

# Hungary: Tax exemption for mothers of four or more children

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*As part of the set of measures to fight demographic decline in Hungary, as of 1 January 2020, all mothers who are currently raising at least four children, or who have raised four or more children during their lifetime, will be completely exempt from paying personal income tax under certain income conditions specified by law. This measure is expected to benefit some 40,000 mothers and is part of a government package whose main purpose is to increase birth rates.*



## Description

A highlighted policy objective of the Hungarian government is to help families have the number of children they wish to have. Prime Minister Viktor Orbán announced right after his re-election in 2018, that his new government would have a “demographic focus” and would take further steps to increase birth rates. The strengthening of families and promotion of childbirth had been on the agenda for several years already, and over the previous years, the family support system was expanded and transformed (for more details, see Albert 2018). This specific measure is part of the government’s seven-point family protection plan announced in February 2019. It is meant to encourage women to have more children and reverse Hungary’s population decline. The birth rate in Hungary has increased in recent years from an absolute minimum of 1.24 in 2011 to 1.53 in 2016, and the government’s objective is to increase it to 2.1 by 2030.

Previously, the tax base for personal income tax could be reduced with two tax allowances: the family tax allowance (*családi adókedvezmény*) and the allowance for couples in their first marriage. On 1 January 2020, a third tax allowance was introduced: the *allowance granted to mothers raising four or more children* (“NÉTAK”).

A mother of four or more children is entitled to the new tax allowance if: i) she is entitled to the family allowance (*családi pótlék*, a universal benefit for all

children) as a parent or adoptive parent of biological or of adopted children; or ii) she received this family allowance for at least 12 years before; and iii) the total number of children mentioned under i) and ii) is at least 4. If entitlement to the family allowance ceased due to the death of the child, the entitlement is considered as having existed for 12 years.

Beside wage income, the tax exemption granted to mothers raising four or more children relates to the following sources of income:

- income from self-employment, entrepreneurial dividend base;
- income from primary agricultural production;
- income from appointed auditing activity;
- income from European Parliamentary representation, or as a councillor in a local municipality;
- income earned under a contract for work, where the contract was not concluded by the individual as a self-employed entrepreneur.

The existing family tax allowance (*családi adókedvezmény*) results in a reduction of the tax base of 220,000 HUF (€647) per child for families with at least 3 children, which can be shared between parents. So, for a family with 4 children, up to 880,000 HUF (€2588) total income per month is exempt from personal income tax. If the mother has income from sources not exempt from tax

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through the allowance granted to mothers raising four or more children (e.g. income from letting an apartment), she can still claim the family tax allowance for that. Otherwise, the father can use the whole family tax allowance for reducing his personal income tax base.

The tax exemption granted to mothers raising four or more children is applicable before any other tax allowance. It is not automatic: an application must be submitted to the tax authorities. On this basis, it can also be taken into account during the year when the advance tax is deducted, if the mother requests it in her tax-advance declaration. If a mother, in her declaration, claims the allowance granted to mothers raising four or more children and/or the family tax allowance, her basis for the tax advance will be reduced and her employer will then have to pay less tax advance for her income (and she will receive

a higher salary). According to the Finance Ministry, about 40,000 women are eligible for this tax allowance.



## Outlook and commentary

As this is a recent measure, data are lacking (at least in the public domain) and there are few evaluations of its effectiveness. One main criticism regarding this measure, and several of the other recent family policy measures taken, is that it mostly favours well-off families. For families with 4 children, the existing family tax allowance already provided a reduction in the tax base of 880,000 HUF (€2588) total income per month, a level which only a few families in Hungary achieve. Only highly-paid mothers can thus benefit from this newly introduced additional measure. Of course, when children are grown and the family is no longer entitled to the

tax allowance, the new measure provides extra income. But clearly the higher the family income, the greater the benefit from the various family-related measures.

The new measure can also be criticised from a gender equality perspective, as only mothers are entitled to this allowance, not fathers.

### Further reading

Albert, F. (2018): *Measures to fight demographic decline in Hungary*. ESPN Flash Report 2018/19. European Social Policy Network (ESPN), European Commission, Brussels.

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