

## K7.1 The disability employment quota and the rehabilitation contribution

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We assess the impact of the obligatory disability employment quota on the employment rate of the population with disabilities using the raise of the rehabilitation contribution in 2010, when the amount of the rehabilitation contribution increased significantly, more than fivefold for firms employing at least 20 workers.<sup>1</sup> The horizontal axis of part a) of *Figure K.7.1.1* indicates company size and the vertical axis indicates the average number of workers with disabilities in the particular group of employers. The comparison of years preceding and following the raise shows that the business sector responded vigorously to the raise: the quota considerably increased the employment rate of disabled people in the open labour market. There is no significant break in the number of disabled employees in 2008, when the amount of the rehabilitation contribution was significantly lower, one-fifth of the current amount. However, after the raise, firms with slightly over 20 employees (the size threshold effective at the time), employed 0.28 more disabled employees than prior to the raise, which is equal to 28 per cent of the quota in their case.

The discontinuity in 2010 unequivocally shows the impact of the raise of the rehabilitation contribution, which is confirmed by the fact that the

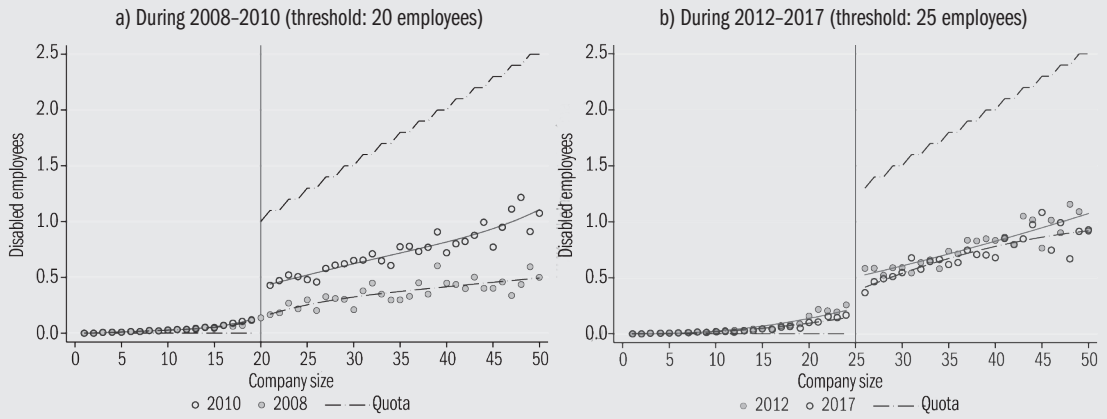
break in the average number of disabled workers moved to the new minimum company size after this threshold was raised from 20 employees to 25 employees in 2012. Part b) of *Figure K.7.1.1* presents the average number of disabled workers in 2012 and in 2017 at firms with different headcounts below and above the new threshold of 25 specified in the law. Firms with headcounts just over the threshold of 25 had considerably more disabled workers (about 0.6) on average than those below it (about 0.3) in 2012.<sup>2</sup> Despite the significant impact, the number of disabled employees is far below the obligatory employment quota even at firms above the threshold (1.3 at firms with 25 employees), and the situation did not change significantly in 2017 either, even though the regulation includes a very strong financial incentive. The amount of the rehabilitation contribution is higher than the monthly wage costs and contributions of a part-time employee on minimum wage. Consequently, if an employer recruits a disabled person to work part-time for about the minimum wage, they have lower costs even if the work delivered by the person has no added value. In addition to saving the cost of the rehabilitation contribution, in most cases the employer is also entitled to a substantial tax benefit, which results in further savings.

How does all this translate to the number of jobs? Extrapolating the impact estimated for firms around the threshold and applying it to 2018, we estimate that the rehabilitation contribution generated about 20–25 thousand jobs for disabled employees. However, recent data of revenue from rehabilitation contribution suggest that the majority of the quota, about 65–70 per cent, is still unfilled. This means that in 2018 the number of disabled employees was about 75 thousand short of fulfilling the quota. Employers paid a huge amount, about 102 billion HUF in rehabilitation contributions into the national budget in 2019 because of failing to fill the quota.

1 From HUF 174 thousand annually to HUF 946 thousand annually per employee missing from the obligatory employment level.

2 We estimated the impact of the rehabilitation contribution using regression discontinuity design. It was accounted for that firms may adapt their headcounts to the regulation. As for headcount distribution across firms, there is aggregation below the minimum company size, suggesting that some firms choose to stay below the minimum company size in order to avoid paying rehabilitation contribution. After the adjustment of raw results, taking into account distortions due to this manipulation, it is still seen that the quota substantially increases the employment rate of disabled workers.

**Figure K7.1.1: The average number of disabled employees by company size**



Source: Authors' estimation based on the company tax return database of the tax authority. The dots represent the average number of disabled employees and the lines are quadratic polynomials

fitted to the dots. Firms with a share of disabled employees over 40 per cent are excluded because they are assumed to offer sheltered (segregated) employment.