

## CHANGES IN THE TAX BASE AND TAX BENEFITS OF PERSONAL INCOME TAX IN HUNGARY OVER THE PAST THREE DECADES

### A személyi jövedelemadó adóalap- és adókedvezményeinek változása az elmúlt három évtizedben Magyarországon

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Personal income taxation was introduced in Hungary from 1988. In this study, I review the most important changes in tax allowances and tax base deductions from the beginning to the present day. Act CXVII of 1995, which is still in force but has of course been amended several times, will be thirty years old next year, which is a sufficiently long time for an overview work. The aim of the study is to assist the foreign PhD students interested in this area of financial law with the most important rules and to provide a basis for their own research. The scope limitations do not allow for a very detailed analysis, but I have tried to include the most important provisions.

**Keywords:** *personal income tax, tax deduction, tax base allowance, income*

A személyi jövedelemadózás 1988-tól került bevezetésre Magyarországon. Jelen tanulmányomban az adókedvezmények és adóalap-kedvezményeknek a legfontosabb változásait tekintem át a kezdetektől egészen a napjainkig. A jelenleg is hatályos, de persze többszöri módosításon átesett 1995. évi CXVII. törvény jövőre már harmincéves lesz, amely kellően hosszú idő egy áttekintő munka készítésére. A tanulmány célja, hogy segítséget nyújtson a pénzügyi jog e területe iránt érdeklődő külföldi PhD-hallgatóknak a legfontosabb szabályok áttekintésében és a saját kutatásaikhoz is alapul szolgálhasson. A terjedelmi korlátok nem teszik lehetővé a legaprólékosabb elemzést, azonban igyekeztem a legfontosabb rendelkezéseket vizsgálatom tárgyává tenni.

**Kulcsszavak:** *személyi jövedelemadó, adókedvezmény, adóalap-kedvezmény, jövedelem*

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## Introduction

The tax system of the socialist era was exhausted by the early 1980s. The most significant problems were:

- The revenues necessary for the operation of the state budget did not come in, the country's operation had to seek resources on the international credit market, but indebtedness became more and more high.
- The tax system had become dysfunctional. It punished investments and developments. Although employment was supported, so-called gate-based unemployment developed, many were employed not because their work was needed, but because of the low wages paid to them, those whose work was needed were better paid.
- Actually, we could not talk about a tax system either, since the various types of withdrawals did not come together into a unified system, it was common to impose payment obligations corresponding to the resources needed at the moment. Since the companies were state-owned, they could even impose a payment obligation on a specific company.  
In accordance with socialist principles, broad strata – those working in the socialist sector – hardly encountered the sharing of public burdens, while others, such as self-employed persons, were overtaxed by the system.
- Local governments had hardly any revenues of their own under the council system, their autonomy was extremely limited.

### 1. The 1987 tax reform

One of the most important changes in the tax reform that started in 1987 was the introduction of income taxation for individuals. As a general principle, it was stated that all income is taxable, income earned during the tax year must be consolidated and a progressive tax scale must be applied. The tax liability must be fulfilled by self-taxation, i.e. the individual determines his income and tax, declares them and pays the tax. There were many exceptions to the general rule and discounts could be applied.

Mihály Kupa, who headed the Department of Retail Taxes at the Ministry of Finance between 1987 and 1988, outlined the goal of tax reform in June 1987 as follows: *"The aim of the reform is to further develop economic governance as a whole through tax and the establishment of price relations, which, as a tool of economic policy serving the development of the economy, provide a more favourable environment for independent, risk-taking business management than today, increase profit and cost sensitivity, approach a more realistic value system reflecting efficiency and real profitability in the processes of production, consumption, investment, export and import, and last but not least, make price and financial relations simpler and more transparent citizens, farmers and farm managers."*<sup>2</sup>

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<sup>2</sup> JUHÁSZ István: *Az adóreform és az azóta eltelt időszak – az alapok* (1. rész). <https://ado.hu/ado/az-adoreform-es-az-azota-eltelt-idoszak-az-alapok-1-resz/>, 10 April 2024.

The income tax of individuals was first regulated by Act VI of 1987 (hereinafter referred to as the Act).

To meet the community needs of society, citizens must share in public burdens in proportion to their income.

Article 1 of the Act states that individuals are subject to tax on their all income. Personal income tax is a comprehensive instrument for regulating household income, covering all income and individuals receiving income, with narrow exceptions.

The aim of its application is to regulate income uniformly by applying the principle of proportionate sharing of public burdens more consistently.

It makes it possible to evaluate labour as a factor of production more realistically, the same for the economy.

The uniform taxation of personal income removes the interest in sharing output in the sense that it becomes neutral for tax purposes whether a given mass of income comes from one or more sources of income. Taxation is completely uniform, which is also shown by the fact that the same amount of income is subject to the same amount of tax, uniformity is the rule.

The Act defines a basic financial obligation affecting a wide range of the population, which could only be established by law at the highest level. To make tax legislation simpler and clearer, it was necessary that each issue should be regulated at no more than two levels. Accordingly, an implementing decree of the Council of Ministers is attached to the law.

The Act succinctly defines in principle the subject, basis and object of the tax.

Subject of personal income tax relationship: the individual.

For the purposes of the Act, private persons are understood to mean only natural persons, human beings. Legal entity expresses an abstract ability to be the subject of a legal relationship as a person. Every person has legal capacity, can have rights and obligations. Legal capacity shall be equal irrespective of age, sex, race, nationality or creed. In order for an individual to be subject to personal income tax, only income generation is required.

The scope of a person's income tax status is unlimited, he can earn any amount of income. Every individual who earns income becomes a taxable person, regardless of age and whether or not he has discretion to conduct his affairs.

As a rule, tax is payable on all income.<sup>3</sup>

Preparation of personal income taxation, grossing:

Personal income taxation was introduced on 1 January 1988, preceded by several measures.

These measures were:

- We had to decide on the tax table and the degree of progression.
- The National Assembly had to adopt the tax laws and promulgate them together with the related legislation.

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<sup>3</sup> ARADI Zsolt – F. TÓTH Tibor: *Amit a személyi jövedelemadóról tudni kell.* MTA, 1988, 15–17.

- The system of benefits and exemptions, the scope of separately taxable income, had to be defined.
- Vigorous information activities had to be carried out to get the new tax system accepted.
- Wages and salaries had to be grossed up.

Gross-up was a key issue, as wages and salaries (such as monthly wages, time wages, performance wages) had to be increased by 1 January 1988 in such a way as to fully cover the tax advance to be deducted and, as a result, workers' net wages were equal to those of December 1987.<sup>4</sup>

## 2. Regulation of tax benefits in the late 80s, early 90s

### 2.1. In Act VI of 1987

Among the tax benefits, the law stated that no tax was to be paid, among other things, on pensions, old-age and incapacity annuities for cooperative members, widows' annuities of widows of agricultural cooperative members, and on the amount of membership allowances, regardless of the amount. These benefits were earned through work and contributions. Their size was determined without covering the tax.

Other income earned in addition to pensions was also exempt from tax if the sum of pension and other income did not exceed HUF 96,000 per year. Considering that pensioners in employment in addition to their pension also had the right to reduce their total income by HUF 12,000 per year when calculating the tax base, this meant that no pension of approximately HUF 9,100 per month had to be paid under any circumstances.

In the event that the pension and the income earned next to it exceeded HUF 96,000 per year – after deducting HUF 12,000 per year in the case of income from employment – the tax had to be paid on income above the tax-free band. The rate of tax payable had to be determined by taking into account the aforementioned income together with other income forming part of the taxable amount.

However, the tax on their aggregate amount had to be reduced by the amount which would otherwise have been taxed to an individual whose income was equal to the amount of the income receiving under this paragraph.<sup>5</sup>

Section 20 of the Act regulated tax benefits in the traditional sense. In the case of certain preferred uses of income, it became possible for individuals to deduct from tax 20% and 30% respectively of the amount spent on subsidized purposes. This meant that the Proposal exempts income from tax as if this income had otherwise been taxed in the range of HUF 48,000–70,000 and HUF 90,000–120,000.

<sup>4</sup> JUHÁSZ István: *Az adóreform és az azóta eltelt időszak – az alapok* (1. rész). <https://ado.hu/ado/az-adoreform-es-az-azota-eltelt-idoszak-szemelyi-jovedelemado-1/>, 10 April 2024.

<sup>5</sup> Act VI of 1987 on the Income Tax of Private Individuals, § 19.

The expenditure supported in this way was:

- Savings placed for the construction, extension, purchase, or purchase of dwelling land. This discount was intended to serve housing policy purposes. The maximum amount of beneficiary is set by law. Therefore, those who used this amount for housing purposes received additional support from the budget in the form of tax relief, in addition to the interest naturally due.
- A discount was also granted to those who took out a preferential housing loan, with an interest rate exceeding 3%.
- Income from infrastructure development was also considered to be a particularly beneficial use. Thus, the tax relief was granted on the road and public utility development contribution, the interest contribution of the public utility development association and the water management association, as well as the telecommunications investment contribution.
- The discount also extended to the fact that the individual spends on pension insurance or life insurance for at least 10 years or more – an amount specified in an implementing decree.

A person with at least 67% reduced working capacity and not receiving an invalidity pension was considered to be a pensioner.

The entire income of the individual was thus classified as income earned in addition to a pension. However, given that the “amount of your pension” is HUF 0, the tax rate band “0” will double to HUF 96,000 for the individuals concerned.

Among tax benefits, savings of HUF 36,000 for housing were of the greatest importance. This both strongly encouraged savings and provided significant assistance in obtaining housing. As this benefit resulted in a large tax loss, if the savings were not used for housing, the tax relief claimed had to be repaid plus 40%. However, the individual had the opportunity to use the savings not only to solve his own housing problem, but also that of his closest relatives.<sup>6</sup>

## 2.2. In Act XLV of 1989

One group of benefits that could be granted in the tax system were amounts that reduced total income. It is necessary to highlight at least two of their peculiarities. First, that that method exempted the individual from paying the full tax on the amount deducted and, secondly, that relief was technically easy to apply. The amount of the discount granted was adjusted to the size of the total income, which meant that those on lower incomes did not receive the discount at all.

The total income could be deducted from the amount spent on the purpose of the foundation and on public interest commitments. It is fair that the state should not collect tax on the amount voluntarily offered to solve social problems. From the income of the severely disabled person, HUF 1,000 per month was deductible. This discount was similar in method and amount to the discount for employees. It is intended to cover additional costs related to disability which are not otherwise recognised. Furthermore,

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<sup>6</sup> Act VI of 1987, § 20.

the settlement development contribution paid in a given year could be deducted, since double taxation of the income of an individual is by no means desirable, especially since the settlement development contribution is voted on by the parties concerned, and thus its content is similar to a public interest commitment.

