

# Personal income tax refund for families in Hungary

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FRUZSINA ALBERT – EUROPEAN SOCIAL POLICY NETWORK

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*The Hungarian Prime Minister announced in 2021 that if GDP growth reached 5.5% in 2021, families with children would have their personal income tax (PIT) totally refunded in 2022, to ease the shock caused by the COVID-19 pandemic. The refund applies to all people with children paying PIT, but is capped at HUF 809,000 (€2,186) – which corresponds to the PIT on a yearly average salary.*

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## Description

In 2021, the Prime Minister announced a plan to refund the paid personal income tax (PIT) to families with children, if economic growth were to reach 5.5% in 2021. The regulation was published as a government decree (560/2021. (IX. 30.)) on the grounds of the COVID-19 related emergency situation. Hungary has a flat-rate (15%) PIT system. The tax base for PIT can be reduced by three types of mechanisms: 1) the family tax benefit/credit (családi adókedvezmény), i.e. a reduction of the tax base of HUF 66,670 (€180) per child for a family with less than 3 children, and HUF 220,000 (€595) per child for families with at least 3 children, which can be shared between parents; 2) the tax discount for couples in their first marriage, i.e. a 2-year exemption from PIT for a tax base up to HUF 33,335 (€90) per month; and 3) the allowance granted to mothers raising four or more children (NÉTAK), who are completely exempt from paying PIT under certain income conditions specified in the law (see Albert 2020).

In 2021, the PIT refund is available to all parents with children who are legally entitled to the family tax credit (whether or not they claim it) on any day in 2021. They are granted a refund of their 2021 PIT on top of the family tax credit. If both parents in the family have a registered job or other eligible income, both parents are refunded the PIT, capped at HUF 809,000 (€2,186) each - which corresponds to the PIT on a yearly average salary (gross amount in December 2020, as indicated by the Central Statistical Office (KSH): HUF 449,400/€1,215 a month). Thus, a family with two parents may have

received/receive a maximum of 1,618 million HUF (€4,373) PIT refund, irrespectively of the number of children they have.

Not only tax on income from salaries is refundable, but also, for example, tax on entrepreneurial withdrawals, on childcare benefit (GYED), on agricultural self-employment (őstermelő) and on income from the letting out of a property. The spouse or heir of a deceased individual can also claim the PIT refund if the deceased taxpayer was eligible for the family tax credit on any day in 2021. This must be claimed through an extraordinary tax assessment procedure.

By 20 March 2022, 1.6 million people received the refund, amounting to a total of HUF 643 billion ((€2.5 billion). Another 400-500 thousand people are expected to receive it later, after submitting their tax statement by 20 May 2022 at the latest (Varga 2022).



## Outlook and commentary

This measure has been criticised as badly targeted and is thought to contribute to the increase in the government deficit and consumer demand in a situation when prices and inflation are increasing (Prinz, 2022). The reasoning behind the measure (presented as a family policy or social policy measure) is that it should ease the shock caused by the COVID-19 pandemic, which “affected families with children especially badly”. However, neither the number of children in the family, nor the family income level affects the proportion of the tax refund in income: those who have a higher income receive a higher refund, even if they have only one child.

Furthermore, those in the worst situation, for example those who lost their jobs due to the COVID-19 pandemic, or who have several children, receive nothing. Single-parent families in theory receive only half the amount provided to a family with two earners, and those without children receive nothing.

Additionally, although the government stresses that it is refunding the annual tax up to the average wage, in reality those earning much more than the average wage can also benefit, because of the family tax credit they already received.

A working couple with two children who wish to claim the maximum refund of HUF 2\*809,000 (2\*€2,186) must earn a total of HUF 1,166,000 (€3,150) per month, i.e. HUF 583,000 (€1,576) gross per person per month. This is much higher than the average wage calculated by the KSH (449,400/€1,215).

The examples illustrate that this measure benefits families with children on a high income and can be perceived as an example of perverse redistribution, which reallocates money to those needing it the least.

Furthermore, depending on the number of children, a large proportion of the population, i.e. the lowest income segments, will not benefit from any refund.

Indeed, among families with three children, those receiving less than HUF 660,000 (€1,784) per month will not benefit from the PIT reimbursement because of the tax exemption due to the tax family credit. This means, for example, that when there is only a single earner (e.g. a single parent or a couple with a single earner), the measure only targets those receiving an income higher than 146% of the average wage. With each additional child, this pro-rich targeting becomes even stronger.

The measure is clearly perceived as a part of the election campaign (the parliamentary election was held on 3 April 2022). In February 2022 a number of local government party candidates mentioned, in their election campaigns, precisely the expected amounts of the local tax refund and the number of local people who would benefit from the refund (Tenczer, 2022) – although these data were not yet publicly available.

In February 2022, a new civil initiative was launched, as some felt that this measure was another unfair advantage for those already in good social positions: the Továbbadó (“Forward it”) movement, whose aim is to motivate people in a good financial position to donate their PIT tax refund to NGOs that otherwise have very little access to funding.

## Further reading

Albert, F. (2020): Hungary: Tax exemption for mothers of four or more children. ESPN Flash Report 2020/17. European Social Policy Network (ESPN), European Commission, Brussels.

Prinz, D. (2022): Az adóvisszatérítés, drága, rosszul célzott és nem segíti a gazdasági stabilizációt [*The tax refund is expensive, badly targeted and does not promote economic stabilisation*]. Qubit 2022.02.15.

Tenczer, G. (2022): Forintra pontos helyi szja-visszatérítési adatok jelentek meg a fideszes jelöltek választási kampányában [*Exact local HUF amounts of the PIT refund appeared in the election campaigns of FIDESZ candidates*]. Telex, 19 February 2022.

Továbbadó:

<https://www.facebook.com/tovabbado>

Varga, M (2022): [További 106 ezer szülő kap vissza 33 milliárd forintot az adóvisszatérítéssel](#) [*A further 106 thousand parents receives HUF 106 billion tax refund*] 20 March 2022].

## Author

[Fruzsina Albert](#) (Centre for Social Sciences and Semmelweis University)

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