted, where applications are to be submitted, the body responsible for assessing them and the rules for payment and monitoring. The benefits that can be claimed may vary considerably from one municipality or metropolitan district to another.

- ‘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 2023:

- 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.

Frequency/periodicity of benefit payments: monthly.

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.

4.1.8. Benefit indexation

There is no indexation regarding family allowance.

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 does not exceed 180% of the prevailing lowest amount of social reference base, i.e. 51 300 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 165 % of the prevailing lowest amount of social reference base, i.e.47,075 HUF.

4.2.2. Benefit amount

The regular child protection allowance is paid twice a year. As of July 2019, the allowance is no longer provided in vouchers: parents receive the allowance in cash. The annual amount is 2x HUF 6 000 per child, or 2x HUF 6 500 per child in case of children who are disadvantaged or multiple disadvantaged.[13] According to the Child Protection Act, disadvantaged children are those for whom one of the following conditions apply:

- Low educational level of the parents or the adoptive guardian,
- Low employment level of the parents or the guardian,
- Unsatisfactory living environment, insecure housing.

Children with multiple disadvantages are those for whom at least two of the conditions above apply.

The eligible child may be entitled also to free daily meals and other in-kind benefits defined by the law. As of the 2020/2021 school year, all students from primary to upper secondary education are entitled to get textbooks free of charge.

> *OECD note*:
>
> The OECD tax-benefit model assumes that parents meet at least one of the conditions above. As a result, the model uses the HUF 6 500 rate. The calculations do not include in-kind support benefits (e.g. free of charge textbooks).

Frequency/periodicity of benefit payments: monthly.

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 3.1.4) 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).

[13] 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.

4.2.8. Benefit indexation

The benefit amount is linked to the % of the social reference base.

4.3. Childcare 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.

> *OECD note*:
>
> As this benefit is not conditional to the use of centre-based childcare, it is classified as a general Family Benefit in the OECD tax-benefit model (macro variable FB).

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 three years old are not eligible). In case of twins, the allowance is paid until children reach the compulsory schooling age (usually 6 years). In case of a child with a long-term illness or severe disability, the allowance is paid until the age of 10.

4.3.2. Benefit amounts

The amount is equal to the monthly social reference base, i.e. 28 500 HUF per month in 2023. 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.

Frequency/periodicity of benefit payments: monthly.

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.

4.3.5. Tax treatment

The benefit is not taxable income. Pension contribution of 10% must be paid as the disbursement period is qualifying period for pension.[14]

4.3.6. 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 allowance (see Annex), child care fee (see Annex), and family allowance (Section 4.1).

[14] The 'unification' made in 2021 of the Employee social security contribution rates into a single rate (see Section 7 for details) does not affect the social security contribution payments associated with the Child care allowance.

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.

4.3.7. 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.

4.3.8. Benefit indexation

There is no indexation regarding the childcare 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 social reference base, i.e. 28 500 HUF per month in 2023.

Frequency/periodicity of benefit payments: monthly.

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.[15]

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 six hours per day (30 hours / week) or without time restriction at home.

[15] The ‘unification’ made in 2021 of the Employee social security contribution rates into a single rate (see Section 7 for details) does not affect the social security contribution payments associated with the Child raising support allowance.

OECD note:

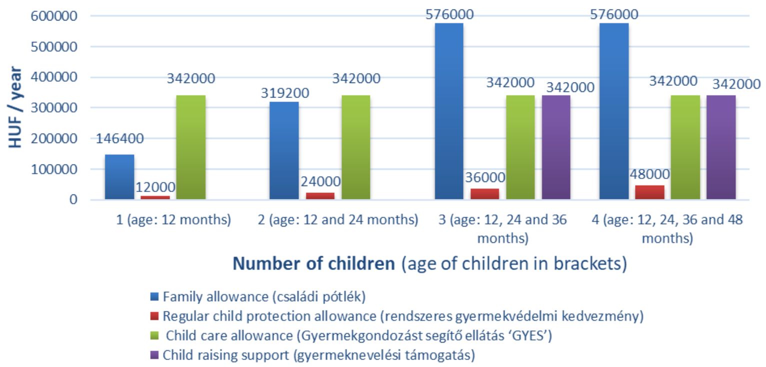
The OECD tax-benefit model assumes that the claimant is the partner with the lowest work intensity (in terms of working hours). For a two-earner couple, if both partners work more than 6 hours a day, the family loses eligibility.

4.4.8. *Benefit indexation*

There is no indexation regarding child raising support.

Amount of family benefits by programme and by number of children

One earner couple with 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, 2023.

5. Net costs of Early Childhood Education and Care

Children under the age of three (0-2) receive childcare services in day-care nurseries. Older pre-school children (3-5) go to kindergartens. Nursery attendance is not mandatory for children under the age of three, whereas kindergarten attendance is mandatory for at least 4 hours per day for all children over the age of three. School attendance is mandatory from the age of six.

