

**CHANGES IN THE LEGAL
AND INSTITUTIONAL ENVIRONMENT
OF THE LABOUR MARKET**

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This chapter addresses the changes in the legal and institutional environment of the labour market in two parts. The first part presents the measures that were taken in 2004 – after the publication of the previous volume of the Labour Market Review – and which entered into force in 2005. The second part describes the new legislation and amendments that took place in 2005.

1. Measures Taken in 2004 and Entered into Force in 2005

As of January 1, 2005 the following new measures were introduced:

- Private entrepreneurs and members of corporations became eligible for unemployment benefit (entrepreneurs' benefit), conditional upon the payment of the entrepreneurs' contribution.
- The amount of the fixed-sum health insurance contribution is adjusted to the working time, thus in the case of part-time employment only the correspondingly reduced sum is paid. Moreover, there was an overall reduction of the amount of the fixed-sum health insurance contribution (from 3450 HUF to 1950 HUF) as of November 1, 2005.
- Employers hiring school leavers, people returning to work after child care, the long-term unemployed aged 50 years and over and young people in the framework of the paid internship programme are eligible for a reduction of social security contributions.
- Child care allowance recipients can take up employment as soon as the child is 12 months old without losing their eligibility for the assistance (previously it was 18 months).
- The amount of the nursing allowance paid to those taking care of severely disabled relatives increased by 30% (as of September 1, 2005).
- New rules were introduced for the regular social allowance.
- A special unemployment benefit scheme, the so-called Premium Years Programme was created for public sector employees – civil servants and public servants – who are affected by redundancy.

– In the framework of the corporate tax incentive scheme, small enterprises hiring 30, or in disadvantaged regions 15 new employees are eligible for the business development tax reduction. Medium-sized enterprises should take 150 or in disadvantaged regions 75 new employees to qualify for the same form of support.

– Micro-enterprises with not more than 5 workers, for each new employee they take are entitled to a reduction of the corporate tax or personal income tax base by the annual amount of the minimum wage. Enterprises employing new workforce, for each additional employee can reduce their local business tax base by 1 million HUF.

1.1 Entrepreneurs Contribution and Benefit

The amendment of Act IV of 1991 on the Promotion of the Employment and Unemployment Compensation Benefits – sections 39/C, 42 (7), 44-46/B, and 58 (5) – introduced an unemployment benefit scheme for entrepreneurs as of January 1, 2005.

Self-employed private entrepreneurs and members of corporations are required to pay entrepreneurs' contribution. The amount of the contribution is 4% (3% employers' contribution and 1% employees' contribution) of the income that serves as the base for the health insurance contribution. The annual contribution calculated on the basis of the minimum wage should be paid regardless of whether the entrepreneur has received income from the private enterprise or the company.

The entrepreneurs' contribution can be declared as an expense in the case of corporations, while for private entrepreneurs this is not stated explicitly in the act on personal income tax.

The entrepreneurs' benefit can be paid as of 2006 for persons who:

- are unemployed;
- have spent at least 365 days in employment as a private entrepreneur or as a member of a corporation over the four years prior to becoming unemployed, and have fulfilled the above payment obligation during this time;
- are not eligible for incapacity or accident-related disability pension, or are not receiving sick-pay;
- registered as a job-seeker with the local job centre and have not been offered suitable employment.

The amount of entrepreneurs' benefit is calculated on the basis of the income which has served as the base for the entrepreneurs' contribution. For this purpose the income of the last calendar year is taken into account in which the unemployed paid the entrepreneurs' contribution for at least 6 months during the period of 4 years prior to becoming unemployed. The actual amount of the entrepreneurs' benefit is 65% of the monthly average income defined in this way. Nevertheless, there are minimum and maximum

amounts: the monthly minimum and maximum benefit are equal to 90% and 180% of the minimum old-age pension respectively (24,700 HUF and 49,400 HUF in 2005).

The period of payment of the benefit is a maximum of 270 days; one day of disbursement corresponding to 5 days of contribution.

Gábor Antalfy, the president of the National Association of Traders and Caterers welcomed the new measure because the Association had long supported the extension of protection to entrepreneurs that face insolvency. Regarding the amount of the benefit, he adds that “it does not cover living costs but it helps to survive the transitional period.” A contrary view is expressed by the Hungarian Chamber of Commerce and Industry. It depicts the benefit as a negative measure that increases the burden of entrepreneurs and cuts their income by HUF 17–18 billion. (*Népszabadság*, issue of November 25, 2004).

1.2 Incentives for Hiring Disadvantaged Workers

Act CXXIII of 2004 on the Promotion of the Employment of School Leavers, Unemployed Aged 50 Years and over, People Returning to Work after Child Care or Nursing and the Introduction of the Paid Internship Programme was adopted by Parliament on December 13, 2004 and entered into force on January 1, 2005.

Through the new support scheme the Government aimed to promote the employment of school leavers and the unemployed young who had been facing increasing difficulties on the labour market. The subsidy aims at assisting school leavers to gain work experience. Other target groups are those returning to work following a longer period of inactivity due to child care or nursing. Finally, the scheme also gives incentives to take on the long-term-unemployed aged 50 years and over. These people often face difficulties in finding a job even if their qualifications are otherwise demanded on the local labour market and there is a shortage of labour.

The overall aim of the subsidy scheme is to support the labour market re-integration of these groups. The policy brief of the legislative proposal argues that “it is justified to introduce measures that create more favourable conditions to employers than the general rules on social security contributions. The opportunities of the disadvantaged groups to gain work experience should be further enhanced”.

Employers are eligible for the subsidy if they employ a person from any of the above target groups. The subsidy is paid for 9 months, after which the worker should remain in employment for at least an additional 3 months. Working time can be full-time as well as part-time, however part-time employment should not be less than 4 hours per day. The subsidy is 50% of the social security contributions payable by the employer, and is reimbursed ret-

*New support scheme
to increase employment*

respectively. In 2005 the wage eligible for the subsidy was capped at a monthly gross HUF 90,000 and accordingly the maximum amount of the subsidy was HUF 13,050 a month.

For each target group there are certain eligibility conditions. School leavers are eligible if they are under the age of 25 and have not held a job previously. People returning to work after child care or nursing are eligible if they are not in employment when the payment of their assistance ends. This excludes those who are laid off shortly after they return to work, which is unfortunately a rather widespread phenomenon. Unemployed people aged 50 years and over are eligible if they are registered as long-term unemployed by the local job centre.

Support for hiring unemployed people aged 50 years and over had already been available before this measure: upon the application of the employer a full or partial wage subsidy and/or a contribution waiver could have been provided. The scheme was amended commencing from 2005 so that the reduction cannot be less than 50% of the employer's social security contributions. In addition, the subsidy includes the fixed-sum health insurance contribution which amounts to HUF 1,950/month and the 3% employers' contribution to the Labour Market Fund for unemployment insurance.

