

Hungary

Hungary		2004			
		The tax/benefit position of single persons			
Wage level (per cent of APW)		67	100	167	67
Number of children		none	none	none	2
1. Gross wage earnings		840632	1260948	2101580	840632
2. Standard tax allowances					
Basic allowance					
Married or head of family					
Dependent children					
Deduction for social security contributions and income taxes		0	0	0	0
Work-related expenses		0	0	0	0
Other					
	Total	0	0	0	0
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		840632	1260948	2101580	840632
5. Central government income tax liability (exclusive of tax credits)		154564	263846	554600	154564
6. Tax credits					
Basic credit		108000	108000	0	108000
Married or head of family					
Children		0	0	0	46564
Other					
	Total	108000	108000	0	154564
7. Central government income tax finally paid (5-6)		46564	155846	554600	0
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
Gross earnings		113485	170228	283713	113485
Taxable income					
	Total	113485	170228	283713	113485
10. Total payments to general government (7 + 8 + 9)		160050	326074	838314	113485
11. Cash transfers from general government					
For head of family					
For two children		0	0	0	179400
	Total	0	0	0	179400
12. Take-home pay (1-10+11)		680582	934874	1263266	906547
13. Employer's wage dependent contributions and taxes					
Employer's compulsory social security contributions		269002	403503	672506	269002
Payroll taxes		54009	60314	72924	54009
	Total	323012	463818	745429	323012
14. Average rates					
Income tax		5.5%	12.4%	26.4%	0.0%
Employees' social security contributions		13.5%	13.5%	13.5%	13.5%
Total payments less cash transfers		19.0%	25.9%	39.9%	-7.8%
Total tax wedge including employer's social security contributions		41.5%	45.8%	55.6%	22.1%
15. Marginal rates					
Total payments less cash transfers: Principal earner		39.5%	39.5%	51.5%	13.5%
Total payments less cash transfers: Spouse		n.a.	n.a.	n.a.	n.a.
Total tax wedge: Principal earner		54.7%	54.7%	63.7%	35.2%
Total tax wedge: Spouse		n.a.	n.a.	n.a.	n.a.

Hungary	2004				
	The tax/benefit position of married couples				
	Wage level (per cent of APW)	100-0	100-33	100-67	100-33
	Number of children	2	2	2	none
1. Gross wage earnings		1260948	1681264	2101580	1681264
2. Standard tax allowances					
Basic allowance					
Married or head of family					
Dependent children					
Deduction for social security contributions and income taxes		0	0	0	0
Work-related expenses		0	0	0	0
Other					
	Total	0	0	0	0
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		1260948	1681264	2101580	1681264
5. Central government income tax liability (exclusive of tax credits)		263846	339503	418411	339503
6. Tax credits					
Basic credit		108000	183657	216000	183657
Married or head of family					
Children		96000	96000	96000	0
Other					
	Total	204000	279657	312000	183657
7. Central government income tax finally paid (5-6)		59846	59846	106411	155846
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
Gross earnings		170228	226971	283713	226971
Taxable income					
	Total	170228	226971	283713	226971
10. Total payments to general government (7 + 8 + 9)		230074	286817	390124	382817
11. Cash transfers from general government					
For head of family					
For two children		153400	153400	153400	0
	Total	153400	153400	153400	0
12. Take-home pay (1-10+11)		1184274	1547847	1864856	1298447
13. Employer's wage dependent contributions and taxes					
Employer's compulsory social security contributions		403503	538004	672506	538004
Payroll taxes		60314	108019	114324	108019
	Total	463818	646023	786829	646023
14. Average rates					
Income tax		4.7%	3.6%	5.1%	9.3%
Employees' social security contributions		13.5%	13.5%	13.5%	13.5%
Total payments less cash transfers		6.1%	7.9%	11.3%	22.8%
Total tax wedge including employer's social security contributions		31.3%	33.5%	35.4%	44.2%
15. Marginal rates					
Total payments less cash transfers: Principal earner		39.5%	39.5%	39.5%	39.5%
Total payments less cash transfers: Spouse		13.5%	13.5%	39.5%	13.5%
Total tax wedge: Principal earner		54.7%	54.7%	54.7%	54.7%
Total tax wedge: Spouse		39.7%	35.2%	54.7%	35.2%

The national currency is the forint (HUF). In 2004, HUF 204.34 was equal to USD 1 (average of eleven months daily exchange rates). In that year, the Average Production Worker earned HUF 1 260 948 (Secretariat estimate).

