

EUROMOD COUNTRY REPORT



HUNGARY (HU) 2012-2016

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February 2017

EUROMOD version G4.0



EUROMOD is a tax-benefit microsimulation model for the European Union (EU) that enables researchers and policy analysts to calculate, in a comparable manner, the effects of taxes and benefits on household incomes and work incentives for the population of each country and for the EU as a whole.

EUROMOD has been enlarged to cover 28 Member States and is updated to recent policy systems using data from the European Union Statistics on Income and Living Conditions (EU-SILC) as the input database, supported by DG-EMPL of the European Commission.

This report documents the work done in one annual update for Hungary. This work was carried out by the EUROMOD core developer team, based mainly in ISER at the University of Essex, in collaboration with a national team.

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The results presented in this report are derived using EUROMOD version G4.0. EUROMOD is continually being improved and the results presented here may not match those that would be obtained with later versions of EUROMOD.

For more information, see: <https://www.euromod.ac.uk>

This document is supported by the European Union Programme for Employment and Social Innovation “Easi” (2014-2020). For further information please consult <http://ec.europa.eu/social/easi>. The information contained within this document does not necessarily reflect the position or opinion of the European Commission.

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1. BASIC INFORMATION

1.1 Basic information about the tax-benefit system, 2012-2016

- The Hungarian tax-benefit system is a unified national system with no policy differences across regions.
- In Hungary, the “tax year” runs from January 1 to December 31. The tax system generally changes in January each year. Mainly, benefits changes happen at the same time, but modifications may also occur during the year. In January of 2011, the personal income tax system was changed significantly (see page 21)
- Gradual increases on the old age pension’s age limit have been applied over time so that the retirement age will reach 65 years old in 2022 for both men and women. (see Table 1.1.)
- The minimum school leaving age is 16; dependent children are defined as aged under 16 or under 25 if in full-time education and not married. This definition excludes people with their own children or cohabiting partner being a dependent child. In the case of the Regular Child Protection Benefit, dependent children are defined in the tax unit as aged 17 or younger or 23 or younger if they are in full-time secondary education, not married and not cohabiting or 25 or younger if they are in full-time tertiary education, not married and not cohabiting.
- For benefit purposes a lone parent is not legally married to anyone and is a parent of a dependent child (regardless of cohabitation, if he/she declares him/herself alone). If the parent declares him/herself as not married, he/she has the right not to share child related tax credit with the other parent.
- The income tax system is an individual (personal) system.
- Income tax withholdings are collected on a cumulative basis throughout the fiscal year. Only individuals paying tax on sales (e.g. self-employed people) or whose incomes come from different sources must file a tax return for income tax.
- The means-tested benefit system assesses entitlement according to the income of the benefit income. The benefit unit is the household - the couple (cohabiting or married) and other adult person(s) or single adult plus any dependent children.
- The monthly amounts of the minimum wage in the years of interest are:

2012	2013	2014	2015	2016
93000 HUF	98000 HUF	101500 HUF	105000HUF	111000HUF

1.2 Social Benefits

Old age benefits

The pension system was reformed in 1997, and since then is characterized by a three – pillar system:

- First Pillar: mandatory, state pension, which is publicly-managed and financed on a PAYG basis. It is financed by employer and employee contributions, supplemented from state budget if needed.
- Second Pillar: mandatory, privately-run pension funds and fully funded. This compulsory pension scheme is administered by several independent pension funds, which are authorised and supervised by the state. It is financed by employer and employee contributions. This pillar was practically terminated in 2011, and cumulated funds were nationalised.
- Third pillar: voluntary, privately-run pension funds.

A significant change happened in 2011, when the third pillar was de facto eliminated (around twenty thousand individuals remained in the system).

Table 1.1. Retirement age in the past and after 01/01/2010

Year of birth	Retirement age		Retirement year	
	Men	Women	Men	Women
1945	62	60	2007	2005
1946	62	61	2008	2007
1947		62		2009
1948		62		2010
1949		62		2011
1950		62		2012
1951		62		2013
1952		62,5		2014-2015
1953		63		2016
1954		63,5		2017-2018
1955		64		2019
1956		64,5		2020-2021
1957		65		2022
1958		65		2023
1959		65		2024
1960		65		2025

Source: Central Administration of National Pension Insurance; 2011

Old age benefit (*öregségi nyugdíj*): The pension level depends on the average monthly income and the contribution history. 20 years of contribution payments are required for receiving a full old age pension, and 15-19 years for a partial pension. Retirement age was still 62 for men and for women from 2009 to 2012. The monthly minimum pension amounts to 28,500 HUF in each year, and remained constant over that period.

In 2009 a measure was taken to further raise the retirement age for both men and women up to 65 years in the medium-run (see Table 1.1 above). The amount of the minimum pension is also a reference value for several social benefits (e.g. regular social support).

Early and Advanced Pension (*előrehozott, korkedvezményes nyugdíjak*): Early Retirement Pension (*korkedvezményes öregségi nyugdíj*) is available to those involved in jobs resulting in increased physical load or jobs implying hazardous health conditions (such as soldiers, policemen, fire-fighters, etc.). Entitlement to pension starts 2 years earlier for those who have worked in such activities for at least 10 years (men) or 8 years (women), and retirement age is further reduced by 1 year for every additional working period of 5 years (men) or 4 years (women) in such conditions. Advanced Pension (*előrehozott öregségi nyugdíj*) is paid no earlier than five years before the retirement age. Those who need no more than 5 years of service period are entitled to the Advanced pension at reduced rate (*csökkentett összegű előrehozott öregségi nyugdíj*) From January 1, 2012 all type of early and advance pensions were terminated, replace by *early retirement benefits*.

Survivors benefits

Survivors benefits are paid to the surviving partner even if the couple was not married (either widowed, divorced or cohabitant), the surviving dependent children and other surviving persons (i.e. parents, grandparents, and foster parents). This is a not means tested benefit. It corresponds to 60% of the deceased person pension and it is paid even though the surviving spouse has a pension by his own. Therefore, the surviving spouse can be entitled for a permanent or a temporary widow(er)s pension if his/her deceased spouse was a receiver of old age or invalidity pension or got the necessary service period.

Temporary Widow(er)'s Pension (*ideiglenes özvegyi nyugdíj*) is paid to the surviving spouse for 12 months, or until the common child reaches 18 years of age. After the termination of the temporary widow(er)'s pension, the widow(er) is entitled to a Permanent Widow(er)'s Pension.

Permanent Widow(er)'s Pension (*özvegyi nyugdíj*): The surviving spouse/partner is entitled to a permanent widow pension if he/she is above retirement age, or invalid or has at least two minor children. The amount of the pension is 50% of the old age pension or 50% of the invalidity pension to which the deceased person would have been entitled to. This is reduced to 30% if the widow(er) receives old age or invalidity pension on his/her own right.

Parental Pension (*szülői nyugdíj*) is paid to those (grand)parents, who are disabled or 65 years old or more, who were dependent upon their (grand)child throughout the preceding year, and whose deceased (grand)child was entitled to old age or invalidity pension at the time of death. The amount of the parental pension is equal to the amount of the permanent widow(er)'s Pension.

Orphan's Allowance (*árvaellátás*): Orphans having lost one parent are entitled to 30% of the deceased parent's pension as Orphan's Allowance. Those orphans having lost both parents are entitled to 60% of the higher pension of the two parents. Survivors of a person died in a work-related accident are entitled to Work Accident-related Survivors' Benefits. They can be entitled to Temporary and Permanent Widow(er)'s Pension, Parental Pension and Orphan's Allowance according to the above rules with the exception that in this case the length of the deceased person's service period is not a condition.

Sickness benefits

Two kinds of sickness benefits are paid by social insurance.

Sick-leave (*betegszabadság*) for employees for up to 15 working days per calendar year. The employer pays the expenses of sick-leave.

Sickness Benefit (*táppénz*) is paid by the Health Insurance Fund for a maximum of one year during employment or for 90 days after the termination of employment. If the previous insurance period is at least two years, the amount of sickness benefit is 70% of the daily average gross earning over the previous calendar year, while if the previous insurance period is less than 2 years, the amount is 60% of the daily average earnings. (These rates were decreased to 60% and 50%, respectively, on 01.08.2009)

Parents can be entitled to Sickness Benefit for child-rearing as follows:

- Until the child reaches 1 year of age, for the full period;
- For 84 days per child if the child is between 1-3 years;
- For 42 days per child if the child is between 3-6 years and for 84 days for a lone parent;
- For 14 days per child if the child is between 6-12 years (28 days in the case of lone parents).

Disability benefits

In Hungary disability benefits are heterogeneous; there are both insurance-based and non-contributory benefits among them. The system of the disability benefits was changed at the end of 2011. Since 1st of January 2012, the disability benefit was introduced to replace the invalidity pension, the work Accident-related disability pension, the temporary invalidity annuity and the regular social annuity. .

Invalidity Pension (*rokkantsági nyugdíj*) is due to those persons whose working capacity has been reduced by at least 67% and no improvement is expected in his/her health for at least 1 year, therefore the recipient does not work regularly or his/her wage is substantially lower than before becoming invalid.

There are three classes of invalidity pension:

- Class III: at least 67% reduction in working capacity but not totally incapacitated for work;
- Class II: 100% reduction of working capacity but no need of permanent care by others;
- Class I: 100% reduction of working capacity and need of permanent care by others.

Eligibility for invalidity pension starts from the day on which a medical committee diagnoses the invalidity. The invalidity pension is not replaced by an old age pension, but covers also the period after the retirement age. Eligibility terminates if the pensioner is no longer invalid, or works on a regular basis. Eligibility criteria for invalidity pension depend on the age and the length of the insurance period of the insured. The minimum invalidity pension for Class III is equal to the minimum old age pension.

From January 1 2012, the invalidity pension was terminated and replaced by the *invalidity benefit*. The transition between the Invalidity Pension system and the Invalidity Benefit system requires a revision of the process mainly based on a medical check-up. No data are available yet.

Other disability benefits are non-contributory benefits and paid by the central budget:

Invalidity Annuity (*rokkantsági járadék*) is paid to individuals above 18 years old who lose 80% of their working capacity before reaching the age of 25. Its monthly amount is 33,330 HUF from 2009 to 2013. Those adult persons that are not eligible for

invalidity annuity, but their working capacity has decreased under the minimum 67% and that get a Disability benefit or Annuity for the Blind, are eligible for Regular Social Support (*Rendszeres szociális segély*).

Temporary Invalidity Annuity (*átmeneti járadék*) and Regular Social Annuity (*Rendszeres szociális járadék*) are due to invalid persons, whose working capacity is reduced by 50%, who cannot find a rehabilitation workplace, and who are not entitled to old age, invalidity or work accident-related disability pension, nor to unemployment benefit, sickness benefit, work accident sick pay or maternity allowance. The Temporary Invalidity Annuity can be paid also to those people who are five years from retirement age and have completed the necessary contribution payment period. The annuity amounts to 75% of the old age pension that he/she would be entitled to upon reaching retirement

The Regular Social Annuity is paid to those people who are eligible and have not yet reached retirement age, but have contributed for at least half of the contribution payment periods necessary for receiving an invalidity pension. The Regular Social Annuity is 27,000 HUF per month in 2011. From January 1 2012, both of the temporary invalidity annuity and the regular social annuity were terminated, instead of these the invalidity benefit was introduced and linked to these.

Disability Benefit (*fogyatékosági támogatás*) is paid to those persons above the age of 18 whose severe disability (visual, hearing, mental, physical or multiple impairment or autism) is permanent and that are unable to live independently. It is a flat-rate benefit. It amounts to 80% of the minimum old age pension in case of multiple disadvantages or a severe disadvantage that makes any kind of self-help impossible; in any other cases it amounts to 65% of the minimum old age pension.

People with severe disabilities can also apply for specific transport allowances:

- Transportation support (*közlekedési támogatás*) for transportation costs of disabled people;
- Support for car purchase (*személygépkocsi szerzési támogatás*);
- And Support to make a car barrier-free (*személygépkocsi átalakítási támogatás*).

Employment injuries and occupational diseases

Contributory benefits for employed people in case of work-related injuries or occupational diseases.

Work Accident Sickness Benefit (*baleseti táppénz*) is payable for a maximum of one year with the possibility of an extension for a further year. Its amount is 100 per cent of the average income over the previous year.

Work Accident Annuity (*baleseti járadék*) is payable to a person who lost his/her working capacity by 15-67% as a consequence of an employment injury. Its amount depends on the degree of invalidity. Its amount is expressed as a percentage of monthly average. If the reduction of the working capacity does not exceed 25 per cent the annuity is payable for a maximum of two years, while if it exceeds 25 per cent then there is no time limit.

Work Accident-related Disability Pension (*baleseti rokkantsági nyugdíj*) is paid if the capacity for work is more than 67% reduced as a consequence of a work accident, or

at least 50% reduced due to silicosis. It is paid according to the similar three classes used in the determination of Invalidity Pension. The Class I is the 70%; the Class II is the 65% and the Class III is the 60% of the monthly average earnings, and the minimum benefit amount is changed year by year. This pension was terminated from the beginning of 2012, and new special entitlement hasn't been designed for them yet. They are instead covered by invalidity benefit.

Unemployment benefits

Unemployment Benefit¹, Job-Seekers Benefit (*munkanélküli járadék; álláskeresési járadék*): Employees and self-employed persons having lost their job are entitled to Unemployment Benefit if they have been employed for at least 200 days during the previous 4 years, if they became involuntarily unemployed, have no entitlement for pension, get no sickness benefit and seek a job and co-operate with the labour centre. It is paid from employee and employer contributions paid to the Labour Market Fund. From 1st of November 2005 the benefit duration has two parts. The first term is maximum 91 days, the second term is max 179 days. In the first term the amount of the benefit is 60% of the previous wage (the lower limit in this term is the 60% of the minimum wage, the upper limit is 120% of the minimum wage) and in the second term it is a fix amount: the 60% of the minimum wage.

At the beginning of 2012 the regulation of the Job-Seekers Benefit was changed too. In 2012 the benefit entitlement lasts for a period of maximum 90 days, and the maximum of the amount is the 100% of the minimum wage; the unemployment person is entitled if he/she has been employed for at least 360 days during the previous 3 years.

Minimum and maximum of the unemployment benefit in the first term from 2012 to 2016

	2012	2013	2014	2015	2016
Minimum	55,800 HUF	58,800 HUF	60,900 HUF	63,000 HUF	66,600 HUF
Maximum	93,000 HUF	98,000 HUF	101,500 HUF	105,000 HUF	111,000 HUF

Pre-retirement Unemployment Assistance (*nyugdíj előtti munkanélküli segély*):

Unemployed persons may apply if they are within five years of reaching retirement age, received unemployment benefit for at least 140 days and have exhausted the entitlement for unemployment benefit, have a sufficient contribution period for retirement (normally 20 years), have no prospect of finding a suitable job, and co-operate with the Labour Centre.

