Tax Privileges for Families in an International Comparison

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The problems associated with the ageing of the population have led to a call for family policies designed to raise fertility. If such policies hope to contribute to increasing the birth rate, they must consider the fact that many women have set their sights on working (Atkinson 1999).

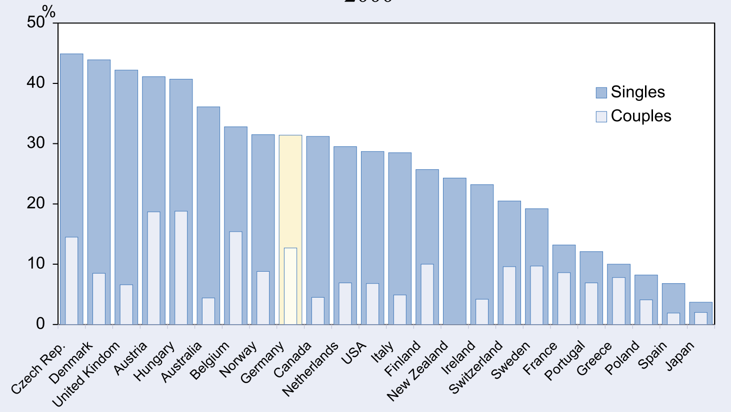
It can be assumed that a large proportion of women would like to have children. And yet, women often value a professional activity so highly that they put off their desire for children. To ensure the compatibility of job and family, a whole series of conditions must be satisfied. Women must be released from working at the birth of a child. Moreover, sufficient childcare facilities must be available. The world of work must be designed to accommodate families. And finally, the net income of families with children must be sufficiently high for them to afford external childcare facilities, unless these facilities are financed from the public purse (Fenge and Ochel 2001).

Child allowance or tax exemptions for children may be granted in order to increase the net income of such families. And tax splitting for spouses benefits couples with children indirectly. But families with children are also eligible for preferential tax treatment in other ways. The following paper compares the tax privileges offered to families in an international comparison on the basis of data calculated by the OECD in 2002.

The OECD calculations are based on a representative taxpayer. This is an employee earning an average wage by working full-time in the manufacturing sector, i.e. an *average production worker.* The

Figure 1

ADDITIONAL TAKE-HOME PAY OF FAMILIES WITH TWO CHILDREN[a)]
2000



a) Compared to households without children.

Source: Tables 1 and 2.

Table 1

Tax privileges for single parents with two children[a)], 2000

	Net income without children[b)] US$	Additional net income with two children[b)] US$	%
Austria	11 173	4 593	41.1
Belgium	11 742	3 850	32.8
Denmark	13 801	6 062	43.9
Finland	14 305	3 680	25.7
France	9 943	1 311	13.2
Germany	12 650	3 981	31.4
Greece	5 458	545	10.0
Ireland	12 079	2 802	23.2
Italy	9 609	2 740	28.5
Netherlands	11 951	3 524	29.5
Portugal	4 044	488	12.1
Spain	8 080	546	6.8
Sweden	11 604	2 226	19.2
United Kingdom	14 968	6 323	42.2
Norway	15 217	4 799	31.5
Switzerland	19 606	4 022	20.5
Czech Republic	2 407	1 080	44.9
Hungary	1 586	646	40.7
Poland	2 425	200	8.2
Australia	12 152	4 387	36.1
Canada	12 576	3 923	31.2
Japan	22 551	825	3.7
New Zealand	8 752	2 128	24.3
United States	15 759	4 516	28.7

a) Employees with a gross income of 66 2/3% of an average production worker's wage.
b) Net income = gross wage – income tax – employee contributions to social insurance + transfer payments.
Income data converted to US$ at average daily exchange rates.

Source: OECD, Taxing Wages 2000–2001, Paris 2002; calculations by the Ifo Institute.

Table 2
Tax privileges for married couples with two children[a], 2000

	Net income without children[b] US$	Additional net income with two children[b]	
		US$	%
Austria	21 348	3 995	18.7
Belgium	22 138	3 405	15.4
Denmark	27 603	2 351	8.5
Finland	27 575	2 755	10.0
France	19 568	1 676	8.6
Germany	25 300	3 203	12.7
Greece	11 399	887	7.8
Ireland	23 108	974	4.2
Italy	19 170	942	4.9
Netherlands	23 505	1 616	6.9
Portugal	7 883	540	6.9
Spain	15 579	299	1.9
Sweden	22 857	2 226	9.7
United Kingdom	29 936	1 970	6.6
Norway	30 242	2 675	8.8
Switzerland	39 107	3 760	9.6
Czech Republic	4 790	694	14.5
Hungary	3 123	587	18.8
Poland	4 851	200	4.1
Australia	24 034	1 048	4.4
Canada	24 678	1 118	4.5
Japan	45 015	878	2.0
New Zealand	17 504	0	0.0
United States	31 283	2 125	6.8

a) Two employees with gross incomes of 100% and 33 1/3% of an average production worker's wage
b) Net income = gross wage – income tax – employee contributions to social insurance + transfer payments
Income data converted to US$ at average daily exchange rates.