1. Personal income tax systems

1.1. Central/federal government income taxes

1.11. Tax unit

The tax unit is, in all cases, the separate individual. In exceptional cases, the employer can become subject to personal income tax, for instance in the case of benefits in kind.

1.12. Tax allowances and tax credits

1.121. Standard reliefs

- Basic reliefs: None.
- Standard marital status reliefs: None.
- Relief(s) for children: None.

1.122. Main non-standard tax reliefs

- Trade Union membership dues: Membership dues and contributions paid to trade unions and other corporate bodies of employees are deductible without any restriction.

1.123. Tax credits

- Employee Tax credit: This must be calculated as 18 per cent of wage income earned, with the monthly maximum of HUF 9 000. This tax credit is applicable to workers whose annual income does not exceed HUF 1 350 000. In the case of employees having annual income between HUF 1 350 000 and HUF 1 950 000, a reduced amount of tax credit is applicable.
- Extended Employee Tax credit: This tax credit is applicable to workers whose annual income is between HUF 600 000 and HUF 756 000. This must be calculated as 18 per cent of annual wage income earned that is in excess of HUF 600 000, with the monthly maximum of HUF 540. In the case of employees having annual income between HUF 720 000 and HUF 756 000, a reduced amount of tax credit is applicable.
- Tax credit for housing loans: 40 per cent (in the case of new buildings) or 30 per cent (in the case of used buildings) of the amount paid on housing loans during the tax year, not to exceed HUF 120 000 per year, can be deducted from the tax payable. The tax credit could not be applied if: i) taxpayer's annual income is higher than HUF 4 million; and/or ii) the amount of the loan is higher than HUF 15 million (in the case of new buildings) or HUF 10 million (in the case of used buildings). This tax credit is applicable for only 5 years.
- Tax credits for children: For families, the tax can be reduced by the child tax credit, which is for one dependent HUF 3 000 per month; for two dependents HUF 4 000 per month/each dependent; for three or more dependents HUF 10 000 per month/each dependent. This tax

deduction can be applied by a pregnant woman (or her husband) on the basis of the foetus(s), from the 91st day after conception until birth. The tax credits may be claimed by one or split between the spouses.

- *Others:* Further tax credits are made available for certain insurance schemes, education-related expenses, bodily disability, intellectual and agricultural activities, grants made for public purposes and allotted to foundations. Tax deduction is available for landowners and those having income from abroad.

1.13. Tax schedule

Taxable income (HUF)		Tax on lower limit (HUF)	Tax rate on income in bracket (%)
Lower limit	Upper limit		
0	800 000	0	18
800 001	1 500 000	144 000	26
1 500 001 and above		326 000	38

1.2. State and local income taxes

In Hungary there is no local personal income tax system supplementing the central one. More precisely, the total income tax collected is split between the central government and local governments. At the same time, the local governments can levy taxes on sites and buildings, tourist facilities and activities, employment and business activities.

2. Compulsory social security contributions to schemes operated within the government sector

2.1. Employees' contributions

2.11. Pensions

A new pension system became effective on January 1, 1998. The pension system has now three pillars and consists of a public scheme, private pension funds and voluntary mutual insurance funds/insurance companies. Participation in the public scheme is obligatory for all employees. At the same time, employees who first join(ed) the social security system between 30 June 1998 and 1 January 2002 or after 31 December 2002 and had not reached the age of 42 at that time, were/are obliged to enter a private pension fund (2nd pillar). Different rules exist for employees who first joined the social security scheme before 30 June 1998 or in 2002 and employees under the age of 30 on 1 January 2003: until 31 December 2003 they could voluntarily enter a private pension fund. Employees remaining in the public scheme continue to pay 8.5 per cent contributions to the state pension fund (the public scheme). For the purpose of this Report, a pension contribution (payable to the state pension fund) of 8.5 per cent has been taken into account. The maximum annual amount of this contribution is HUF 451 095.