Recently a new legal concept has been introduced: the so-called paid internship employment status. This type of employment can only be established by a school-leaver with a higher education degree for a single period of 9–12 months. The intern cannot fill a position independently; nevertheless, the paid internship is a form of employment. At the end of the internship the employer provides the intern with a recommendation letter that certifies work experience. Each intern is assigned a mentor who gives individual professional guidance, regular feedback and evaluation. The employer of the intern is also eligible for the reduction of contributions presented above, however the intern can be older than 25 and there is no requirement to maintain the employment relationship.

Employers are required to inform the tax authorities in advance in the event that they wish to request the reduction of the social security contribution. The sum is reimbursed by the Tax and Financial Control Administration in a single amount retrospectively, after the end of the 9 months of employment. The tax authority makes a declaration of expenses and submits a payment request to the Labour Market Fund.

This method has triggered some negative remarks concerning the new law. It was argued that “firms would be more willing to take up the new subsidy if they did not have to pay that sum at all.” (*Gyenis* 2004). Moreover, if for any reason the employment relationship is terminated before the end of the 9-months period, employers are not eligible for any reimbursement, regardless of which party is held responsible for the termination of employment.

In addition to the reduction of the employer's social security contribution for the employment of paid interns, central administration bodies and their regional offices are eligible for a monthly maximum subsidy of HUF 45,000 for the period of 9 months, if the number of interns exceeds 1.5% of their total authorised headcount.¹ The interns are not civil servants, nevertheless this measure allows them to gain work experience and practice in public administration. It is advantageous for the ministries as well because of the subsidies and the possibility to recruit and train talented young people.

A survey of the ministries showed that interest in the paid internship scheme had been negligible before the end of March 2005, mainly because it was unclear whether interns were counted in the authorised number of staff (Ministry of Employment and Labour, April 2005). The Government nevertheless saw this new scheme as a tool to improve the labour market prospects of graduate school leavers and to allow central administration bodies to recruit new civil servants from a wider pool of talented young people. The number of authorised staff in central administration bodies is 59,579 people, thus if maximum use was made of the programme it would mean that 900 young people could benefit from gaining work experience in public administration.

In order to promote the hiring of interns, the Minister of Employment and Labour launched a central programme that gave further incentives to the existing subsidies. (The deadline for applications was June 30, 2005.) In the framework of the programme those budgetary institutions that took paid interns in 2005 were eligible for an additional 50% wage-subsidy but not more than 45,000 HUF/month.

All in all the following subsidies were available in the paid internship programme:

- the reimbursement of 50% of the social security contributions after a 9-months period;
- 50% of the grant (salary) but not more than 45,000 HUF/month (financed from the state budget);
- 50% of the grant (salary) but not more than 45,000 HUF/month in the framework of the central programme (financed from the employment sub-fund of the Labour Market Fund).

1.3 The Premium Years Programme in Public Administration

The Premium Years Programme and the so-called “special workforce” were introduced with a view to improving the efficiency and cutting the costs of public administration.² The Premium Years Programme gives a fair opportunity to older civil servants, public servants and administrative assistants to retire gradually. For younger public sector workers another scheme, the “special workforce” scheme was created to facilitate transition from public administration to the private sector.

¹ The source of funding is the 2005 annual budget of the Republic of Hungary, Chapter X, heading 20, sub-heading 1, category “Other Staff”.

² Act CXXII of 2004 on the Premium Years Programme and the Special Workforce was adopted by Parliament on December 13, 2004 and entered into force on January 1, 2005.

*Redundancy
with a premium*

The Premium Years Programme offers the alternative of part-time employment for public sector employees who become redundant as a result of the modernisation of the public administration. Individuals are eligible if they are not more 3 years from retirement and have been employed in the public sector for at least 25 years. This cohort comprises approximately 60,000 public servants and 10,000 civil servants. An important provision of the law is that participation is voluntary even if all eligibility conditions are met.

Those who decide to join the programme instead of being laid-off, continue receiving 60% of their monthly salary for 3 years. During this period they might be required to work a maximum of 12 hours per week. The “premium years” count as employment and end when the person reaches retirement age and becomes eligible for old-age pension. If the individual finds employment outside the public sector within 12 months of joining the programme, she/he is entitled to a one-off payment.

Parliament adopted Act CLXXX of 2005 on Measures to Increase Employment and Promote Flexibility on December 19. The act extended eligibility for the Premium Years Programme in the public sector for those within 5 years of retirement as of January 1, 2006. To further increase the attractiveness of the programme participants receive 70% of their monthly salary.

Those who have been employed in the public sector for at least 10 years but are further from retirement age can opt to join the special workforce under similar conditions. The maximum duration of this scheme is one year, during which participants are required to undertake active job search and the use of the employment services in addition to part-time work. The detailed rules are laid down in 30/2004 (Dec. 21) MoEL Decree.³ The local job centre of the Public Employment Service:

- conducts an in-depth personal interview to explore the participant’s background, expectations and labour market prospects;
- explores the possibilities and obstacles to employment,
- offers labour market services;
- provides job brokerage services;
- gives information on assistance and subsidies, especially training opportunities.

Participants sign a job-seekers agreement with the job centre. Compliance with the agreement and progress are jointly monitored on a regular, but at least monthly basis, and if necessary modifications are made.

The Premium Years Programme and the special workforce can be joined during 2005–2006, and they will be run until the end of 2009. The costs are borne by the central state budget.

The prolongation of the transition between working life and retirement on the one hand is positive for the employee, but on the other hand it is also favourable for the state budget because the costs of lay-offs are distributed over

3 – 30/2004. (Dec. 21) Ministry of Employment and Labour Decree on the Detailed Rules on Provision and Use of Labour Market Services for Civil Servants in the special workforce; in force since January 1, 2005.

Special Workforce

a three-year-period and do not incur all at once as would be the case with normal redundancy and severance payments.

1.4 The Amendment of the Rules of Regular Social Allowance

Parliament adopted Act CXXXVI of 2004 on the Amendment of Certain Social Laws on December 20, 2004. This Act modified among others Act III of 1993 on Social Administration and Assistance (Social Act). The amended act entered into force on January 1, 2005; however, certain provisions will enter at a later stage.

Two main changes should be highlighted here. One is the creation of county social and custody offices as of September 2005. They are set up as part of the county and Budapest public administration offices and have competence and authority in social administrative affairs. Their establishment was made necessary on the one hand by the weak guarantees against discriminative procedures – against which appeal procedures could not provide adequate protection. On the other hand in the field of social administration there was a lack of a single administrative body resulting thus in a fragmented and incomplete institutional structure.