The opportunity to reduce the total income of one thousand forints per child per month continued to serve families with three or more children, singles with two or more children, and those raising disabled children. However, it should be pointed out that some of those affected were unable to use this amount due to lack of sufficient income, and the unpaid tax on the amount deducted meant different benefits for different families depending on the size of the total income.<sup>7</sup>

A new legal institution was the amount deductible from total income as investments in the personal income tax system. This allowed the individual to permanently invest capital, i.e. shares, shares, shares, units, ltd. shares, cooperative business shares or assets, and possibly other securities defined as such by other legislation, he could reduce his tax base by this amount. The idea is that this rule could have made a significant contribution to stimulating private investment and thus to the expansion of the business. It may also have helped the emergence of the securities market by increasing the demand for securities. Its application meant that the tax on the invested amount did not have to be paid, it was a "contribution" of the budget to the enterprise. For this reason, this option could not be used for traditional investments (savings) of a credit nature.

It was also necessary to incorporate safeguards for the purpose of the discount. Only securities that were still held by the individual on the last day of the year of acquisition were deductible from the tax base. Similarly, the individual could reduce his tax base in this way up to a maximum of 30 percent of his total income.

The aim was to enable individuals to benefit from this rule as a result of saving from their current income or part of it. The regulation also allowed a self-employed person to deduct from his total income the investment costs of fixed assets for the purposes of his own business, if he did not apply accelerated depreciation.

If the individual has deducted the property, security or fixed capital from his total income and disposed of it (or has left his possession in any way) within 2 years after the last day of the year of acquisition, he must pay the tax as if he had not availed himself of this benefit. Thus, you had to correct your tax return for the original year by self-checking and also pay the self-audit supplement. The essence of this rule was that individuals should only avail themselves of this discount for an amount that they actually intended to invest over a longer period.

If the individual disposed of the security after two years (withdrew the deducted amount from the enterprise), he must add the amount originally deducted to his total income for the year. It had to do so even if the company or cooperative ceased to exist without a legal successor.<sup>8</sup>

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<sup>7</sup> Act XLV of 1989 on the Income Tax of Private Individuals, § 34.

<sup>8</sup> Act XLV of 1989, § 35.

Items reducing total income had to be deducted from the total income of the individual in the year in which entitlement to this was opened or the amount was separated from the assets of the individual (i.e. the foundation or public interest commitment was made). The amount spent on the Foundation and the public interest commitment, if it exceeded the total annual income of the individual, was to be deducted from the total income of subsequent years until the total amount was taken into account. For other benefits, amounts not taken into account could not be carried over to the following year.<sup>9</sup>

Another incentive preference of the personal income tax system is the so-called tax allowance. This means that some amount is deductible from the tax that would otherwise be due.

An important group of tax benefits is when the tax on a particular income, calculated on a given income, can be deducted from the tax on total income. This type of relief has the same effect as remitting tax in the lower parts of total income, which is why this method is also called a “bottom-up benefit”. Such benefits included pensions, old-age and incapacity allowances for agricultural cooperative members, widow’s annuities for widows of agricultural cooperative members, increased old-age incapacity allowance for trade union members and membership allowances. These amounts, with the exception of the membership allowance, were usually greater than HUF 55,000, so this meant a real discount. The discount was even more significant if we take into account that if the individual’s pension did not exceed HUF 108,000 in the given year, then his/her other earnings were also free up to the HUF 108,000 limit. This rule did not apply to those whose pensions were exempt from tax; (e. g. foreign pension). A person with at least 67 percent reduced working capacity who did not receive an invalidity pension had to be treated similarly to a pensioner.

Method of determining the tax payable: the tax calculated on the consolidated tax base had to be deducted from the tax on the beneficiary amount separately assessed on the basis of a tax scale.<sup>10</sup>

The individual could deduct from the tax 20 percent of the separately managed savings of up to HUF 60,000 per year deposited at a financial institution for the purchase, construction and expansion of residential plots and apartments, thus the amount deductible from tax increased to HUF 12,000 compared to the previous HUF 7,200.

In the case of pension insurance and life insurance with a duration of 10 years or more, 20 percent of the insurance premiums paid in the calendar year, but not more than HUF 7,200 per year, were deductible from tax. This meant that private individuals’ insurance expenses were considered to be eligible for support through the tax up to HUF 36,000 per year.

If the individual did not use the savings for housing purposes for himself, his child or another beneficiary – for the purpose of buying, building, expanding or

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<sup>9</sup> Act XLV of 1989, § 36.

<sup>10</sup> Act XLV of 1989, § 38.

buying a residential plot – the amount of the tax relief used increased by 60 percent had to be repaid. This regulation was intended to compensate for the payment of lost interest. Similarly, he had to repay the amount of the discount used increased by 60 percent even if the individual terminated the insurance relationship qualifying for the discount within 3 years from the date of conclusion of the contract.<sup>11</sup>

In terms of deductible benefits when determining the tax base, the monthly income of a severely disabled individual has increased from HUF 1,000 to HUF 2,000 per month. The discount that can be taken into account for paying union membership fees has also been reduced, as the tax base allowance, which has not been specified in the amount so far, has been capped at HUF 300. The amount of interest related to the annual installment of shares or business shares purchased within the framework of the Employee Participation Program could be taken into account as a tax base benefit.<sup>12</sup>

### 2.3. *In Act XC of 1991*

With the so-called employee tax allowance, it ensured the reduction of the tax burden of wage earners and extended it to persons receiving unemployment benefit, training allowance and unemployment benefit for career starters. Tax relief was not granted to workers permanently employed abroad during the period of foreign service.

The amount of tax advantages could not exceed the amount of tax payable.<sup>13</sup>

### 2.4. *In Act XX of 1992*

The Act did not contain any striking changes, the list of tax-exempt incomes was supplemented and the rules of activity of self-employed persons were added clarified.<sup>14</sup>

The 1991 based on the Act on the Rules of Taxation, HUF 200 per month employee tax allowance may be deducted from the tax advance determined pursuant to Section 37 (1) of Act CX, provided that the individual was employed on each working day of the given month.<sup>15</sup>

The tax can be reduced only on the basis of one employment relationship at a time. If the individual received a pension and pension-like benefit in the given month while working, or if he or she had no obligation to work in that month due to his or her work schedule, he or she was not entitled to an employee tax allowance.

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<sup>11</sup> Act XLV of 1989, § 39.

<sup>12</sup> Act XX of 1990 amending Act XLV of 1989 on the Income Tax of Private Individuals.

<sup>13</sup> Act XC of 1991, § 40.

<sup>14</sup> Act XX of 1992 amending Act XC of 1991 on the Income Tax of Private Individuals (entered into force 7 April 1992).

<sup>15</sup> Act LXXV of 1992 on the income tax of individuals amending (entry into force 20 December 1992).



A person entitled to family allowance could deduct HUF 300 per child from the determined tax advance, and an individual who is entitled to family allowance for three or more children could deduct HUF 400 per child.

### 2.5. *In Act CI of 1993*

There was no material change in this amendment, only a change in the thresholds. An amount not exceeding HUF 5,000 from the value of the object reward received from the church, the social organization or the prizes of competitions and competitions, or the value of medals and trophies won at competitions and competitions, regardless of the amount, as well as the amount paid from all foundations and public interest commitments to the socially deprived for social purposes, health, child and youth protection, crime prevention, as well as student and leisure sports were exempt from tax maximum amount paid to the participant not exceeding HUF 500 per occasion.<sup>16</sup>

### 2.6. *In Act LXXXII of 1994*

There were also changes in the amount of certain tax base benefits, as well as in the amendments made in 1993.

The law established a maximum monthly discount of HUF 1,600 from the amount of meals provided in kind by the employer, or up to HUF 1,200 per month from the value of the free or discounted voucher entitling the purchase of the prepared food.

Under the legislation on housing subsidies, the part of the housing allowance granted for the purchase, construction, renovation, extension, modernization of a dwelling and the part of the loan subsidy granted for these purposes waived by law was tax-free.

Furthermore, the part of the income from small-scale agricultural production that comes from income not exceeding HUF 1 million per year was tax-exempt, provided that the individual carries out this activity under separately defined conditions and does not choose any other tax relief applicable to the activity and keeps records of the income. Small payments made by the paying agent in an amount not exceeding HUF 3,000 under a single contract and the amount received for the lease of outlying agricultural land up to HUF 50,000 together on the basis of land rents and from paying agents are tax-free.<sup>17</sup>

### 2.7. *Regulation of Act CXVII of 1995*

Act CXVII of 1995 on Personal Income Tax has brought about significant changes in terms of tax benefits, taking into account economic and social changes.

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<sup>16</sup> Act CI of 1993 amending Act XC of 1991 on the Income Tax of Private Individuals. (in force 01. 01. 1994)

<sup>17</sup> Act LXXXII of 1994 amending Act XC of 1991 on the Income Tax of Private Individuals. (Effective 01. 01. 1995)

It established the principle of sharing public burdens proportional to total income as a constitutional principle. The enforcement of the principles of fairness and proportionality also appears in the law. All income of an individual is subject to taxation. The benefit resulting in a tax reduction may be applied only to the extent that the underlying transaction achieves the objective of the derogating rule. The application of the principles shall also apply to paying agents. No income needs to be determined if the amount of income in any 12-month period did not exceed HUF 200,000.

The law divided income into two large parts, income taxed collectively, and income taxed separately.

The income subject to separate taxation was as follows: flat-rate taxation of the self-employed person, income from the transfer of movable property and income from the transfer of immovable property, income from the transfer of property together, income from interest, income from dividends, exchange gains and income from futures and options, income withdrawn from the enterprise, together with capital gains and benefits in kind, and other incomes and lists mixed incomes, which are: income from privatisation leases, income from winnings, income from the use of common property of a condominium, income from land rents, small payments, lump sum annuity redemptions.

It divided consolidated income into three parts: income from self-employment, income from non-self-employed activities and income from other activities.

For income taxed collectively, income taxation is set at 6 bands. In Section 33 of the Personal Income Tax Act, the calculated tax is referred to as an item reducing the tax credit.