2.12. Sickness

The rate of health security contribution amounts to 4 per cent of gross earnings.

2.13. Unemployment

The worker must pay, as employees' contribution, 1 per cent of gross earnings.

2.14. Others

None. The APW does not have any obligation to pay other contributions than the above mentioned. However, the contribution rates may be different for certain types of income or for certain groups of income recipients. In certain cases, an accident insurance contribution must also be paid, for example, in the case of employees who have pensioner status. None of these exceptions are applicable to the workers taken into consideration within this Report.

2.2. Employers' contributions

2.21. Pensions

The rate of pension security contribution amounts to 18 per cent of gross earnings.

2.22. Sickness

The rate of health security contribution amounts to 11 per cent of gross earnings.

2.23. Unemployment

The employer has to pay 3 per cent of gross earnings (employer's contribution).

2.24. Others

None. Social security contributions must be also paid on other benefits than gross earnings (*e.g.*, grants in kind) and payments (*e.g.*, certain kind of contracts) as well.

The employer contributions also reflect payroll taxes that consist of the per employee lump sum health contribution as well as a percentage rate training contribution. In 2004, the lump sum health contribution amounted to 3 450 HUF per month and the training contribution amounted to 1.5 per cent of salaries paid.

3. Universal cash transfers

3.1. Transfers related to marital status

None.

3.2. Transfers for dependent children

Effective from 1 January 2004:

Type of family	HUF per month
For a couple with one child	4 900
For a single earner with one child	5 700
For a couple with two children, per child	5 900
For a single earner with two children, per child	6 900
For a couple with 3 or more children, per child	7 500
For a single earner with 3 or more children, per child	8 000
For a couple with permanently sick and disabled child	13 300
For a single earner with permanently sick and disabled child	15 000

In July families receive an extra one-month benefit. It must be emphasized that measures only for a single parent and a couple with two children have been built in the relevant equations.

4. Main changes in the tax/benefit system since 2003

Tax brackets in the progressive tax rate structure have been increased. In 2004 an extended employee tax credit was introduced. The 25 per cent tax credit on the employees' social security contribution has been abolished since 2004.

Health security contribution payable by employees was increased.

The amount of child benefit was increased.

Since 2002 payroll taxes (the employer lump sum health contribution and the training contribution) have been included in the tax/benefit calculation.

5. Memorandum items

5.1. Method used to identify an average production worker and to calculate his gross earnings

5.2. Employer contributions to private social security arrangements

Since 1998 (when the pension reform was introduced), private individuals have had the opportunity to enter private pension funds (the second pillar of the social security system). According to the relevant legislation in force, payments made by employers (on behalf of their employees or to supplement the payments of employees) to private pension funds are exempted from both personal income tax and all social security contributions.

In Hungary the law dealing with the voluntary mutual insurance funds (like pension funds) was enacted on 6 December 1993. Based on the rules of 2004, the monthly contribution paid to a voluntary mutual insurance fund by the employer of a private worker who participates in a voluntary mutual insurance fund, limited to an amount that is below the mandatory minimum wage, is exempt from the personal income tax and all social security contributions. Contributions exceeding the limit mentioned here are taxable according to the progressive tax rate structure and social security contributions of 41.5 per cent (= employers' social security contributions of 29 per cent + employees' social security contributions of 12.5 per cent) are also payable. In the case of employers' contributions simultaneously paid to pension, health or mutual aid funds, the applicable limit is 130 per cent of the mandatory minimum wage. Sponsor's donations paid by employer to its employees' voluntary mutual insurance fund are taxable according to the progressive tax rate schedule, and employees can apply a 30 per cent tax deduction (with a limit of HUF 100 000 or 130 000 per year, in the case of payments simultaneously made to pension, health or mutual aid funds the limit is HUF 120 000 or 150 000 per year) on these payments.

2004 Parameter values

In general, insurance premiums (on the basis of which an employee is named as the recipient/beneficiary of insurance services) paid by the employer are taxable, and social security contributions of 41.5 per cent (= employers' social security contributions of 29 per cent + employees' social security contributions of 12.5 per cent) are also payable. At the same time insurance premiums related to life insurance policy for accidental death, injury liability, or medical care insurance for full and permanent incapacity to work are exempted from taxation.