Nurseries and kindergartens are typically managed by local authorities. Relevant local authorities are in general the municipalities. In large cities, the relevant public authority is the individual municipal district (Budapest has more than 20 districts). Around 50% of existing nursery care (both institutions and services) and 17% of existing kindergartens are maintained by the non-governmental sector.[16]

[16] This statistics are in line with the OECD report "Technical Support to Reduce the Gender Employment Gap in the Hungarian Labour Market".

From 1 January 2017, the nursery care system provides day care for children by means of two types of institutions (nursery and mini nursery; hereinafter: nursery care centres) as well as two service types (family nursery, workplace nursery) of nursery care.

Nursery day care is mainly for children of working parents who are unable to look after their children for work reasons. Working parents receiving the Childcare allowance (Section 4.3), Childcare fee (Annex) or the Child raising support benefit (Section 4.4) can access nursery day care as long as they can demonstrate that their work prevents them from taking care of the children during working hours. Only under the following circumstances, regulated by the law, can non-working parents access nursery care:[17]

- if they participate in a programme or training set out to promote labour market integration;
- if they participate in full time education or adult education, organised according to the time schedule of adult learning education or full-time education at higher education institutions;
- if they suffer from illness;
- If their children face the following situations:
  - They need permanent day care for their development,
  - They are being cared by a lone parent or elderly person,
  - The parent or legal guardian is unable to provide care for them due to socioeconomic status.

The nursery care centre verifies these eligibility conditions during the admission process. Different from nursery care, kindergarten care is always accessible for children who are over the age of three, independently of the parents' economic status (active / inactive).

> *OECD note*:
>
> For jobless families and one-earner couples with children under the age of three, the OECD tax-benefit model (TaxBEN) and the associated childcare cost indicator assume, where relevant, that non-working parents are actively seeking employment and participating in a programme or training to promote labour market integration.

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).

As of January 2012, public nurseries can charge parents a fee for the care service on the top of the fee for the meals. On the contrary, public kindergartens provide the care service always free of charge and can charge only for the meals.

Responsible local authorities are typically the municipalities (or the individual municipal districts in large cities, e.g. Budapest). Municipalities define by decree the fee for the care service. They can decide not to charge parents at all for the care service, or to apply a reduced fee where it is justified by income circumstances of the parents.

In nursery care centres and kindergartens, parents may pay a fee for the meals. The fee for child catering in nursery care centres and kindergartens is determined by a local government decree, considering 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.

[17] Additionally, children in temporary care as well as children in institutional care are also entitled to nursery care.

According to the Child Protection Act, in terms of nursery care centres, families may be fully or partially exempted from paying for the nursery care and/or the meals. Details on these exemptions are available in Section 5.2.

According to data from the Central Statistical Office (2022, National Statistical Data Collection programme), around 70% of children enrolled in nursery care centres received free day care (taking into account the exemptions, described in section 5.2.1, as well as those nursery care centres that do not to charge parents for the care service). In addition, according to2022 administrative data, meals are provided free of charge to about 63% of the children attending childcare centres (please see section 5.2 for a description of these exemptions).

According to data collected as of 1 Jan 2023 by the Hungarian Nurseries Association – one of the professional methodological organisations appointed by the Ministry for Culture and Innovation to carry out a survey of childcare costs in Hungarian nursery care centres – the average fees at the beginning of 2023 were:

- HUF 259/day for the care service.

- HUF 599 /day for the meals.

The 2023 survey included 20 nursery care centres located in Budapest in addition to 3 to 4 nurseries in each county (1 from the county capital, 1 from a large town and 1 to 2 from small villages).

OECD notes:

- The OECD tax-benefit model calculates the childcare costs for children under the age of three as the sum of the two amounts above (fee for the service + fee for the meals). For children between 3 and 5 years old, the fee for the service is equal to zero whereas the fee for the meals is equal to 599 HUF/day (i.e. the same value calculated for the nurseries). Monthly amounts are equal to the average daily amounts above multiplied by 22 (i.e. the average days of attendance per month). The OECD calculations take fully into account the exceptions described in Section 5.2, where relevant.

- Childcare costs for Hungary before 2022 are calculated with a different methodology, i.e. taking into account the regulation applying to a selected district of Budapest. From 2022 onwards, average childcare costs are calculating using ad-hoc surveys managed by the Ministry for Culture and Innovation. As a result, childcare cost from 2022 onwards are not comparable with previous years.

5.1.1. Discounts for part-time usage

Nursery care centres calculate the fee for the care service on a full-time basis. There is no half-day fee for care in these nursery settings. Nurseries provide care for children for at least four hours per day (except for children with special educational needs). In general, a child receiving care services attends the nursery 21-22 days/month and spends on average eight hours in the nursery.

5.2. Childcare benefits

5.2.1. Fee discounts and free provision

Variable names: **[cc_benefit]**

As of January 2012, public nurseries can charge parents a fee for the care service on the top of the fee for the meals. On the contrary, public kindergartens provide the care service always free of charge and can charge only for the meals

The overall amount *per children* for the care service and the meals in public nurseries cannot exceed 25% of the family's net *per capita* income (20% without the meal costs, if the child is entitled to free meals).The family's net per capita income is the sum of the following income components, divided by the number of household members:[18]

- Regular net income from work / pension / business income (all calculated after subtracting of income tax and social security contribution payments);
- Other regular net revenues (e.g. property rental income, fixed savings);
- Regular cash benefits (including social assistance, family and housing allowances, not including personal allowance for the visually impaired or disability allowance).