The other important change was the amendment of the rules on regular social allowance. According to previous eligibility criteria, regular social allowance could be granted to persons who had no income and who either lost 67% of their working capacity or exhausted their unemployment benefit. Those who did not comply with these criteria became eligible only following a so-called cooperation phase with the authorities. This meant that some people were left without any financial support for a rather long time. In other words the regular social allowance failed to address those situations where there had been no previous unemployment status, particularly cases when the individual had received other forms of social income, such as nursing allowance or child care allowance but these were finished. These groups are particularly vulnerable because their previous income was already very low and they do not have savings. Thus, in their case one year without any financial assistance leads to extreme poverty.

The legal amendment had a twofold objective: first to enhance social protection, and second, to assist these people to re-enter the labour market. As of September 1, 2005 these groups can be granted regular social allowance if they agree to cooperate with the Public Employment Service or any other service designated by the local government and take part in a reintegration programme. Other eligibility criteria for the allowance (means-test) were not modified.

A further key element of the reform is the revision of the rules of obligatory cooperation. Already the previous version of the Social Act provided for obligatory cooperation of regular social allowance recipients with the local government, but its rules were left to be decided by local governments. At the same

*Extended eligibility
for regular
social allowance*

*Promoting return
to the world of work
– reintegration
programmes*

time, however, local governments were required to organise public work for allowance recipients who, in turn, were required to take the work offered.

Helping allowance recipients back to the labour market and thus fighting undeclared work calls for more concerted efforts and stronger cooperation. In the spirit of the amendment, this should take place in a comprehensive fashion using active labour market measures, social work and public work.

Each local government is required to create the adequate institutional conditions for the obligatory cooperation either by its own institution or in association or partnership with other local governments or authorities. The institution designated for cooperation prepares a personal reintegration plan together with the individual which addresses social as well as employment issues. The programme defines the concrete terms of the cooperation, the services provided and the work-related obligations of the allowance-recipient (i.e. registration with the PES, participation in community service work etc.) The reintegration programme takes the form of a written agreement between the institution and the individual.

The act amends the obligation of local governments to offer public or community service work opportunities for non-employed people. All in all the new provisions keep the old rules but make them more specific. As a new element, provisions on the duration of public work are introduced. The overall aim of the regulation is promoting work rather than passive measures and thus, it extends the maximum duration of public work or community service work to 12 months. The target group of public work programmes is widened: besides allowance-recipients people who have agreed to cooperate with the local government can also be involved.

The Social Act was amended again by the Hungarian Parliament on December 19, 2005 (Act CLXX of 2005 on the Amendment of Act III of 1993 on Social Administration and Social Assistance). A number of the new provisions are relevant from a labour market perspective but as they enter into force either on April 1, 2006 or January 1, 2007 they will be presented in the 2006 Volume of the Labour Market Review.

2. New Measures in 2005

The new measures planned or taken in 2005 are part of the “100 Steps Programme” of the Government. It was argued “it is impossible to make up for the shortfalls at once, however a sequence of small steps will set in motion. The changes that will make work pay and make work a real option for all, will help active job search rather than passive allowance-receipt, will improve the enforcement of labour regulations, will punish those who breach the rules and eliminate the ways of tax evasion” (<http://www.magyarország.hu/100lepes/foglalkoztatás>).

The first 15 steps to “enhance the value, the respect and security of work” were the following:

“We want to build a country where work is a real and attractive option for all.”

1. The reform of the unemployment compensation. The replacement of unemployment benefit by the job-search benefit and more and better services for those who become unemployed to help them find a new job in the shortest possible time.

2. The introduction of the so-called “blue labour” or in other words casual work in private households (i.e. babysitting, housekeeping, gardening etc.) to improve the employment security of this group of casual workers.

3. Increasing the flexibility of seasonal employment in agriculture.

4. Strengthening labour inspection, coordinating the activities of the various control authorities to combat undeclared work.

5. The introduction of special rules in the construction and tourism sectors to transform undeclared work into legal employment.

6. The incorporation of new provisions in the Criminal Code on the basis of which employers can be held liable for undeclared employment.

7. The amendment of the public procurement regulations: regular employment and labour relations were included in the eligibility conditions for participation in public procurement tenders and calls for proposals for grants.

8. To improve security on the labour market, new provisions are introduced to prevent employers from setting unrealistically high performance targets and thus pay less than the statutory minimum wage for their workers.

9. The amendment of the rules of temporary agency work, with special focus on preventing evasion of contributions and taxes.

10. Extending the possibility of regular employment – under certain conditions – to recipients of unemployment, child care and social allowances.

11. The modification of the financial regulations concerning public work programmes in order to make them more targeted and efficient in helping the most disadvantaged groups back to work.

12. Promoting the coordination and cooperation of social and employment services to help the activation and labour market reintegration of welfare-recipients.

13. Reform of the funding mechanism of adult education with a view to improving its quality and efficiency. In the new system funding will be linked to outcome indicators, most importantly to the number of those who can find work after training. Moreover, vocational training should become more responsive to jobs market demand.

14. Extending the Premium Years Programme to the business sector.

15. Reforming the subsidies for the employment of disabled people in order to improve funding and make sure that assistance reaches those who need it and are not used fraudulently.

+ *Start Programme*: Further incentives were introduced to foster the employment of school leavers. Employers hiring young people entering their first job will be granted a reduction of social security contributions for a two-year period and for wages up to HUF 90,000. Instead of 33%, the employer has to pay 15% as the social security contribution in the first year, and 25% in the second year.

In the following section the measures enacted and entered into force by the end of 2005 are presented.

2.1 *The Reform of the Unemployment Benefits*

The unemployment benefit system has undergone significant changes since 1991 (when the Employment Act entered into force). Some eligibility criteria have been restricted (unemployment benefit), certain types of assistance were phased out (school leavers unemployment allowance) or replaced by less generous ones (e.g. the pre-retirement pension was replaced by the pre-retirement unemployment allowance), and new benefits were introduced (e.g. the job-search assistance). As of November 1, 2005 major changes were introduced in the unemployment benefits. Changes will be phased in for new entrants.⁴

The various types of unemployment benefits are replaced by a range of job search assistances. The key message is that only active job seekers – i.e. those who are engaged in job search, cooperate with the local job centre and accept any suitable jobs that are offered – are eligible for the assistance. (MoEL-MoJ, 2005) Thus active job search has become the main eligibility condition for the assistance. This is well illustrated by the fact that the unemployment status is not even mentioned in the amended legislation.

2.1.1 *The Job-search Benefit*

In the new system the unemployment benefit is replaced by the job-search benefit. The eligibility conditions are similar to a mixed, insurance-based and universal assistance together with reinforced incentives to take up work. The latter is manifested for example in the fact that the amount of assistance decreases with the duration of unemployment.

