ROLE OF TAXES AND CONTRIBUTIONS IN THE FUND OF THE HUNGARIAN HEALTHCARE SYSTEM

Adrienn Herczeg, Éva Darabos
Institute of Accounting and Finance, Faculty of Economics and Business, University of Debrecen, Debrecen, Hungary
herczeg.adrienn@econ.unideb.hu
darabos.eva@econ.unideb.hu

Abstract: *The essential function of the taxation is to create the revenue required for financing of the social common consumption so, inter alia, it plays role in the sustainability of the healthcare system. Nowadays, sustainability of financing of the health systems is one of the most challenges for each country. At present, the organization and financing of the health care are a matter of national competence in the EU member states; the fund raising assets include the taxes, contributions and the direct payments of beneficiaries. In our article, we will take into account the tax and contribution rules and trends thereof established in the last decade, examining what effects they had on the fund raising structure of the healthcare system. Data in the essay originates from the database, almanacs and reports of OEP and the World Health Organisation (hereinafter WHO) as well as from the budget legislation. Examining the changes in the revenue structure of Health Insurance Fund during in the last two decades, a significant realignment of resources can be observed: the rate of employers' contributions has decreased and the rate of individual contributions has tripled, so it becomes clear that the system is social security system only namely and partially; it is financed by the taxes too, paid by everyone. Based on the revenue structure of the Health Insurance Fund of 2016, it can be seen that contribution revenues and contributions are 60.38%, while budget contributions are 20,3% of the total revenue. The amount and rate of social contribution tax was paid to the Health Insurance Fund increased to 20.50% in 2017. In 2012 accident tax, public health product tax and the health contribution of tobacco industry businesses were introduced, the aggregate amount of these taxes was 2.9% of the total revenue. We have found out that the necessity of a reform in the fund raising is a real problem for the Hungarian healthcare system of nowadays which may be a tool for creating the sustainability.*

Keywords: *tax; contributions; healthcare system; Health Insurance Fund; revenue structure; social contribution tax.*

JEL classification: *M48.*

1. Introduction

1.1 Characterization of the tax system of Hungary

Tax system is the ensemble of taxes and institutions operated in a given period; its each element has been established in such periods which are historically different. Tax is to be paid to the public powers and it is a statutory payment obligation and contribution to the public expenditures for which the taxable entity does not receive remuneration. Only the State and the local governments are entitled to taxation in

Hungary. On behalf of the State and local governments, the tax authorities exercise the rights related to taxation. The essential function of the taxation is to ensure revenues required for financing of the social common consumption so, inter alia, for the sustenance of the healthcare system. Contributions are payments to the insurer by the insurant or for the account of the insurant, in order to obtain the security of identified services (healthcare package) (Herczeg, 2015).
Extent of the tax burden varies according to the public expenditure. If a country has higher budgetary expense then more revenue will be required that can be funded, inter alia, by increasing the tax burden.
The Hungarian income tax rates are differing, on several important points, from the extents considered as internationally general. Weight of direct taxes (including especially PIT, its tax rate is 15%) is far beyond the European average and the weight of indirect taxes (especially VAT, its tax rate is 27%) are far exceeding the EU average as well as the rate of social security contributions is also high. At the same time, it cannot be ignored that the international comparison is the most uncertain just in case of the social security contributions: in addition to the differences in incomings, the content of each type of contributions and the relating services are strongly different by country. In 2017, the extent of social contribution tax paid by the employer was decreased from the previous 27% to 22% but the extent of vocational training levy remained 1.5%. Extent of the pension insurance contribution to be paid by the employer is 10%, the healthcare contribution is 7% and the labour market contribution is 1.5%. Monthly amount of the healthcare contribution was HUF 7 050 in 2016 and is HUF 7 110 in 2017.
Structural specificities of the Hungarian tax system include the high rate and relative predominance of the so-called indirect taxes on consumption to GDP ratio as well as the fact that the so-called tax wedge is over-sized despite the relatively smaller role of the direct taxes and, furthermore, the fact that the share of taxes on revenue from capital in the tax revenue is low. These specificities are partly resulting from the objective conditions of the domestic economy, due to their unfavourable effects on the competitiveness and these are undoubtedly problematic from the perspective of justice. Contribution of the social groups with the highest income to the burden sharing is far from the proportional.