The pre-retirement unemployment assistance was replaced by the job-seekers allowance since November 2005. In 2012 the pre-retirement unemployment assistance was introduced again, the amount is the 40% of the minimum wage. If the entitled person's average wage is lower than this amount, the amount of the pre-retirement unemployment assistance is the average wage

¹ After 1st of November 2005 the official name of unemployment benefit was changed to 'job-seekers benefit' (*álláskeresési járadék*)

Job-seekers Allowance (álláskeresési segély): Received by job seekers who have used up all their entitlement period (180 days) of job-seeking benefit, but have not found a job. The duration of the allowance is 90 days or 180 days depending on whether the job-seeker is younger or older than 50. The second type of jobseeker's allowance benefits those job-seekers that are not entitled to job-seekers benefit, but they had spent at least 200 days in employment in the last four years. The third type of job-seekers allowance is entitled to job-seekers who are within maximum 5 years from reaching the retirement age.

The amount of the allowance for all three types of Job-seeker allowance is the 40% of the minimum wage. If the job-seekers average wage is lower than this amount, the amount of the job-seekers allowance is equal to the previous average wage of the beneficiary.

Public jobs (közfoglalkoztatás, közfoglalkozattak): After 90 days of unemployment, those able to work will lose their benefits unless they agree to take up public jobs. An unemployed worker is entitled to take up public jobs, if is be able to work, if he/she is older than 16 years old and if he/she is a registered job seeker. The amount of the public work income was 77 300 HUF/month in 2014.

Family benefits: Maternity benefits and Child benefits

Family benefits in Hungary include a large variety of social programs ranging from maternity benefits to child benefits, most of which are universal while some are means-tested. The five child benefits and maternity benefits simulated in the current version of the model are the following:

- i) the universal Family Allowance (*bchnm_s*), which is the most relevant instrument in terms of expenditure;
- ii) the means-tested Regular Child Protection Benefit (*bchmt_s*), which is the second most relevant family benefit in terms of expenditure;
- iii) the non-means tested Child Raising Support (*bcclt_s*);
- iv) the non-means tested Child Care Allowance (*bccnc_s*);
- v) the non-means tested Maternity Grant (*bmanc_s*).

In the current implementation (starting from the 2009 system), additional non-simulated family benefits (which include Maternity Allowance, Child Care Fee and Nursing Fee) are obtained from the data (the derived variable is *bfaot*), as a difference between the aggregate variable “bfa” (family benefits) included in the EU-SILC UDB and the total of the simulated benefits. The five child and maternity benefits simulated by the model accounted, in the 2014 external statistics, for 92% of the total expenditure on family benefits; the remaining 8% was accounted for by benefits that we included in the *bfaot* variable taken from the data. Full details of the characteristics of the simulated and non-simulated benefits described above, are provided in the next paragraphs.

Maternity benefits

Maternity Allowance (terhességi-gyermekágyi segély): Mothers giving birth to a child are entitled to two types of benefits depending on their previous employment situation. If they were insured for at least 180 days during the last two years before giving birth,

they are entitled to maternity allowance. This is paid for 24 weeks (4 weeks before and 20 weeks after the planned date of birth, or 24 weeks after the date of birth, depending on the mothers' choice) and its amount equals 70% of the daily average gross earnings of the previous year.

Maternity Grant (*anyasági támogatás*): Resident women who give birth, had previously participated in prenatal care at least 4 times, and have no insurance are entitled to a one-off lump-sum payment of 225% of the minimum old age pension or 300% in case of twins (64,125 and 85,500 HUF from 2012 to 2016).

Child Care Allowance (*gyermekgondozási segély*): This is a universal entitlement financed by the state budget that provides a flat-rate benefit to parents who stay away from work to care for their children under the age of 3 (under age of 10 in case of permanently ill or severely disabled children) or for grandparents who care for their grandchildren aged between 1-3 years in the household of the parent. In case of twins the allowance is paid until the children reach the compulsory schooling age (usually 6 years). The monthly amount is equal to the minimum old age pension (28,500 HUF). In case of twins the amount is doubled. The mothers may have gainful activity after the 1st year of age of the child (She may have full time job as well).

Child Care Fee (*gyermekgondozási díj*): is a contributory benefit, which is paid after the expiry of Maternity Allowance until the child reaches 2 years of age if the parent(s) does not work. The eligibility criterion is at least 180 days of insurance during the last two years before delivery of the parent who wants to take care of the child at home. Its amount is 70% of the daily average gross earnings of the previous year with a maximum of 70% of twice the minimum wage (130,200HUF in 2012; 137,200 HUF in 2013 and 142,100 HUF in 2014).

Child Raising Support (*Gyermeknevelési támogatás*): It is a universal benefit financed by the state budget for parents who raise three or more children in their own home, if the youngest child is between 3 and 7 years old. The monthly amount is equal to the minimum old age pension, irrespective of the number of children.

Child benefits

In Hungary, a well-developed child benefit system is in place, consisting of a combination of universal and means-tested benefits.

Family Allowance (*családi pótlék*) is a universal benefit financed by the state budget. It is paid to the parent from the birth of the child to the termination of studies in the compulsory education system (usually 0-16 years), and then during secondary school education or vocational training of the child (up to 20 years of age). The amount depends on the number of children in the family, on the family type (e.g. single-parent family or not) and on the disability status of the child. In the month of July the amount paid is doubled in order to support schooling.

The monthly amounts of the family allowance differ by number of children and family composition as shown below. The amounts remained constant between 2012 and 2016.

2012-2016:

- 1 child in the family: HUF 12,200,
- 1 child, single parent: HUF 13,700,
- 2 children in the family: HUF 13,300 per child,
- 2 children, single parent: HUF 14,800 per child,
- 3 or more children in the family: HUF 16,000 per child,
- 3 or more children, single parent: HUF 17,000 per child,
- permanently ill or severely disabled child in the family: HUF 23,300,
- permanently ill or severely disabled child, single parent: HUF 25,900,
- child in foster home/at foster parent: HUF 14,800.

Regular child protection allowance (*rendszeres gyermekvédelmi kedvezmény*): From 2006 the local government provides regular benefit for the child if the per capita income of the family caring for him or her is less than the current minimum old age pension (this limit is 130% of the minimum old age pension from 2009) and remaining in the family is not against the interests of the child. From 2006 the regular child protection benefit was included into the family allowance. The entitlement for benefit in kind, related to the previous regular child protection benefit, has remained (free dining, free school-books) but the name of support has changed to **regular child protection allowance**. For those who are entitled to this allowance it is granted a 5 800 HUF support in cash twice a year.

Social assistance

The various forms of Social Assistance benefits in Hungary are means-tested. They are provided by local governments, which have some discretion in setting and assessing eligibility criteria. The financing of these benefits comes from the central budget by 90%, while local authorities pay the rest.

Regular social benefit (rendszeres szociális segély): This is a social assistance scheme aimed at ensuring a minimum standard of living for those in need. People can be eligible to this benefit, if they:

- have lost at least 67% of their working capacity or are entitled to a blind person's allowance or disability benefit, or
- are at least 55 years old (this part of the regulation was changed to “5 years before retirement age” form 2012)
- are raising at least one child younger than 14, if the family is not entitled to child raising support, child care fee or maternity allowance, and do not have access to child care in day-care centres.

Only one person in a family is entitled to this benefit. The assessing of the eligibility and the amount of the benefit are based on the consumption unit's (a special definition of the family, or a subgroup of members within the family) projected income, instead of previous years' household's per capita income. Each member of the consumption unit is weighted by a weight which depends on the family composition: the main earner adult member of the family and the disabled children have weights equal to 1; the weight of the spouse and of other adults equals 0.9, while each child has a weight equal to 0.7. The amount of the benefit is variable and supplements the family's effective total income up to the maximum entitlement (this limit is the 90% of the minimum pension). The maximum monthly amount was therefore 42,326 HUF in 2012, 44,508 HUF in 2013 and 44,568 HUF in 2014.

Stand-by allowance (2009-2010); Wage Supplement Support (2011); Employment Supply Support (2012-) (*rendelkezésre állási támogatás; bérpótló juttatás; foglalkoztatást helyettesítő támogatás*):

A new benefit was introduced on 1 January 2009 called “stand-by allowance” (*rendelkezésre állási támogatás*) mainly replacing regular social benefit for persons aged 55-year or less, who has no child or day-care of child/ren. Local government authorities re-classified persons/cases by 1 April 2009, the scheme was fully effective since that time. The benefit amount was higher than former regular social benefit (equal to minimum pension) and it is given to eligible persons (not household as before). Persons should be ready to accept public employment offer on a mandatory basis.

From January 2009 more than one member is eligible for the stand-by allowance, but after 15th of November 2009 this can be paid only to one member in the family. However, it is possible for one family to receive both types of benefit, if someone is entitled to the regular benefit while another member of the family is entitled to the stand by allowance.

The name of the *stand by allowance* was changed to *wage supplement support* in 2011 and *employment supply support* from 2012 onwards. In 2012 the amount of this benefit was decreased to the 80% of the minimum old age pension.

Nursing Fee (ápolási díj): Paid to people who provide permanent care to a disabled relative:

–severely disabled or permanently ill and under the age of 18. At least the minimum amount of old age pension is paid (in 2008 and 2009) if the claim is based on the own right of the claimant. The amount paid is higher than the minimum old age pension from 2012: 29,500 HUF per month.

– Those nursing severely disabled person in need of increased care are provided with a higher amount of nursing allowance: normally higher by 30 per cent than the normal nursing allowance.

–In case of nursing a permanently ill person above 18 years of age, the nursing fee is provided by the local government on a discretionary basis. The amount is fully financed by the local government's budget and it corresponds to the 80% of the normal nursing fee allowance.

Old age Allowance (időskorúak járadéka): This is a social assistance scheme to ensure a minimum income during old age in the absence of an old age pension. The amount of the benefit is determined by the income of the person (and his/her partner or spouse).

Conditions of eligibility:

- Reaching retirement age for both men and women, and
- income combined with his/her spouse or partner is below 80% of the minimum old age pension, or in case of a single person, below 95% of the minimum old age pension.

The amount payable varies in such a way that it supplements the actual income to reach 80% of the minimum old age pension per person for a couple or 95% for a single person.

Until 31 December 2005, old age allowance was payable by local government to a person who was above the applicable retirement age and if neither his own monthly income nor the monthly per capita income - calculated by taking his own together with that of his spouse - exceeded 80 per cent of the current minimum old age pension or 95 per cent in the case of a person living alone. From the 1st of January 2006, the old age allowance amount is differentiated by marital status and age. Higher amount of old age allowance is provided for persons aged 75 or above and living alone, if the person's total income is lower than 130% of the minimum old age pension. The regulation regarding to the rates of the calculation haven't changed from 2009 to 2013.

Home Maintenance Support (lakásfenntartási támogatás): This is a means-tested benefit provided by the local government for a family or individual who lives in a home not exceeding a specified size, provided that there is no income from the use of that home. People can be eligible to this benefit depending on three possible entitlements:

- a) Normative home maintenance support according to the rules of the Act on Social benefits;
- b) If they participate in a debt-management procedure;
- c) Local home maintenance support according to the conditions specified by the local authority in a local decree.

A normative home maintenance support is provided if:

– the monthly income per person in a household does not exceed 150% the minimum amount of the old age pension (this limit decreased to 250% of the minimum pension from September 1 2011); and

– the acknowledged costs of home maintenance are equal to 20% or more of the total monthly income of the household.

The acknowledged size of the flat is maximum

– 35 m² in case of one-person households,

– 45 m² in two-person households,

– 55 m² in three-person households,

– 65 m² in four-person households,

– if more than four people are living in the household then 65 m² plus 5 m² for each additional person but maximum the real size of the flat.

The minimum amount of the benefit is 2,500 HUF per month. The local authority can depart from these minimum rules and can specify more favourable conditions.

- **Further benefits (not simulated)**

Advance on maintenance payments (*tartásdíj megelőlegezése*): This benefit is paid to the parent who takes care of a child if the child maintenance is temporarily irrecoverable by/from the other parent obliged to maintain the child. If the person who takes care of the child cannot maintain the child and the income per person in the applicant's family does not exceed three times the current minimum amount of old age pension the caring parent is entitled to advance maintenance payment. Its amount is equal to the amount of child maintenance decided by the court.

Irregular Child Protection Benefit (*rendkívüli gyermekvédelmi támogatás*) is paid to families with temporarily cash flow problems or facing emergency situations that seriously threaten their standard of living. The amount is designated by decree of the respective local government.

Debt-management Benefit (*adósságcsökkentési támogatás*): beside the home maintenance support, people with overdue debts can receive a cash benefit, transferred by local governments to the creditor. The amount of debt-management benefit is the result of an agreement between the local authority, the creditor and the beneficiary. The other pillar is debt management counselling, which is mandatory for beneficiaries.

Public Health Benefit (*közgyógyellátás*): Socially disadvantaged people may receive a Public Health Card by which they can obtain specific medicine and therapies free of charge.

Temporary Benefit (*átmeneti segély*): This is a means-tested benefit provided by the local government and regulated by a local government decree. It can be provided to persons whose subsistence is occasionally or long-lastingly endangered. It can be provided occasionally or monthly. The local government can regulate the entitlement conditions, but the household income per person taken into account during the judgement of the claim cannot be lower than the old age pension minimum, or 150% of it in case of a one-person household

Funeral Support (*temetési segély*): This is a means-tested benefit provided by the local government and regulated by a local government decree. Somebody may receive a funeral support if he/she provided for the funeral of somebody if it was not his/her duty, or if it were his/her duty but bearing the funeral costs would represent serious financial distress. The local government can regulate the entitlement conditions, but the household income per person taken into account during the judgement of the claim cannot be lower than the old age pension minimum, or 150 per cent of it in case of a one-person household. The amount of the funeral benefit cannot be lower than 10 per cent of the locally cheapest funeral. The local authority, in its local decree, can regulate the benefits defined in the Act on Social benefits or legislate on other kinds of cash benefits as well.

Examples of additional social benefits provided by local governments:

- Home renting support (lakbértámogatás),
- Interest-free social loan (kamatmentes szociális kölcsön),
- Meals support (étkezési támogatás),
- Local transportation support (helyi utazási támogatás).

1.3 Social insurance contributions

In Hungary, social insurance contributions can be divided into two broad categories: pension contributions and health insurance contributions. Since 1 January 1998, the Hungarian pension scheme has been financed jointly by the compulsory pension scheme of social insurance and, in addition, by private pension insurance (till 2011). It is also possible to pay additional contributions to a social insurance pension funds through voluntary pension contributions. In the case of voluntary pension funds, payments are voluntary, there are no regulations concerning the minimum or maximum amount, and the minimum amount is defined by the statutes and the rules of the pension funds. In case of voluntary contributions, membership fees can be paid by the employers. There is a possibility also to pay additional voluntary health contributions beyond the statutory contribution rate.