The calculated tax is reduced for a retired individual whose pension is not exempt from tax, pension and/or childcare allowance, including related income supplement, and/or child-raising allowance received under the Social Administration and Social Benefits Act, and/or nursing allowance received under the Social Administration and Social Benefits Act, and/or scholarship, and/or tax on the amount received within the framework of a health and social institution for social care and spiritual assistance services, but not more than HUF 36,000 per year, calculated according to the tax table.

The benefits that reduced the tax on the consolidated tax base were:

The discount for contributions to voluntary mutual insurance funds, followed by a discount on tuition fees, and then discounts for housing.

The law named interest relief on investment and working capital loans, discounts on foundation payments, discounts on insurances and investment tax credits as tax relief reducing the tax on the consolidated tax base.

The benefits that can be applied are also limited so that the total amount of the reduction items could not exceed the amount of tax on the consolidated tax base. The amount of reduction in respect of foundation payments, insurance allowances and investment tax credits could not exceed 50 percent of the consolidated tax base, adjusted taking into account payments to voluntary mutual funds, tuition fees,

housing, investment and working capital loans and other benefits, as well as the tax on dividends and exchange rate gains.<sup>18</sup>

## 2.8. Amendments made in 1996

Section 25 of Act CXVII of 1995 on Personal Tax, Section 39 and subtitle of Act CXVII of 1995 replace the following provision, which was named activity allowances in place of the interest discount on investment and working capital loans.<sup>19</sup> The tax on the consolidated tax base is reduced by the combined amount of the tax on the annual income of the primary farmer applying itemized cost accounting or the 10 percent expense ratio and, if he used itemized cost accounting, the accountant's fee allowance, but not more than HUF 100 thousand (primary producer tax allowance). The fee paid to the accountant as a reduction in accountants' fees, as evidenced by an invoice, may be taken into account, but only in proportion to the proportion represented by the income from primary agricultural activities within the consolidated tax base. The tax on income from primary farming activities had to be calculated by determining the tax on the consolidated tax base with and without that income and by establishing the difference between the two tax amounts. The tax on the consolidated tax base was also reduced by 25 percent of the income of individuals engaged in intellectual activities, but not more than HUF 50 thousand. For the purposes of this provision, an individual engaged in intellectual activity is one who, as the original rightholder, receives income from self-employed activity, other than self-employment, which results in the creation of a work protected by patents under the Act on the Protection of Inventions by Patents, as well as a work protected by copyright, or otherwise protected by the Copyright Act. This activity allowance was repealed by Act LXI of 2006 amending certain financial laws on 01. 01. 2007. The tax on the consolidated tax base was reduced by 20 percent of the fee received from the said institution for full-time students participating in a school-based first bachelor's programme certified in a higher education institution listed in the Act on the Higher Education Act for their work during the training period specified in the qualification requirements, but not more than the amount of the full-time student cash benefit normative specified in the Act on the State Budget for the given year, provided that The work on which remuneration is based was performed in the institution with which the student had a student relationship.

## 2.9. Act LXV of 1998 amending Act CXVII of 1995 on Personal Income Tax

Act LXV of 1998 amending Act CXVII of 1995 on Personal Income Tax was a very important year in connection with the family tax allowance phased out in 1995, as it was restated from 1 January 1999 and other benefits were also introduced and amended.

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<sup>18</sup> Act CXVII of 1995 on Personal Income Tax.

<sup>19</sup> Act LXXXIII of 1996 amending Act CXVII of 1995 on Personal Income Tax.

The calculated tax is reduced by a tax credit, which is equal to 10 percent of the salary earned in the tax year, but not more than HUF 3,000 per month of eligibility, provided that the total annual income declared in the tax return of the individual or accounted for in the accounting replacing the tax return did not exceed HUF 1 million. The amount specified above was valid plus HUF 30,000 – the last time in the year in which his old-age pension was determined – in the case of an individual who reaches the retirement age applicable to him or her according to law before 1 January 2020. Personal and family discounts have been introduced based on the following.

The 40. § (1) para of the Act states that the tax on the consolidated tax base will be reduced for severely disabled individuals from the month of the starting date of the disability status to HUF 1,500 per month during the period of existence of this condition. Paragraph (2) refers to the family allowance reducing the tax on the consolidated tax base. Paragraph (3) shows the entitlements and amounts as follows: the family allowance is HUF 1,700 per month for one and two dependents per dependent; HUF 2,300 per month for three or more dependents; in the case of severely handicapped dependents: HUF 2,600 per month per disabled dependent. The tax on the consolidated tax base is reduced by the investment tax credit in the manner and under the conditions specified in Annex 8, but not more than 20 percent of the increase in the investment stock of the individual, however, the amount deducted may not be more than HUF 200 thousand per year, but the total amount of the said reduction items may not be more than 50 percent of the tax of the consolidated tax base adjusted by other reductions. Unless otherwise provided for in this Act, the paying agent shall deduct an advance tax of 40 per cent from the consolidated taxable income paid by the payer, even if the payment is made against an invoice. This assessed tax advance is reduced by the discount on pension contributions and private pension fund membership fees related to this income. The individual was obliged to declare in writing that his income forming the consolidated tax base in the tax year is not expected to exceed HUF 1 million, so the payer deducts the amount of tax on income according to the tax slab, reduced by the discount on the pension contribution and private pension fund membership fee related to this income, as a tax advance. If the paying agent pays out income included in the consolidated tax base to the same individual several times during the tax year, it had to aggregate those incomes per payment from the beginning of the tax year and reduce the tax on this aggregate income calculated according to the tax scale by a discount on the pension contributions and private pension fund membership fees related to those incomes. From this amount he had to deduct the amount of tax advances he had already deducted and deduct the difference thus calculated by way of tax advances (rolling method). The monthly tax credit had to be enforced by the payer, subject to the provisions on tax credits, which is 10 percent of the regular and non-regular wages of the given month, but not more than HUF 3,000 per month – provided that the individual did not request in writing that this not be done.

### 2.10. Changes in 2005

Act CXVII of 1995 (Personal Income Tax Act) of 2005 on the amendment of certain acts on financial matters. Pursuant to Section 5 of Act LXXXII, the discount for casual employment was added.

Pursuant to Section 43 of the Act, the tax on the consolidated tax base could be reduced by 75 percent of the value of the tax stamp validated in the casual employee book and indicated in the prescribed register in the case of employment of an employee with a casual employee book in accordance with the provisions of a special law, attested by a document suitable for accounting in the name of the employing individual, if the casual employment is not the individual employing it independently in order to obtain income from its activities. The aforementioned benefit was granted on 01 August 2005 and was valid until 30 June 2007.<sup>20</sup>

### 2.11. Main change in 2007: End of tax relief related to the repayment of housing loans

Under the Personal Income Tax Act in force on 31 December 2006, tax relief related to the repayment of a home loan was, as a rule, applicable in the year of commencement of repayment and in the following four tax years. Therefore, in general cases, those entitled to the discount could last reduce their tax on this account in their 2010 return.

However, if the loan taken out for housing use as the basis for the tax relief is partly or fully an advance loan determined in accordance with the Government Decree on State Housing Subsidies<sup>21</sup>, or if, according to the said Government Decree, the claimant is not entitled to housing relief (social security allowance) and/or advance loan for children and other dependants, the tax relief could be applied in all tax years when the claimant had to have a family during the repayment period have children entitled (or becoming eligible) to supplement. Thus, even after 2010, but for the last time in 2015, they could reduce their taxes on this account.

Thus, according to the transitional provision, if the repayment of the housing loan started before January 1, the tax relief related to the repayment could continue to be applied during that period in accordance with the rules in force on 31 December 2006 ('carry-over allowance'). If, on the other hand, the loan applicant was entitled to social security – despite not using it – then the benefit of home loan repayment is not granted for an extended period.

The law distinguished between the discount related to the repayment of a home loan taken out for new and old residential property. In the case of a new property, the discount was 40% of the repayment paid in 2011, up to a maximum of HUF 120,000, if the amount of the loan taken out did not exceed HUF 15 million. 30% for second-hand housing, but not more than 120 000 if the loan was 10 million or less.

<sup>20</sup> Act LXXXII of 2005 on the amendment of certain laws on financial matters.

<sup>21</sup> Government Decree 12/2001 (I. 31.) on *State Housing Subsidies*.

Only individuals whose total income in 2011, excluding tax base supplements, does not exceed 3,400,000 are entitled to claim tax relief related to housing loans. If the claimant's spouse or partner was entitled to child care allowance for more than 6 months in the tax year and is both a debtor and a co-owner, the income limit is HUF 4,400,000.

If the income exceeds the income limits, the amount of the discount otherwise calculated or due had to be reduced by 20% of the superior income. Therefore, tax relief can no longer be claimed on income above HUF 4 million or HUF 5 million.<sup>22</sup>

### 3. Overview of changes in 2009

#### 3.1. Household tax allowance

However, a new option has been added to the range of tax incentives: the so-called household tax allowance. The Act allowed the use of services related to household services supported by the following invoice:

1. Expenditure on renovation and modernisation of dwellings
2. Babysitting, childcare
3. Household management
4. Home care
5. Repair and maintenance services of large household appliances
6. Repair and maintenance of the combustion equipment, heating system, flue product drainage, water and sewage system of an apartment or house.

In the absence of a provision or in the case of tax assessment with the assistance of the tax authority, the order in which tax advantages are taken into account shall be as follows:

1. Discount for house loan repayments (item carried over from a previous period)
2. Personal discount
3. Allowance for casual employment
4. Consolidated tax relief
5. Primary producer discount
6. Family discount
7. Other

The order of consolidated tax benefits was also determined by law, but if the individual filed the return independently, he had the opportunity to choose a different order:

1. Household discount
2. Allowance for social security and private pension fund contributions under contracts concluded for the purpose of obtaining seniority or income constituting a pension fund
3. Discount for private pension fund contributions according to an agreement concluded for the payment of membership fees

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<sup>22</sup> VÁCI Tímea: *Szja bevallás: már csak néhány kedvezmény maradt.*

<https://ado.hu/ado/szja-bevallas-mar-csak-nehany-kedvezmeny-maradt/> 10 April 2024.

4. Discount for private pension fund contributions supplementing own membership fees
5. Discount on payments to an institution for occupational pensions as a supplement to occupational contributions
6. Tuition discount
7. “Deferred” tuition discount from previous years
8. Discount for public donations
9. Insurance discount

### 3.2. Termination of tuition fee relief

Personal income tax Act of 1995. Act CXVII regulated tuition fee discounts under a separate title. The tuition fee allowance also reduced the tax on the consolidated tax base, but was repealed by law in 2009.