Table 1: The most significant tax revenues of Hungary, relative to GDP

GDP: 33 999 012 (m) HUF	**Income of Central Budget (2015)**	**Rate corporate to GDP**	
		2014	**2015**
Personal Income Tax	1 639 700 (m) HUF	5,30%	4,82%
Corporate Income Tax	341 400 (m) HUF	1,30%	1,04%
Value added Tax	3 220 385 (m) HUF	10,10%	9,47%
Összesen:	**5 201 485 (m) HUF**	**16,70%**	**15,29%**
Tax burden in rate of GDP		38,90%	37,90%
The rate of the three biggest taxes compared to the rate of GDP		**43%**	**47%**

Source: own calculation from the data of Central Statistics Office

Tax burden of EU-28 to GDP ratio is 39-40% which is almost equal to the present burden of our country. Based on statistical data, it can be stated that the measures of tax centralization of countries within the Community are very extreme but the

measures of differences can be considered as minimal if those countries are observed which acceded during the same period.

1.2 Financing approach of the healthcare system

Theoretical background of the health financing system is built on the assumptions of two basic models. Bismarck's health insurance, which is based on compulsory participation, was firstly established in Germany in 1883. Its aim was to stabilize the situation of social groups being volatile due to the risk of disease in the healthcare system mainly built on contributions; a significant proportion of the population is insured in this kind of system. (Ragány, 2014)

In Great Britain, the aim of Beveridge's model established in 1946 was to provide each member of the society with same healthcare services, mainly using tax revenues1946. (Ragány, 2014)

Since the basic models were established, the system of health insurance has been permanently developing and has covered more and more groups of the population as well as numerous variants thereof have emerged. (Ágoston et al, 2011)

In most countries of Europe, such decentralized healthcare systems are functioning which are multi-insurance or organized at regional level while the collection of resources is concentrated at the level of countries, in order to expand the resources and reduce the administrative burden (Asthana, 2008).

In the health care systems, the source flow can be realized in several ways. This source flow shows very large differences by country, according to which the healthcare and health financing system are also implemented in totally different environments. (ÁGOSTON et al, 2011) In the domestic and international specialized literatures, more and more studies are written in the subject-matter related to the fund creation of healthcare systems. In Hungary, the utilization of healthcare services are granted by the State from the central government budget or the Health Insurance Fund, under different conditions e.g. there are such services which can be used in return for specific or additional usage fees even if we are insured. Thus, at present, the financing of healthcare services are carried out from the Health Insurance Fund, based on the system described in the Act LXXXIII of 1997 on the Benefits of Compulsory Health Insurance; this is a task of the National Health Insurance Fund (hereinafter OEP).

2. Material and method

Aim of this treatise is to examine how the tax and contribution rules established in the last decade have affected the fund raising structure of the healthcare system. Data in the essay originates from the database, almanacs and reports of OEP and the World Health Organisation as well as from the budget legislation.

3. Results

Creation of the financial balance of the social care system is a huge challenge not only for Hungary but for all welfare states.