Participation in the system of social insurance is compulsory. Both employers and employees, and also private companies, self-employed and entrepreneurs have to make contributions both to the pension insurance and to the health insurance funds. The amount of contribution payable by both parties is calculated on the basis of the gross – before taxation – labour income (or earnings).

Employee social insurance contribution

In 2011 the rate of contribution payable by employees, if they are members of the compulsory pension scheme of social insurance is 10%. There is an upper limit of pension contribution paid by employees, which equals the contribution payable after the gross average income threefold 21,000 HUF/day. The pensioners who are receiving labour income as employees, have to pay pension insurance contribution too. The daily upper limit of this amount was abolished as of 1st of January 2013.

The health insurance contribution was separated into an 'in-kind' and a 'monetary' part until 2011. For example, the monetary part of the employees' health insurance contribution is 2% and the in-kind part is 4 % in 2011. The pensioners who were working and had old-age pensions too had to pay the in-kind part of the health insurance contributions.

Pensioners who are employed, pay neither pension nor health contributions on employee's labour income. On the other hand, if a pensioner, apart from the pension, receives income subject to contribution payment (as an entrepreneur), he/she is still obliged to pay self-employed or employers/entrepreneurs' contributions.

From 2014 a new SIC allowance was established. If the tax payer has lower income and can't use the whole amount of the family tax allowance (see below), she/he has a deduction in the amount of the SIC by the 16% of the remaining family tax allowance. First, the remaining tax allowance cuts down the health insurance contribution (7% of the income), and secondly this determines a deduction in the pensions insurance contribution (10% of the income). The family SIC allowance can be shared between the two parents (as the family tax allowance).

Employer social insurance contribution

In 2011 the rate of pension insurance contribution payable by employers was 24%. The rate of health insurance contribution was 2%, the labour market contribution was 1%. From 2012 onwards, the employer's part of the health insurance and pension insurance (including the labour market contributions) were erased, replaced by a 27 % social contribution tax.

Self-employed social insurance contribution

Self-employed and private entrepreneurs are obliged to pay both the 24% pension contribution payable by employers and the 10% pension contribution payable by employees since 2012. Self-employed and private entrepreneurs are also obliged to pay both the employers and the employee's part of the health insurance contribution. In the case of joint businesses or activities, the health insurance contribution is calculated on the basis of the income paid to the entrepreneur at the individual level, but at least at the amount of the minimum wage. In the case of private entrepreneurs, contribution is calculated on the basis of the entrepreneurial tax liabilities or revenues, or, as an alternative, at least the amount of the minimum wage. Regulation changes since 2012 simply that joint and private entrepreneurs pay 27% social contribution. Those entrepreneurs who pay simplified business tax (EVA), the contribution payable is calculated on the basis of the minimum wage, but they can also choose to declare higher income. If apart from having a partnership or a private enterprise, someone has another legal relationship providing social insurance (employee, full-time student etc.), social contribution is calculated on the basis of income actually received. In the case of EVA, contributions are not compulsory. Joint and private entrepreneurs are exempt from paying contributions if they receive sick-pay, maternity allowance, child-care allowance, child rising support, child-care fee, nursing fee, except if they personally

continue their activities while receiving the above-mentioned benefits. Contributions are not to be paid for tax-exempt payments in kind.

The following table shows the changes of the pension and the health insurance contribution year by year.

Pension insurance contribution from 2012 to 2016

		2012	2013	2014	2015	2016
Pension insurance contribution (nyugdíjjárulék)	Employees	10%	10%	10%	10%	10%
	Employers	*	*	*	*	*
	Upper limit	21,700 HUF	***	***	***	***
	Self employment	10%+ *	10%+ *	10%+ *	10%+ *	10%+ *

* Replaced by the 27 % social contribution tax

** Upper limit erased at 1st of January 2013

Health insurance contribution from 2012 to 2016

			2012	2013	2014	2015	2016	
Health insurance contribution (egészségbiztosítási járulék)	Employees	In-kind	4%	4%	4%	4%	4%	
		Monetary	3%	3%	3%	3%	3%	
	Employers	In-kind	*	*	*	*	*	
		Monetary	*	*	*	*	*	
	Self employment			7% + *	7% + *	7% + *		7% + *

*Replaced by 27 % social contribution tax

Other income related contributions

Employee contribution is calculated on the basis of gross wages received from the employer. Exempted are those who receive or become entitled to receive old age pension, disability pension or pension for work accident related disability, while being in employment. Employees are obliged to pay the contribution. Its rate is 1,5% since 1st of September 2006. The pensioners who are employees at the same time do not have to pay this employee contribution.

Employer contribution is calculated on the basis of the gross wage – before taxation – accounted and paid to the employee with regard to his/her employment, including severance pay, jubilee reward, fees paid during the time of sick-leave, taxable payment in kind, meal contribution, holiday contribution and 25% of the tax payable for a company car provided with regard to employment. The employer contribution is payable by the employer. In 2009 the rate of contribution was 1% up to 143,000 HUF/month and 3% above this amount.

Entrepreneurial contribution is paid by joint business on the basis of the income paid to the entrepreneur with regard to his/her personal assistance, by private entrepreneurs

on the basis of the entrepreneurial revenues and by private entrepreneurs subject to estimated (*forfait*) taxation, on the basis of the minimum wage. The minimum of the contribution base is always the amount of the minimum wage provided by the law. Exemptions exist for those who receive or become entitled to old age pension, disability pension or disability pension related to work accident, and those who are employed at the same time and work at least 36 hours a week.

From 2010 these separate contributions (the employee, the employer and the entrepreneurial) were erased; in place of them, employers pay 1%, employees pay 1,5% and the self-employed pay 2,5% of the contribution base; these contributions have been called '**labour market contribution**' (*munkaerő-piaci járulék*). From 2012 the employer part of the labour market contributions was erased, and this is now part of the 27 % social contribution tax (see above).

Vocational training contribution is payable by every economic society and private entrepreneur, except for those paying EVA or flat-rate tax. Contribution is calculated on the basis of expenditure on wages, its rate is 1.5% . from 2008.

1.4 Taxes

Direct taxes

Personal income tax (*személyi jövedelemadó*): The system of personal income tax was introduced for the first time in Hungary 1988. The system has undergone several reforms in the last decade, most importantly the introduction of a flat-rate income tax in 2011. The tax system is still characterized by different types of tax credits, and by tax exemptions for certain categories and sectors, primarily those working in the agriculture sector (primary producers, small-scale producers, assisting family members).

The personal income tax is the second most important source of revenue for the state budget. Every economically active citizen is obliged to file a tax return at the end of the tax year, which can be done in three different ways: by self-assessment, by the company or firm in the case of employees, and by the tax authority. The Hungarian tax regulations are rather complex, so taxpayers have an option of filling in a detailed data sheet and asking the tax authorities to calculate the amount of tax to be paid. Small-scale farmers who work in the agriculture sector and whose yearly revenue is between 600,000 and 3,000,000 HUF can also make a simplified declaration of tax return, which substitutes for the filing of the personal tax return.

Incomes components from different sources are taxed according to the tax table, which also determines the amount of tax credits. The simplified business tax (EVA), as an additional form of simplified taxation was announced on the 1st of January 2003, and implemented from 2004. EVA is supposed to help especially small-scale firms and entrepreneurs, with the aim of reducing their tax burden and also to simplify administrative times and procedures.

The main requirements necessary to apply for EVA are established by the law: EVA can be chosen by private entrepreneurs, unlimited partnerships, deposit companies, limited liability companies, co-operatives, lawyers' offices etc. Also, EVA can be chosen by taxpayers whose revenues in the two consecutive previous tax years and, in the current tax year do not exceed 25,000,000 HUF. From 2012, the amount of the maximum revenue was increased to 30,000,000 HUF per year.

Income sources:

- Wage income from employment
- Social security benefits with regard to employment, like sick pay, child-care fee, maternity allowance
- Income originating from casual work
- Income received in return for foreign service
- Unemployment benefit, incentive benefit for job seekers, complementary wages, wage substituting benefit, work accident allowance, compensation substituting wage income from employment
- Income for high-level civil servants (e.g. elected political representatives, members of Parliament or Local Governments), including subsidies and allowances received in connection with their duties (meal, clothing, holiday, housing contributions), taxable insurance fees due to these activities, income originating from securities.
- Income originating from refund of expenses above the amount of certified expenses.
- Part of severance pay (for the tax year or earlier) concerning the year 2005.
- Private entrepreneurs' incomes and revenues.
- Income gained by an assisting family member in a joint business.
- Income originating from activity of agricultural primary products. This kind of income needs to be declared only if it is higher than 600,000 HUF.
- Income originating from intellectual activities; that is income received for work under legal protection of copyright and that was earned outside of an employment relationship or an enterprise.
- Other income originating from independent activities (not carried out as a private entrepreneur), but not related to intellectual activities protected by copyright.

The tax base consists of the above listed income sources. Income Taxes are calculated on the basis of the tax base, according to the tax table.

In 2010 a new tax base calculation was introduced, applying a coefficient of 1.27 on the gross income (the previous tax base), and parallel the tax table was changed to: 0 – 5,000,000 HUF 17 %; above 5,000,000 HUF 36%

In 2011 the tax system changed to a sort of flat tax system where everybody pays a tax rate of 16% on the tax base defined by multiplying it by 1.27.

In 2012 the use of a coefficient to define the tax base was partially terminated (up to 2,424,000 annual HUF). Practically, with this regulation the flat tax system become a flat tax with two rates, because from 0 to 2,424,000 HUF the tax rate is 16% of the tax base, from 2,424,000HUF the tax rate is 20.32% on tax base multiply by 127% (taxbase*1.27).

In 2013 a fixed flat tax system was introduced with a tax rate of 16% of the tax base, this rate was changed to 15% from 2016.

Tax credits:

Tax credit on income from wages (*adójóvátétel*): Tax refund calculated on the bases of income from wages². Tax refund is due to a person whose total income, i.e. types of income to be consolidated, together with the income that is taxed separately, but without income originating from the selling of real-estate, is not more than 3,960,000 HUF in 2011. The tax refund is 16% of the income from wages but at maximum 12,100 HUF a month. In the case of income between 2,750,000 and 3,960,000 HUF, the maximal tax refund decreases linearly.

Tax credit on income from wages was terminated from 2012 tax system, to increase tax revenue and make further simplification on the system.

Family tax allowance (from 2011) (*családi adókedvezmény*): In 2011 the regulation of the family tax credit was changed transforming the family tax credit into a family tax allowance. In practice, while until then the family tax credit was deducted from the income tax, from 2011 the tax base is reduced before calculating income tax. At the same time the amount of the tax allowance changed too, and amounts are: 62.500 HUF monthly per child if there are one or two dependent children in the family; and 206.250 HUF monthly per child if there are three or more dependent children in the family. In 2016 the amounts changed to 66.670 HUF monthly amount per child if there is one dependent child in the family; 83.330 HUF monthly amount per child if there are two and 220.000 HUF monthly amount per child if there are three or more dependent children in the family

No negative tax allowance is allowed. (The possibility of sharing between the parents remained.) From 2014 if the tax payer has lower income and can't use the whole amount of the family tax allowance, she/he has a deduction in the amount of the SIC by the 16% (15% from 2016) of the remainder family tax allowance.

Tax credit for serious disability: Persons with a disability level of at least 67% are eligible for tax credit for serious disability. The personal income tax amount to be deducted due to **serious disability** is the 5% of the minimum wage per month.

Non-simulated tax credits:

Although the detailed system of tax credits was considerably simplified at 2007, most of the items were terminated, but several allowance stay in the tax system. The most important are: allowance after the amount paid to a **voluntary health fund**; allowance after the income originating from **intellectual activities**; allowance for the amount spent on paying off a **loan for buying accommodation**; allowance for amounts paid towards **tuition fees** in higher and adult education; allowance for **primary producers** in agriculture: this allowance is the amount of tax payable for the income raised by way of primary production or small-scale production; allowance for **payments made towards public interest organisations**, the Church, with the aim of assumption of obligations

² Income from wages includes the following: income from wages due to employment, social security provisions due to employment, like sick pay, child-care fee, maternity allowance, income received for foreign service, income originating from refund of expenses above the amount of certified expenses, unemployment benefit, incentive benefit for job seekers, complementary wages, wage substituting benefit, work accident allowance, compensation, substituting wage-like income from employment, wage-like income to be declared, raised abroad

for purposes of public interest, allowance **for payments made towards public interest organisations of high priority.**

Simplified Business Tax (*egyszerűsített vállalkozói adó*): The simplified business tax (EVA), as a form of taxation was announced on 1 January 2003. EVA addresses small-scale enterprises, not only with the aim of reducing tax burdens but also in order to simplify administration. This form of taxation provides an opportunity for the legal transformation of revenues into freely utilizable income, it is easy to calculate and there are relatively fewer rates and taxes to be paid.

The main characteristics of those belonging to EVA are made quite clear by the provisions of the law. EVA, as a form of taxation, can be chosen by private entrepreneurs, unlimited partnerships, deposit companies, limited liability companies, co-operatives, lawyers' offices etc., if the taxpayer carried out its activities in the previous tax year continuously, without transformation and its revenues in the two previous tax years and, it is reasonable to expect that also in the current tax year they will be no more than 25,000,000 HUF (this maximum amount increase to 30,000,000 HUF by 2012). Economic societies can choose this form of taxation, if every member of the society is a private person and the economic society does not have a share in another economic society. There are some further restrictions ordained by the law, for example, it is only possible to become subject to EVA if tax authorities have not previously imposed a fine due to negligence on the company, if the company does not produce and does not circulate products imposed by excise tax, does not carry out any activities that require the permission of the Hungarian Financial Supervisory Authority or the Gaming Board.

Calculation of EVA is based on the amount of total revenues including VAT. The tax rate is 37% from 2012. Those paying EVA are exempted from paying the VAT, they do not have to pay entrepreneurial personal income tax and if they have no other revenues, they do not have to file a personal income tax return.

From the above, it emerges that the choice of EVA is reasonable for those enterprises that obtain revenues without much expense, or in the case of which the expenses cover partly entrepreneurial and partly household demands. It cannot be precluded, especially within a couple of years of the introduction of a new method of taxation, that certain people chose this opportunity by mistake. Still, we can assume that, in the case of the majority of the companies, the results remaining after taxation can predominantly be considered as incomes of households and EVA can be regarded as a tax payable by households.

Separately taxed income types are the following:

- Flat-rate taxation income of private entrepreneurs: In the case of flat-rate taxation, the accountable cost ratio is fixed, the ratio itself is defined by the law, depending on the type of activity and it varies between 40-87%. Tax is payable for the revenues remaining after the cost ratio was deducted.
- Income of private entrepreneurs, liable to entrepreneurial personal income tax and entrepreneurial dividend tax. The personal income tax of entrepreneurs is 16% of the entrepreneurial tax base. The entrepreneurial tax base basically means the revenues remaining after costs were deducted but the exact system of rules is rather complex. The entrepreneurial dividend base is the entrepreneurial income remaining

after taxation. Tax payable for the entrepreneurial dividend base is 20% up to 30% of entrepreneurial withdrawal; above that it is 35%.