> *OECD note*:
>
> If the sum of the fee amounts for the care service and the meals exceeds 25% of the relevant income measure (as defined above), e.g. because model users select a particularly low income, the overall childcare fee calculated by the OECD tax-benefit model is equal to 25% of the relevant income measure. If model users select families with more than one child in childcare, the 25% threshold is assessed for each child *separately*. For instance, if the 25% threshold is 100 HUF and there are two children using childcare paying each 60 HUF, the family will pay 60+60 HUF, even if the sum of the fees at the family level is higher than the income threshold.

According to the Child Protection Act, nursery care in nurseries and mini nurseries is provided free of charge to the following children:

- Children who are eligible for the regular child protection allowance (Section 4.2);
- Children suffering from a permanent disease or disability;
- Children living in families with 3 or more children under 18 years of age,
- Children temporarily placed with a foster parent or in a children's home;
- Foster children
- Children living in child protection care.

Children are eligible for free meals (at nurseries/mini nurseries as well as kindergartens) if they:[19]

- Live in families in which the monthly net per capita income does not exceed 130% of the statutory minimum net wage (130% of the net minimum wage corresponds to HUF 200564 in 2023).[20] The definition of the family's net per capita income is provided below.
- Are eligible for 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.

Note: the condition of being a lone parent does not automatically give access to free meals and/or free care service. However, if the other legal conditions listed above are met e.g. the

[18] When calculating the income per capita, close relatives living in the same household (carer family) are taken into account if they live together in the same dwelling place. Other family members that are considered when calculating the per capita amounts are (a) the parent; (b) the spouse or partner of the parent; (c) children under the age of 20 who are not employed; (d) children under the age of 23 in full-time education; (e) permanently ill or disabled children, regardless of age.

[19] The list is similar but not identical to the list of exemptions for the care fee. 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.

[20] In 2023, the *gross* monthly minimum wage was HUF 232,000. The net minimum wage is equal to the gross amount minus income taxes (15%) and social security contributions (18.5%), which is equal to HUF 232000*(1-0.15-0.185) = 154280. The 130% of this amount is 200564 HUF, as reported in the main text.

income conditions), the child of a single parent may be also entitled to free meals/childcare. In addition to these, the child of a single parent has priority in the admission procedure to a nursery care institution. Finally, the amount of the fee to be paid for care can be reduced or waived based on the income of the person concerned, upon special request, by the written decision/decree of the maintainer.

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

There are no benefits at the national level whose eligibility depends on the use of childcare centres. Local governments can provide this type of benefits.

The Hungarian State Treasury provides a grant of maximum HUF 40 000 per month for the fee of the care services in family nurseries, workplace nurseries/nurseries or mini nurseries other than the local authority maintenance, and in terms of daytime caregivers. If the fee is less than HUF 40 000, the amount of the grant will be equal to the amount of the fee. Requests for support can be submitted from 9th August 2019 until 31st March 2023.

> *OECD note*:
>
> Because the OECD tax-benefit model assumes that children attend a *public* nursey, the grant for parents who use family or workplace nurseries is not available.

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

There are no national benefits at the national level whose eligibility depends on NOT using centre-based childcare (e.g. “home-care” and “child-rising” allowances).

5.2.4. Tax concessions for childcare expenditures

Fees for the care service and the fee for the meals are not tax deductible.

6. Employment-conditional benefits

Variable name: **[IW]**

> *OECD note*:
>
> This section provides information on employment-conditional (“in-work”) benefits for employees, i.e. benefits whose eligibility is conditional on the following key requirements: 1) being regularly employed (in either the private or public sector); 2) working a certain number of hours and/or earning more than a certain minimum. This definition notably excludes ‘workfare’ programmes and related ‘work-first’ policies that make out-of-work benefits conditional on participation in work activities.
>
> In addition, thus section provides information on *one-off* and/or *temporary* payments for benefit recipients who are out of work and take up employment. These type of benefits are referred to as *transitional “into-work” benefits* in order to differentiate them from the “regular” in-work benefits, which do not have a predefined maximum duration after moving into work.
>
> Based on this definition, Hungary does not have employment-conditional (“in-work”) benefits in 2023. However, as of 2020, Hungary provides support that has a similar purpose of *transitional “into-work” benefits*, i.e. to help jobseekers to establish new employment relationships by providing job placement and consulting services as well as wage subsidies to employers.[21] This type of support is outside the scope of the OECD tax-benefit model.