Figure 1: Health expenditure, public (% of total health expenditure)
Source: http://data.worldbank.org

Considering the data of WHO from almost the last 2 decades, Figure 1 shows that, in Hungary, only a little part of the gross domestic product (GDP), namely 7.4%, is spent on the health care and the share of healthcare expenditures should be increased in GDP, like in case of developed countries (Wynand,2007). The health expenditure is the amount of public and private health expenditure, which covers the provision of health services, family planning activities, nutrition activities and emergency aid designated for health. (I1)

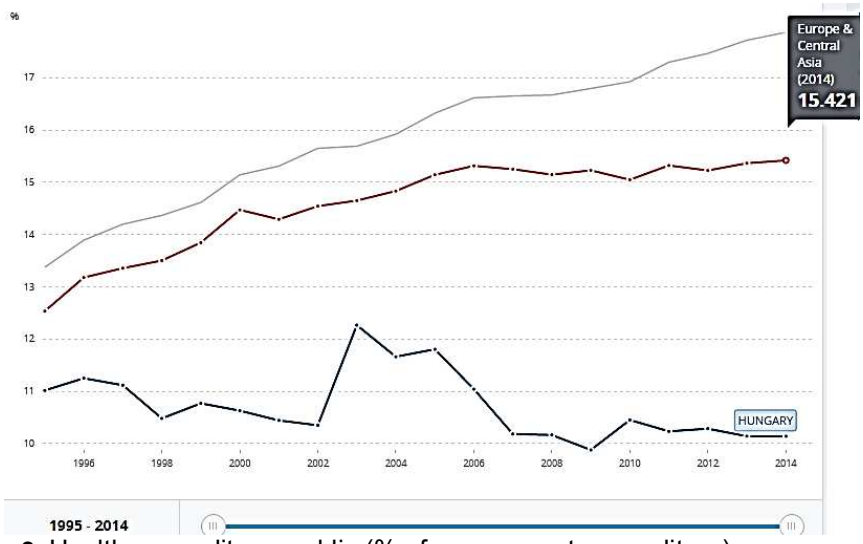

Figure 2: Health expenditure, public (% of government expenditure)
Source: http://data.worldbank.org

If we examine the healthcare expenditures on the basis of government expenditures then it can be determined that the share of health care is continuously declining within the government expenditures in Hungary (its value was 10.1% by 2014) while the rate of government expenditures spent on the health care is increasing in Europe (it was 15.42% in 2014) (Figure 2).

Tendency in the financing role of tax revenues in Hungary

Examining the changes in the revenue structure of Health Insurance Fund during in the last two decades, a significant realignment of resources can be observed: the rate of employers' contributions has decreased and the rate of individual contributions has tripled (Boncz, 2005).

Examining the revenue structure of Health Insurance Fund, it becomes clear that the system is social security system only namely and partially; it is largely financed by the taxes paid by everyone (Szigeti, 2007). Extent of tax revenues is sizeable in the system; the former rate of around 5-10% was already more than 50% in 2011. Viewing the data of 2014, rate of the contributions and tax revenues is also balanced and the revenue structure has transformed again due to the realignment of the social contribution tax (Figure 3.).

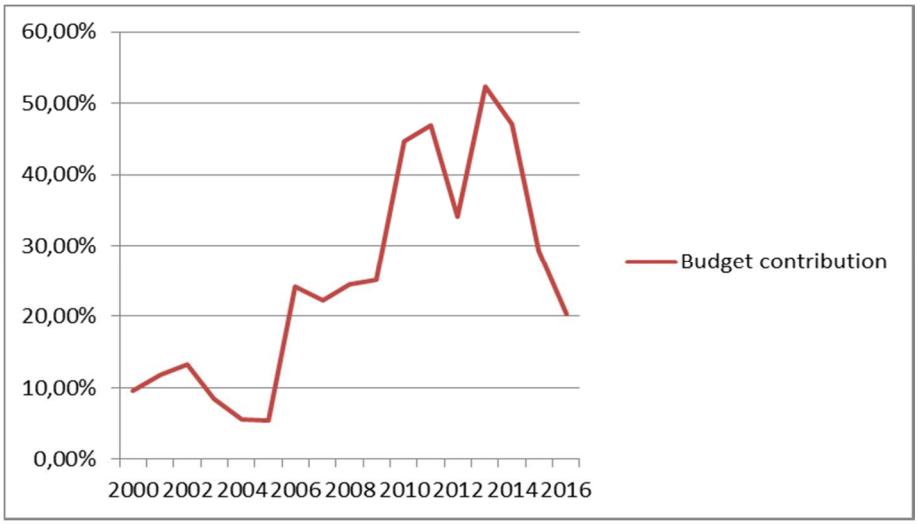

Figure 3: Budget contribution to the Health Insurance Fund
Source: own calculation from the database of National Health Insurance Fund