Job-search benefit can be granted to job-seekers who were employed for at least 365 days within four years of becoming unemployed. As eligibility to one benefit day requires five days spent in employment, the shortest disbursement period of the job-search benefit will be 73 days (previously the shortest period was 40 days requiring 200 days in employment), while the longest period will remain at 270 days. The amount of the job-search benefit equals 60% of the eligible average wage. The maximum and minimum amounts have been detached from the minimum old-age pension and are linked to the minimum wage.

In phase one, the duration of which is half of the disbursement period, but a maximum of 91 days, the job-search benefit amounts to 60% of the ben-

Job-search assistance instead of unemployment benefits

The two phases of the disbursement

⁴ Act LXX of 2005 on the Amendment of Act IV of 1991 on Job Assistance and Unemployment Benefits. The Act was adopted by Parliament on June 27, 2005 and entered into force on November 1, 2005.

eficiary's earlier average wage, with a fixed minimum and maximum. The minimum amount is equal to 60% of the minimum wage, while the maximum is the double, 120% of the minimum wage (if the minimum wage is HUF 57,000, the minimum amount is HUF 34,200 and the maximum is HUF 68,400 per month, in contrast to HUF 22,230 and HUF 44,460 before November).

The duration of phase two is the number of the remaining entitlement days, but not longer than 179 days. The benefit during this phase is a fixed amount: 60% of the minimum wage. (If the job-seeker's eligible monthly average earning was lower than the minimum amount of the benefit, then she/he is entitled to that amount, namely the previous monthly average earning).

Active job search is a key requirement in order to qualify for the benefit. Its terms and conditions are set in out the job seekers agreement signed by the job seeker and the local job centre. This document is adopted jointly by both parties and sets out a sequence of activities that help the individual to return to work. Active engagement and participation of the individual is crucial, and in case of non-compliance by the individual, the benefit must be suspended or terminated.

Job-seekers will be further encouraged to find employment by a bonus that is paid for those who succeed to find a job before the end of their entitlement. This is not new; it was already part of the previous job-search incentive. The bonus is a lump-sum payment that amounts to 50% of the remaining benefit entitlement and is granted to job-seekers who take up full-time, or part-time (at least 20 hours a week) permanent employment with a legal contract.

The job-search benefit gives entitlement to social security benefits, and thus – like the unemployment benefit – is subject to health insurance and pension contributions.

2.1.2 Job-search Allowance

The aim of the amendment is to ensure that no group of unemployed receives a lower amount of benefit, and any reduction in the average daily assistance is compensated by a longer entitlement period. Therefore the job-search allowance was introduced for those who:

- exhausted their eligibility for the job-search benefit;
- are close to the statutory retirement age;
- or due to the changes in the eligibility conditions, do not qualify for job-search benefit. (MoEL, May 2005)

The allowance is a fixed-sum – HUF 22,800 in 2005 – which equals 40% of the statutory minimum wage. It also gives entitlement to social security assistance, thus the allowance is subject to health insurance and pension contributions. Its payment can be suspended or terminated if the individual takes up employment. In the event that employment is terminated, the remaining entitlement days cannot be taken over for a new period.

*Bonus for successful
job seekers*

*The eligibility conditions
and duration of the job-
search allowance*

– The introduction of the support to the job-search incentive on July 1, 2003 served the purpose of promoting longer and closer cooperation with the job centre. This allowance could be granted to those who engaged in active job search and cooperated with the job centre. Another condition was that they had received unemployment benefit for at least 180 days but had used up their entitlement entirely. The amount of the allowance was 85% of the minimum old-age pension and the duration was 180 days, which could be extended by another 90 days for people aged 45 years and over.

The support to the job-search incentive had to be adjusted to the new system and the lessons learnt had to be incorporated. One of these is the requirement for active job search which should be there from the first day and not only after a longer passive period.

Therefore job-search allowance can be granted to those job-seekers who have been eligible for at least 180 days of job-search benefit and have already used them up but were not able to find a job. The allowance is paid for 90 days, in the case of job-seekers aged 50 years and over for 180 days.

Furthermore, job-search allowance can also be granted to those who had gained eligibility for unemployment benefit according to the old rules before November 2005 (i.e. they accumulated 200 days in employment for 40 days of entitlement), however in the new system they are not eligible because they do not reach 365 days in employment. To avoid a situation whereby these people are worse-off in the new system, they are granted job-search allowance if they had been employed for 200–364 days during the four previous years. The allowance is also paid for 90 days in their case.

– The pre-retirement unemployment allowance is also kept in the new system with identical eligibility and payment conditions. (The amount of the allowance has increased: previously it was 80% of the old-age minimum pension and now it is 40% of the minimum wage). However, its name has been changed and it has been integrated into the general job-search allowance scheme.

People receiving job-search benefit are permitted to take up temporary employment without losing eligibility to the benefit, under the same rules as unemployment benefit recipients. The purpose of this new rule is to minimise the disincentives and benefit-traps resulting from passive measures. Furthermore, in the new system allowance-recipients are also permitted to take up temporary employment with the temporary employee card with no consequences on the payment or amount of the allowance.

2.2 “Blue Work” for Casual Workers in Private Households and “Green Work” in Agriculture

The so-called casual workers’ log was introduced years ago. It reduces red-tape and the cost of hiring of a casual worker. So far rules were predominantly shaped to suit the construction and the agriculture sectors with the highest

*Employment during job-
search assistance*

demand for casual work. In these sectors, labour inspection is fairly frequent, therefore it was worthwhile for employers to regularise their workers. New rules extended this form of employment to casual workers in private households (such as baby-sitters, housekeepers etc.).⁵

In this case the casual workers' log is maybe less crucial to avoid fines for undeclared employment – it is not realistic and feasible that labour inspectors will inspect private households – but employers should acknowledge how a minor contribution can significantly improve the social protection of their employees.

There is a single casual workers' log with white, blue and green pages where employment should be recorded according to the sector: businesses on the white page, private persons or charities on the blue page and agricultural businesses on the green page. The old rule is still valid, namely if the casual work is recorded in the log, it is considered an employment contract without the need for any further written agreement.

For enterprises and their casual workers using the white pages of the log, the old rules apply. A temporary worker can be employed by a company for up to 5 consecutive days and up to 15 days a month and a maximum of 90 days in 12 months. In the event that the individual works for more than one company, the maximum number of days is 120 per year.

Casual work should be registered on the blue page if it is undertaken for private persons or charities and is not related to any business activity. These activities are typical household jobs, such as housekeeping, cleaning etc. In this case more favourable conditions apply than the general rules: individuals can work for up to 200 days per year having as many as 3 or more employers.

Green pages are filled by employers who hire seasonal workers in agriculture. In their case the general rules apply, with the exception that the number of days per month might exceed 15. Another favourable change is that foreign nationals who otherwise would need a work permit can also be hired for seasonal work in agriculture (for up to 60 days a year) without a permit.

