Job protection action plan aimed at assisting elderly, young and unskilled people and cutting red tape for Hungarian small enterprises

The government is set to launch a 10-point job protection action plan which aims to improve the situation of disadvantaged employees, jobseekers and enterprises. The primary objective of this package of measures is to create and preserve existing jobs as one of the keys to the economic growth of Hungary. The budgetary resources required for the action plan will be provided by the financial transaction duty.

Assisting disadvantaged employees and jobseekers

The government steps up efforts via the announced employment package in the most problematic fields: it aims to improve the situation of elderly, young and unskilled people. This move according to the view of the government is necessary for young people in order to be able to make a living in the country and for people close to retirement age to have a job secured.

One half of the ten measures are aimed at cutting social contribution tax and vocational training contributions for five prioritized groups up to a gross wage of 100 thousand forint. In order to assist employees and jobseekers who are unskilled or below the age of 25 years and above the age of 55 years the **contributions payable by the employer will be halved** which means that contributions will be 50 percent lower. To the fourth prioritized group belong the long-term unemployed. With regard to this category the government is prepared to **reduce employer liabilities by 100 percent for the initial two years of employment and from the third year on payable contributions will be half as much as they are today**. Finally, in order to enhance the job prospects of **mothers with small children** if they return to work from child care/maternity leave no contribution payment will be required either in the initial two years and only half of the current liabilities from the third year. The contribution allowances will be available for every employer.

Via the aforementioned package of measures the government is committed to secure the future of those below the age of 25 years and above the age of 55 years, unskilled and long-term unemployed people and mothers with small children. Furthermore, these steps can have a positive impact on the wedge between the total wage costs paid by the employer and the net wage.

Reducing the burden of micro- and small enterprises and cutting their red tape

The other half of the 10-point action plan will reduce the tax liabilities and administrative costs of enterprises. **The government plans to introduce an itemized tax for micro enterprises with**

an annual turnover of less than 6 million HUF (20 500 EUR). **For small enterprises** a new kind of **small enterprise tax** will be introduced which will replace the current corporate tax, personal income tax payable for profits, vocational training contributions, health care contribution payable for dividends and social contribution tax. The tax base is made up of the sum of profit and the wage costs for the employees of the enterprise. The rate of tax is 16 percent. This new levy may be applied to 300 thousand small enterprises and 800 thousand employees.

The government will also afford the possibility of opting for a **cash flow based VAT payment scheme**. Enterprises with an annual turnover of less than 500 thousand EUR shall optionally only pay VAT if that has already been paid to them before.

The key objective of **easing accounting regulations** is to assist enterprises which are facing difficulties because of foreign currency exchange rate exposure. Such an amendment is required which makes it possible that capital loss due to unfavourable movements in exchange rates should not be calculated at the capital adequacy position of enterprises in 2012-2013.

The last point of the economic growth package refers to the **simplification of tax administration regarding the petty cash box system.** Although the government has already substantially increased last year the top amount allowed for the closing balance for the petty cash box, regulation still carries a significant administrative burden and therefore restrictions shall be abolished.

The basis of the financing of the programme

The 300bn HUF of costs of the programme must not affect the budget deficit. Therefore, the scope of **transaction duty will be extended and levied also on the financial transactions of the National Bank of Hungary (NBH) which will provide 100bn HUF for the scheme. The same amount is expected from the financial transaction duty of 0.1 percent levied on the Hungarian State Treasury as well as a further amount of more than 100bn HUF from the budgetary reserves which currently amount to 320bn HUF.** As a result of the forthcoming negotiations with the International Monetary Fund and the European Union the latter amount is not expected to induce additional expenses as yields on Hungarian government securities are seen to decline already this year. Consequently, in 2013 Hungary will save on interest payment expenses at least 150bn HUF. Out of this 150bn HUF an amount of 100bn HUF will be utilized for the programme, and interest payment savings will be rechanneled to the reserve fund during the course of the year and thus this measure will not affect the level of budgetary reserves.

As far as the transactions of the Hungarian State Treasury are concerned, the financial transaction duty shall not be levied on the transfer of pensions, family benefits, child-care allowances, child benefits and maternity leave payments.

The announced 10-point action plan has the clear objective of further improving the business environment for Hungarian SMEs and reducing employment expenses for prioritized groups, thus solving the problem of unemployment which afflicts them. The programme can serve as the fundament for the improvement of next year's macro outlook and consequently the fiscal position.