[21] Employees may receive support from the employers through the so-called “cafeteria system”. The majority of the employers offers such cafeteria benefits as part of their compensation package. The most commonly used benefit element is the contribution to the Széchenyi Holiday Card, which can be used for accommodation, food and beverage and recreational services within Hungary. The

7. Social security contributions and payroll taxes

7.1. Employee Social security contributions

Variable name: **[SSC]**

Until 30 June 2020**,** the employees' gross earnings were subject to the following contributions:

- Pension contribution: the rate was 10%. The upper limit of the employees' pension contribution ceased on 1 January 2013.
- Health insurance contribution: the rate was 7% (from which 4% in-kind and 3% in cash health insurance contribution).
- Unemployment contribution: the rate was 1.5%.

As of 1 July 2020, the above contributions were merged into a single contribution of 18.5%, so the tax burden did not increase. Only earned income is liable to social security contributions. As a result, workers pay an overall contribution of 18.5% (10%+7%+1.5%) whereas jobseekers pay only 10% of their unemployment benefit entitlements (Section 2.1). the same contribution rate (10%) applies, where relevant, also to the Child Care allowance (Section 4.3) and the Child raising support (Section 4.4).

As of 2014, the employees' social security contributions serve also as a basis of the "family tax base" allowance (Section 8 for details). Until 30 June 2020, only the pension and health insurance contributions could be decreased with the allowance. However, as of 1 July 2020, the overall social security contribution can be used.

7.2. Employer social security contributions

Variable name: **[SSCR]**

Employers have to pay the 'social contribution tax' on the gross earnings. The rate of the social contribution tax has been gradually decreasing. On 1 January 2023, the social contribution tax was 13%. The rate was 15.5% between 1 July 2020 and 31 December 2021. It was 17.5% between 1 July 2019 and 30 June 2020, 19.5% until 30 June 2019, 22% in 2017 and 27% between 2012 and 2016.

Until 31 December 2021, employers also had to pay vocational training contributions for training programmes equal to 1.5% of the gross wage in addition to the 'social contribution tax'. This training contribution was abolished on 1 January 2022.

In 2013, a large-scale employers' tax cut, called Job Protection Act (JPA) was introduced with the aim of boosting labour force participation of certain disadvantaged groups. It consisted of several different types of tax reductions of the employers' social security contributions. There were two major types of reductions: 'permanent' and 'temporary'. The permanent reductions applied to the following categories, regardless of when the new job started: employees below the age of 25, employees above the age of 55, and employees working in an elementary occupation (defined as main category 9 according to the Hungarian Central Statistical Office's HSCO-08 classification system). The other major

contributions to the card have more beneficial tax treatment than the wage. After the contribution 15% personal income tax and the 13% social contribution tax are payable by the employer, the employee does not have any tax obligation. The beneficial taxation can be used up to an annual limit of HUF 450,000 contribution paid by the employer to the card and there are also caps for the subaccounts. For instance, the cap of the "accommodation" subaccount is HUF 225,000 per year, from all employers. If the employer pays contributions to the card above, the base for the personal income tax and the social contribution tax is 1.18 fold of the contribution transferred over the cap.

types of tax reductions were temporary, i.e. related to the time that the employee has spent in the new job. In general, the concessions expire after three years.

As of 1 January 2019 the regulation of social contribution tax moved into its own separate law the framework of social contribution tax allowances renewed in order to provide more benefits with better targeting. The name of Job Protection Act is also changed. The reduced social security contribution rate for employees below 25 and above 55 years of age was eliminated and the "new entrants' allowance" was introduced. Under the new regulation, those who had been out of work for at least 6 months out of the preceding 9 months entitled for tax allowance. The new allowance replace the allowances for career-starters, long-term unemployed persons and mothers returning from childcare as it covers their target groups and extend the scope to formerly inactive persons as well. Moreover, the upper limit of the allowance base increased from the fixed maximum HUF 100,000 of the beneficiary worker's wage to the amount of the minimum wage (which is currently HUF 232,000). The additional benefits for mothers with more than 3 children and for unskilled workers remain. As an administrative simplification, the tax authority automatically check and verify entitlement to the new benefit for any new entrant.

As of 1 January 2019, the "new entrants" allowance reduces the 13% employer social contribution rate for selected population groups who take up employment after a period out of work. This allowance applies to the following groups:

- Mothers with three or more children;
- Those who have been out of work for at least six months in the preceding nine.

Because of these allowances, the aggregate 13% rate is reduced to 0% for gross earnings up to the statutory minimum wage in the first two years of employment, and to 6.5% in the third year of employment for those who have been out of work for at least six months in the preceding nine. For mothers raising three or more children, the aggregate 13% rate is reduced to 0% in the first three years of employment, and to 6.5% in the fourth and fifth year, independently of the duration of the out of work spell.[22] Employers can benefit from the "new entrants" allowances for both part-time and full-time workers.

> *OECD note*:
>
> The "new entrants" allowance is not part of the TaxBEN calculations, as the model does not consider targeted hiring subsidies for employers.

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.

[22] In practice, during the first two years of employment of the eligible employee, employers pay social contribution tax and vocational training contribution only for the part of gross earnings that is above the statutory minimum wage. During the third year of employment, employers pay 50% of the social contribution tax up to the minimum wage, whereas the part of the wage above the statutory minimum wage is taxed normally. Hence, in the first two years of employment the tax allowance is capped at the statutory minimum wage and is not phased out, whereas in the third year there is no vocational training contribution allowance.