The following groups can engage in casual work:

- people who are at least 16 years old, including those who are receiving unemployment benefits;
- individuals who are at least 15 years old and are enrolled full-time in elementary, secondary or vocational education, during school holidays;
- Hungarian or foreign-nationals who are enrolled full-time in vocational, secondary, art or higher education in Hungary;
- those foreign nationals who do not need a work permit to take up employment in Hungary and also those foreign nationals who are married to Hungarian nationals and have residence in Hungary.

The casual workers' log is a public document that serves to keep the employment record. It is issued upon the request of the (potential) casual work by the local job centre.

*White pages for enterprises
with unchanged rules*

*Blue pages for private
persons and charity
organisations*

*Green pages for seasonal
employment in agriculture*

⁵ Amendment of Act LXXIV of 1997 on Casual Work with the Casual Workers' Log and a simplified employers' contribution. The amendment was adopted on June 27, 2005 and entered into force on August 1, 2005.

The work contract between the employer and employee is established by filling in and signing the relevant sections of the log. The employer must complete on the day of employment – and on a daily basis – the sections “Name and address of employer, date and place of employment, job and wage” and sign. The simplified employer’s contribution – the so-called public tax and contributions stamp – should be attached to the page and signed at the end of each working day.

*Advantages
for the employee*

Casual work is first of all advantageous for the employee because it gives entitlement to social security assistance, unemployment benefits and pension. Therefore unemployed people are advised to take the log. The rules also allow pensioners to take it (many pensioners engage in household work to supplement their pensions), nevertheless it is a question whether there are incentives to do so because they in any event receive a pension.

Unemployment benefit recipients are also allowed to take up casual work without losing eligibility for the assistance. Nevertheless the payment of the unemployment (job-search) benefit should be suspended for the duration – up to 90 days – of temporary employment – without affecting the total number of entitlement days.

*Advantages for the
employers – simplified
contribution*

From an administrative point of view, temporary employment is advantageous for the employer for a number of reasons:

- there is no need for a written work contract,
- there is no need to keep employment-related records and there is no reporting requirement to social security, pension and tax authorities, because it is done by the local job centre,
- there is no need to calculate and deduct the advance for the personal income tax,
- there is no need to pay social security contributions, the fixed sum health insurance contribution and other employment-related contributions (the employers’ and employees’ unemployment contribution).

To ease administrative requirements, a simplified procedure has been created with the so-called “public tax and contributions stamp” that can be purchased and shall be stamped in the casual workers’ log. The price of the stamp depends on the daily wage according to the ranges shown below:

Daily wage (HUF/day)	Price of the stamp (HUF/day)	Basis for entitlement (HUF/day)
1800-2399	400	2400
2400-2999	700	3200
3000-3599	900	4000
3600-4600	1100	4800

Figures in the table are valid as of January 1, 2006.

The advantages for companies are obvious, but they are not so clear-cut for private persons who employ housekeepers or babysitters. Purchasing the

stamp is an additional burden both in terms of time and money, however favourable it is. It remains easier to pay without any administration. One of the motivating factors though can be the possibility of personal income tax reduction: 75% of the value of the stamp can be deducted from the personal income tax base. The other motivating factor might come from mutual confidence because by taking advantage of the possibilities of the casual workers' log, employers can provide their employees with increased security subsidised by the state.

2.3 Combating Undeclared Work in the Construction Sector

The tax authorities can check compliance with the data reporting requirements in the case of construction work over the value of 10 million HUF from September 2005.⁶ The Tax and Financial Inspection Office should receive the relevant data on the developer and the building contractor (such as the building permit, contacts of the chief technical supervisor and the on-site building supervisor), and on the construction itself. All constructions must be reported that require a building permit and exceed the value of HUF 10 million. According to the new provisions, developers must attach the detailed budget, the time plan and the list of building contractors and subcontractors to the application for the building permit.

Nevertheless, developers cannot provide these details when they apply for the building permit because the complete documentation is compiled only when the permit has been issued. The budget is then drawn up and contractors are selected. Therefore the preliminary budgets give little basis for making any conclusions on the reality of invoices, the content of the contracts or undeclared employment. The president of the National Association of Home Building Contractors claimed that these requirements are merely an unnecessary burden on the developers and ultimately the buyers will have to pay the extra costs. He also expressed his concerns that these restrictions hit the home builders especially hard (*Szalai* 2005).

Developers shall notify the relevant authorities at least 8 days prior to the start of the construction. The construction authorities then have 3 working days to examine the documentation and ask for clarification or additional documents within 8 days. If the developer fails to submit the requested documents, the authorities might decide to forbid the construction. Authorities can also impose a fine if the developer has failed to notify them or submit the requested documents before starting the construction, or in the case where the building documentation does not meet the requirements.

Indicative budget and more thorough checks of the building documentation

6 Act LXXVII of 2005 on the Amendment of Certain Acts on the Reporting Requirements of Constructions. Parliament adopted the act on June 27, 2005 and it entered into force on July 15, 2005.

2.4 New Provisions to Make Undeclared Employment a Criminal Offence

The Amendment of the Criminal Code entered into force on September 1, 2005. According to this Section 310/A stipulates that undeclared employment or fictitious service contracts⁷ are a penal offence.

Undeclared employment, because of the tax evasion it entails, was already a criminal offence and was sanctioned accordingly. Therefore, the amendment of the Penal Code aims to encourage judges to make stricter sanctions. In other words, undeclared employment as such is not the crime but the loss of revenues it causes to the state budget and social security funds. According to the Criminal Code all actions through which one can evade tax or other contributions shall be sanctioned. Undeclared employment clearly falls into this category.

According to tribunal sources, the main difficulty is that the amount of evaded taxes and contributions, or in other words the damage caused to the state budget, is very hard to establish in the absence of contracts and other documents. Therefore, the offence can usually be proven for a shorter period – a few weeks or months. As a result, employers have a good chance to escape with the lowest sentences for tax evasion – fines or probation (*Lencsés* 2005).

In the absence of special rules, in the case of a violation of the obligation for payment of public taxes and contributions courts usually applied the relevant provisions on multiple offences. Accordingly, judges did not add the loss of tax revenue caused by the undeclared employment of each worker but made the sentence on the basis of a single offence that had been proved to cause the highest loss of tax revenue. Given the fact that this amount was usually rather low for the above reasons, offences most often fell into the category of “tax evasion resulting in minor losses of tax revenues” and the sentence could not be more than two or a maximum of three years imprisonment. The amendment aimed to change this – otherwise, from a legal point of view adequate – practice. Therefore the act orders that the combined amount of taxes and contributions evaded be taken into account. As a result, employers with a higher number of undeclared workers might get the highest – eight years of imprisonment – sentence even if the tax and contributions evasion for a single worker has been less significant.