Until 2015, the so-called deferred discount existed, the validation of which requires the entry deferral of the discount to appear on the certificate. The condition for the discount was that the income of all tax bases for 2011 without supplements should not exceed HUF 3,400,000. If the income exceeds this amount, then the discount was granted only at a reduced rate. The discount was 30 percent of the amount paid, up to HUF 100,000.<sup>23</sup>

### 3.3. Reduction in social security contributions

The benefit was introduced in 1988 and was one of the benefits that reduced the taxable amount of the consolidated tax base, and was equal to 25 per cent of the amount of the service period entitling to a pension under the agreement on social security benefits concluded under the provisions of the Act on persons entitled to private pensions, social security benefits and the provision of these services, for the purpose of acquiring pensionable service and income constituting a pension fund, paid by the individual for his own benefit or, in the case of an individual who is not self-employed, for the benefit of another individual. In addition, which has been paid by the individual for his own benefit under an agreement to pay contributions under the provisions of the Act on Private Pensions and Private Pension Funds, or by a non-self-employed individual for the benefit of another individual under a grant agreement.

## 4. Changes in the system of personal income taxation in the 2010s – Introduction of the family allowance

An individual claiming the family allowance could reduce his consolidated tax base with the family tax allowance, separating families with one or two dependent children from families with three and all additional dependent children.

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<sup>23</sup> VÁCI Tímea: *Szja bevallás: már csak néhány kedvezmény maradt.*

<https://ado.hu/ado/szja-bevallas-mar-csak-nehany-kedvezmeny-maradt/> 10 April 2024.

The personal income tax rate became uniformly 16%, as a result of which the progressive taxation was abolished with effect from 1 January 2011 and the flat tax system came into force instead.<sup>24</sup>

Employees raising children had to make a declaration to their employer in order to benefit from the new family taxation and receive the family tax deduction. Employees were required to make these declarations by 20 January at the latest. Employers had to provide this information to the workers concerned. If someone failed to make a declaration, they could claim the family allowance later.

If the individual wanted to use the family allowance already during the year (when deducting tax advances), he or she had to submit a tax advance declaration to his employer in order to claim it. It was possible for the individual to make a statement, but the employer had to provide the necessary information. If several individuals were entitled to the family allowance for the same child, they had to make the declaration jointly. In this case, the declaration had to be signed by the employer of both individuals.

The declaration could be made in any written form, however, as help and guidance, the National Tax and Customs Administration (former APEH) prepared the applicable sample tax advance declarations. The sample declaration also included a detailed leaflet to help fill it in. The model declarations were not mandatory, they could be freely modified by the fact that the content of the declaration had to comply with the legal conditions.

The basis of the new personal income tax system is a change of approach, according to which the state leaves the income necessary for the upbringing and care of the child or dependent with the family, does not tax it, declaring that the taxing state has no connection with this income and does not claim any deduction from it in the form of income tax.

The family allowance per beneficiary dependant entitles the individual to deduct HUF 62,500/beneficiary dependent/month in case of one and two dependents, and HUF 206,250/beneficiary dependent/month deduction from the individual's income (from independent activity, wage or other) to be combined. The use of the family allowance meant a tax reduction of HUF 10,000 per month per child, and HUF 33,000 per child for parents with at least three children.

In addition to providing family allowance, the aim of the measure was to further relieve families, therefore the new tax system – in order to encourage childbearing – supports the first childbearing without income limitations. The family allowance can be used once per child, but its amount can be shared with the spouse or partner living in the same household.

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<sup>24</sup> Act CXXIII of 2010 on Tax and Contribution Laws, the Accounting Act, and the Chamber of Auditors  
Act and tax and customs law aimed at fulfilling European Community harmonisation obligations of the Amendment of the Laws.



*Distinction between dependants and beneficiary dependents:* The family allowance regulation distinguishes between dependants and beneficiary dependents.

*Beneficiary dependent:* (for whom family allowance is due)

- a) in respect of whom child benefit is granted or who is entitled to child benefit in their own right (Family allowance is typically paid after the birth of the child until the end of compulsory schooling). Family allowance for children studying in public educational institutions after compulsory schooling has ended until the last day of the school year in which the child (person) reaches the age of twentieth. Those entitled to child benefit in their own right are understood to mean adults who are chronically ill or severely disabled;
- b) a person receiving invalidity benefit;
- c) the foetus (from 91 days of conception until birth).

*Dependent:* (to be taken into account when determining the amount of the family allowance). A dependent is a dependent of the beneficiary and a student who is no longer entitled to family allowance and who is taken into account when determining the family allowance of the younger sibling(s). (In other words, in addition to the above category, the number of dependants includes university and college students who are pursuing higher education and who do not earn regular income.)<sup>25</sup>

#### 4.1. Amendment 2012

For the purposes of determining the amount of family tax allowance, the beneficiary dependant is separate from the dependent, since the determination of the tax allowance is parallel to the determination of the amount of family allowance.<sup>26</sup>

#### 4.2. Tax base benefits in 2015

Among the legislative changes announced for 2015, a new feature affecting the taxation of families is *the tax base reduction for first-married couples*.<sup>27</sup> All married couples for whom at least one of the partners entered into their first marriage after 31 December 2014 were entitled to a tax base reduction of HUF 31,250 (equivalent to HUF 5,000 tax) from the month following the month of the marriage for a period of 24 months, but not later than the month in which the entitlement to the family allowance for the child born (to be born) of this marriage begins.

However, it does not matter if, at the time of the marriage, either or both of the parties already have children together and are therefore already entitled to family allowances. In such a case, they are entitled to both benefits, namely the first-marriage allowance must be deducted before the family allowance in order, until the couple has become entitled to additional family allowance with regard to the fetus or

<sup>25</sup> *New rules on family allowance.* <https://www.onadozo.hu/hirek/a-csaladi-kedvezmeny-uj-szabalyai-2123>, 10 April 2024.

<sup>26</sup> Act CLXXVIII of 2012 amending certain tax laws and related acts.

<sup>27</sup> Section 29/C of the Personal Income Tax Act.

in the case of the adoption of a child. This sequencing means that, in the absence of a sufficient tax base, the part of the family allowance that was not deductible for this reason could be claimed as a social security contribution<sup>28</sup> allowance.

The new entitlement in foster care does not interrupt the period of the first-marriage allowance. If, on the other hand, the marriage is dissolved within the 24-month period, both parties cease to be entitled for the remaining months.

Based on a joint declaration, the first-marriage allowance can also be taken into account when deducting the tax advance, or it can be applied jointly in the tax return or payroll tax assessment.<sup>29</sup>

Among the changes affecting the family allowance, the gradual increase in the allowance for those with two children was only doubled in four steps from 2016 to 2019. Accordingly, in 2015 the family allowance – depending on the number of dependents – was HUF 10,000 per beneficiary dependant and per month of entitlement, HUF 10,000 for one and two dependents, HUF 33,000 for three and each additional dependent.<sup>30</sup>

*However, some adjustments already entered into force in 2015:*

- For the purposes of applying the allowance, a spouse living in the same household as the person entitled to family allowance who is not entitled to family allowance (e. g. foster parent, spouse of a guardian) is also considered eligible, so joint enforcement becomes possible already during the year when determining the tax advance<sup>31</sup>;
- a relative (e. g. brother or sister) living in the same household as a person entitled to family allowance in his or her own right (e. g. an individual receiving disability benefit) may also share the amount of the allowance with his spouse or partner in his tax return at the end of the year<sup>32</sup>;
- tax base reductions and contribution reductions may be taken into account when determining tax advances on all types of regular income (e.g. commission fees, honoraria, rent), even if the individual pays an individual advance tax on regular income by the 12th of the month following the quarter;<sup>33</sup>
- When calculating the family contribution allowance annually, the repayable or still claimable contribution allowance shall be settled for the benefit/debiting of personal income tax;<sup>34</sup>

<sup>28</sup> If the amount of family tax allowance due to the beneficiary is more than the sum of his/her income included in the consolidated tax base, he/she has the option to claim 15 percent of the part exceeding the tax base as a family contribution allowance.

<sup>29</sup> PIT § 48 (3a) para.

<sup>30</sup> PIT § 29/A (2) para.

<sup>31</sup> PIT § 29/A (3) para.

<sup>32</sup> PIT § 29/A (3) para.

<sup>33</sup> Section 48 (3) para of the Personal Income Tax Act; Tbj. § 51 (1) para.

<sup>34</sup> Tbj. § 51/B (4) para.

- in the 2015 return, in the employer's accounting, and in 2016 in the tax advance deduction, the discount could only be claimed by providing the tax identification number (it can be claimed on the T34 form), natural identifiers will no longer be acceptable (this rule also applies, for example, to a child who lives beyond the border, but his parents use the family allowance in Hungary, i.e. he must also apply for a tax identification number).

Partners raising half-siblings were affected by the amendment to the Act on Family Support<sup>35</sup> (Cst.), which, following the decision of the Constitutional Court (AB), adjusted the conditions for these families to be entitled to family allowances and thus to family benefits.

At the request of the Commissioner for Fundamental Rights, the Constitutional Court<sup>36</sup> examined the conditions for entitlement to child benefit and found that Parliament had created an unconstitutionality manifesting in omission by the fact that the Cst. does not take sufficient account of the interests of children when setting the amount of child benefit differently for children belonging to the same regulatory group according to whether their parents are married or in a civil partnership. To eliminate discrimination against the Fundamental Law, the Constitutional Court called on Parliament to fulfil its legislative obligation by 31 December 2014, i.e. to create the possibility of granting the same amount of child benefit to children raised together in a common household who are not each other's biological siblings, even if the parents raising them are married, and even if they are in a civil partnership.

Based on the provisions of the Cst. in force until then, partners raising each other's children together are entitled to family allowance separately only according to the number of their own and joint children and persons, including family allowance, because of which they suffered a disadvantage of up to several hundred thousand forints per year compared to married couples. For example, if the partners have one child and one non-joint child separately, each of them is entitled to child benefit and family allowance for two children because they are not considered a family with three children. This meant that instead of HUF 33,000 per month per child, they were entitled to only HUF 10,000 family tax allowance, moreover, they could only jointly claim the amount due in respect of the joint child in the case of interim payments. Although it is true that as singles, they are entitled to higher family allowance, the annual income of the family is still nearly HUF 900,000 less than if the parents had married and could claim 3× HUF 33,000 family allowance (if they have enough income).