8.1.2. Tax base

Taxable income includes, among the others, employment income and unemployment benefits. Note: the family benefits described in Section 4 are not part of the taxable income.[23] 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 family tax base allowance and the tax base allowance for first marriage reduce the taxable income (see below).

8.1.3. Reductions to the tax base

In 2023, there were the following reductions to the tax base:

1 PIT exemption of women with four (or more) children **(***4 vagy több gyermekes anyák mentessége*). As of 1 January 2020, mothers who raise or have raised at least four children are exempt from paying their personal income tax for the rest of their lives for taxable consolidated income gained from employment or self-employment.

2 PIT exemption of young people under 25 *(25 év alatti fiatalok mentessége)***:** *As of 1 January* 2022, labour income (gained from employment or self-employment) of people younger than 25 is tax free up to 12 times of Hungarian average wage on July of the year preceding the tax year. In 2023, the annual cap is HUF 499 952 x 12 = HUF 5 999 424).

PIT exemption of mothers under 30 *(30 év alatti anyák mentessége)***:** *As of 1 January* 2023, labour income (gained from employment or self-employment) of mother under the age of 30 giving birth or adopting a child is tax free. The cap of the exemption is 12 times of Hungarian average wage on July of the year preceding the tax year. In 2023, the annual cap is HUF 499 952 x 12 = HUF 5 999 424). The exemption can be used from the 91st day of pregnancy.

3 Tax base allowance for first marriage: As of 1 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.

4 Married couples can be entitled to the "family tax base" allowance and the "tax base allowance for the first marriage" at the same time.

5 Tax base allowance for handicapped individuals: As of 2021, the allowance for handicapped persons reduces the tax base and not the tax credit. The extent of the allowance is one third of the monthly minimum wage and can be deducted from the consolidated tax base. Severely handicapped individuals are persons suffering from certain diseases or who receive invalidity related benefits.

> *OECD note*:
>
> The first marriage allowance and the Tax base allowance for handicapped individuals are not included in the OECD tax-benefit model.

6 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.

[23] The infant care allowancwe (CSED) and child care fee (GYED) described in the Annex are part of the taxable income but are not included in the TaxBEN model.

- As of January 1, 2023, the family tax base allowance (in addition to the existing amount of tax base allowance) can be claimed at a higher rate of HUF 66,670 per month for a dependent child who is chronically ill or severely disabled.

A dependent child is defined as aged 20 or younger, or in case of disability aged 23 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 month):

- HUF 10 000 for families with one dependent child (i.e. HUF 66 670 times 0.15),
- HUF 20 000 multiplied by the number of dependent children for families with two children,
- HUF 33 000 multiplied by the number of dependent children for families with 3 or more children.
- As of January 1, 2023, for dependent children who are permanently ill or severely disabled it increased by HUF 10 000 (in addition to the existing amount of tax base allowance).

If the tax base is not sufficient to benefit from the full amount of the "Family tax base" allowance, as of 1 January 2014, employees can claim any unused part of this allowance against their 18.5% social security contributions. Before 1 July 2020, the family allowance could only be offset against the pension and the health care contributions. However, as of 1 July 2020, the social security contributions for health care (7%), unemployment (1.5%) and pension (10%) were merged into a single contribution rate (18.5%). As a result, any unused part of the family tax allowance can be deducted from the entire 18.5% of the merged social security contribution rate of the employee.

Working married couples can also split the allowances between them if their personal incomes are not enough to enjoy the entire allowance.

8.1.4. Income tax schedule

In 2023, the Hungarian income tax schedule applied a flat rate of 15% on the tax base.

8.1.5. Tax credits

None.

Table 1. Example of calculation of income tax liabilities and social security contributions

2-earner couple with three dependent children

		Partner 1 (main earner)	Partner 2 (second earner)
1	Gross earnings (HUF/year)	3,000,000	2,400,000
2	Social Security contributions paid on earnings (18.5%)	555,000	444,000
3	Child Care allowance (assumption: assigned to the main earner)	342,000	
4	Pension contributions paid on the child care allowance: [3]*0.1	34,200	
5	Family allowance (assumption: assigned to the main earner)	576,000	
6	Regular child protection allowance (zero as the net per capita income of this family is > than 135% the old age pension)	0	
7	Income tax liability of the main earner (before accounting for the Family tax base deduction)	450,000	
8	Maximum Family tax base that can be deducted from the income tax liability of the main earner: (220,000*12*3)*0.15	1,188,000	
9	Final income tax liability of the main earner: max(0, [7]-[8])	0	
10	Unused part of the Family tax base allowance that the main earner can use for reducing his/her social security contributions paid on earnings [2] and the childcare allowance [4]: -([7]-[8])	738,000	
11	Total social security contributions paid by the main earner after subtracting the available part of the Family tax base: max(0, [2]+[4]-[10])	0	
12	Unused part of the Family tax base allowance of the main earner that can be transferred to the second earner: -([2]+[4]-[10])	148,800	148,800
13	Income tax liability of the second earner (before accounting for the unused part of the Family tax base left from the main earner)		360,000