	Ave_earn	1 260 948	Secretariat estimate		
Child allowance (per child)	child_al	0			
Social security allowance	SSC_al	0			
Income tax schedule	tax_sch	0.18	800 000		
		0.26	1 500 000		
		0.38			
Social security contributions	SSC_unemp	0.01			
	SSC_p	0.085			
	SSC_lim	5 307 000			
	SSC_h	0.04			
Tax credits	tax_cr_pe	0.18			
	tax_cr_ce	9 000			
	tax_cr_li1	1 350 000			
	tax_cr_li2	1 950 000			
	tax_cr_ra	0.18			
	EXtax_cr_pe	0.18			
	EXtax_cr_ce	540			
	EXtax_cr_li1	600 000			
	EXtax_cr_li2	720 000			
	EXtax_cr_li3	756 000			
	EXtax_cr_ra	0.18			
	CL_rates	1	36 000		
		2	48 000		
		3	120 000		
Employers	SSC_empr	0.32			
Payroll taxes	payroll_rate1	3 450			
	payroll_rate2	0.015			
		# of children	1	2	3+
Transfers for children	CB_rates	0	4 900	5 900	7 500
(monthly)		1	5 700	6 900	8 000

2004 Tax equations

The equations for the Hungarian system in 2004 are mostly on an individual basis. But the child allowance is relevant only to the calculation for the principal earner and cash transfers are calculated only once. This is shown by the Range indicator in the table below.

The functions which are used in the equations (Taper, MIN, Tax etc) are described in the technical note about tax equations. Variable names are defined in the table of parameters above, within the equations table, or are the standard variables “married” and “children”. A reference to a variable with the affix “_total” indicates the sum of the relevant variable values for the principal and spouse. And the affixes “_princ” and “_spouse” indicate the value for the principal and spouse, respectively. Equations for a single person are as shown for the principal, with “_spouse” values taken as 0.

Line in country table and intermediate steps	Variable name	Range	Equation
1. Earnings	Earn		
2. Allowances:			
Children	child_allce	P	Children*child_al
Total	tax_al	B	child_allce+SSC_unemp*earn*SSC_al
3. Credits in taxable income	taxbl_cr	B	0
4. CG taxable income	tax_inc	B	Positive(earn-tax_al)
5. CG tax before credits	CG_tax_excl	B	Tax(tax_inc, tax_sch)
6. Tax credits	tax_cr	B	MIN(CG_tax_excl, IF(earn>tax_cr_li2, 0, IF(earn<tax_cr_li1, MIN(earn/12*tax_cr_pe, tax_cr_ce)*12, tax_cr_ce*12-(earn-tax_cr_li1)*tax_cr_ra))+IF(earn<=EXTax_cr_li1, 0, IF(earn<=EXTax_cr_li2, MIN(EXTax_cr_ce*12, (earn-EXTax_cr_li1)*EXTax_cr_pe), IF(earn<=EXTax_cr_li3, EXTax_cr_ce*12-(earn-EXTax_cr_li2)*EXTax_cr_ra))+IF(Children=0, 0, Children*VLOOKUP(Children, CL_rates, 2)))
7. CG tax	CG_tax	B	CG_tax_excl-tax_cr
8. State and local taxes	local_tax	B	0
9. Employees' soc security	SSC	B	earn*SSC_unemp+earn*SSC_h+MIN(earn, SSC_lim)*SSC_p
11. Cash transfers	cash_trans	J	Children*(VLOOKUP((1-Married), CB_rates, MIN(Children, 3))+1)*13)
13. Employer's soc security	SSC_empr	B	earn*SSC_empr
Employer's payroll taxes	Payroll	B	IF(earn>0, payroll_rate1*12, 0)+earn*payroll_rate2

Key to range of equation:

B calculated separately for both principal earner and spouse.

P calculated for principal only (value taken as 0 for spouse calculation).

J calculated once only.

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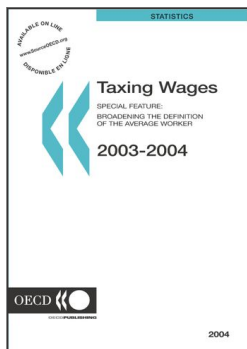
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