For the basic offence – less than HUF 2 million losses in tax and contributions revenue – the sentence shall be up to one year imprisonment, reparatory work or payment of a fine. For the qualified offence, however, sections 310/A and 310/B of the Criminal Code allow only imprisonment. If the loss of revenue caused to the Labour Market Fund is between HUF 2–50 million, imprisonment shall be up to 3 years, if the loss is between HUF 50–500 million the sentence can be up to 5 years imprisonment. As far as the social security

Stricter sanctions for tax evasion but not directly for undeclared employment

⁷ Fictitious service contracts are used to cover employment relationships with a view to evade employment-related expenses for the employer, such as contributions, paid holiday etc.

funds are concerned, if the tax and contributions evasion is between HUF 2–50 million, the sentence shall be up to 3 years in prison, if the amount is higher, imprisonment shall be up to 5 years. Nevertheless, if the perpetrator settles the tax debt before indictment, it shall not be liable for prosecution.

2.5 Strengthening Labour Inspection

Parliament adopted Act CLV of 2005 on the Amendment of Labour Inspection Regulations on December 13, 2005. This sets considerably higher fines for undeclared employment: instead of the previous maximum of HUF 6 million authorities can impose fines in the range of HUF 30 thousand and 20 million. The amount of the fine depends on the number of offences and the number of employees concerned. The rules make further distinctions on the basis of the size of the company, whether the employer is a private entrepreneur, or whether the company is a first-time or a recurrent offender.

The provisions on state subsidies and special funds of the budgetary act (Act XXXVIII of 1992) have also been amended to include the legal employment and labour relations as requirements to qualify for any public funding, including participation in public tenders.

2.6 The Adjustment of Performance Targets

Employers often use unachievable performance targets to avoid the payment of the statutory minimum wage. This practice was ended by a legal amendment: when the average performance is below 100% and at least 50% of the workers are beneath 100% employers are required to review and adjust their performance targets. As a result of the adjustment, average performers are guaranteed the statutory minimum wage even if their performance is less than 100% of the previous targets. Those workers whose performance remains under 100% following the adjustment can legally be paid less than the statutory minimum wage.

2.7 The Modification of the Rules of Temporary Agency Work

Act CLIV of 2005 on the Amendment of the Labour Code restricted the rules of temporary agency work to ensure that this form of employment cannot be used to avoid the payment of statutory contributions.

The provisions that entered into force on January 1, 2006 put forward the following guarantees:

- The law prevents the employer setting up a temporary work agency in order to change the status of its employees and employ them according to the rules of temporary agency work. The act prohibits temping if the worker has been previously employed by the leasing company, or if the two companies (the temporary work agency and the leasing company) are connected through ownership.

– To prevent the leasing of undeclared temporary workers, the act stipulates that the temporary work agency must prove the regularity of the employment (by reporting it to the Central Employment Register) and provide the leasing company with the relevant documents.

– In the absence of a work contract between the temporary worker and the temporary work agency, or if the contract does not meet the legal requirements of temping, it shall be considered that the temporary worker and the leasing company has established a direct employment relationship. This new sanction will encourage employers to use lawfully employed temporary workers.

– To ensure the principle of equal pay for equal work, the act provides that if the temporary worker has been employed by the same leasing company for at least 6 months, then he/she becomes entitled to the same wage (including remuneration for shift work, overtime, on-call duties) as the regular employees of the company. If the temporary employee has been working for the leasing company for one year (if the temping is for an indefinite period) or for two years (if the temping is for a fixed period), he/she becomes entitled to all direct and indirect financial or in-kind benefits provided on the basis of the employment relationship.

2.8 Dismantling the Barriers to the Regular Employment of Child Care Allowance Recipients

The Government adopted the amendment to Act LXXXIV of 1998 on Family Support on August 24, 2005. The amendment introduced a number of provisions, one of them with direct relevance to employment. This stipulates that child care allowance recipients are allowed to take up full time employment without losing eligibility to the allowance and are under full legal protection after the child is one year old. In this case the full amount of the allowance can be used to finance the costs of day care services.

One of the day care options is family day care. Act XXXI of 1997 on the Protection of Children and Custody Administration delegates the requirement and responsibility to operate day care services to local governments. Depending on their resources and capacities, local governments can set up their own services, provide them in partnership with other local governments, or purchase them from non-governmental service providers. As of July 1, 2005 all settlements with more than 10,000 inhabitants are required to operate crèches. Nonetheless, smaller settlements still lack these services. Only 4.2% (998 places) of the crèche places are found in villages where 15–20% of children of the relevant cohorts live. The cost of a crèche for one child is HUF 900–1,100 thousand per year, while the cost of family day care is significantly cheaper, only HUF 500 thousand/child/year. The running costs in both cases are covered by funding from the central state budget, with additional resources coming from the local government and the fees paid by parents.

*Unrestricted employment
for child care allowance
recipients*

2.9 Model Public Work Programme

In the framework of the “100 Steps” Programme the Government has launched a new public work programme to address seasonal employment problems and to involve the most disadvantaged groups.

Public work is organised by local governments to carry out the tasks that are delegated to them by the law and to provide seasonal employment for the long term unemployed, including regular social allowance recipients. It is important that public work creates an added value to the whole community and the settlement, as set out by the local government (MoEL, Public Works Council, 2005).

The following tasks can be carried out during the winter months:

- social catering for people who are temporarily unable to provide for themselves;
- home assistance for those who need regular support with daily activities (e.g. direct care and help with household tasks such as laundry, cleaning etc.);
- redecoration and refurbishment of buildings owned by the local government;
- community cleaning and maintenance activities (e.g. cleaning snow from roads).

Tasks that can be carried out from March:

- construction, restoration and maintenance of drainpipes and ditch systems owned by the local government;
- maintenance of roads and its surroundings within the territory of the settlement;
- collection of household and other community waste and its transportation to designated waste disposal sites;
- creation and maintenance of parks and other green areas;
- construction and refurbishment of public social housing estates and other community buildings;
- cultivation of agricultural land owned by the local government;
- creation of industrial estates;
- refurbishment and preservation of public buildings;
- non-specialised tasks to prevent the danger of collapse of cellar-systems, land-slides etc.
- provision of basic personal social services;
- maintenance of cemeteries and graveyards.

To carry out the above activities local governments – municipalities (districts), villages and partnerships of local governments (in the event that the same activity is carried out at each participating settlement) – can apply for funding. It is a model programme because it gives the possibility to organise community work during the winter months for the first time and also because

*Public work programme
in two phases*

funding is based on the coordination of resources. The programme started in November 2005 and runs for 6 months, until April 2006. The participant quotas have been gradually filled up and the number of participants is expected to reach 24 thousand by the end of the period.