- Flat-rate taxation income of small-scale agricultural producers. The accountable cost ratio is fixed, depending on the type of activity; it is between 80-94%. The amount of tax payable is the same as in the case of flat-rate tax of private entrepreneurs.
- Flat-rate taxation income of hosts receiving paying guests. The tax amounts to 32,000 HUF a year, out of which 80% is payable in the form of personal income tax and 20% as flat-rate health contribution. The amount of tax payable does not depend on whether guests were received throughout the year or only part of the year.
- Income originating from the sale of real-estate. Tax rate is 20% and it does not need to be declared, if the real-estate was obtained before 1988, or if there was no income originating from it. Allowance for getting an apartment is the due of those who buy or build real-estate inland for themselves or for near relatives, either within 12 months before the sale or within 60 months afterwards. The amount spent for purchasing it can be deducted from the income originating from sale.
- Income originating from the sale of movable property. Tax rate is 20%, however, if the income originating from the sale of movable property is not more than 200 000 HUF, the sale is exempt from taxes. If it is more than 200 000 HUF, it needs to be declared but 40 000 HUF can be deducted from the tax.
- Income originating from life-annuity contract. Tax needs to be paid if the life-annuity contract was made after 1996 and life-annuity is received without compensation. The tax rate is 35%. It is tax-exempt: 1) if the contract ensuring support for life, the testamentary contract or the life-annuity contract was made with a private person; 2) if the contract ensuring support for life, the testamentary contract or the life-annuity contract was signed between a pensioner and an organisation financed by the state budget or a local government; 3) if life-annuity was received in return for real estate, right of property or movable property.
- Income originating from rate of exchange gain. Tax rate is 25%.
- Income originating from securities lending. Tax rate is 20%.
- Income raised by right of dividends. Tax rate is 20% up to 30% of the financial deposit of the person entitled to receive the dividend. Above that it is 35%.
- Income raised by right dividend, taxable abroad. Tax rate is 20%. Tax justifiably paid abroad can be deducted, but if Hungary does not have a convention ruling out double taxation, at least 5% of the tax has to be paid in Hungary. etc.

Tax liability is the total of the amount of tax payable for incomes to be consolidated reduced by allowances and the amount of tax payable for incomes taxed separately. Tax return does not need to be filed by those who only have tax-exempt income. Tax-exempt incomes are the following:

- pensions
- severance pay received with regard to the cessation of the right for widow's pension
- supplementary income
- income substitution for the unemployed
- subsidy received prior to beginning independent activities, joining an economic society or founding an economic society, based on provisions of the law or international contracts
- maternity benefit given by the state, with regard to social considerations or within the system of social security

- social benefits
- temporary benefits
- funeral support given in accordance with the provisions of the social law by the local government, by an interest organisation or by the employer
- home maintenance support, subsidy for rental of accommodation
- orphans' allowance
- foster-parent fee, special provision due to foster parents
- after-care provision
- old age allowance
- personal allowance of the blind
- disability allowance, travelling support for seriously disabled private persons as provided by the law
- family aid for the relatives of conscripts and those carrying out civil service, monetary supply to disabled serviceman, national fee for care as provided by the law
- income of interest payment received from a private person or from a pay-office, if it is maximum 5% more than the base rate of the central bank interest
- debt management service

Among tax-exempt incomes, payment in kind supplementing wages also needs to be mentioned. One of the most frequently used forms is the provision of lunch on vouchers. The regulation of this was changed year by year. Another significant item is the provision of holiday contributions. These can be given for free, either in the form of holiday services or in the form of holiday checks and can also be used by close relatives, either together with or separately from the employee. Its limit is the amount of the minimum wage, in 2010 73,500 HUF. Schooling support can also be provided tax-exempt for the parents at the beginning of the school year, up to 22,500 HUF in 2010. Finally, so-called “presents of little value” can also be given to employees, up to 10% of the minimum wage.

Local taxes (*helyi adók*): Problems of local taxes are the result of territorial division. There are more than 3 100 local governments in Hungary, all of which might have their own provisions concerning tax types below. They have a legal right to levy taxes and even though there is a maximum limit, the actual regulations are framed by the local governments.

Indirect taxes

Value Added Tax: In Hungary, VAT was introduced in 1988. VAT is to be paid after each and every product and service sold inland and after the import of products. VAT is payable both by private persons and by legal entities, which means that there are only estimates available concerning the size of VAT paid by the population. VAT revenues from the major source of income for the state budget. The general rate of VAT is increased from 25 to 27% in 2012, with the exception of the products and services listed in the regulation (more details in the Feasibility Study).

Further indirect taxes and levies collected by the National Tax and Customs Administration. They play a minor role relative to VAT, but as an example they are as follows: excise tax; environmental protection; charge for environmental load; gambling tax; registration tax; energy tax.

2. SIMULATION OF TAXES AND BENEFITS IN EUROMOD

2.1 Scope of simulation

Not all the taxes and benefits mentioned in the previous section are simulated by EUROMOD. Some are beyond its scope entirely and are neither included in the EUROMOD database nor in the output income variables (e.g. Value Added Tax). Others are not possible to simulate accurately with the available data (old age benefits and unemployment benefits). They are included in the database and may be chosen as components of output variables, but the rules governing them may not be changed in the model. Table 2.1 and Table 2.2 classifies each of the main tax-benefit instruments (and some minor ones introduced above) into one of these groups and provides a brief explanation as to why the instrument is not fully simulated if this is the case.

Table 2.1. Simulation of benefits in EUROMOD

	2012- 2016	2012- 2016	Why not fully simulated?
Old age benefit	POA	I	No data on contribution history
Early Retirement Pension	POA	I	No data on contribution history
Advanced Pension	POA	I	No data on contribution history
Temporary Widow(er)'s Pension	PSU	I	No data on contribution history
Permanent Widow(er)'s Pension	PSU	I	In the EU-SILC database if the survivor's benefits paid after the standard retirement age these benefits are included under the old age benefits.
Parental Pension	PSU	I	No data on contribution history
Orphan's Allowance	PSU	I	No information about the eligibility conditions
Absence Fee	BHL	I	Data available is not sufficient to simulate all eligibility conditions
Sickness Benefit	BHL	I	Data available is not sufficient to simulate all eligibility conditions
Invalidity Annuity	PDI	I	No information on disability
Temporary Invalidity Annuity	PDI	I	No information on disability
Disability Benefit	PDI	I	Data available is not sufficient to simulate all eligibility conditions
Work Accident Sickness Benefit	BHL	I	No information about the sickness
Work Accident Annuity	BHL	I	No information about the sickness
Work Accident-related Disability Pension	PDI	I	No information about the sickness
Unemployment Benefit	BUN	S	No data on contribution history (coded (PS) but currently switched off)
Pre-retirement Unemployment Assistance	BUN	I	No data on contribution history
Incentive Benefit for Job-seekers	BUN	I	No data on contribution history
Maternity Allowance	BMACT	I	No data on contribution history
Maternity Grant	BMANCc	S	
Child Care Allowance	BCCNCc	S	
Child Care Fee	BCCCT	I	No data on contribution history
Child Raising Support	BCCLT	S	
Family Allowance	BCHNM	S	
Regular Child Protection Allowance	BCHMT	S	
Old age allowance	POAMT	S	
Regular benefit	BSA00	S	
Home maintenance support	BSAHO	PS	No information about the size of flat
Nursing fee	-	I	No information about the eligibility conditions

Notes: "-": policy did not exist in that year; "E": *excluded* from the model as it is neither included in the micro-data nor simulated; "I": *included* in the micro-data but not simulated; "PS" *partially simulated* as some of its relevant rules are not simulated; "S" *simulated* although some minor or very specific rules may not be simulated.

Table 2.2 Simulation of taxes and social contributions in EUROMOD

2012-2016		Why not fully simulated?
Personal income tax	tin PS	No information about all of the tax credits
Corporate tax	- E	No information available
Simplified business tax	tbs S	No information about the type of the self-employment, but we estimate the number of the tax payers. Every eighth self-employment chose this type of tax paying in 2006. (~100 000 person or firm)
Local taxes	- E	No information available
Value Added Tax	- E	No information available
Excise tax	- E	No information available
Environmental protection fee	- E	No information available
Charge for environmental load	- E	No information available
Gambling tax	- E	No information available
Registration tax	- E	No information available
Energy tax	- E	No information available
Employee Social Insurance Contributions	tscee S	
Employer Social Insurance Contributions	tscer S	
Self-employed Social Insurance Contributions	tscse S	

Notes: “-” policy did not exist in that year; “E” policy is *excluded* from the model’s scope as it is neither included in the microdata nor simulated by Euromod; “PS” policy is *partially simulated* as some of its relevant rules are not simulated; “S” policy is *simulated* although some minor or very specific rules may not be simulated.

2.2 Simulated policies and order of simulation

2.2.1 Simulated policies

The model allows simulating changes in the tax rates and contribution rates, changes in tax deductions and allowances, family benefits, and major rules for social assistance benefit. The order of simulation is reported below.

2.2.2 Order of simulation and interdependencies

The following table shows the order in which policies of the Hungarian fiscal system are simulated.

Table 2.3. EUROMOD: order of simulation, 2012-2016

Policy	HU_2012	HU_2013	HU_2014	HU_2015	HU_2016	Description of the instrument and main output
uprate_hu	on	on	on	on	on	DEF: UPRATING FACTORS
ConstDef_hu	on	on	on	on	on	DEF: CONSTANTS
InitVars_hu	on	on	on	on	on	DEF: Initialise variables
IlDef_hu	on	on	on	on	on	DEF: INCOME CONCEPTS
TuDef_hu	on	on	on	on	on	DEF: ASSESSMENT UNITS
yem_hu	off	off	off	off	off	DEF: minimum wage
neg_hu	on	on	on	on	on	DEF: recode negative income from self-employment to zero
bun_hu	on	on	on	on	on	BEN: unemployment benefit (munkanélküli járadék)
bmanc_hu	on	on	on	on	on	BEN: Maternity Grant (Anyasági Támogatás)
bcnc_hu	on	on	on	on	on	BEN: Child Care Allowance (Gyermekgondozási Segély)
bclt_hu	on	on	on	on	on	BEN: Child Raising Support (Gyermeknevelési Támogatás)
bchm_hu	on	on	on	on	on	BEN: Family Allowance (Családi Pótlék Tartásdíj)
tscee_hu	on	on	on	on	on	SIC: Employee Social Insurance Contributions
tscer_hu	on	on	on	on	on	SIC: Employer Social Insurance Contributions
tscse_hu	on	on	on	on	on	SIC: Self-employed Social Insurance Contributions
tin_hu	on	on	on	on	on	TAX: Personal Income Tax (Személyi Jövedelemadó)
tbs_hu	on	on	on	on	on	TAX: Simplified Business Tax (Egyszerűsített Vállalkozói Adó)
bchmt_hu	on	on	on	on	on	BEN: Regular Child Protection Benefit (Rendszeres Gyermekvédelmi Támogatás)
bfa_hu	on	on	on	on	on	BEN: Family Benefit
bsa_hu	on	on	on	on	on	BEN: Social Assistance (Szociális Segélyek)
output_std_hu	on	on	on	on	on	DEF: STANDARD OUTPUT INDIVIDUAL LEVEL
output_std_hh_hu	off	off	off	off	off	DEF: STANDARD OUTPUT HOUSEHOLD LEVEL

In the Hungarian system there are four means-tested benefits that can be simulated. Their amounts are calculated within two policies: regular child protection allowance and social assistance (including old age allowance, regular benefit and home maintenance support). They all depend on income after income tax and employee and

self-employed contributions have been deducted. They are therefore simulated after the simulation of income taxes and social insurance contributions.

The other four simulated benefits are non means-tested benefits. These are: maternity or child related benefits that depend on the age of the child or the number of the dependent children in the household. These non-means-tested benefits must be simulated first, because they are considered incomes by the means-tested income criteria.

2.3 Social benefits

2.3.1 Maternity grant (*Bmanc_hu*)

Resident women who give birth, having previously participated in pre-natal care at least 4 times and having no insurance, are entitled to a one-off lump-sum payment of 225% of the minimum old age pension or 300% in case of twins. (In EUROMOD the twins regulation is not implemented because of the lack of data.)

- **Definitions**

The unit of analysis is the family. This comprises the head, his spouse or partner and their own children. Dependent children are defined in the tax unit as aged 16 or younger or 24 or younger if they are in full-time secondary education, not married and not cohabiting.

- **Eligibility conditions**

This benefit is paid if at least one one-year old child lives in the family.

- **Income test**

This benefit does not depend on other incomes. Income test is not necessary.

- **Benefit amount**

The maternity grant is a lump-sum payment of 225% of the minimum old-age pension. In order to obtain average monthly amounts, Euromod output is divided by 12.

2.3.2 Child care allowance (*Bccnc_hu*)

A flat-rate benefit to parents who stay away from work to care for their children under the age of 3 (under age of 10 in case of permanently ill or severely disabled children) or for grandparents who care for their grandchildren aged between 1-3 years in the household of the parent. The monthly amount is equal to the minimum old age pension.

- **Definitions**

The unit of analysis is the family. This comprises the head, his spouse or partner, grandparents and their own children. Dependent children are defined in the tax unit as age \leq 2 or age \leq 9 if disabled, grandparents are defined as parents of the child's mother or father.

- **Eligibility conditions**

Eligible are units where at least one adult person is caring for a 0-2 years old child if the person is the parent, or a 1-2 years old child if the person is the grandparent.

Since 2008, the caring parent of children under 1 year of age cannot pursue a gainful activity, while parents of children older than 1 year of age can pursue a gainful activity without restriction.

- **Income test**

Income test is not applicable

- **Benefit amount**

The monthly amount is equal to the minimum old age pension.

2.3.3 Child raising support (*Bcclt_hu*)

Benefit for parents who raise three or more children in their own home, if the youngest child is between 3 and 8 years old. The monthly amount is equal to the minimum old age pension, irrespective of the number of children.

- **Definitions**

The unit of analysis is the family. This comprises the head, his spouse or partner and their own children. Dependent children are defined in the tax unit as aged 16 or younger or 24 or younger if they are in full-time secondary education, not married and not cohabiting.

- **Eligibility conditions**

Eligible are families where parent(s) work maximum 4 hrs per week in order to take care of at least 3 dependent children where there is at least one child age between 3 and 7 years-old (included) and no child age 0 to 2 (i.e. a 3-7 years old child is the youngest).

- **Income test**

Income test is not applicable

- **Benefit amount**

The monthly amount is equal to the minimum old age pension.