14	Final income tax liability of the second earner (after accounting for the residual family tax base): [13]-[12]		211,200
15	Net disposable income	3,918,000	1,744,800

Note: In Hungary, working partners can decide how they want to share the Family Tax Base allowance. For instance, they can decide that one partner uses the allowance to reduce his/her income tax but not his/her social security contributions, whereas the other can use any unused part of the allowance to reduce both his/her social security contributions and his/her income tax. Considering this flexibility, the calculations in the table above show how the allocation of the Family Tax Base works in the OECD tax-benefit model. In practice, the main earner uses the allowance first to reduce his/her income tax and then his/her social security contributions. If there is any residual allowance left, the second earner will use it to reduce first his/her income tax and then his/her social security contributions.

Source: OECD tax-benefit model, 2023.

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.

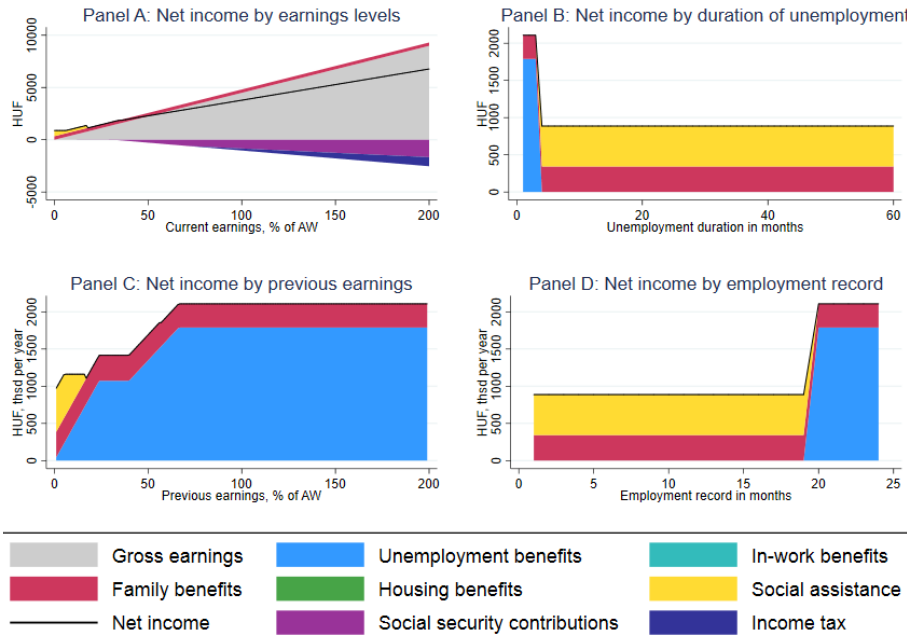
Panel A assumes that one of the two adult members (the ‘second adult’, using the TaxBEN terminology) is out of work and not eligible for unemployment benefits (e.g. because they have expired) whereas the other adult member (so-called ‘first adult’) is employed full-time and full-year at different earnings 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 2nd 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, 2023.

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.

A.1. *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);
- has received unemployment benefit for a total of at least 45 days in the previous three years, and
- has not acquired entitlement to an unemployment benefit again at the time of the application, and
    - exhausted the period for which the unemployment allowance was paid; or
    - before the period of payment was exhausted, the public employment service discontinued the payment of the job-seeker's allowance on the grounds of gainful employment;
- shall reach retirement age in not more than 5 years;
- 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).

A.2. *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 grant the housing allowance according to the provisions of the related labour market programme. The housing allowance can be used for renting fees, including public utility fees.

Eligibility conditions

A non-refundable housing allowance can be granted to a jobseeker 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 distance between his/her permanent residence and the place of employment is more than 60 km;

Calculation of gross benefit

The amount of the benefit is maximum 70% of the minimum wage per month.

Benefit duration

The duration is limited to 12 months.

Means test

The allowance is not means-tested.

Tax treatment

The allowance is not taxable.

A.3. Subsidies for Home Purchase

Family Housing Subsidy (családi otthonteremtési kedvezmény)

Since 2015, the Family Housing Subsidy (Hungarian abbreviation: 'CSOK') is a non-refundable state subsidy for families raising at least one child or who undertake to raise at least one child when buying a new or pre-owned house or flat or enlarging their existing home.

<table>
<tr><th rowspan="2">Number of children</th><th colspan="2">Building or buying a new house/flat</th><th colspan="2">Pre-owned flat/house</th></tr>
<tr><th>The minimum useful area (flat/house, m^2)</th><th>Amount of subsidy (HUF)</th><th>The minimum useful area (m^2)</th><th>Amount of subsidy (HUF)</th></tr>
<tr><td>1</td><td>40/70</td><td>600 000</td><td>40</td><td>600 000</td></tr>
<tr><td>2</td><td>50/80</td><td>2 600 000</td><td>50</td><td>1 430 000</td></tr>
<tr><td>3</td><td rowspan="2">60/90</td><td rowspan="2">10 000 000</td><td>60</td><td>2 200 000</td></tr>
<tr><td>4+</td><td>70</td><td>2 750 000</td></tr>
</table>

Family Housing Loan (CSOK-loan)

Since 2016, families buying a new or pre-owned house/flat with CSOK may also apply for a residential state loan of maximum 3% interest. Families with two children may apply for a loan of EUR 30,000 (HUF 10 million) and those raising three or more children may apply for a loan of EUR 45 000 (HUF 15 million).