As of 1 January 2015, partners who already meet this condition have indeed been put on an equal footing with married couples under the new rule. At the same time, those who only then recorded their partnership as previously mentioned continued to be entitled to the family allowance for one year only for their own children and their joint children, while (since they are no longer considered single) they received a lower amount of child benefit. For example, life partners raising

<sup>35</sup> Act LXXXIV of 1998 on Family Support.

<sup>36</sup> Decision 14/2014. (V. 13.) of the Constitutional Court.

one joint and two non-joint children lost 54,000 forints in 2015 compared to the previous year, while they could get the family allowance for families with three children in 2016, provided they immediately went to the nearest notary to register their relationship or to have it recorded in a notarial deed, which of course also cost a few thousand forints.

Regardless of their nationality, two persons – of different or even the same sex – may jointly request registration in the ENYER or registration in an authentic document from a notary, while either party may request a declaration of termination alone. Within the framework of their general obligation to instruct, the notary public informs the partners before making the declaration what constitutes a partnership, how it arises, how it is terminated and what family, property and inheritance law consequences it entails.

The difference between registration with ENYER and a declaration of partnership in a notarial deed is that ENYER continuously and authentically certifies the existence of the partnership from the date of registration, while in a notarial deed the parties may also declare that the partnership has existed between them since an earlier date (although the latter is irrelevant to the new provision, whereas the one-year waiting period is calculated from the date of issue of the authentic document). At any time, upon request, a notary may issue a certificate to a person entered in the registered partnership to verify his/her data in the register of registered partnerships<sup>37</sup>, or to a person not entered in the registered partnership to certify that he/she is not entered in the registered partnership.<sup>38</sup>

#### 4.3. Changes in 2016

Act LXXXI of 2015 on the amendment of certain laws related to taxation reduced the tax rate applicable to income covered by the Personal Income Tax Act to 15 percent. In order not to reduce the tax remaining with families on beneficiary dependents, the size of the tax base reduction items of the family allowance depending on the number of dependents also had to be increased.

The changes in the family allowance effective from 1 January 2016 are partly due to the reduction of the tax rate and partly to the increase in the amount of the beneficiary dependents allowance for families with two children.

Amount of family tax base allowance in 2016 per beneficiary dependant and month of entitlement

- HUF 66,670 for one dependent,
- HUF 83,330 in case of two dependents,
- HUF 220,000 in case of three or more dependents.

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<sup>37</sup> The register shall contain the data for 100 years from the date of registration.

<sup>38</sup> SURÁNYI Imréné: *Családi adózás 2015-ben*. <https://ado.hu/munkaugyek/csaladi-adozas-2015-ben/> 10 April 2024.

In practice, this means that families continued to receive HUF 10,000 more net earnings per month and HUF 33,000 more per beneficiary dependent, and HUF 33,000 more per beneficiary dependent.

In view of the change in the tax rate, the amount that can be considered as family contribution allowance is 15 percent of the amount that could not be claimed as family allowance from the consolidated tax base, but not more than the amount of health insurance contributions in kind and in cash payable by the insured individual.

In order to ensure that children raised in the same household receive the same amount of family allowance both if the parents raising them are married and if they live in a civil partnership, it was necessary to amend Act LXXXIV of 1998 on Family Support (hereinafter: Cst.). According to the regulation of the Cst. in force since 1 January 2016, a partner living with a parent could also be entitled to child benefit if he or she shares a common residence or residence with the child concerned and has been registered with the parent as a partner for at least 1 year in the Register of Partnership Declarations, or if he or she proves his or her partnership with the parent by a public document issued at least one year before the application for the award of benefits. Given that family allowance can be claimed by an individual entitled to family allowance, a partner meeting the conditions set out in the CST may apply the family allowance already during the year.<sup>39</sup>

#### *4.4. 2018 rules on tax base allowances for families (first-married allowance and family allowance)*<sup>40</sup>

The benefit for first-married couples is regulated by Section 29/C of Act CXVII of 1995 on Personal Income Tax (hereinafter: Personal Income Tax Act) and the rules for receiving family allowance are provided for in Sections 29/A and 29/B.

##### *1. Discount for first-married couples*

With the benefit for first-married couples, the eligible individual may reduce his consolidated tax base – even during the year during the determination of the tax advance – in the order preceding the family allowance. This is important because if an individual is entitled to both benefits and does not have a sufficient tax base, he or she has the opportunity to claim family contribution allowance from the point of view of family allowance if he or she is no longer able to claim it under the Personal Income Tax Act – in the absence of a tax base. A couple is entitled to benefit from the benefit for first married couples if the marriage took place after 31 December 2014, either domestically or abroad, and this is the first marriage of at least one of them. This means that even a member of the couple who is not married for the first time is entitled to claim and share this benefit.

<sup>39</sup> *Gyermek utáni kedvezmények: változások 2016-ban.* [https://adozona.hu/2016\\_os\\_valtozasok/Gyermek\\_utani\\_kedvezmenyek\\_valtozasok\\_2016b\\_RQ1J5D](https://adozona.hu/2016_os_valtozasok/Gyermek_utani_kedvezmenyek_valtozasok_2016b_RQ1J5D), 10 April 2024.

<sup>40</sup> *NAV Információs füzetek – 2018.* 1–6.

Act XXIX of 2009 on registered partnerships, amending certain acts related to them and those necessary to facilitate the certification of civil partnerships (hereinafter: Peace Act) Pursuant to Section 3(1) para, the provisions relating to spouses shall also apply to registered partners, and the term spouse shall henceforth include registered partner. The use of the allowance is not tied to age, there is no obstacle to even the “newlyweds” belonging to the senior age group taking advantage of it, if at least one of the parties enters into his first marriage and has income included in the consolidated tax base. The amount of the benefit for first-married couples who can be claimed jointly by the spouses is HUF 33,335 per month of eligibility, which means that the amount of tax payable by them is reduced by HUF 5,000. 24 months following the month of marriage may be taken into account as the month of eligibility during the marital union. In practice, this means that a couple who got married on January 3, 2018 could claim the discount from February 2018 – until the end of January 2020.

Since the benefit can only be applied during the marital union, the entitlement ceases to exist within the 24-month period if the couple divorces or one of the partners dies. The benefit for the first married is applied jointly by the spouses. This can be done by dividing the amount of HUF 33,335 among themselves according to their decision, or by using the discount exclusively by one of them. In case of joint validation, the couple jointly pays HUF 5,000 less tax per month. The joint use of the allowance in the tax return is independent of the spouse who took it into account when determining the tax advance. The condition for receiving the benefit is a declaration made jointly by the spouses in the tax return, including each other's tax identification number, which contains their decision to share the amount of the allowance or which of them will use the benefit. The allowance can be used by spouses already during the year when determining the tax advance.

## 2. *Family discount*

The family allowance is a tax base allowance reducing the consolidated tax base, which the beneficiary can claim for dependents depending on the number of dependents per month of entitlement.

2.1. The<sup>41</sup> Personal Income Tax Act defines who can be the recipient of family allowance as follows:

- a. an individual who is entitled to child benefit pursuant to Act LXXXIV of 1998 on Family Support (hereinafter: Cst.),<sup>42</sup> as well as his/her spouse living in the same household as the beneficiary who is not entitled to

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<sup>41</sup> Section 29/A(3) of the Personal Income Tax Act.

<sup>42</sup> An exception is individuals listed in Section 29/A(3)(aa)–(ac) para of the Personal Income Tax Act, considering that these persons are entitled to child benefit due to their occupation.

child benefit (e. g. the spouse of a foster parent); Pursuant to Section 7(1) para (a) point of the Cst., a partner living with a parent is entitled to child benefit if he or she shares a common residence or residence with the child concerned by the benefit and has been registered with the parent as a partner for at least one year in the Register of Partnership Declarations, or proves his or her partnership with the parent by means of a public document issued at least one year prior to the application for the award of the benefit. In practice, this means that if a partner living with the child's biological parent is entitled to child benefit, he or she is also considered eligible for family allowance, so he or she can claim it already during the year;

- b. from the 91st day of pregnancy, the expectant mother and her spouse living in the same household (i.e. not the partner);
- c. a child (person) entitled to child benefit in his/her own right or, at their option, one of his/her relatives (including relatives of the child's parents) living in the same household;
- d. an individual receiving invalidity benefit or, at their option, one of his or her relatives (including relatives of the child's parents) living in the same household.

With regard to point (a), knowledge of the provisions of the Cst. on child benefit is necessary to determine who is eligible. The payment of family allowance is not a condition for the application of the family allowance, therefore an individual who is entitled to this benefit with regard to his or her child, but does not request/have requested the payment of family allowance, may also use the discount. If the individual has not applied for child benefit payment and is not sure whether he or she is entitled to child benefit, it is advisable to contact the metropolitan or county government office of his/her place of residence in order to answer the question. From 1 January 2017, in the case of points (c) to (d), not only relatives living in the same household, but also relatives of the child's parents could be entitled to the family allowance. The reason for the amendment is quite realistic, since, for example, an orphaned child entitled to child benefit in his or her own right is often accepted into his family or household by the brother or sister of the deceased parent. In this case, the aunt or uncle cannot be considered a relative of the child pursuant to Section 8:1 (1) para points 1–2 of Act V of 2013 on the Civil Code, so under the previous rules, the child entitled to family allowance in his or her own right could not transfer the right to claim the benefit to them. However, thanks to the change, from 2017 the parent's sibling could also be eligible, as he or she qualifies as a relative in relation to the parent.

- 2.2. The<sup>43</sup> amount of the family allowance is determined by the number of dependents or beneficiary dependents. The Personal Income Tax Act defines the concept of dependents and beneficiary dependents as follows.

*Beneficiary dependent:*

- a) the person in respect of whom the individual is entitled to child benefit under the Cst.,
- b) the fetus during pregnancy (from the 91st day of conception until birth),
- c) a person entitled to child benefit in his or her own right,
- d) an individual receiving disability benefit.

*Dependent:*

- a) the beneficiary is a dependant.
- b) A person who, according to the Family Support Act, can or could be taken into account for determining the amount of child benefit, even if child benefit is not awarded for the beneficiary dependent, no child benefit is awarded or the amount of child benefit is not affected by the number of children. According to the Cst., when determining family allowance, a student of a public education institution or a student participating in a first higher vocational training, first bachelor's, first master's or first unitary, undivided training at a higher education institution and without regular income may be taken into account. These persons shall be regarded as dependants for the purposes of the family allowance. A child studying at a public education or higher education institution defined above is considered a dependant even if the beneficiary is not awarded child benefit for a dependant – because, for example, he or she is receiving disability benefit; – no child benefit is awarded, for example for the foetus; – The amount of child benefit is not affected by the number of children, for example in the case of a chronically ill child who is entitled to increased child benefit. Based on the amendment of Section 12(2) para of the Cst., from 1 January 2018 a child raised in one's own household was also considered to be a child who receives the Gyvt with the consent or at the request of the parent.<sup>44</sup> in respite care. A child placed in temporary care as described could also be taken into account for the family allowance.