2.3.4 Family allowance (*Bchnm_hu*)

Family allowance is mainly meant to support families with schooling costs. It is paid to the parent from the birth of the child to the termination of compulsory education studies (usually 0-16 years); it may be paid also during secondary school education or vocational training (up to 20 years of age). Its amount depends on the number of children in the family, household type (e.g. single-parent family) and whether the child is disabled. In order to support families with schooling costs, in July the amount of the family allowance is double.

- **Definitions**

The unit of analysis is the family. This comprises the head, his spouse or partner and their own children.

Dependent children are defined in the tax unit as aged younger than 16; or 24 if they are in full-time secondary education, not married and not cohabiting

- **Eligibility conditions**

Family Allowance is a universal benefit. This benefit is paid if at least one dependent child lives in the family.

- **Income test**

Income test is not necessary

- **Benefit amount**

The monthly amount for lone parents depends on number of children living in the family:

1 child: HUF 13,700 in 2009,

2 children: HUF 14,800 per child,

3 or more children: HUF 17,000 per child,

If the child is permanently ill or severely disabled: HUF 25,900.

The monthly amounts for other families are:

1 child: HUF 12,200,

2 children: HUF 13,300 per child,

3 or more children: HUF 16,000 per child,

If the child is permanently ill or severely disabled: HUF 23,300.

The amounts paid by the family allowance have not changed since 2009:

	2012-2016
1 child in the family	12,200,
1 child, single parent	13,700,
2 children in the family	13,300
2 children, single parent	14,800
3 or more children in the family	16,000
3 or more children, single parent	17,000
permanently ill or severely disabled child in the family	23,300,
permanently ill or severely disabled child, single parent	25,900,

In EUROMOD, the double amount paid in July and special amount for foster children cannot be simulated.

2.3.5 Regular child protection allowance (*Bchmt_hu*)

- **Definitions**

This benefit is paid to the family if the income per person in the family does not exceed the amount of the defined percentage of the minimum old age pension. It is meant to support low income families with children.

The unit of analysis is the family. It comprises of the head, his spouse or partner and their own children.

Dependent children are defined in the tax unit as aged 17 or younger, or under age 23 (included) if they are in full-time secondary education, not married and not cohabiting or 25 or younger if they are in full-time tertiary education, not married and not cohabiting.

- **Eligibility conditions**

Eligible are families with children where per capita monthly income (as defined in `il_meanstestY`) is below 130% of the minimum old age pension.

- **Income test**

The income test is based on per capita monthly income defined as disposable income (excluding regular child protection allowance - this benefit - and social assistance (as they are not yet calculated)).

- **Benefit amount**

The benefit is paid in a fixed amount per year to families with children (independently from the number of children). In 2009 it amounts to 11 600 HUF per year.

2.3.6 Social assistance (*BSA_HU*)

2.3.6.1 Old age allowance

This is a social assistance scheme to ensure a minimum income during old age in the absence of an old age pension. The amount of the benefit is determined by the income of the person (and his/her partner or spouse).

- **Definitions**

The unit of analysis is the 'couple'. This comprises the head, his spouse or partner. Tax unit comprises only head and his/her partner, i.e. income of other household members is not taken into account.

- **Eligibility conditions**

Eligible are people who have reach the pension age (62 years old from 2009) or those living in a couple where at least one person is older than the pension age.

- **Income test**

Old age allowance is a means-tested benefit based on `il_meanstestY` which is defined as disposable income with the exception of regular child protection benefit (`bchmt_s`) and social assistance (`bsa_s`) (as they are not yet calculated).

- **Benefit amount**

For couples the maximum benefit amounts to 80% of the minimum old age pension per person.

For singles the maximum benefit amounts to 95% of the minimum old age pension or 130% if the person is older than 75 years old. Income of the couple/single (as defined in `il_meanstestY`) is withdrawn in full from maximum benefit.

2.3.6.2 Regular benefit

This is a social assistance scheme to ensure a minimum standard of living. From 2006 to 2010 the assessing of the entitlement and the amount of the assistance based on the income projected to the consumer unit instead of the previous income per capita. The consumer unit is the rate which shows the structure of consumption within a family. The first major member of the family and the disabled child's rate is 1,0 while the ratio of the companion (spouse) and a child is lower (0,9-0,7). From 2009 it was replaced by the stand-by allowance for people over 55.

- **Definitions**

The unit of analysis is the household, which includes all individuals in the household as members of the same unit. Only one person in a family is entitled to this support.

Dependent children are defined in the tax unit as children under 16 or children under 21 not in work or children under 25 in full time education and not working, not married nor cohabiting.

- **Eligibility conditions**

Eligible are persons who are 18 years or older who have a disability degree of at least 67% or are non-employed, i.e. unemployed and their income is lower than the 90% of the minimum pension.

In 2009 the regular benefit was replaced by the stand-by allowance. The eligibility conditions were changed: People age 18-55 with children or those age over 56 (up to pension age) are eligible if they are disable or not entitled to unemployment benefit and they have low income (as defined by `il_sareexclY` in the income list).

- **Income test**

`il_meanstestY` is defined as disposable income with the exception of regular child protection benefit and social assistance.

- **Benefit amount**

From 2006 to 2009 the maximum amount of the benefit is 90% of the minimum old age pension. The payable amount is the difference between the means-tested income and the income calculated with the per consumer unit. The lower and upper limit of the benefit are respectively 0 and the minimum wage.

2.3.6.3 Stand-by allowance (from the year 2009)

This is a social assistance scheme to ensure a minimum standard of living. The assessing of the entitlement and the amount of the assistance based on the income projected to the consumer unit instead of the previous income per capita. The consumer unit is the rate which shows the structure of consumption within a family. The first

major member of the family and the disabled child's rate is 1,0 while the ratio of the companion (spouse) and a child is lower (0,9-0,7).

- **Definitions**

The unit of analysis is the household, i.e. all individuals in the household are members of the same unit.

Dependent children are defined in the tax unit as household members 15 or younger or, if in education and not working, 24 or younger.

- **Eligibility conditions**

Eligible are persons who are younger than 55 and older than 18 years old and have a disability degree of at least 67% or do not receive unemployment benefit and are non-employed, i.e. unemployed and do not have income as defined in `il_sareexclY` and do not received regular social benefit.

- **Income test**

`il_meanstestY` is defined as disposables income with the exception of regular child protection benefit and social assistance (as they are not yet calculated).

- **Benefit amount**

The maximum amount of the benefit is the minimum old age pension.

2.3.6.4 Home maintenance support

This is a means-tested benefit provided by the local government for a family or individual who lives in a home not exceeding a specified size, provided that there is no income from the use of that home.

- **Definitions**

The unit of analysis is the household (all individuals in the household are members of the same unit).

- **Eligibility conditions**

Eligible are households where per consumer unit income does not exceed 150% of the minimum old age pension (in 2012 this increased to 250%).

- **Income test**

Household income test is based on the per consumption unit household income (`il_meanstestY`). The consumer unit is the rate which shows the structure of consumption within a family. However, this is different from that used for social assistance: the first adult of the household has a rate of 1,0, the second adult has a rate of 0.9, other adults weight 0.8, first and second child also weight 0.8, other children have a rate of 0.7. Extra weight (0.2) is given to the household if it is a lone parent household.

- **Benefit amount**

The home maintenance supports maximum 30% of recognized housing costs.

The maximum amount of the benefit depends on household size. For each recognized squared meter, it pays 450HUF: The table below show details for each year from 2012 to 2016.

N. of people in household	Accepted house size (squared meters)	2012-2016
1	35	15750
2	45	20250
3	55	24750
4	65	29250
4+	65+5 for each extra person	29250 + (2250 * (n. hld members - 4))

30% of the maximum amount of the benefit is paid to household with per capita income lower than 50% of minimum pension; for households with per-capita income between 50% and 150% (250% from 2012) of minimum pension, the amount of the benefit is reduced and the new rate is calculated as follows $(0.3 - ((i_{hhpercapitaY1} - \$MinPension_m * 50\%) / \$MinPension_m) * 0.15)$

2.4 Social contributions

In Hungary, the social insurance system has two large parts: the pension scheme and health insurance.

2.4.1 Employee social contributions (Tsee_hu)

In 2011, pension insurance contributions amount to 10% of employment income with a daily upper limit: 21,000 HUF in 2011 and 21,700 HUF from 2012 to 2014. The daily upper limit of this amount was erased in 2013.

In 2011, employees pay 7% for health insurance contribution, this increased to 7% from 2012. The general employee insurance contributions amounts to 1,5% of employment income in all investigated years.

No employee social insurance contributions are paid if in receipt of old age pension. The assessment unit is the individual.

2.4.2 Employer social contributions (Tscer_hu)

- *Liability for contributions*

Employers have to pay Pension and Health insurance contribution for each of their employees

- *Thresholds and rates*

The rate on earnings for pension insurance contributions is 24% of employment income in 2011. The rate for health insurance contributions is 2% for earnings. The labour market contribution is the 1% of the income.

From 2012 the health insurance, pension insurance and the general insurance contributions were erased, instead of these, 27 % social contribution tax was introduced. The assessment unit is the individual.

2.4.3 Self-employed social contributions

Entrepreneurs (those with no zero self-employment income) and EVA (simplified business tax) payers ($1_{se00} = 1$) pay self-employed contributions.

The contribution base for entrepreneurs is the highest between minimum wage and self-employment income. In the case of EVA payers the contribution base is the amount of the minimum wage. EVA payers do not pay self-employed health insurance contributions if they are at the same time employees.

The `lse00` variable has been generated to identify the EVA payers `{lse00=1}`. This variable is created from the self-employment income variable based on the following criteria: for example, if self-employment income, `(py050g) < 25 000 000 HUF` then `{lse00=1}` in 2011. Because of the low estimate of self-employment income this causes a very large number of individuals in the sample to be classified as EVA payers. In order to avoid this, a correction has been adopted: one case every eight self-employed is categorized back to a ‘normal’ tax payers.

Pension insurance contributions amount to 24% + 10% of employment income. The health insurance contributions amount to 2% + 6% of the contribution base. If the recipient gets pension she/he pays smaller health insurance contribution. In the following years, the self-employment social insurance contribution was adjusted to equal the employer and employee SIC. This means that in 2012 and 2013 the social contribution tax was introduced in the case of the self-employment person too.

The general insurance contributions amount to 1,5% (employee-part) + 1% (employer-part) of contribution base if in receipt of old age pension only the employer part, i.e. 1% of contribution base, has to be paid.

From 2012 the self-employment social income contribution has 4 part: 27 % social contribution tax; 7% health insurance contribution; 10% pension insurance contribution; 1,5% labour market contribution.

2.5 Personal income tax (`tin_hu`)

The main tax simulated for Hungary is personal income tax. Every citizen is obliged to file a tax return at the end of the tax year if their annual income comprises taxable income.

2.5.1 Tax Unit

Personal income tax is individual. However, there is a partial exception to this rule: family tax credit is jointly assessed. In this case the unit of analysis is the family. This comprises the head, his/her spouse or partner and their own dependent children. Dependent children are defined as aged 16 or younger or aged 24 or younger if they are in full-time secondary education. Children cannot be married or cohabiting.

2.5.2 Exemptions

Some income components do not have to be declared to the tax authorities, and thus are not included in the concept of taxable income (pensions, child and family benefits).

2.5.3 Tax base

The tax base is defined as taxable income excluding EVA payers' (`{lse00=1}`) self-employment income. Their self-employment income is stored in `yse` and used for calculating SIC, but not for tax calculation.

Taxable income includes all sources of income. More specifically, the definition of taxable income is as follows:

IL: taxableY

taxableY= child raising support (gyermeknevelési támogatás, bcclt) + child care allowance (gyermekgondozási segély, bccnc) + child care fee (gyermekgondozási díj, BCCCT) + sickness benefits (táppénz, távolléti díj, BHL) + maternity allowance (terhességi-gyermekágyi segély, BMACT) + unemployment benefits (munkanélküli ellátások, BUN) + employment income, YEM) + property income (YPR) + self-employment income (YSE)+ old-age income (poa)

2.5.4 Tax schedule

Income taxation is graduated, with progressively higher marginal tax rates applying to higher income brackets.

In 2011 the tax system changed to a sort of flat tax system where everybody pays a tax rate of 16% on the tax base defined by multiplying `il_taxableY` as defined above by 1.27.

In 2012 the use of a coefficient to define the tax base was partially terminated for incomes lower than 2,424,000 HUF. The tax system became a flat tax with two rates, because from 0 to 2,424,000 HUF the tax rate is 16% of the tax base, above 2,424,000 HUF the tax rate is 20.32% on tax base multiply by 127%. In 2013 and 2014 a fixed flat tax system was introduced where the tax rate is 16% for everyone. In 2016 this rate was decreased to 15%.

2.5.5 Tax credits

Tax credits are defined as deductions from tax due. These tax credits are non-refundable. In other words, final tax is calculated as the amount of tax resulting from the tax schedule minus the sum of all tax credits, subject to a minimum of zero.

A considerable number of tax credits cannot be simulated, because of the missing variables or missing relevant information in the original EU-SILC database. The model contains most of these tax credits but some of these are switched off. In this chapter we listed only the simulated tax credits.

2.5.6.1. Tax credit on income from wages

The tax credit on income from wages was eliminated from the tax system in 2012.

2.5.6.2. Tax credit for serious disability

Eligible are people with a disability level of at least 67%. In 2009, the tax credit amounts to 2,000 HUF monthly, this amount changed to the 5% of the minimum wage from 2010.

2.5.6.3. Family tax credit

From 2011 the family tax credit was deducted from the tax base (becoming effectively a tax allowance) and not from the tax due. The amount are: $\{nDepChInTU=1\}=66670\#m$ or $\{nDepChInTU=2\}=83330\#m*2$ or $\{nDepChInTU>=3\}=220000\#m$

The tax credit is shared (proportionally to tax after deduction of other tax credits) among parents to make the maximum use of it.

2.6 Simplified Business Tax (tbs_hu)

Calculation of EVA (Egyszerűsített Vállalkozói Adó – Simplified Business Tax) is based on the amount of total revenues including VAT. The tax rate is 37% from 2012.

Those paying EVA are exempted from paying the VAT, they do not have to pay entrepreneurial personal income tax and if they have no other revenues, they do not have to file a personal income tax return.

3. DATA

3.1 General description

The Hungarian database is drawn from the Community Statistics on Income and Living Conditions (EU-SILC) as provided by Eurostat (UDB_c12_ver 2012-1 from 01-03-14). EU-SILC is expected to become the EU reference source for comparative statistics on income distribution and social exclusion at European level, particularly in the context of the 'Programme of Community action to encourage cooperation between Member States to combat social exclusion' and for producing structural indicators on social cohesion for the annual spring report to the European Council.