Source: OECD, Taxing Wages 2000–2001, Paris 2002; calculations by the Ifo Institute.

calculation looks at his net income (= net wages – income tax – employee contributions to social insurance + transfer payments). The net income of single parents and families with two children is compared with that of singles and families without children.

All OECD countries grant tax privileges to single parents and families with children (the only exception is New Zealand as regards families with children). Their net income is higher than that of singles or families with no children. It is striking that single parents get more favourable treatment than families with children. The differences are considerable in many countries (cf. Fig. 1). The preferential treatment given to single parents may be due to the fact that they have only **one** income which they can sustain only by making use of external childcare facilities.

The benefits granted to single parents with two children are considerable in many countries. Their net income exceeds that of singles without children by more than 40 percent in the Czech Republic, Denmark, Great Britain, Austria and Hungary. The difference is less than 10 percent of net income only in Japan, Spain and Poland (cf. Table 1).

The difference in the net income of families depending on the number of children is – as already mentioned – much less. In no country does the net income of families with two children exceed that of families without children by more than 20 percent. Hungary, Austria, Belgium, the Czech Republic and Germany are among the countries offering the most generous tax benefits to families with children (cf. Table 2).

Hitherto, the net income of families with two children was compared with that of families with no children. However, there are countries where tax benefits do depend on the number of children. One such example is France, which offers scarcely any benefit for the first child but considerably privileges the third one. In France, the system of the *family quotient* applies to a part of the tax arrangements. In a splitting procedure, the taxable income is divided by a number which depends on how many children there are in the family: 1 for the husband, 1 for the wife, 1/2 each for the first and second child, 1 for the third child etc. So the income of a married couple with three children is divided by four. The tax payable on this income is then in turn multiplied by four. This procedure thus avoids the burdens due to the tax progression. Many children make economic sense, especially for families on high incomes. (This system may be seen as an attempt to promote higher birth rates among socially more desirable groups.)

Table 3

Income of married couples depending on the number of children[a)] – A comparison Germany – France