Green Family Housing Loan (Green CSOK-loan)

The Central Bank of Hungary (MNB) launched on October 4, 2021 its Green Home Programme. According to the programme, families purchasing or building a new property using the Family Housing Subsidy (CSOK) and raising 2 children or more are entitled to apply for the CSOK-loan free of interest in case the property has an energy rating of at least BB (max. 90 kwh/m2)

Village Family Housing Subsidy (Village CSOK)

Within the framework of the Hungarian Village Programme, Village CSOK is available from July 1, 2019 until June 30, 2022 in more than 2679 disadvantaged settlements with a population up to 5000. This subsidy is available for families buying and renovating/enlarging pre-owned properties, or those renovating/enlarging their existing real estate.

Families having one child or those who undertake to raise one child are entitled to a non-refundable allowance of EUR 1,740 (HUF 600 000). This sum is EUR 7,500 (HUF 2,6 million) in case of two children and EUR 30,000 (HUF 10 million) for three or more children. Maximum 50% of the allowance can be spent on purchase, while the remaining part can be used for modernization and renovation. Half of the above amounts can be spent on upgrading an existing home.

Diminution of mortgage loans

Families who undertake to raise a second child are entitled to decrease their mortgage debt by EUR 3,000 (HUF 1 million) and by EUR 11,600 (HUF 4 million) if they undertake to raise a third child. For each additional child born (fourth, fifth child etc.), families can reduce their mortgage loans by an additional EUR 3 000.

VAT reduction and exemption

Between January 2021 and December 2022, instead of the previous 27% VAT rate, a general 5% VAT is in effect when purchasing newly built home or constructing one by a general contractor.

Also in the same period, families with at least one child are fully exempt from paying VAT when purchasing a newly built home or constructing one by a general contractor, if at the same time they apply for the “Family Housing Subsidy” (CSOK).

People constructing their home on their own property can refund the 27% VAT of their construction for up to EUR 15 000 (HUF 5 million).

Home renovation support and loan

As of January 2021, the state covers half of the expenses, up to EUR 9 000, of home renovation and modernization of families with children. A renovation with an overall cost of EUR 18 000 may only cost EUR 9 000 as half of the construction and half of the material costs are refunded. This amount can be claimed even after a single child living with the parents up to the age of 25 years or without age limit in the case of a disabled child or a child entitled to child homecare fee.

Those who otherwise could not afford to utilise the home renovation support and pre-finance the costs of the renovation, can claim a home renovation loan of up to EUR 18 000 with a 10-year fixed-term and 3% interest rate. After the completion of the renovation, the home renovation support can be claimed which reduces the outstanding debt by up to EUR 9 000.

Exemption from the real estate transfer tax

From 1st January 2021, families are exempt from paying the real estate transfer tax, if they claim the “Family Housing Subsidy” (CSOK) when purchasing their home. Consequently, if a couple planning to have children or a family already having children purchase a new or pre-owned property with CSOK, they are completely exempt from the transfer tax (they do not have to pay the 4% real estate transfer tax regardless of the price of the real estate).

A.4. 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 social reference base per child (HUF 64,125) or 300 % of the social reference base per child (HUF 85,550) in case of twin-children. The birth grant is not taxable income.

A.5. *Infant care allowance, Child care fee, Adoption fee, Child home care fee (Csecsemőgondozási díj, gyermekgondozási díj, örökbefogadói díj, gyermekek otthongondozási díja)*

The **Infant care allowance ('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 **Childcare fee ('GYED')** is an insurance based benefit that is paid after the period of the infant care allowance as long as the insurance period of the parent takes, but maximum to the age of 2 years of the child. 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" (diplomás GYED). Fathers are entitled to this payment if the mother dies or is not entitled to the benefit. From January 1, 2020, a non-retired, insured grandparent may also become entitled to child care fee as "Grandparents' child care fee" (nagyszülői GYED).**Adoption fee ('ÖFD')** has the same conditions as Child care fee, but adoptive parents are entitled to receive it for 168 days in the case of adoption of a child over the age of two.

Child home care fee ('GYOD') has been in force since 1st of January 2019. This benefit is intended for parents caring for their chronically ill child at home. The child home care fee can be provided only to biologic or adoptive parents; while the nursing fee can be provided to a relative. Informal carers do not need to have professional qualifications or other special medical or training knowledge in order to be eligible to the benefits.

Eligibility conditions

Infant care allowance 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 while being insured or within 42 days after having been terminated the insurance or during paid sick-leave.