- 2.3. *Eligibility month*<sup>45</sup> The family discount can be applied to months in which the entitlement lasts for at least one day. The month in respect of which entitlement to child benefit exists, (a) in respect of which the invalidity allowance is paid, (b) in which the pregnancy reaches the 91st day according to a medical certificate, except for the month in which entitle-

<sup>43</sup> Section 29/A (4)–(5) para of the Personal Income Tax Act.

<sup>44</sup> Act XXXI of 1997 on the Protection of Children and Guardianship Administration.

<sup>45</sup> Section 29/A(6) para of the Personal Income Tax Act.



ment to child benefit opens for the child born, may be regarded as the month of entitlement to child benefit. The family allowance may only be used by the beneficiary in respect of the months for which they qualify as the month of entitlement. If the individual uses the discount for months that can no longer be considered as an eligible month, it is considered an unauthorized use of the discount.

For example, if the child graduates from high school and starts working, child benefit will no longer be paid on him, so the entitlement to family allowance will also cease. If the parent nevertheless continues to use the family allowance with regard to the child, it is considered an unauthorized use. Since the landlord's activity does not establish an insurance relationship, the family contribution allowance cannot be applied.

- 2.4. *Family allowance available in 2018* The monthly amount of the family allowance for beneficiary dependents is: – HUF 66,670 for 1 dependent; – In case of 2 dependents it was HUF 116,670 –, in case of 3 (and all additional) dependents it was HUF 220,000.

- 2.5. *Alternately cared for children* A special rule applies to divorced parents who, on the basis of a final court decision, settlement or joint application, take turns caring for their children and are therefore entitled to child benefit in a 50-50 ratio. A child in alternating care is considered a beneficiary dependant of both parents, but the amount of the family allowance determined in respect of him or her may be claimed by the parent in 50 percent. For a child in alternating care, the family allowance can be used by both parents and the parent's new spouse. With regard to the alternately cared for child, the parents are not entitled to jointly enforce or share the family allowance among themselves. *Divorced parents take care of their child together and are entitled to 50 percent child benefit. The father's new wife brought two minor children into his new marriage. In the mother's newly entered marriage, another child was born. The number of dependents in the father's family is 3, so together with his spouse they can apply a family discount of HUF  $(2 \times 220,000) + (220,000/2) = \text{HUF } 550,000$  per month of entitlement. The number of dependents in the mother's family is two, together with her husband they can apply a discount in the amount of HUF  $116,670 + 116,670/2 = \text{HUF } 175,005$  per month. It is important to note that both parents can only claim the discount if they are entitled to child benefit. For example, if the child is cared for alternately, but the mother receives 100% of the child benefit, the father cannot claim the family allowance, but the mother can claim the full amount.*

## 5. Changes in the personal income tax system

### 5.1. In 2020

The tax base allowances for families in 2020 were: allowance for mothers with four or more children, allowance for first-time spouses and family allowance. An eligible individual could reduce his consolidated tax base with the allowance for mothers raising four or more children, the allowance for first-time spouses and the family allowance. If the individual is entitled to a discount, he or she could first claim the discount for mothers raising four or more children, then the discount for first-married couples, and finally the family discount.

The detailed rules will be presented in 2024.

### 5.2. In 2021

The personal allowance<sup>46</sup> was introduced on 1 January 2021 pursuant to Section 1 CXVIII of 2020, which is governed by Act CXVII of 1995 on Personal Income Tax (hereinafter: Personal Income Tax Act). Chapter VI added the subheading personal allowance after Section 29/D. Pursuant to Section 29/E(1) of the Act, a severely disabled individual reduces his consolidated tax base by a personal allowance of Section 29. The discount can be applied in the order preceding the discount for first-married couples and the family discount. Pursuant to Paragraph (2), a severely disabled individual shall be considered to be one who suffers from a disease referred to in the Government Decree<sup>47</sup> on diseases qualifying as serious disabilities for the purposes of receiving the tax reduction allowance on the consolidated tax base, and who receives disability benefit or disability allowance. Paragraph (3) states that the discount is one-third of the minimum wage per month of entitlement, rounded to one hundred forints, while paragraph (4) determines the eligibility period in such a way that those months can be taken into account as validation of the discount if the disability condition persists for at least one day on the basis of a certificate or decision to that effect.<sup>48</sup>

From 1 January 2021, tax base benefits could be applied in the following order:

1. allowance for mothers raising four or more children,
2. personal allowance,
3. discount for first-married couples,
4. family allowance.<sup>49</sup>

As a taxpayer may be entitled to several types of benefits, it is important to clarify the order in which the benefits can be deducted from the tax base.

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<sup>46</sup> Previously tax relief.

<sup>47</sup> Government Decree 335/2009. (XII. 29.) on diseases that constitute severe disabilities.

<sup>48</sup> Act CXVIII of 2020 on the amendment of certain tax laws.

<sup>49</sup> GALÁNTAINÉ MÁTÉ Zsuzsanna: Az összevont adóalap és az adóalap-kedvezmények. In: *Adóismeretek 2021*. Saldo, Budapest, 2021, 75.

### 5.3. In 2022

From 1 January 2022, tax base benefits can be applied in the following order:

1. allowance for mothers raising four or more children,
2. discount for young people under 25 years of age,
3. personal discount,
4. first-married discount,
5. family allowance.

Discount for young people under 25 years of age

From 1 January 2022, young people under the age of 25 may reduce their consolidated tax base with a discount for young people under the age of 25 (hereinafter referred to as the 'youth allowance'). Young people entitled to the allowance do not have to pay personal income tax up to the monthly amount of the allowance on their income included in the consolidated tax base defined by law during the period of their eligibility.

### 5.4. In 2023

#### *Discount for mothers under 30 years of age*

From 1 January 2023, mothers under the age of 30 can apply the discount in the order following NETAK and the youth discount, before the personal allowance, the first-married discount or the family allowance, even during the year, when determining the tax advance. A mother under the age of 30 over the age of 25 who • pursuant to Section 29/A (3) (a) of the Personal Income Tax Act with regard to her biological or adopted child is entitled to receive the discount, or • pursuant to Section 29/A (3) (b) of the Personal Income Tax Act, she is entitled to claim a family allowance with regard to a fetus. A mother under the age of 30 is a woman who has a child whose entitlement to family allowance opens up until the day before she reaches the age of 30 with regard to her foetus, biological or adopted child. The discount is available to mothers under the age of 30 if their entitlement to the family allowance opens after 31 December 2022 with regard to their biological or adopted child or foetus. From 1 January 2023, mothers under the age of 30 who have reached the age of 25 and who became eligible for the family allowance before 2023 due to a fetus can also claim the discount.<sup>50</sup>

## 6. Rules on tax base benefits in force in 2024

### 6.1. Order of application of discounts

1. Discount for mothers with four or more children
2. discount for young people under 25 years old
3. discount for mothers under 30 years old

<sup>50</sup> HERICH György: *Adótan*. Penta Unió Oktatási Centrum, Pécs, 2023, 174.

4. Personal discount
5. First marriage discount
6. Family discount

#### 6.1.1. Allowance for mothers with four or more children

A mother with four or more children is a woman who, as a biological or adoptive parent, is entitled to child benefit for at least four children raised by her, is no longer entitled to child benefit but has been entitled to child benefit for at least 12 years, or whose entitlement to child benefit has ceased because of the child's death.

A child who is treated as a disabled person in a social institution shall also be considered a child.

The mother does not receive child benefit for the aforementioned child, but the child is taken into account when determining the amount of child benefit due to the mother.

In addition, a child for whom the mother or the head of the social institution is no longer entitled to child benefit, but for at least 12 years one or both of these two persons was entitled shall also be considered a child.

During the period of entitlement of the head of the institution, the child is considered when determining the amount of child benefit.

The allowance for mothers with four or more children is not available to a woman who:

- gave birth to four children, but at the time of the divorce the father passed to his 10-year-old daughter, or
- She co-has four minor children with her second husband, two of whom are her own and two of which are her husband's (unless she has adopted her husband's children).

#### Discount rate:

A mother entitled to benefit for mothers raising four or more children does not have to pay personal income tax in connection with the income specified in the Personal Income Tax Act.

The discount is available for the following incomes:

- Income from wage and other non-self-employed activities, such as income from employment or public employment
- Taxable social security benefits (infant care allowance, childcare allowance, sick pay)
- Taxable social benefits
- Jobseeker's allowance, jobseeker's allowance, earnings supplement and compensation allowance, jobseeker's incentive allowance
- Income from this legal relationship of an individual performing reserve military service in the Hungarian Defence Forces

- Earnings allowance
- Remuneration for activities carried out in foster care employment
- Severance pay paid as a result of termination of employment, but the part of the severance pay exceeding the statutory amount does not constitute the basis for the benefit
- Income paid in consideration for the personal contribution of an individual member of a partnership
- Allowance for the activities of senior officials of an economic enterprise
- Allowance received in return for the services of officials elected or appointed by law
- Income from non-self-employed work under an international treaty or, failing that, from employment under the law of that State
- Income of Members of Parliament, national minority advocates and mayors from this activity
- Income from the status of public project evaluator

Of income from self-employment

- For the entrepreneurial withdrawal of a self-employed person applying taxation according to income, or, in the case of flat-rate taxation, for his flat-rate income.
- Income of the primary farmer from this activity
- The income of the Member of the European Parliament derived from this activity
- The income of the local government representative from this activity
- The income of the elected auditor arising from this activity
- Income from activities other than those contracted by an individual to work for remuneration and carried out under another contract, such as commission.

Individuals are entitled to the discount from the first day of the month in which they are considered to be mothers raising four or more children for even one day.

The discount ends on the last day of the month in which the individual is considered to be a mother raising four or more children for at least one day.

The discount can be used during the year by an advance declaration given to the employer or payer, or in the personal income tax return for the tax year.<sup>51</sup>

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<sup>51</sup> *Négy vagy több gyermeket nevelő anyák kedvezménye*. <https://nav.gov.hu/ado/szja/szja-kedvezmenyek-2023/negy-vagy-tobb-gyermeket-nevelo-anyak-kedvezmenye>, 10 April 2024.