The instrument aims to provide two types of data:

- Cross-sectional data pertaining to a given time or a certain time period with variables on income, poverty, social exclusion and other living conditions
- Longitudinal data pertaining to individual-level changes over time, observed periodically over, typically, a four year period.

Social exclusion and housing condition information is collected at household level while labour, education and health information is obtained for persons aged 16 and over. The core of the instrument, income at very detailed component level, is mainly collected at personal level but a few components are included in the household part of SILC.

The Statistics on Income and Living Conditions is conducted by the Central Statistics Office (HCSO).

The 2012 EU-SILC sample in Hungary was selected by a stratified two-stage sampling design in a part of the population and by stratified one-stage design in the other part. The final sampling units are the dwellings and, in each of them, every household is observed.

Localities were stratified by General Election Districts and size (in terms of number of dwellings). In the first part, one locality was selected with probability proportional to the number of dwellings. Within each selected locality, a systematic selection of dwellings was done. As for the other part of the population, a systematic selection of dwellings was done in each stratum.

Table 3.1 EUROMOD database description

2012	
EUROMOD database	HU_2012_a4.txt
Original name	UDB_c12_ver 2012-1 from 01-03-14
Provider	HCSO; EUROSITAT
Year of collection	2012
Period of collection	01/03/2012-01/05/2012
Income reference period	01/01/ to 31/12/ previous year to fieldwork
Unit of assessment	Households*
Coverage	Private household
Sample size	Ind: 28,407 HH: 11,813
Response rate	0,977 (household level; HY010)

*Notes: Persons living in collective households and in institutions are generally excluded from the target population. Refers to a non-institutional collective dwelling such as a boarding house, dormitory in an educational establishment or other living quarters shared by more than five persons without sharing household expenses.

3.2 Data adjustment

In general, we try to keep the original variables from the EU-SILC UDB dataset with no further adjustments. Eurostat applies several processes to validate the database. The validation process includes syntax and a logical check audit, for example, on the structural coherence of the files (household register, personal register, household data, personal data) and the coherency between different variables of the same record and other records.

In order to guarantee consistency between demographic variables and income variables, which refer to the previous year (and on which EUROMOD simulation are based), all children born between the end of the income reference period and the date of interview have been dropped from the sample. The final 2012 sample includes 28,407 individuals in 11,813 households.

3.3 Imputations and assumptions

3.3.1 Time period

In the SILC user database, the income reference period is a 12-month period. Information on earnings refers to the last tax year. Similarly, information about pensions and benefits refers to the calendar year before the interview. Self-employment income is based on this reference period too.

In general: “The interval between the end of the income reference period and the time of the interview for the respondent concerned shall be limited to 8 months as far as possible. This applies both to the household and personal samples, and irrespective of whether the reference period used is fixed in terms of calendar dates for the whole

sample or is a moving reference period determined according to the timing of the interview for the household or person concerned.”³

All monetary amounts in the SILC are expressed in annual terms. These are converted into average monthly terms (dividing by 12) for the EUROMOD database.

3.3.2 Gross incomes

The Hungarian SILC data include variables on income tax, employee social insurance contributions and other deductions from gross earnings. In general, “gross income means the total monetary and non-monetary income received by the household over a specified 'income reference period', before deduction of income tax, regular taxes on wealth, employees', self-employed and unemployed (if applicable) compulsory social insurance contributions and employers' social insurance contributions, but after including inter-household transfers received.”⁴

3.3.3 Disaggregation of harmonized variables

Information on simplify taxation for self-employed is not reported in the original SILC UDB. Therefore, we impute whether self-employed workers are subject to simplify or full taxation base on whether their annual self-employment income is less than 37,000,000 HUF (in 2016). In this case the variable lse00 is set to be 1 to indicate that the person is classified as an EVA payer. However, controlling only for income it is not enough to identify the all EVA payers in Hungary because most of the self-employed in the sample satisfy the income criteria. Hence, to reflect the proportion of EVA payers in the population, one in eighth self-employed are randomly selected to be EVA payers. The others are subject to ‘normal’ taxation.

3.4 Updating

To account for any time inconsistencies between the input dataset and the policy year, updating factors are used. Each monetary variable (i.e. each income component) is updated so as to account for changes in the non-simulated variables that have taken place between the year of the data and the year of the simulated tax-benefit system. Updating factors are generally based on changes in the average value of an income component between the year of the data and the policy year. For detailed information about the construction of each updating factor as well as the sources that have been used, see Annex 1.

As a rule, updating factors are provided both for simulated and non-simulated income components present in the input dataset. Note however that in the case of simulated variables, the actual simulated amounts are used in the baseline rather than the updated original variables in the dataset. Updating factors for simulated variables are provided so as to facilitate the use of the model in cases when the user wishes to turn off the simulation of a particular variable. The list of updating factors as well as the sources used to derive them can be found in Annex 1

³ SILC UDB description

⁴ SILC UDB description

4. VALIDATION

4.1 Aggregate Validation

EUROMOD results are validated against external benchmarks. Detailed comparisons of the number of people receiving a given income component and total yearly amounts are shown in Annex 3. Both market incomes and non-simulated taxes and benefits in the input dataset as well as simulated taxes and benefits are validated against external official data. The main discrepancies between EUROMOD results and external benchmarks are discussed in the following subsections. Factors that may explain the observed differences are also discussed.

4.1.1 Components of disposable income

In this section, the main differences between the definition of disposable income in EUROMOD and EU-SILC are presented.

Table 4.1 Components of disposable income

	EUROMOD 2012-2016	EU-SILC 2012
	ils_dispy	HY020
Employee cash or near cash income	+	+
Employer's social insurance contribution	0	0
Company car	0	+
Contributions to individual private pension plans	0	0
Cash benefits or losses from self-employment	+	+
Pension from individual private plans	0	0
<i>Unemployment benefits</i>	+	+
<i>Old-age benefits</i>	+	+
<i>Survivor' benefits</i>	+	+
Sickness benefits	+	+
Disability benefits	+	+
Education-related allowances	+	+
Income from rental of a property or land	+	+
<i>Family/children related allowances</i>	+	+
Social exclusion not elsewhere classified	+	+
Housing allowances	+	+
Regular inter-household cash transfer received	+	+
Interests, dividends, etc.	+	+
Income received by people aged under 16	+	+
Regular taxes on wealth	-	-
<i>Regular inter-household cash transfer paid</i>	-	-
<i>Tax on income and social contributions</i>	-	-
<i>Repayments/receipts for tax adjustment</i>	0	+

4.1.2 Validation of incomes inputted into the simulation

Table 4.5 and 4.6 (Annex 3) show the benefits that cannot be simulated in EUROMOD. These numbers compare the original information from the SILC UDB and the external statistics provided by the Hungarian Central Statistical Office.

In the case of sickness benefits there are significant differences between the SILC and the external statistics. One of the reason is the respondents may have underestimated the sum of the sickness benefit significantly. On the other hand, the Statistical Office use the 'number of sick pay cases per year definition, and the SILC contains the number of recipients, so maybe the SILC calculate less numbers than the official statistics.

In the case of the disability benefits, the external source amount includes the disability pension below retirement age, miners' and early retirement pension, benefits to persons with reduced capacity to work, accident benefits and the disability benefit. The coverage of the SILC and the external data is similar, but not the same, this cause an underestimate effect in both the identification of entitlement and the expenditure amounts.

The number of old age income recipients in EUROMOD is similar to the external statistics, but both the number of pensioners and expenditures in same proportion. Most likely the EU-SILC under-reported the old age income recipients if they have double activity (for example if employee and pensioner in a same time). We think this cause the underestimate effect in the survivor benefits too.

4.1.3 Validation of outputted (simulated) incomes

Table 4.7 and Table 4.8 (Annex 3) show the validation of child and family related benefits. These benefits are usually well estimated in the model, in particularly those cases where the regulations are clear and all the recipients get these supports (e.g. family allowance). Even so there are some deviations in the child care allowance. EUROMOD allocates this amount where a less than 3 years old child is in the family, but in reality not all these families get this benefit (i.e. it may be a problem of on the identification of who can apply for the benefit: for example, grandparents can be entitled to this benefit if parents do not apply), and the model cannot control for this effect. This deviation is worse in the case of the child raising support for which both recipients and expenditures are oversimulated by about 60%.

The simulation of the regular child protection allowance is underestimating the actual take-up of the benefit. EUROMOD underestimate both the recipients and the expenditure of this allowance. This allowance is not a universal allowance and it is not available to everybody, so there may be some problem of take-up. Moreover, the number of recipients depends on the budget of the local governments, which adds another unknown effect; and the official statistics coverage includes an in-kind part of the benefit that EUROMOD cannot control for.

The numbers of taxpayers are overestimated in all years. (Table 4.7) The total amount of the personal income tax is also overestimated from 2012 to 2016. This calls attention to the changes in the personal income tax regulations introduced in Hungary between 2010 and 2013. However, we would expect a large increase in revenue from personal income tax from 2012 to 2015, on the contrary, the simulated results from EUROMOD do not seem to pick this up and they show a more hectic increase in this period.

The simplified business tax results picture a rather large underestimation in the self-employment income, and this causes a large deviation in the revenue number between the external source and the EUROMOD results. Another reason that could help explaining this underestimation is the lack of information about the simplified business tax payers in the SILC UDB. Indeed, because of this, we have imputed who are these tax payers among those self-employed included in EU-SILC.

Both of the employee and the employer social insurance contributors are well represented in EUROMOD. The revenue from the employees are somewhat underestimated in these years, and the employer revenue is underestimated too. One of the reasons of this deviation is the double activity economic status. In Hungary there are big differences between the persons who have only one economic status (e.g. employee, self-employment) and the workers who have more than one status (e.g. pensioner and employee; student and employee, etc.) regarding the social contributions paid. Not all the respondents in the sample mention the double work status, which causes a relative large difference with the external statistics. The other reason is that the Hungarian official statistics do not collect information that is directly comparable to the number of payers and amounts produced by EUROMOD for self-employment social contributions. Indeed, the National Accounts calculations use different classification for self-employment social insurance contributions revenues.

All of the social allowance benefits have complicated regulations which are difficult to simulate fully, moreover there are many missing information in this section that makes the implementation of these benefits challenging. In Hungary the assembly of the local government provides these allowances, and the amount and the number of recipients depend on the budget of the local government and the number of the entitled persons.

In the case of the home maintenance support, EUROMOD identifies eligible households only based on low income criteria, household composition and characteristics related to housing costs based on the recognized size of the house. However, the assignment of this benefit also involves decisions by local government administrations. Therefore, low take-up and the differences between central and local government regulations may help to explain the still high overestimates of the number of recipients and expenditures in each year.

After 2010 the whole unemployment benefit system was changed. As a consequence, the social basic unemployment supports (like the regular social benefit and the stand-by allowance) were transformed. The key of the new system is its link with the public employment and public works (named as “public works” or “encouraged workers” too). According to the new system, after 90 days of unemployment, those able to work will lose their benefits unless they agree to do public works. The simulation of this condition can be challenging for two main reasons. The first is related to the input data. In the EU SILC the economic status of public workers is ‘employee’ and not ‘unemployed’ (this is coherent with the principle that public workers have a regular job). So we can’t identify the unemployed among public workers and we can’t separate them from ‘normal’ employees.

Moreover, the number of public workers has significantly increased from 2010 to 2014. This causes the second problem: the static EUROMOD system cannot follow these variations, which explains why the results of the simulation in the case of these means-tested allowances related to the unemployment status (as the regular benefit and the stand by allowance) show a rather mixed picture in the policy years (Table 4.7 Annex 3).

The unemployment benefits statistics provided by EU-SILC to EUROMOD contains not all, but most of the ESSPROS elements, such as the early retirement for labour

market reasons, vocational training allowance, etc. However, it clearly overestimates the number of recipients. The main reason is the increasing number of public workers (as explained above). Furthermore, the number of recipients are expected to be overestimated because of the criteria that EUROMOD uses to simulate unemployment. In fact, a person is considered as receiving unemployment benefits even if he/she was unemployed just for one month in the whole year. In fact, EUROMOD produces the average amount of a benefit received in a month, while the external statistics represent the average number of the recipients in one month and the corresponding expenditures. Unfortunately, there is no available information directly comparable with our results. Indeed, following the economic crisis, the unemployment benefit system was changed significantly in 2010 as mentioned above. However, this change is difficult to pick up with EUROMOD because the specific unemployment benefit it is not simulated, but taken as reported in SILC. In fact, EUROMOD is a static microsimulation model which, in this particular case, simulates the effect that 2012-2015 fiscal policies have got on the 2012 population of Hungary. It does that by assuming that the population does not change, but the tax and benefit system does. Therefore, the number of recipients is constant over time because people observed out of work remain the same (we do not change the input data to take into account demographic variations in the population or changes in labour market behaviours), expenditures change as an effect of uprating factors which take forward over time monetary values. However, the big differences observed between EUROMOD results and external values suggest that uprating factors alone cannot take account of the changes introduced by this benefit.

4.2 Income distribution

All income distribution results presented here are computed for individuals according to their household disposable income (HDI) equalized by the “modified OECD” equivalence scale. HDI are calculated as the sum of all income sources of all household members net of income tax and social insurance contributions. The weights in the OECD equivalence are: first adult=1; additional people aged 14+ = 0.5; additional people aged under 14 = 0.3.

4.2.1 Income inequality

Table 4.9 in Annex 3 presents two main inequality indicators (Gini Index, and interquartile ratio S80/S20) and the income distribution for each year analysed in this report. EUROMOD’s indicators do not differ significantly from the Eurostat figures calculated on the basis of EU-SILC data on disposable income of the calendar year in question. Given that the data sources are the same, it is encouraging that the distributions of measured and simulated income do not differ very much. As far as the income shares are concerned, the biggest difference is found in share of the first decile, which EUROMOD overestimates by 6% in the year 2013 and 2014. It is likely that this is mainly caused by the fact that EUROMOD assumes 100% take-up of benefits such as social assistance on the one hand, and 100% entitlement to (and take-up of) the state pension on the other. The biggest underestimation, 4% in 2012 and in 2012 is in the highest decile. EUROMOD overestimated both median and mean income by about 12% in the baseline year 2012, and the Gini and S80/S20 indicators are underestimated by 1% - 6 %, respectively. Summarize the results regarding to income inequality indicators, these shows the different between the Euromod and the Eurostat figures is

very small, it can also be noticed that for 2012 the differences are slightly larger. In 2013 and 2014 the income share of the lowest decile according to Eurostat is larger than the 2012 figure, resulting in underestimation by EUROMOD.