Childcare fee: the parent has to be insured, and needs at least 365 days of insurance during the last two years before delivery, and the child lives with the claimant's family. As of 1 January, 2016, when the child turns six months old it is possible for parents to work without time limit in addition to receiving the Child care fee. 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. Since 1 January 2020, foster parents have also been entitled to the childcare fee for children under the age of 2 being in their care. Grandparents are also entitled to Childcare fee if they are not pensioners yet and take care of their grandchildren until the age of 2 and both parents are (or the single parent is) employed.[24] Mothers not having a gainful activity yet but having already completed at least two active semesters in tertiary education are allowed to receive Degree holder's childcare fee. As of January 1, 2020, a mother (or father) receiving Degree holder's child care fee may also be entitled to

[24] The childcare fee is paid to the grandparent, not the parents. Only one of the grandparents is allowed to apply, but the fee can be requested after more grandchildren.

Degree holder's child care fee, whose new child is born while the benefit is being disbursed or within 1 year after its termination.

Adoption fee has the same conditions as Child care fee, but adoptive parents are entitled to receive it for 168 days in the case of adoption of a child over the age of two. If the child is placed in the care of the adoptive parents less than 168 days before reaching the age of two, the adoptive parent will be entitled to Adoption fee for the remaining part of the 168 days after the child has reached the age of two.

Benefit amounts

Infant care allowance: without ceiling 100% of the daily average gross earnings of the previous year.

Child care fee, Grandparents' child care fee and Adoption 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: 324,800 HUF in 2023)

Degree holder's child care fee - in case of mothers on student status: in case of BA studies generally 70% of the minimum wage (gross amount: 162,400 HUF) or in the case of Master's or PhD studies: 70% of the guaranteed minimum wage (gross amount: 207,480 HUF).

Child home care fee: in case of one child the amount is HUF 232,000 (gross). If the parent takes care of several children who are unable to provide for themselves, the benefit must be paid in an amount one and a half times higher. The benefit is paid regardless of the age of the child.

Tax treatment

Infant care allowance is disbursed on an insurance basis and is proportionate to earnings 15% personal income tax is deducted from the CSED, and the family discount can be claimed from it, but from 1 January, 2023 mothers under the age of 30 are exempt of personal income tax so the amount of the benefit can be the same as their previous gross salary.

Child care fee, Grandparents' child care fee. Degree holder's child care fee and **Adoption fee** are disbursed on an insurance basis, and is proportionate to earnings Parents (or grandparents by claiming grandparents' child care fee) pay 15% personal income tax and 10% contribution, but mothers under the age of 30 are personal income tax exempt therefore only the 10% contribution payment is required.

Child home care fee: 10% pension contribution.

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 allowance(CSED) expires, or from the 169th day calculated from the birth of the child.

A.6. *Sickness Benefit* (*Táppénz*)

Entitlement and eligibility conditions

To be entitled to sickness benefit, the sick person has to be insured, the sickness has to be verified by a medical doctor and the sick person has to pay health insurance contribution. The sickness benefit is paid on a monthly basis.

Benefit amounts

The amount of the benefit depends upon the average gross earnings in the previous 180-day insurance period. The amount of the sickness benefit is equal to 60% of the daily average gross earnings. During inpatient treatment or in case the employment period is shorter than 2 years; the amount of the sickness benefit is equal to 50% of the daily average gross earnings. There are no additional amounts for dependants and the amount does not vary over time.

There is no minimum benefit. The daily benefit amount cannot exceed 1/30 of 200% of the monthly minimum wage.

Benefit duration

Benefits duration is a maximum of one year; they cannot be extended or renewed.

Means test

There is no means test.

Tax treatment

The benefit is subject to taxation.

Interactions with other components of the tax-benefit system

Sickness benefit can be cumulated with the family allowances described in this report (Section 4) without affecting benefit entitlements.

Combining benefit receipt and employment/starting a new job

The sickness benefit cannot be combined with work activities.

A.7. *Mandatory employer sick pay or 'Absence Fee'* (*Távolléti díj*)

Entitlement and eligibility conditions

Employers are involved in providing income replacement during sickness by paying the Absence Fee. Granted only in the event of sickness on the part of the employee.

Benefit amounts

Workers are paid 70% of their daily gross earnings. The daily gross earnings include the wage, the regular wage supplement(s) and the pay for extra work applicable for the duration of the absence. Employers pay the Absence Fee on their own account.

Benefit duration

Employers provide sick leave for up to 15 working days annually. Payments begins on the first day of sickness.

In case of an officially ordered quarantine, there is no Absence Fee, the employee can only be entitled to sickness benefit (up to 60% of the daily gross earnings), which is paid by the public health insurance.

If the coronavirus disease is an occupational disease, the employee is entitled to "work accident sickness benefit" which is equal to 100% of the daily gross earnings.

Means test

There is no means test.

Tax treatment

The benefit is subject to taxation. Absence Fee is subject to all contributions.

Interactions with other components of the tax-benefit system

None.

Combining benefit receipt and employment/starting a new job

The benefit cannot be combined with work activities.