### 6.1.2. Discount for young people under 25 years of age

The *monthly amount of the discount in 2024 is HUF 576,601, which may reduce the tax payable by HUF 86,490.*

The amount of the discount that the beneficiary can claim in the tax year is his/her income on which the benefit is based, but at most the number of months of eligibility multiplied by HUF 576,601 in 2024.

If the entitlement exists in the entire tax year, the tax base can be reduced by a maximum of HUF 6,919,212, which means HUF 1,037,882 in tax terms.

Months of eligibility shall be those in which the young person has not reached the age of 25 and the last month in which the young person reaches the age of 25.

People under the age of 25 do not have to pay personal income tax on their statutory income included in the consolidated tax base up to the monthly amount of the allowance. Such incomes include: wages, sick pay, self-employed entrepreneurs' withdrawals or flat-rate income, primary producer income, income from assignment or licensing contracts concluded with payers. *The discount is not available on income from renting real estate.*

The discount is granted for months in which the young person has not yet reached the age of 25. The discount can be applied for the last time in the month in which the young person reaches the age of 25.

The young person does not have to apply for the benefit, the employer or payer providing regular income automatically takes it into account during the eligibility months, unless the young person requests partial or complete non-payment of the discount in a statement.

That is, the young person must declare,

- if you do not request that the discount be taken into account,
  - if you request that only part of the discount be taken into account
- when determining the withholding tax.

For example, if a young person receives income from several employers at the same time and together they already exceed the threshold for the discount, he or she must declare that he or she does not want the discount in whole or in part, thus preventing unauthorised use.<sup>52</sup>

### 6.1.3. Discount for mothers under 30 years of age

From 1 January 2023, young mothers can claim the discount for mothers under the age of 30 after the NETAK and young people discount and before the personal discount, the first-married discount or the family discount, even as early as the year in the meantime, when determining the withholding tax.

To be eligible, a mother under the age of 30 over the age of 25 who

- pursuant to Section 29/A(3)(a) of the Personal Income Tax Act *with regard to your biological or adopted child, or*

<sup>52</sup> 25 év alatti fiatalok kedvezménye. <https://nav.gov.hu/ado/szja/szja-kedvezmenyek-2023/25-ev-alatti-fiatalok-kedvezmenye>, 10 April 2024.

- pursuant to Section 29/A(3)(b) of the Personal Income Tax Act, *you are entitled to claim family benefits in respect of foetuses.*

A mother under the age of 30 is a woman who has a child whose entitlement to family allowance opens up until the day before she reaches the age of 30 with regard to her foetus, biological or adopted child.

The discount is available to mothers under the age of 30 if their entitlement to the family allowance opens after 31 December 2022 with regard to their biological or adopted child or foetus.

Eligibility may open if, after December 31, 2022:

- your pregnancy reaches 91 days,
- a child is born,
- adopt a child.

*A mother under the age of 30 is eligible for the discount in 2024, for example, if:*

- reaches the age of 91 days of pregnancy on 8 February, or
- gives birth to her second child on 15 March, or
- on August 6, she adopts her husband's child,

In all three cases, they are over 25 years of age and will reach the age of 30 at the earliest after these events.

*A mother is not eligible for the discount in 2024, for example, if*

- gives birth at the age of 23,
- has one child aged 2 and one aged 4,
- She gave birth to her child before 2023.

#### *Discount rate*

The amount of the discount for mothers under 30 years of age per month is up to the Central

Full-time according to the official announcement of the Statistical Office employees for the month of July of the year preceding the reference year.

In 2024, the amount of its average gross earnings at national economy level is HUF 576,601 per month of eligibility, which means a tax saving of HUF 86,490.

#### *The basis of the discount*

The allowance for mothers under 30 years of age can be applied to the following incomes earned during the months of eligibility (in the case of income from employment, calculated for the months of entitlement):

- income from wage and other non-self-employed activities, in particular:
  - income from employment or public employment relationships,
  - taxable social security benefits (e. g. sickness benefit, infant care allowance, childcare allowance),
  - taxable benefits paid under the Social Administration and Social Benefits Act,

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- jobseeker's allowance, jobseeker's allowance, earnings supplement, earnings replacement allowance and job-search incentive allowance paid under the Employment Promotion and Unemployment Benefits Act,
  - income of an individual serving in reserve military service in the Hungarian Defence Forces resulting from this legal relationship,
  - compensation in lieu of the income specified above (earnings replacement annuity),
  - remuneration for activities carried out in foster care,
  - severance pay paid as a result of termination of employment, but the part of the severance pay exceeding the statutory rate does not constitute the basis for the benefit,
  - income paid in consideration for the personal contribution of an individual member of the partnership,
  - allowance in respect of the activities of the company's directors,
  - in return for the activities of an official elected or appointed by law (e. g. member of the board of directors, member of the supervisory board)
  - allowance received,
  - income from non-self-employed work under an international treaty or, failing that, from employment under the law of that State,
  - the income of Members of Parliament, national minority advocates and mayors derived from this activity,
  - income from the status of public project evaluator.
- *Of income from self-employment:*
- the entrepreneurial exclusion of a self-employed person applying entrepreneurial income taxation or, in the case of flat-rate taxation, his flat-rate income,
  - the income of the primary farmer from this activity,
  - the income of the Member of the European Parliament deriving from this activity,
  - income of the local government representative from this activity,
  - the income of the elected auditor arising from this activity,
  - income from activities carried out by an individual to work for remuneration under another contract, such as commission, other than as a self-employed person.

#### *Eligibility month*

The month in which the young mother is entitled to family allowance in respect of her biological or adopted child or foetus, but not earlier than the month following that in which she reaches the age of 25, may be taken into account as the month of entitlement.

The discount can be applied up to the last month of eligibility in the year in which the young mother reaches the age of 30.



*For example, if*

- *the 26-year-old woman will reach the 91st day of pregnancy on April 4, 2024, then her entitlement will apply from April,*
- *if the mother gives birth to a child on 8 January 2024 and turns 30 on 8 March 2024, then she is entitled to the discount from the month of the 91st day of conception until December 2024,*
- *If the 24-year-old mother gives birth to her second child in March 2023 and turns 25 on January 5, 2024, she will be entitled to the discount for young people under 25 until January 31, and from February for mothers under 30.*

#### *Applying the discount*

The discount can be applied during and at the end of the year in the personal income tax return.

The application of the discount can be requested during the year, in a tax advance declaration handed over to the employer or payer.

The self-employed person and the primary farmer claim the benefit themselves when determining the tax advance.

If the young mother is also entitled to NETAK, she will not be able to claim the discount for mothers under the age of 30, as both benefits are based on the same incomes, the NETAK can be applied earlier and there is no limit to the amount.

The discount for mothers under the age of 30 and the discount for young people under the age of 25 cannot be applied together, so a young mother who has not yet reached the age of 25 can only apply the discount from the month following her 25th birthday. The personal allowance and the discount for first-married couples can be applied if the individual has income included in the consolidated tax base for which the allowance for mothers under the age of 30 cannot be applied.

Young mothers can also claim the family allowance if their tax advance base is reduced to zero, as there is no obstacle to claiming family contribution allowance in relation to her income.

The discount can also be applied in the return at the end of the year. If the young mother requested the application of the allowance from the employer or payer during the year, it will be included in her draft tax return for the tax year.<sup>53</sup>

#### 6.1.4. Personal discount

The amount of the discount per month of eligibility is the amount of one-third of the minimum wage, rounded to one hundred forints, i.e. HUF 88,900 per month in 2024.

If the entitlement exists for the entire tax year, the consolidated tax base can be reduced by HUF 1,066,800 for the full year.

In tax terms, this is HUF 160,020.

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<sup>53</sup> *30 év alatti anyák kedvezménye.* [https://nav.gov.hu/ado/szja/30\\_ev\\_alatti\\_anyak\\_kedvezmenye](https://nav.gov.hu/ado/szja/30_ev_alatti_anyak_kedvezmenye), 10 April 2024.

The personal discount is available to those who:

- has a serious disability for <sup>54</sup> which he or she holds a medical certificate, and
- receives invalidity benefit or disability allowance.

To apply the discount:

- may be requested during the year from the employer or from the paying agent distributing regular income included in the consolidated tax base in a declaration of advance tax expenditure, or
- At the end of the year, it can be claimed in one lump sum in the personal income tax return for the tax year.

In view of the increased amount of the minimum wage, from 2024 the personal allowance for severely disabled persons in taxation has further increased.

People with serious health problems are greatly helped by discounts that can reduce their expenses. Some of the benefits are independent of possible gainful employment, others are linked to labour income.

If the state of health allows a person with a deterioration of health may work shorter or longer hours either at home or at the employer.

Those receiving disability support can take advantage of a personal income tax allowance.

A person receiving severe disability allowance can claim a transport allowance.

People receiving disability benefit with similar health conditions are also entitled to tax relief, as well as travel discounts for their transport and public health care for their medicines.

In 2024, the personal allowance will continue to increase in relation to the amount of the mandatory minimum wage valid on the first day of the year, the minimum wage of HUF 266,800.

The tax base allowance, which can be reduced by one third of the minimum wage per month, rounded to one hundred forints, will be HUF 13,335, which will result in a discount of HUF 160,000 per year.

Months may be taken into account as the month of entitlement in which the disability condition persists for at least one day on the basis of a certificate or decision to that effect.

The discount is still available to severely disabled persons, i.e. those who suffer from diseases referred to in the Government Decree on Diseases Qualifying as Severe Disabilities [Government Decree 335/2009. (XII. 29.)], as well as those who receive disability benefit or disability allowance.

A severely handicapped person over the age of eighteen who has a visual, hearing, mental, musculoskeletal disability, or whose condition can be classified as severe or moderate due to chromosomal abnormalities, autistic or multiple disabilities persists permanently or permanently and is unable to lead an independent life

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<sup>54</sup> You suffer from one of the diseases listed in Government Decree 335/2009. (XII. 29.) on diseases qualifying as severe disabilities.

or needs constant help from others, is entitled to disability allowance. (1: Act XXVI of 1998 on the Rights of Persons with Disabilities and on Ensuring Their Equal Opportunities)

In addition to disability allowance, gainful employment may be carried out without restrictions. Personal income tax payment on earnings can be applied to the personal allowance.