4.2.2 Poverty rates

Table 4.10 in Annex 3 shows poverty rates, calculated at the 40%, 50%, 60% and 70% of the median equivalent household income. Comparing poverty rates produced by EUROMOD and Eurostat figures (Table 4.10 in Annex 3), we find that in 2012, 2013 and 2014 EUROMOD underestimates significantly poverty using the poverty line at each poverty line. However, as far as the poverty rates calculated at the 60% and 70% of median equivalised income are concerned, EUROMOD poverty estimates improve such that the ratio to the official external statistics equals 0.80 and 0.98 respectively. One of the reasons for underestimating the poorest poor might be the substantial oversimulation of the number of the social benefits at the lower part of the income distribution. First it seems the unemployment benefits in fact, differently from previous releases, are currently part of the simulated benefits; however, the number of people receiving unemployment benefits according to EUROMOD in 2012, is larger than the number registered by official statistics. The current simulation of unemployment benefits average unemployment benefit amount seems to be overestimated compared to official statistics, even if to a smaller extent, so this benefit can cause this underestimation. (Tables 4.7 and 4.8, Annex 3). Moreover the home maintenance support overestimation can cause this, since we can expect this benefit to be more concentrated in poorest households, it is therefore likely that the overestimation of both home maintenance benefits coverage and levels are overestimating disposable income at the bottom of the distribution. Further, overestimation of child raising support benefit might add to similar effects.

Finally, looking at poverty rates by age groups, we find that EUROMOD mostly underestimates poverty (with 60% of median equivalised income as the poverty line) for children (aged 0-15), youth (aged 16-24) and prime age (25-49), while overestimates elderly (65+) poverty from 2013 to 2015. Encouragingly, however, in spite of the discrepancies in poverty rates, EUROMOD and Eurostat figures exhibit similar trends over time, also when looking at different age subgroups.

4.3 Summary of “health warnings”

- The sample size is relatively big but in the case of very detailed analysis the number of cases may be little.
- Possible underestimation of the self-employment incomes should be taken into consideration
- Tax evasion and non-take up problems are present but it is difficult to assess exactly the size of the phenomena.
- The original dataset contains very few people among the very *low* and the very *high* earners, therefore the model is likely to underestimate overall income inequality.

5. REFERENCES

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EU-SILC User Database Description. EUROSTAT, Luxemburg, 2014.

Eurostat portal: <http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/>

- *Sources for tax-benefit descriptions/rules*

General sources for tax-benefit descriptions/rules/regulations:

<http://www.magyarorszag.hu>

ANNEX 1. UPRATING FACTORS

Table 1. Uprating factors

Variable	Factor reference name	2012	2013	2014	2015*	2016*	Source and explanation
HICP (2005 = 100, yearly average index)	\$HICP	142,42	144,85	144,88	144,97	145,52	EUROSTAT website: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=prc_hicp_aind&lang=en (value for 2015 from here http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=prc_hicp_midx&lang=en)
Consumer price index	\$f_cpi	148,1	150,6	150,3	150,1	150,7	Fogyasztói árindex Source: STADAT table 3.6.1.
upr_xch	\$f_xch	167,6	177,9	192,5	198,9	208,0	Child care fee Source: Yearbook of Social Statistic, Table 3.3
upr_bmana	\$f_bmana	123,5	122,1	125,9	130,1	136,0	Maternity allowance Source: Yearbook of Social Statistic 2013, Table 3.2
yem	\$f_yem	153,3	158,5	163,2	170,1	177,9	Wages and salaries. Source: HCSO, Stadat table 2.1.35
yse	\$f_yse	145,7	150,4	160,5	165,8	173,4	Self-employment income Source: National Accounts, calculation with the Eurostat table by the number of self-employment by A10 industry and the 'Generation of income in the household sector by industries' table from the official National Account publication
poa	\$f_poa	156,6	164,8	168,7	168,5	169,2	Old age income Source: HCSO, Pensions and other benefits 2014 (pdf file)
psu	\$f_psu	148,0	149,5	153,5	153,3	154,0	Survivor benefits Source: HCSO Publication tables (survivor pension)
bfa	\$f_bfa	151,9	154,5	159,9	165,2	172,8	Total family benefits Source: Yearbook of Social statistics, chapter 3
bun	\$f_bun	162,3	179,1	N/A	191,9	202,9	Unemployment benefits Source: NFSZ yearly report1. (pdf file) Estimation in 2011
bhl	\$f_bhl	119,5	127,9	133,4	137,8	144,1	Source: Yearbook of Social statistics 2013, Table 10.1;10.2
pdi	\$f_pdi	174,3	175,1	178,2	178,0	178,7	Source: HCSO Publication tables: Disability pensions and disability benefit (rokkantsági nyugdíj (2011-től rokkantsági járadék) és megváltozott munkaképességűek járadéka)
bsa	\$f_bsa	150,9	155,2	155,0	159,4	160,1	Social assistance Source: Yearbook of Social statistics, chapter 6, table 6.1;6.5;6.16

Note: * The 2015 and 2016 uprating factors are estimations (except in the cases of CPI and yem factors). The base of the estimations is the AMECO database.

ANNEX 2. VALIDATION TABLES.

Table 4.2 Number of employed and unemployed

	EUROMOD	External					Ratio				
	2012	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Number of employed	3,780,391	3,877,900	3,938,400	4,101,000	4,211,000	N/A	0,97	0,96	0,92	0,90	N/A
Number of unemployed	614,100	475,600	448,900	343,300	307,800	N/A	1,29	1,37	1,79	2,00	N/A

Source: Hungarian Statistical Office - Long time series tables (STADAT 2.1.1) - The labour market in Hungary, Economic activity of population aged 15–74

Table 4.3 Market income in EUROMOD – Number of recipients (in thousands)

	EUROMOD	External					Ratio				
	2012	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Employment income	3,977	3,578	3,647	3,834	3,936	N/A	1,11	1,09	1,04	1,01	N/A
Self-employment income	828	431	399	400	418	N/A	1,92	2,08	2,07	1,98	N/A
Private pensions	0	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Rent income	87	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Investment income	168	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A

Source: EUROSTAT home page - http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/data/main_tables Employment by A*10 industry breakdowns [nama_10_a10_e]

Table 4.4-Market income in EUROMOD -Annual amounts (in mld.)

	EUROMOD					External					Ratio				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Average employment income (net yearly HUF)	1,782,120	1,842,570	1,897,208	1,977,421	2,111,109	1,729,020	1,813,416	1,868,280	1,947,300	N/A	1,03	1,02	1,02	1,02	N/A
Employment income	7,087,480	7,327,890	7,545,184	7,864,190	8,395,866	12,646,738	13,300,987	14,108,924	N/A	N/A	0,56	0,55	0,53	N/A	N/A
Self-employment income	1,055,186	1,089,224	1,162,370	1,222,480	1,305,766	1,426,245	1,363,916	1,457,584	N/A	N/A	0,74	0,80	0,80	N/A	N/A
Private pensions	0	0	0	0	0	N/A	N/A	N/A	N/A	N/A	#N/A	#N/A	#N/A	#N/A	#N/A
Rent income	30,229.64	30,739.93	30,678.69	30,637.87	30,762.38	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Investment income	65,496.85	66,602.47	66,469.8	66,381.35	66,651.12	N/A	N/A	N/A	N/A	N/A	#N/A	#N/A	#N/A	#N/A	#N/A

Source:

Average employment income: HCSO, Stadta table, Average employed net income: https://www.ksh.hu/docs/hun/xstadat/xstadat_eves/i_qli030.html

A-S

Employment income: HCSO, Stadat tables: https://www.ksh.hu/docs/hun/xstadat/xstadat_hosszu/int2012c.html?down=585 D1 Households

Self-employment income: HCSO National Accounts: <https://www.ksh.hu/docs/hun/xftp/idoszaki/monsz/monsz9514/t510.xls>

Total mixed income minus A and F

Table 4.5-Tax benefit instruments included but not simulated in EUROMOD -Number of recipients/ payers

	EUROMOD	External					Ratio				
	2012	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Benefits											
Sickness benefits	328,650	810,882	825,427	959,892	N/A	N/A	0,41	0,40	0,34	N/A	N/A
Old-age pensions	2,243,659	2,890,000	2,829,000	2,755,000	N/A	N/A	0,78	0,79	0,81	N/A	N/A
Disability benefits	454,739	694,440	669,115	666,941	N/A	N/A	0,65	0,68	0,68	N/A	N/A
Survivor benefits	97,713	196,024	180,761	167,159	N/A	N/A	0,50	0,54	0,58	N/A	N/A

Notes: The Hungarian EU-SILC sickness benefit variable contains only the sick leave recipients, the external statistics row calculate with this too.

Source: Yearbook of Welfare Statistics 2014. HCSO 2015.

Table 4.6-Tax benefit instruments included but not simulated in EUROMOD -Monthly amounts (in mld.)

	EUROMOD					External					Ratio				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Benefits															
Sickness benefits	2,752	2,945	3,072	3,173	3,318	4,461	4,832	5,539	N/A	N/A	0,62	0,61	0,55	N/A	N/A
Old-age pensions	221,703	233,312	238,833	238,550	239,541	279,142	289,108	289,858	N/A	N/A	0,79	0,81	0,82	N/A	N/A
Disability benefits	26,627	26,749	27,223	27,192	27,299	47,633	46,171	46,950	N/A	N/A	0,56	0,58	0,58	N/A	N/A
Survivor benefits	4,223	4,265	4,379	4,374	4,394	10,381	9,672	9,196	N/A	N/A	0,41	0,44	0,48	N/A	N/A

Source: Yearbook of Welfare Statistics 2014. HCSO 2015.

Table 4.7-Tax benefit instruments simulated in EUROMOD -Number of recipients/ payers

EUROMOD	External					Ratio									
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Benefits															
Maternity grant	59,264	59,264	59,264	59,264	59,264	86,196	85,512	85,732	N/A	N/A	0,69	0,69	0,69	N/A	N/A
Child care allowance	186,166	186,166	186,166	186,166	186,166	168,037	161,274	158,985	N/A	N/A	1,11	1,15	1,17	N/A	N/A
Child raising support	64,016	64,016	64,016	64,016	64,016	38,608	37,411	35,768	N/A	N/A	1,66	1,71	1,79	N/A	N/A
Family allowance	1,141,693	1,141,693	1,141,693	1,141,693	1,141,693	1,168,000	1,150,000	1,114,000	N/A	N/A	0,98	0,99	1,02	N/A	N/A
Regular child protection allowance	441,330	421,669	395,935	377,312	343,375	572,184	547,633	494,311	N/A	N/A	0,77	0,77	0,80	N/A	N/A
SA - old age	14,345	13,027	12,330	13,792	12,949	6,081	6,175	6,598	N/A	N/A	2,36	2,11	1,87	N/A	N/A
SA - regular benefit (ind)	21,902	21,902	21,902	20,925	20,925	38,031	36,824	37,598	N/A	N/A	0,58	0,59	0,58	N/A	N/A
SA_ stand-by allowance	179,453	179,120	179,120	175,812	175,812	236,609	211,760	160,858	N/A	N/A	0,76	0,85	1,11	N/A	N/A
SA stand-by allowance (individual)	182,746	182,413	182,413	179,105	179,105	236,609	211,760	160,858	N/A	N/A	0,77	0,86	1,13	N/A	N/A
SA - home maintenance support	776,378	713,679	653,333	0	0	231,428	184,786	170,214	N/A	N/A	3,35	3,86	3,84	N/A	N/A
Unemployment benefit	524,398	524,398	524,398	524,398	524,398	71,100	61,200	56,400	N/A	N/A	7,38	8,57	9,30	N/A	N/A

Source: Yearbook of Welfare Statistics 2012; 2013; 2014. HCSO 2013, 2014, 2015.

Table 4.7 (continued). Tax benefit instruments simulated in EUROMOD -Number of recipients/ payers (in thousands)

	EUROMOD					External					Ratio					
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016	2012	2012	2013	2014	2015	2016
Taxes and Social Insurance contributions																
Income tax	6,541,243	6,548,632	6,551,269	6,554,039	6,531,218	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Simplified business tax	109,469	109,469	109,469	109,469	109,469	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Employee social ins. contributions	3,976,993	3,976,993	3,976,993	3,976,993	3,976,993	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Self-employed social ins. contributions*	828,346	828,346	828,346	828,346	828,346	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Employee + employer soc. ins. contr.	3,976,993	3,976,993	3,976,993	3,976,993	3,976,993	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Notes: These amounts are not part of the official social statistics. The coverage of the external statistic is different from what we use in the Euromod model.

Table 4.8-Tax benefit instruments simulated in EUROMOD -Monthly amounts (Mld.)

	EUROMOD					External					Ratio				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Benefits															
Maternity grant	317	317	317	317	317	474	465	281	N/A	N/A	0,67	0,68	1,13	N/A	N/A
Child care allowance	5,306	5,306	5,306	5,306	5,306	5,140	4,949	2,027	N/A	N/A	1,03	1,07	2,62	N/A	N/A
Child raising support	1,824	1,824	1,824	1,824	1,824	1,105	1,067	1,034	N/A	N/A	1,65	1,71	1,76	N/A	N/A
Family allowance	26,000	26,000	26,000	26,000	26,000	28,593	27,891	27,174	N/A	N/A	0,91	0,93	0,96	N/A	N/A
Regular child protection allowance	427	408	383	365	332	551	529	478	N/A	N/A	0,77	0,77	0,80	N/A	N/A
SA - old age	182	172	164	166	164	162	170	178	N/A	N/A	1,12	1,01	0,92	N/A	N/A
SA - regular benefit	321	325	326	306	306	962	933	951	N/A	N/A	0,33	0,35	0,34	N/A	N/A
SA_stand-by allowance	4,058	4,057	4,056	3,980	3,977	5,192	4,824	3,668	N/A	N/A	0,78	0,84	1,11	N/A	N/A
SA - home maintenance support	3,585	3,324	3,031	0	0	903	770	710	N/A	N/A	3,97	4,32	4,27	N/A	N/A
Unemployment benefit	7,563	7,962	8,244	8,532	9,014	4,318	4,103	N/A	N/A	N/A	1,75	1,94	N/A	N/A	N/A

Source: National Accounts Hungary 2012-2014, HCSO 2013, 2014, 2015; Yearbook of Welfare Statistics 2012; 2013; 2014. HCSO 2013, 2014, 2015.

Table 4.8-(continued) Tax benefit instruments simulated in EUROMOD -Monthly amounts (Mld.)

	EUROMOD					External					Ratio				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
Taxes and Social Insurance contributions															
Income tax	154,040	145,297	149,947	154,617	148,990	124,866	125,383	132,421	140,717	N/A	1,23	1,16	1,13	1,11	N/A
Simplified business tax	5,816	6,051	6,384	6,598	6,929	12,211	9,168	8,069	7,451	N/A	0,48	0,66	0,79	0,89	N/A
Employee social insurance contributions	108,474	112,153	112,515	117,373	122,412	119,011	129,419	138,375	N/A	N/A	0,91	0,87	0,81	N/A	N/A
Self-employed social insurance contributions	40,587	42,062	44,911	46,414	48,580	7,464	4,621	4,216	N/A	N/A	5,44	9,10	10,65	N/A	N/A
Employer social insurance contributions	159,468	164,878	169,767	176,944	185,058	180,089	186,298	203,685	N/A	N/A	0,89	0,89	0,83	N/A	N/A

Source: National Accounts Hungary 2012-2015, HCSO 2013, 2014, 2015; Yearbook of Welfare Statistics 2012; 2013; 2014. HCSO 2013, 2014, 2015.