2.10 Reforming the State Funding of Adult Education

The amendment of the adult education act introduced reforms in the normative funding of adult education.⁸ On the basis of the new provisions, adults aged 50 years and over are entitled to receive a second qualification that is included in the National Register of Qualifications (NRQ) free of charge or for a reduced tuition fee. The detailed conditions are to be laid down in a separate regulation.

The new provision adds to the already existing objectives, including “support to adults to acquire their first NRQ-listed vocational qualification” and “provision of general, language and vocational training for disabled people”.

Furthermore, more rigorous performance requirements have been introduced for adult training institutions receiving state funding. In the case of NRQ-listed training courses, only those institutions are eligible for the subsidy which provide adequate evidence of employers’ demand for the training. In addition, if the number of students who receive the final qualification does not reach the level set out in the regulation, the institution must return the subsidy. These provisions apply for funding applications submitted for courses starting from 2006.

According to the Employment Act, regional training centres form a part of the Public Employment Service (PES). As a result of the last amendment of this act, the provisions on the establishment, management and legal standing of the regional training centres were incorporated into the Employment Act.⁹ As part of the PES, regional training centres should be more involved in labour market training, especially the training of disadvantaged groups. To this end, financing is made available by the transfer of funds from the employment and rehabilitation sub-funds of the Labour Market Fund to a special budget earmarked for training. The amended act also gives the right to the Minister of Employment and Labour to lay down the tasks of the regional training centres, the methods of financing, the rules governing the use of the special training budget, cooperation with the offices of the PES on the provision of training financed by the Labour Market Fund, and the administration of the training centres. These entered into force on January 1, 2006 with the 23/2005 (Dec. 26) MoEL regulation.

According to these, regional training centres provide training free of charge to:

- disadvantaged people;
- employees whose employment cannot be maintained without training or who become redundant within one year and their employer has informed them and the local job centre in advance;

⁸ Act LXXIV of 2005 on the Amendment of the CI of 2001 on Adult Education. The act was adopted by Parliament on June 27, 2005, in force from October 1, 2005.

⁹ Act LXX of 2005 on the Amendment of the Act IV of 1991 on the Promotion of Employment and Unemployment Compensation. The Act was adopted by Parliament on June 27, 2005, and entered into force on November 1, 2005.

- those who do not belong to any of the above categories but receive their first vocational qualification – or in the case of people aged 50 years and over, the second qualification – or are disabled employees who take part in general, vocational or language training.

In addition, participants of labour market programmes and the employees of the PES – on the basis of the annual training plan of the PES – can also take part in training courses free of charge.

To find a job, it is important that one's qualification and competence match the needs of employers and the demands of the jobs market. Therefore supporting training remains a priority for the PES. However, to make training a real option for all adults who otherwise have little chance of finding employment, it is important to provide more adequate financial assistance for the duration of studies. As of November 1, 2005, the Employment Act sets the amount of training assistance at 60% of the statutory minimum wage. This is approximately HUF 10 thousand higher than the previous amount.

From November 1, 2005 the provisions on the administration of the training assistance and the selection of training providers of 6/1996 (July 16) MoL regulations were also modified (MoEL 2005). According to the new rules the job centre and the individual (job seeker) decide jointly regarding the training course. The job seeker then selects the training institution from a list of approved providers with the help of additional information given by the job centre. The tuition fee is transferred by the job centre directly to the training provider against an invoice issued to the name of the participant.

This amendment exempts the job centre from lengthy tendering procedures and thus makes the administration and management of training more flexible.

The “Take One Step Up” Programme has been designed and launched to promote participation in training that matches the demand of the economy. In the framework of the programme people are entitled to free of charge vocational training if they:

- did not complete elementary education but want to take part in vocational training;
- completed elementary education but have no vocational qualification;
- have a vocational qualification which has become obsolete;
- have general secondary education but would like to have a vocational qualification as well.

In these cases the full training cost is covered by the state. In addition, upon the successful completion of the course and on receiving the qualification, the individual is entitled to a one-off payment – a bonus – that is equal to the monthly amount of the minimum wage.

2.11 Extending the Premium Years Programme to the Business Sector

The possibility of gradual retirement in the framework of the Premium Years Programme was extended to the private sector from October 1, 2005. To take part in the programme, employees need to have an employment record of at least 25 years and be within 3 years of retirement age. The employer agrees to provide part-time work of at least four hours/day. As for his or her part the employee agrees to renounce the severance payment and to receive a monthly salary reduced according to the working time. Given the fact that employers need to finance part-time wages, it is left to the discretion of the employer to introduce the programme.¹⁰

*Higher pension
– with state subsidy*

The Ministry of Employment and Labour regulation that gives the possibility to the participants of the Premium Years Programme to retire under the same conditions as full-time employees entered into force the same day, October 1.¹¹ The employment sub-fund of the Labour Market Fund supplements the pension contributions up to the level of the full-time salary. Therefore, part-time employment has no negative impact on the amount of the future pension of the participants of the Premium Years Programme.

Supplementary pension contributions can be granted for employers in case when the Premium Years Programme involves 10% of the workforce but at least 5 people and at the same time they:

- carry out a restructuring involving either the upgrading of the production or the introduction of new services, and which involves the job of at least 30 employees, or
- hire new workers and as a result the headcount increases by 10% but by at least 5 people.

The amount of the supplementary contribution is the difference between the amount of contributions paid after the full-time salary prior to the Premium Years Programme and the part-time salary. However, the subsidy cannot be more than half the amount of the contributions payable for the double of the statutory minimum wage applicable at the time of submitting the claim.

Employers who benefit from the programme sign a contract with the job centre, and their compliance is checked regularly. If an employer is found guilty of breaching the terms set out in the contract, the job centre informs the Employment Office and the subsidy is terminated. The possibility to enter the Premium Years Programme will be open to private sector employees by the end of 2006.

2.12 The Reform of the Employment Subsidies for Disabled Workers

The reform of the incentives and employment subsidies for disabled workers was already among the priorities of the Government's agenda. This entailed most importantly the amendment of the 8/1983 (June 29) Ministry of Health and Ministry of Finance joint regulation on the employment and social as-

¹⁰ Act LXXII of 2005 on the Amendment of Act XCCII of 2004 on the Premium Years Programme and the Special Workforce, and on the Amendment of Act XXXIX of 1998 on the Social Security Funds and the State Control of Social Security Bodies. The act was adopted on June 27, 2005 and entered into force on October 1, 2005.

¹¹ 11 – 13/2005. (August 26) MoEL regulation on the supplementary contributions facilitating the gradual retirement from the world of work. In force from October 1, 2005.

sistance of disabled workers in order to align the employment subsidies with the EU state-aid and competition rules.