The disability benefit provides regular cash benefits to young people who have been in a very serious health condition at a very young age, possibly from birth, often bearing the burden of health problems, illnesses or disabilities throughout their lives.

The benefit is provided in accordance with Decree No. 83/1987 of 27 December 1987 on invalidity benefit. MT. regulation.

An invalidity allowance is payable if the health impairment caused before the age of twenty-five is at least 70% and does not receive a pension, accident pension or benefits for persons with altered working capacity.

Invalidity allowance may be awarded from the age of eighteen years of age and no period of service is required to receive the benefit.

In addition to disability benefit, gainful employment can be carried out without restrictions, which can only be limited by the state of health.

Personal income tax on earnings may be subject to the personal allowance described above.<sup>55</sup>

#### 6.1.5. First marriage discount

A couple is entitled to benefit from the benefit of a first spouse where at least one of the spouses enters his or her first marriage.

A member of the couple who is not married for the first time can also claim the discount.

The benefit for first married couples can also be used by registered partners, so in this case the term registered spouse also includes his or her registered partner.

The benefit is granted for a maximum of 24 months during the cohabitation period, which can be used for the first time for the month following the marriage.

The discount for first-time married couples can be applied together, which means HUF 33,335 per month.

This means that with this discount, net earnings will be 5000 HUF more than without it.<sup>56</sup>

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<sup>55</sup> MOLNÁRNÉ DR. BALOGH Márta: *Ne hagyja elveszni, 2024-ben tovább emelkedik a személyi adókedvezmény súlyos fogyatékoság esetén.* <https://ado.hu/tb-nyugdij/ne-hagyja-elveszni-2024-ben-tovabb-emelkedik-a-szemelyi-adokedvezmeny-sulyos-fogyatekossag-eseten/>, 10 April 2024.

<sup>56</sup> *Első házások kedvezménye.* <https://nav.gov.hu/ado/szja/szja-kedvezmenyek-2023/elso-hazasok-kedvezmenye>, 10 April, 2024.

#### 6.1.6. Family discount

The individual claiming the family allowance reduces his consolidated tax base with the family allowance.

An individual who is entitled to child benefit can take advantage of the family allowance.

By these individuals we mean the

- biological parents living together as spouses or partners
- a partner who lives with a parent and who shares a residence or residence with the child concerned and has been registered as a partner with the parent for at least one year.
- or who proves his/her partnership with the parent by means of an authentic document issued at least one year before applying for child benefit.

Parents caring for their child alternately on the basis of a final court decision, settlement or joint statement, who are entitled to 50-50% family allowance, if the amount of child benefit has been determined by a decision of the family support body at the joint request of the parents and is paid in a 50-50 ratio.

The parents taking turns caring for the child cannot apply the discount jointly among themselves, but they can use the discount they can apply jointly with their current spouse.

A spouse who does not have the right to child benefit living with the person entitled to child benefit.

An individual who is not entitled to child benefit but lives in the same household as his/her entitled spouse may also claim the family allowance during the year. For example, if one of the spouses is a foster parent, only he/she is entitled to child benefit under the relevant rules, but his/her spouse is also entitled to claim the family allowance for the child raised by his/her spouse, so he/she can make a tax advance declaration

#### *The pregnant woman and her spouse living in the same household*

A partner living in the same household as the pregnant woman is not entitled to the discount during pregnancy, so the partners cannot apply it jointly during the year, but the pregnant woman can share the discount due to the pregnant woman with her partner in her return.

#### *Children entitled to child benefit in their own right and individuals receiving invalidity benefit*

In their case, you or an individual selected by joint decision from among your relatives living in the same household may claim a family discount.

Relatives of the child's parents should also be considered relatives, so for example, the sibling of a deceased parent can also claim the benefit for an orphaned child living in the same household.

The family allowance reduces the consolidated tax base. Based on the tax advance declaration, the employer, the payer providing regular income, takes into account the family allowance when determining the tax advance during the tax year.

The amount of family allowance available depends on the number of dependents and beneficiary dependents.

Beneficiary dependents are:

- for whom the individual is entitled to family allowance pursuant to Act LXXXIV of 1998 on Family Support.
- who is entitled to child benefit in his own right,
- a person receiving invalidity benefit
- the foetus from the 91st day of conception to the month preceding its birth, on the basis of a medical certificate to that effect

Dependents include:

- dependant of the beneficiary
- a person who is, or could be, taken into account for determining the amount of child benefit, even if an invalidity allowance is paid for the beneficiary dependant instead of family allowance, if no child benefit is awarded for the beneficiary dependent, or if the amount of child benefit is not affected by the number of children, such as increased child benefit for a long-term ill child.

The amount of the family allowance is HUF 66,670 per month in case of one dependent, HUF 133,330 in case of two dependents, HUF 220,000 in case of three or more dependents.

In practice, this means that families have a net income that is HUF 10,000 higher in the case of one dependent, HUF 20,000 higher in the case of two dependents, and HUF 33,000 higher in the case of three or more dependents.

Individuals may also account for their family allowance from the social security contributions payable as an insured person, if it could not be fully claimed from the personal income tax fund or tax advance fund.

The amount of the family contribution allowance is 15 percent of the part of the family allowance not claimed against the tax base or tax advance base, but not more than the amount of social security contribution payable by the individual, and in some cases pension contributions.

The family contribution allowance is automatically considered by the employer or payer if the individual declares on the application of the family allowance on the tax advance declaration. On the form of the tax advance declaration, the individual may also request that the employer or payer not enforce the contribution allowance and only account for the amount that can be claimed from the personal income tax advance from the family allowance.<sup>57</sup>

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<sup>57</sup> *Családi kedvezmény*. [https://nav.gov.hu/ado/szja/szja-kedvezmenyek-2023/csaladi-kedvezmeny#\\_ftn2](https://nav.gov.hu/ado/szja/szja-kedvezmenyek-2023/csaladi-kedvezmeny#_ftn2), 10 April 2024.

Monthly amounts of tax base relief of the personal income tax in 2024.

	NETAK	Discount for young people under 25 years of age	Discount for mothers under 30 years of age	Personal discount	First married discount	Family discount
2019.	–	–	–	7,450* HUF	33,335 HUF	• HUF 66,670 per dependent;• HUF 133,330 per beneficiary dependent;• HUF 220,000 per beneficiary dependent;• HUF 220,000 per beneficiary dependent.
2020.	There is no amount limit.	–	–	8,050* HUF		
2021.		–	–	55,800 HUF		
2022.		433,700 HUF	–	66,700 HUF		
2023.		499,952 HUF	499,952 HUF	77,300 HUF		
2024.		576,601 HUF	576,601 HUF	88,900 HUF		

\* Until 2020, the personal allowance can be applied as a tax deduction, from 2021 as a tax base allowance.

### Final Thoughts

In this article, I reviewed the development of tax benefits in the system of personal income taxation from the beginning to the current regulation. Of course, I could have continued to investigate in further detail, but the limitations of scope do not allow this. However, I was able to pay due attention to the most important rules and changes. It can be seen according to what preferences the legislator tried to ease the tax burden on individuals in which period in personal income tax. I hope that with this review I have been able to draw the more than thirty-year-old arc of amendments, the main tendencies of change.

In the period under review, from the beginning until 2011, a progressive system was typical in personal income taxation, i.e. an increasing tax base was accompanied by an increasing tax rate per band. During this period, there were several types of tax benefits, which I examined in detail. From 2011, personal income taxation has been systematic, initially at a rate of 16%, then from 2016 at a rate of 15%. There has been a change of attitude in taxation since 2011, as the focus has shifted from wage taxation to consumption taxation. We can see a gradual expansion of tax base benefits over the past decade and a half, as in addition to family allowances, first-time married couples, mothers with four or more children, and mothers

under the age of 30 also receive benefits. The aim is clearly to support marriage and childbearing for those with taxable income. But to what extent has this been achieved?

Under a flat income tax system, the tax rate on income does not depend on the level of income and the source of income, unlike progressive tax systems, where higher incomes are taxed at a higher rate. A flat rate system can have both positive and negative effects. On the one hand, its simplicity and transparency can reduce tax evasion and administrative costs of the tax system. A single rate typically lowers the marginal tax rate for those on higher incomes, which can increase job supply: more stays with high-earners, so they pinch themselves harder to earn more. At the same time, a flat rate system can reduce the rate of redistribution, which can lead to income inequality.

Until 2010, Hungary had a progressive, multi-rate personal income tax. As a result of the reform implemented in several steps starting in 2011, the tax system effectively became flat rate from 2013 (the personal income tax rate was 16% until 2015, since then it has been 15%). In addition, within the framework of the tax reform, the family tax allowance system was significantly expanded in several steps.

It depends on the number of children: the more children in a family, the greater the amount per child. The net value of the tax allowance for those with one child at the time of its introduction (and ever since) is HUF 10,000 per month. In the case of three children, the tax burden may be reduced by a total of HUF 99,000, but the maximum amount of the allowance can only be obtained with an income exceeding HUF 295,000. In contrast, a family raising three children but earning a public worker wage receives only HUF 27,000 in family tax and tax allowances, while a family living on minimum wage receives less than HUF 54,000.

High-income households and households with many children clearly benefited the most from the tax reform: a household with three children earning double the average wage paid an average of 18.2 percentage points less tax in 2021 than in 2010.

However, due to the abolition of the low-income tax credit (tax credit), the tax rate for low-income workers without children has increased substantially.

It is a lesser known fact that the tax burden of those with one child earning the minimum wage has also increased substantially, by about 9.5 percentage points compared to 2010. This is because the small tax relief for taxpayers with one child did not offset the effect of the phasing out of the tax credit. This element of the tax reform is surprising because, according to government communications, one of the goals of the new family tax allowance was precisely to encourage childbearing – and third children will not be born without the first.

Hungary has the highest tax burden among EU countries for low-income workers without children. This is primarily due to the fact that the Hungarian personal income tax system rarely in Europe no longer includes any credits or benefits that would reduce the tax burden on low-income taxpayers without children, even though tax exemptions/tax relief on tax income can be found even in the majority of single-rate personal income tax systems. In terms of the total tax burden of higher-income taxpayers without children, we are already in the middle of the EU coun-

tries. It is important to note that it is one of Hungary few EU countries where taxpayers without children have the same tax burden for low-income and high-income taxpayers.

The family tax allowance is relatively low in international comparison for families with one child, while it can be considered roughly average for low-income families with many children.

In contrast, the level of discounts available to high-income families with many children is among the best in Europe.<sup>58</sup>

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