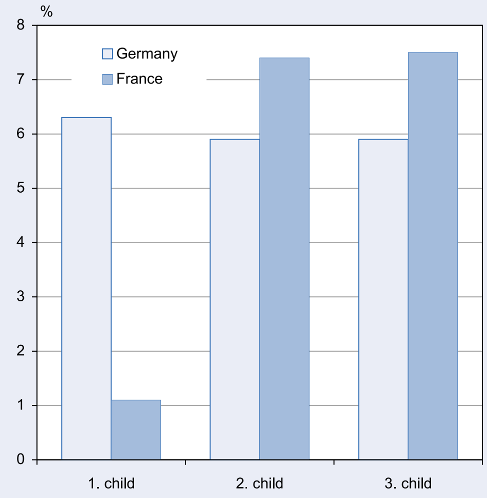
Income level[c)]	Couple without children			Couple with 1 child[b)]			Couple with 2 children[b)]			Couple with 3 children[b)]		
Main earner	100	100	100	100	100	100	100	100	100	100	100	100
Second earner	0	33 1/3	66 2/3	0	33 1/3	66 2/3	0	33 1/3	66 2/3	0	33 1/3	66 2/3
GERMANY	**US$**											
Gross earned income	29423	39231	49039	29423	39231	49039	29423	39231	49039	29423	39231	49039
Main earner	29423	29423	29423	29423	29423	29423	29423	29423	29423	29423	29423	29423
Second earner	0	9808	19615	0	9808	19615	0	9808	19615	0	9808	19615
Taxes	2938	5889	9129	2785	5814	9046	2785	5742	8967	2785	5582	8892
Employee social insurance contributions	6032	8042	10053	6032	8042	10053	6032	8042	10053	6032	8042	10053
Net earned income	20453	25299	29857	20606	25375	29939	20606	25446	30018	20606	25606	30094
Child allowance	0	0	0	1528	1528	1528	3057	3057	3057	4585	4585	4585
Family income	**20453**	**25299**	**29857**	**22135**	**26903**	**31468**	**23663**	**28503**	**33075**	**25191**	**30191**	**34679**
Difference to a couple with one child less				1681	1604	1611	1528	1600	1607	1528	1688	1604
As a percentage				8.2	6.3	5.4	6.9	5.9	5.1	6.5	5.9	4.8
Difference to a couple without a child				1681	1604	1611	3210	3204	3218	4738	4892	4822
As a percentage				8.2	6.3	5.4	15.7	12.7	10.8	23.2	19.3	16.1
FRANCE	**US$**											
Gross earned income	19171	25562	31952	19171	25562	31952	19171	25562	31952	19171	25562	31952
Main earner	19171	19171	19171	19171	19171	19171	19171	19171	19171	19171	19171	19171
Second earner	0	6390	12781	0	6390	12781	0	6390	12781	0	6390	12781
Taxes	1573	2566	3851	1457	2356	3208	1457	2048	3019	1457	1943	2524
Employee social insurance contributions	2571	3428	4285	2571	3428	4285	2571	3428	4285	2571	3428	4285
Net earned income	15028	19568	23816	15143	19778	24460	15143	20086	24648	15143	20191	25144
Child allowance	0	0	0	0	0	0	1164	1164	1164	2655	2655	2655
Family income	**15028**	**19568**	**23816**	**15143**	**19778**	**24460**	**16307**	**21250**	**25812**	**17798**	**22846**	**27798**
Difference to a couple with one child less				116	210	643	1164	1472	1352	1491	1596	1987
As a percentage				0.8	1.1	2.7	7.7	7.4	5.5	9.1	7.5	7.7
Difference to a couple without a child				116	210	643	1279	1682	1995	2770	3278	3982
As a percentage				0.8	1.1	2.7	8.5	8.6	8.4	18.4	16.8	16.7

[a)] In 2000. – [b)] In Germany: under 16 years of age. – [c)] As a percentage of an average production worker's wage (Germany: in the territory of former West Germany).
Income data converted to US$ at average daily exchange rates.

Source: OECD; calculations by the ifo Institute.

Figure 2

ADDITIONAL TAKE-HOME PAY OF COUPLES IN GERMANY AND FRANCE[a)], 2000



a) Difference to couples with one child less, two wage earners; wage level: 100 and 33 1/3 per cent average production worker.

Source: OECD, Taxing Wages 2000-2001, Paris 2002; Calculations of the ifo Institute.

Despite this graduated benefits scheme, a family with an average income and three children is not treated more favourably in France than in Germany. In France, their net income increases by 16.8 percent and in Germany by 19.3 percent compared with that of families without children. For families with only one child, however, the differences in benefits are considerably larger, as France hardly privileges the first child at all (cf. Fig. 2). The French argue that the first child comes along without too much fiscal reflection by the parents.

However, a different picture emerges if we examine the additional state privileges accorded, via child allowance and tax savings, to families on the birth of an additional child if they already have one or two children. For the previously examined dual-income married couple where one spouse earns the average wage and the other a third of it, the increase in net income per year due to a second child worked out at 1,600 US$ (corresponding to 5.9 percent) in Germany in 2000, whereas in France the figure was 1,472 US$ (corresponding to 7.4 percent). At the birth of a third child, the relative increase in income was also 5.9 percent in Germany, whereas it increased slightly to 7.5 percent in France (cf. Fig. 2 and Table 3).

The French *family quotient* mentioned above does not lead only to increased privileges as the number of children increases, but as a rule also to higher benefits with rising incomes. If we consider the difference in net income between a married couple with two children and a five-member family in France, we see that the latter does better the higher their joint gross income is. If the second spouse earns two thirds the average wage, the additional benefit was 7.7 percent of net earnings (corresponding to 1,987 US$ per year) in France, whereas it was only 4.8 percent (1,604 US$) in Germany. As shown in Table 3, the additional benefit for the third child in Germany hardly depends at all on the income level of the second earner, whereas there is a great difference in France.

If we consider incomes which are significantly higher than average earnings, the splitting factor in conjunction with a progressive tax function further increases tax relief in France (at least in terms of the absolute amount). There is also a slight progression effect in Germany, apparent in the first instance in calculating the solidarity supplement. To this must be added the child exemption which replaces the flat-rate child allowance for very high earners: it is included in the tax assessment and leads to continuously increasing tax relief in the progression zone.

References

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