This regulation initially provided for a single-scale subsidy for companies with disabled workers. Furthermore it listed public companies entitled to a higher subsidy. On the basis of the regulation, six sheltered companies were created. These and other designated sheltered companies received wage subsidies granted on an individual basis (between 135–550% of the average wage) until the end of 1995. From January 1, 1996 a new four-scale system was introduced where the aid intensity was regulated and was linked to the degree of disability. For the companies that were not designated as sheltered employers or social firms, the single-scale subsidy was replaced by a four-scale subsidy scheme in which the amount of the subsidy depended on the ratio of disabled workers.

The basis for the calculation of the subsidy was the average wage of the authorised headcount; however, it could not be higher than the statutory minimum wage. Between 1996–2000 sheltered companies received a 380–280% wage-subsidy for disabled workers belonging to disability categories 3–4 respectively. After January 1, 2001 the highest aid intensity was reduced to 320% and 225% respectively (MoEl 2004).

It has been long acknowledged that the system needed to be reformed for budgetary reasons, professional ones and reasons related to Hungary's EU membership. The system became distorted, unsustainable in terms of funding, and did not comply with the competition and state aid rules of the EU.

Finally, as a result of extensive professional debates and consultations, the new regulations came out in the framework of the “100 Steps” Programme. The new rules created a more transparent system that also conforms to the EU legislation.

The rules of vocational rehabilitation are laid down in the government regulation on the accreditation of employers.¹² The accreditation is an administrative procedure that can be initiated by the employer to assess the rehabilitation activities. At the end of the process the employer receives a certificate that gives entitlement to state subsidies. The accreditation is voluntary; however, to promote better employment in parallel to the phasing-in of the new rules, the certificate will be a requirement for receiving state subsidies from July 1, 2007.

Together with the accreditation, new rules were introduced for employment subsidies as well.¹³ The essence of the reform is that employment subsidies are linked to the real and proven costs related to the employment of disabled workers.

The new subsidy system has three components. These are:

- the wage subsidy, intended to compensate for the lower productivity of disabled workers;

Most important changes

12 – 176/2005. (September 2) Government Regulation on the Accreditation of Employers Employing Disabled Workers and the Rules on the Control of Accredited Employers, in force from November 1, 2005. 14/2005. (September 2) MoEL Regulation on the Accreditation Procedure and Requirements, in force from November 1, 2005.

13 – 177/2005. (September 2) Government Regulation of State Subsidy for the Employment of Disabled Workers, in force from January 1, 2006. 15/2005. (September 2) MoEL Regulation on the Award of Subsidies for the Employment of Disabled Workers, in force from January 1, 2006.

- the reimbursement of costs that cover certain expenditures related to the employment of disabled workers;
- the rehabilitation support for non-profit organisations that employ more severely disabled people who do not have a realistic chance of finding work on the open labour market. In this case, nearly all costs related to the employment of these workers can be reimbursed.

The scope of employees and employers is also extended to include:

- people whose loss of working capacity is less than 40%, but because of their condition their employment cannot be maintained without vocational rehabilitation; according to the earlier rules only workers with more than 40% working capacity loss were eligible for subsidy;
- employers with less than 20 employees, including private entrepreneurs, SMEs and NGOs.

With the introduction of the new system:

- the overall amount of subsidy for each disabled worker has not decreased;
- a more predictable and transparent system has been created to promote the employment of people who face disadvantages on the labour market because of their physical or mental impairments;
- employers providing sheltered and integrated employment are entitled to the same wage subsidy;
- rules are in line with the EU competition and state aid regulations.

2.13 The START Programme

Chapter 1.2 of this paper discussed various incentives that promote the employment of school leavers as of January 2005. These include the paid internship and the 50% reduction of social security contributions enacted by Act CXXIII of 2004 that make the hiring of young people more attractive for employers. It turned out, however, that employers do not consider the level of support high enough. They also found the whole procedure overly bureaucratic, including the fact that the subsidy is reimbursed at the end of the 9-month period and that there is a requirement to maintain the employment relationship after that point. (MoEL 2005/a)

In reaction to these subsidies introduced at the beginning of 2005 were replaced by the START Programme valid from October 1, 2005. The target group of the programme are young people under the age of 25 years or – in the case of people with higher education – 30 years who finished or temporarily left school and entered their first job.¹⁴ Their employers are eligible for a subsidy during a period of 2 years, as opposed to the 9 months under the previous regulation. The subsidy takes the form of a reduction of contributions: employers have to pay 15% as contributions in the first year and 25% in the second year. Normally contributions reach approximately 36% of la-

It is worthwhile to hire school leavers

¹⁴Act LXXIII of 2005 on Incentives to Promote the Employment of School Leavers, Unemployed People Aged 50 years and over and People Returning to Work after child care or nursing, and on the Amendment of Act CXXIII on the Paid Internship Employment. The act was adopted on June 27, 2005 and entered into force on October 1, 2005.

bour cost, including 29% social security contributions, 3% employers' contribution and the fixed-sum health insurance contribution. The reduction of contributions can be used for wages equalling up to 150% of the minimum wage, or 200% in the case of young graduates. This does not mean, however, that the actual wage cannot be higher than this amount: only the amount of the subsidy is capped at these levels.

The subsidy can be taken up on the basis of the so-called START card issued by the tax authority. This card certifies that its holder is eligible for the discount. All young people under the age of 25 (or 30 in the case of people with higher education) are eligible to receive the card and use it for regular employment or paid internship.

The START card can be used for two years from the date of issue with the same or different employers and within the indicated age limits. Thus, the discount is directly linked to the young worker but it can only be used by the employer. The young person might decide not to obtain the card and use the discount. During the employment period employers keep the card. In the event that the young person works (part-time) for more than one employer (for at least 4 hours/day) the subsidy can be used by the employer to whom the card is submitted. There is no obligation to maintain the employment relationship after the termination of the discount.

2.14 Increasing Employment and Promoting Flexibility

From January 2006 micro-, small- and medium-sized enterprises and NGOs with less than 250 employees are exempt from the employers' contributions if they have been hiring registered unemployed people for 3 months.¹⁵ The reduction is for one year during which the new workers should be retained and their employment should be maintained for an additional year. The discount covers the fixed-sum health insurance contribution, the social security contribution payable by the employer and the employers' contribution for unemployment insurance. The basis for the reduction shall be up to 130% of the minimum wage for full-time employees and correspondingly less for part-time workers.

The Government envisages that this measure would help 300 thousand registered unemployed persons to find employment and give the opportunity to 900 thousand SMEs to grow by hiring new workers.

¹⁵ Act CLXXX of 2005 on Measures to Increase Employment and Promote the Flexibility of Employment. The act was adopted on December 19, 2005 and entered into force on January 1, 2006.

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