Table 4.9-Distribution of equivalised disposable income

	EUROMOD					External					Ratio				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
D1	3,71	3,59	3,60	3,37	3,35	3,70	3,40	3,40	3,30	#N/A	1,00	1,06	1,06	1,02	#N/A
D2	5,53	5,39	5,43	5,27	5,25	5,40	5,30	5,20	5,30	#N/A	1,02	1,02	1,04	0,99	#N/A
D2	5,53	5,39	5,43	5,27	5,25	5,40	5,30	5,20	5,30	#N/A	1,02	1,02	1,04	0,99	#N/A
D3	6,65	6,52	6,51	6,47	6,43	6,60	6,50	6,40	6,40	#N/A	1,01	1,00	1,02	1,01	#N/A
D4	7,60	7,46	7,47	7,43	7,39	7,50	7,40	7,40	7,40	#N/A	1,01	1,01	1,01	1,00	#N/A
D5	8,56	8,42	8,44	8,44	8,40	8,50	8,40	8,30	8,40	#N/A	1,01	1,00	1,02	1,00	#N/A
D6	9,50	9,39	9,39	9,41	9,37	9,40	9,30	9,30	9,40	#N/A	1,01	1,01	1,01	1,00	#N/A
D7	10,62	10,56	10,58	10,62	10,61	10,50	10,40	10,40	10,70	#N/A	1,01	1,02	1,02	0,99	#N/A
D8	12,14	12,09	12,13	12,20	12,20	12,00	12,00	11,90	12,20	#N/A	1,01	1,01	1,02	1,00	#N/A
D9	14,13	14,28	14,27	14,35	14,39	14,00	14,40	14,30	14,50	#N/A	1,01	0,99	1,00	0,99	#N/A
D10	21,56	22,29	22,18	22,45	22,62	22,40	22,80	23,20	22,40	#N/A	0,96	0,98	0,96	1,00	#N/A
Median	1,159,188	1,205,731	1,245,378	1,273,205	1,328,707	1,312,000	1,287,000	1,339,579	1,406,568	#N/A	0,88	0,94	0,93	0,91	#N/A
Mean	1,286,635	1,357,184	1,401,357	1,432,433	1,499,850	1,466,569	1,453,970	1,521,042	1,594,562	#N/A	0,88	0,93	0,92	0,90	#N/A
Gini	26,34	27,39	27,29	27,96	28,21	27,20	28,30	28,60	28,20	#N/A	0,97	0,97	0,95	0,99	#N/A
S80/S20	3,86	4,07	4,04	4,26	4,31	4,00	4,30	4,30	4,30	#N/A	0,97	0,95	0,94	0,99	#N/A

External statistic source: EUROSTAT home page - http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/data/main_tables

Table 4.10-Poverty rates by gender and age

	EUROMOD					External					Ratio				
	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016	2012	2013	2014	2015	2016
40% median HDI															
Total	3,51	3,76	3,82	4,81	4,87	3,80	4,30	4,50	4,50	#N/A	0,92	0,88	0,85	1,07	#N/A
Males	3,71	4,00	4,06	5,14	5,15	4,30	5,00	4,90	4,50	#N/A	0,86	0,80	0,83	1,14	#N/A
Females	3,33	3,55	3,59	4,51	4,61	3,40	3,80	4,20	4,50	#N/A	0,98	0,93	0,86	1,00	#N/A
50% median HDI															
Total	7,99	8,37	8,23	9,19	9,34	8,40	9,20	9,20	9,00	#N/A	0,95	0,91	0,89	1,02	#N/A
Males	8,40	8,83	8,62	9,62	9,78	8,90	10,00	9,60	9,30	#N/A	0,94	0,88	0,90	1,03	#N/A
Females	7,63	7,95	7,88	8,79	8,94	8,00	8,60	8,90	8,70	#N/A	0,95	0,92	0,89	1,01	#N/A
60% median HDI															
Total	13,98	14,62	14,47	15,45	15,34	14,30	15,00	15,00	14,90	#N/A	0,98	0,97	0,96	1,04	#N/A
Males	14,25	14,96	14,71	15,74	15,57	14,80	15,50	15,50	15,60	#N/A	0,96	0,97	0,95	1,01	#N/A
Females	13,74	14,32	14,26	15,18	15,12	14,00	14,50	14,50	14,40	#N/A	0,98	0,99	0,98	1,05	#N/A
70% median HDI															
Total	21,31	22,00	21,93	22,63	22,68	22,00	22,20	22,40	22,90	#N/A	0,97	0,99	0,98	0,99	#N/A
Males	21,39	22,17	21,98	22,48	22,45	21,90	22,60	22,80	23,30	#N/A	0,98	0,98	0,96	0,96	#N/A
Females	21,24	21,84	21,88	22,76	22,90	22,10	21,80	22,10	22,60	#N/A	0,96	1,00	0,99	1,01	#N/A
60% median HDI															
0-15 years	20,82	22,35	21,30	23,09	22,62	22,50	23,80	25,10	21,60	#N/A	0,93	0,94	0,85	1,07	#N/A
16-24 years	20,48	21,05	20,77	21,90	21,67	20,70	21,70	21,30	23,50	#N/A	0,99	0,97	0,97	0,93	#N/A
25-49 years	13,85	14,64	14,46	15,24	14,85	13,50	14,60	14,10	14,40	#N/A	1,03	1,00	1,03	1,06	#N/A
50-64 years	11,84	12,27	12,39	13,12	13,18	12,30	13,60	13,90	14,70	#N/A	0,96	0,90	0,89	0,89	#N/A
65+ years	5,55	5,36	5,88	6,69	7,32	6,30	4,60	4,50	4,60	#N/A	0,88	1,17	1,31	1,46	#N/A

External statistic source: EUROSTAT home page - http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/data/main_tables

ANNEX 3: POLICY EFFECTS IN 2014- 2015

The analysis for policy changes between 2014 and 2015 is shown in Table 1 and Figure 1. Disposable income declined by 0.42% between 2014 and 2015. The drop in disposable income was much more pronounced for the bottom 3 deciles, with the poorest decile's disposable income dropping by over 6%, while for the second and third poorest disposable income decreased by 2.33% and 1.02% respectively. For the richest half of the income distribution, on the contrary, disposable income did not change significantly, but rather marginally increased.

This change was apparently mostly driven by a decline in means-tested benefits, in particular by the abolition in 2015 of the home maintenance support which was part of means-tested social assistance benefits. Consistently, the drop in the contribution of means-tested benefits to disposable income, was much higher in the three poorest deciles. Public pensions and self-employed social insurance contributions also added negatively, although marginally, to disposable income growth. In the case of self-employed SIC, the effect was slightly higher in the poorest decile. Employee's social insurance contributions, on the contrary, had no effect on disposable income growth. The negative growth of income from pensions can be most likely explained by lower growth in pensions' uprating factors compared to HICP and other monetary income components.

Finally, non-means tested benefits contributed positively to the growth of disposable income, although the overall size of the effect is quite small (0.12%). This can be explained by growth in uprating factors, on the one hand, and by the increase by 3.4% in the National Minimum Wage, to which other non means-tested benefits are anchored (such as unemployment benefits and job seekers allowance). The positive contribution of non-means tested benefits was higher for the poorest decile, and to a minor extent, for the second poorest decile.

POLICY EFFECTS IN 2015-2016

The analysis for policy changes between 2015 and 2016 is shown in Table 2 and Figure 2. The changes in the tax-benefits system made all deciles groups better off, yielding an average overall increase of 1.58 per cent in equivalised disposable income. The increase in disposable income for the two poorest deciles was slightly higher than for the others (1.94% for the poorest decile, and 1.8% for the second poorest), but all the remaining deciles experienced a very homogeneous increase in disposable income.

Overall the largest contribution to the increase in disposable income came from reduced direct income taxes, following a reduction in the flat marginal income tax rate from 16% to 15%. This change benefitted proportionally more the richest deciles. Further, an increase in non-means tested family allowances (in particular, in the amount of the allowance paid per child for families with children) can probably explain an important part of the contribution of non means-tested benefits to disposable income growth (0.15% overall). Such contribution was larger in the poorest three deciles. Further, the increase in uprating factors for unemployment benefits also likely played a role in the contribution of non-means tested benefits to total disposable income growth. Also, reduced employee's social insurance contributions impacted marginally on the growth of disposable income in the bottom two deciles, while their total impact on the overall income distribution was quite small.

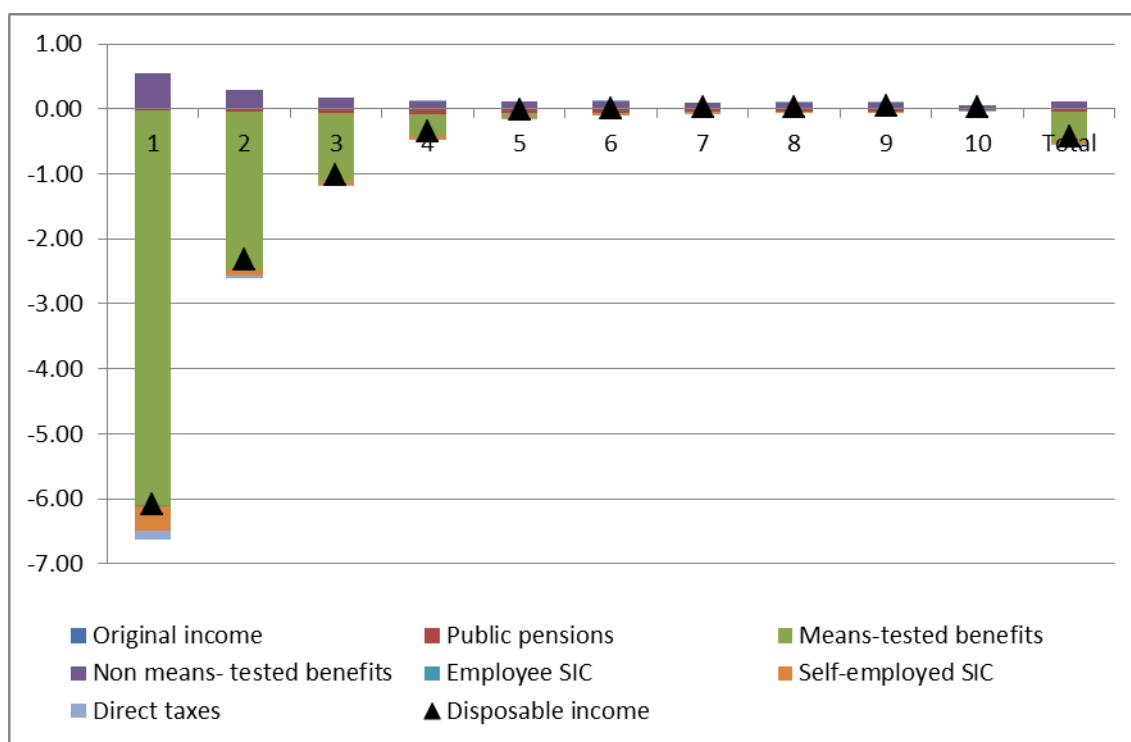
Finally, we cannot find any particularly significant effect of public pensions, means-tested benefits and self-employed social insurance contributions on disposable income, except for a small negative contribution of the latter for the three poorest deciles. In the case of both pensions and means-tested benefits (social assistance benefits, regular child protection benefits and education benefits), this can be explained by a negligible growth in uprating factors.

Table 1 Policy Effects 2014-15, using CPI indexation, %

Decile	Original income	Public pensions	Means-tested benefits	Non means-tested benefits	Employee SIC	Self-employed SIC	Direct taxes	Disposable income
1	0.00	-0.03	-6.07	0.54	0.00	-0.37	-0.14	-6.08
2	0.00	-0.05	-2.42	0.28	0.00	-0.10	-0.04	-2.33
3	0.00	-0.06	-1.05	0.17	0.00	-0.07	-0.01	-1.02
4	0.00	-0.07	-0.34	0.11	0.00	-0.05	0.00	-0.35
5	0.00	-0.06	-0.04	0.12	0.00	-0.03	0.00	-0.02
6	0.00	-0.07	-0.01	0.11	0.00	-0.02	0.01	0.01
7	0.00	-0.05	0.00	0.09	0.00	-0.02	0.00	0.02
8	0.00	-0.04	-0.01	0.09	0.00	-0.01	0.00	0.03
9	0.00	-0.03	0.00	0.09	0.00	-0.01	0.00	0.05
10	0.00	-0.01	0.00	0.05	0.00	0.00	0.00	0.03
Total	0.00	-0.04	-0.45	0.12	0.00	-0.04	-0.01	-0.42

Notes: shown as a percentage change in mean equalized household disposable income by income component and income decile group. Income decile groups are based on equalized household disposable income in 2014, using the modified OECD equivalence scale. Each policy system has been applied to the same input data, deflating monetary parameters of 2015 policies by Eurostat's Harmonized Index of Consumer Prices (HICP).

Figure 1: Policy Effects 2014-15, using CPI indexation, % CPI [1.00062120375483]



Policy Effects 2015-16, using CPI indexation, %

Decile	Original income	Public pensions	Means-tested benefits	Non means-tested benefits	Employee SIC	Self-employed SIC	Direct taxes	Disposable income
1	0.00	0.01	-0.01	0.79	0.54	-0.46	1.07	1.94
2	0.00	0.02	-0.03	0.39	0.30	-0.12	1.24	1.80
3	0.00	0.03	-0.01	0.22	0.09	-0.11	1.32	1.55
4	0.00	0.03	-0.01	0.14	0.07	-0.07	1.33	1.50
5	0.00	0.03	-0.01	0.16	0.04	-0.04	1.34	1.53
6	0.00	0.03	-0.01	0.14	0.04	-0.04	1.39	1.55
7	0.00	0.03	0.00	0.11	0.01	-0.03	1.37	1.48
8	0.00	0.03	0.00	0.11	0.04	-0.02	1.40	1.56
9	0.00	0.03	0.00	0.11	0.08	-0.01	1.42	1.62
10	0.00	0.02	0.00	0.06	0.03	-0.01	1.48	1.58
Total	0.00	0.03	-0.01	0.15	0.07	-0.05	1.38	1.58

Notes: shown as a percentage change in mean equalized household disposable income by income component and income decile group. Income decile groups are based on equalized household disposable income in 2015, using the modified OECD equivalence scale. Each policy system has been applied to the same input data, deflating monetary parameters of 2016 policies by Eurostat's Harmonized Index of Consumer Prices (HICP).

Figure 2: Policy Effects 2015-16, using CPI indexation, % CPI [1.00062120375483]