After 1 January 2012, the employers' pension contributions have been discontinued and changed into social contribution tax. A characteristic of the payments changed into tax from contribution is that it does not confer a right to social security benefits**;** it provides security for ensuring those government resources which are required for maintaining the social security as well as some social benefits serving the exercise of the right to the physical and mental health and each State pension system. The government revenues from this tax cannot get exclusively into the Pension Fund but these ones are distributed between each financial fund of the social security (Health Insurance Fund, Pension Insurance Fund) and the separate state funds described in law (according to the rates described in the Act on the Central Budget) (Szigeti,

2011). Examining the distribution rate of the social contribution tax, it has become clear that the social contribution tax increased as the planned tax revenues increased year by year and the part of the planned amount, which was set aside for the pension fund, has spectacularly decreased since 2014. In 2012, 88.89% of the amount of social contribution tax (planned revenue: HUF 2 019 billion) was directed to the Pension Insurance Fund, 7.41% of the rest to the Health Insurance Fund and 3.70% to the National Employment Fund. In 2013, the total amount of the social contribution tax (planned revenue: HUF 2 130 billion) was directed to the Pension Insurance Fund. There has been no example of this since then. In 2014, 3.7% of the social contribution tax (planned revenue: HUF 2 132 billion) was paid to the Health Insurance Fund and this rate increased further to 14.54% in 2015 while 20.57% was given again to the health insurance in 2016.

Table 2: What amount does go to the Health Insurance Fund?

Year	Social Contribution Tax - total amount(billion HUF)	Rate to the Health Insurance Fund (%)	Amount of the social contribution tax within the HIF (billion HUF)
2012	2019	7,41	149,6079
2013	1847	0,00	0
2014	2132	3,70	78,884
2015	2391	14,54	347,6514
2016	2536	20,57	521,6552
2017	2779	20,50	569,695

Source: own calculation from the database of National Health Insurance Fund

Based on the revenue structure of the Health Insurance Fund of 2016, it can be seen that part of the social contribution tax due for the Health Insurance Fund and the employers' health insurance contribution are HUF 535 297 million, the health insurance contribution revenues of insurants are HUF 698 957 million which are 60.38% of the total revenue.

Total yearly amount of other contributions is HUF 53 683.6 million in 2016. Within that, there is a decisive item i.e. the employers' sick pay contributions which is HUF 22 946.6 million as well as the healthcare service contribution whose planned amount is HUF 30 187.8 million. In 2016, amount of the healthcare contribution is HUF 187 316.2 million which is 9.1% of the total revenue. Amount of 2016 of the budget contribution subtitle is HUF 414 967.6 million, 20.3% of the revenues. A decisive part of the revenue originates from the so-called "national risk communities" under which the budget hands over cash to the Health Insurance Fund by way of contributions (HUF 374 464.0 million).

In the year of 2016, the aggregate amount of other revenues related to health insurance activities is HUF 147 247 million which is 7.2% of the total revenue. Its part is the accident tax and the public health product tax as well as the health contribution of tobacco industry businesses which were introduced in 2012.

Table 3: What amount does go to the Health Insurance Fund?

m HUF

	2015	**2016**
Revenues	**1 926 057 925**	**2 043 907 657**
Contribution revenues and contributions	**1 223 991 587**	**1 479 548 346**
Part of social contribution tax due for Health Insurance Fund and employers' health insurance contribution	352 166 353	535 297 374
Health insurance contribution of insurants	652 182 483	698 957 162
Other contributions	49 286 054	53 683 606
Healthcare service contribution	29 145 020	30 187 802
Contribution of payers by agreement	333 363	332 890
Employers' sick pay contribution	19 607 477	22 946 651
Parafiscal tax due to simplified employment	200 194	216 262
Healthcare contribution	166 361 766	187 316 246
Surcharge for late payment, penalty	3 994 931	4 293 958
Budget contributions	**564 935 300**	**414 967 600**
Budget contribution related to healthcare tasks	5 400 000	5 400 000
Cash received by way of contributions	374 224 000	374 464 000
Cash received for partly security of disability and rehabilitation benefits	155 311 300	
Planned reception of cash	30 000 000	35 103 600
Other revenues related to health insurance activities	**135 121 249**	**147 247 837**
Accident tax	27 492 668	32 488 026
Public health product tax	28 891 381	29 229 493
Health contribution of tobacco industry businesses	539 912	-539 573
Revenue of asset management	**13 505**	**14 054**
Operating revenue	**1 996 284**	**883 552**

Source: Database of National Health Insurance Fund

4. Conclusion

The necessity of a reform in the fund raising is a real problem for the Hungarian healthcare system of nowadays which would be a tool for creating the sustainability. Summarizing the effect of changes in the Hungarian tax rules in respect of the fund raising side of the healthcare system, it can be determined that we are witnessing

the reduction of employers' contributions compared to the increasing measure of the individual contributions, with the aim of improving the competitiveness. An increasing rate of the tax revenues can be observed compared to the contribution revenues, including the introduction of special taxes (accident tax and the public health product tax), in order to distribute the risk. Extent of the social contribution tax of today is 22%; the current budget specifies, in an opaque and non-pre-recorded way, how much of the aforementioned tax will be spent on the healthcare. The necessity of a service contribution to be compulsorily paid by everyone can be proposed and requires further investigations. Or, some currently missing personal groups should be involved in the payment of contributions, pushing the mode of fund raising towards a tax-based system, linking it not to exclusively the income of natural persons.

References

1. Ágoston, I., Boncz, I., Gábor, K.,Illei, Gy.,Kriszbacher, I.,Sándorné, I, and Sebestyén, A, (2011): Health care financing, management and quality assurance Basics, University of Pécs, p.316
2. Asthana, S. (2008): Health care equity, health equity and resource allocation: towards a normative approach to achieving the core principles of the NHS. Radical Statistics. 96 pp. 6-26
3. Boncz, I. (2005): Financial balance and absence management of health insurance fund, IME vol IV, no 8, pp.5-7
4. Dózsa Cs., Borcsek B., Boncz I. (2003): Analysing the site of revenue and expenditure int he Health Insurance Fund in 1994-2002, Health Economic Review, 41 (5) pp.9-16
5. Herczeg, A. and Becsky-Nagy, P. (2015): Tax knowledge, University of Debrecen, (ISBN:978-963-472-920-4)
6. Ragány, K. (2014): Tendency of health policy in the Hungarian healthcare system, University of Semmelweis Egyetem, Available: http://semmelweis.hu/emk/files/2009/03/SE_RK_rezidens.pdf (2017.04.10)
7. Szigeti, Sz (2007): The Hungarian health social insurance system-level performance evaluation in terms of efficiency. Health Economic Review, 2., pp. 23-32
8. Szigeti, Sz and Evatovits, T. (2011): Income Structure of the Health Insurance Fund, Health Economic Review, 2011/4, pp6-14.
9. Wynand P M, van de Ven et al (2007): Risk adjustment and risk selection in Europe: 6 years later. Health Policy 83 (2007), pp.162-179
10. Database of the National Health Insurance Fund, 2004-2017, available: www.oep.hu (2017.03.30)
11. Database of Worldbank (2017): Available: http://data.worldbank.org, (2017.04.10)