

Measuring the size and impact of support for children through taxes and benefits in comparative perspective

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Outline

- Motivation
- Measurement issues
- Data issues
- Our approach
- Model
- Results

Motivation

- Support to families with children is an important element of social protection systems:
 - Family benefits accounted for 8% of total benefits in EU-27 in 2005 (Eurostat)
 - Help to cover extra needs and balance foregone incomes; ensure equal possibilities for children
 - Redistribute over the life-cycle and between individuals/generations
- Accurate measurement relevant:
 - To estimate targeting efficiency
 - To identify variation in the size and composition across countries
 - To study the effect of support on e.g. fertility, child poverty & welfare
- Given the complexities of tax-benefit systems, identifying and measuring all the forms of support is difficult:
 - Which instruments actually benefit families with children?
 - Effect of the tax structure
 - Incidence within family/household

Measurement issues

- Different forms:
 - Explicitly labelled benefits (e.g. child benefit)
 - Components of other benefits (e.g. social assistance)
 - Tax concessions
 - (Other benefits through income sharing)
- Unit of assessment:
 - Usually not received by children themselves, potentially not even by parents
 - Even more complicated for tax instruments
 - Income sharing within households or families
- Interactions with other instruments:
 - Benefits maybe taxable
 - Family oriented benefits may lower entitlements for other means-tested benefits

Data issues

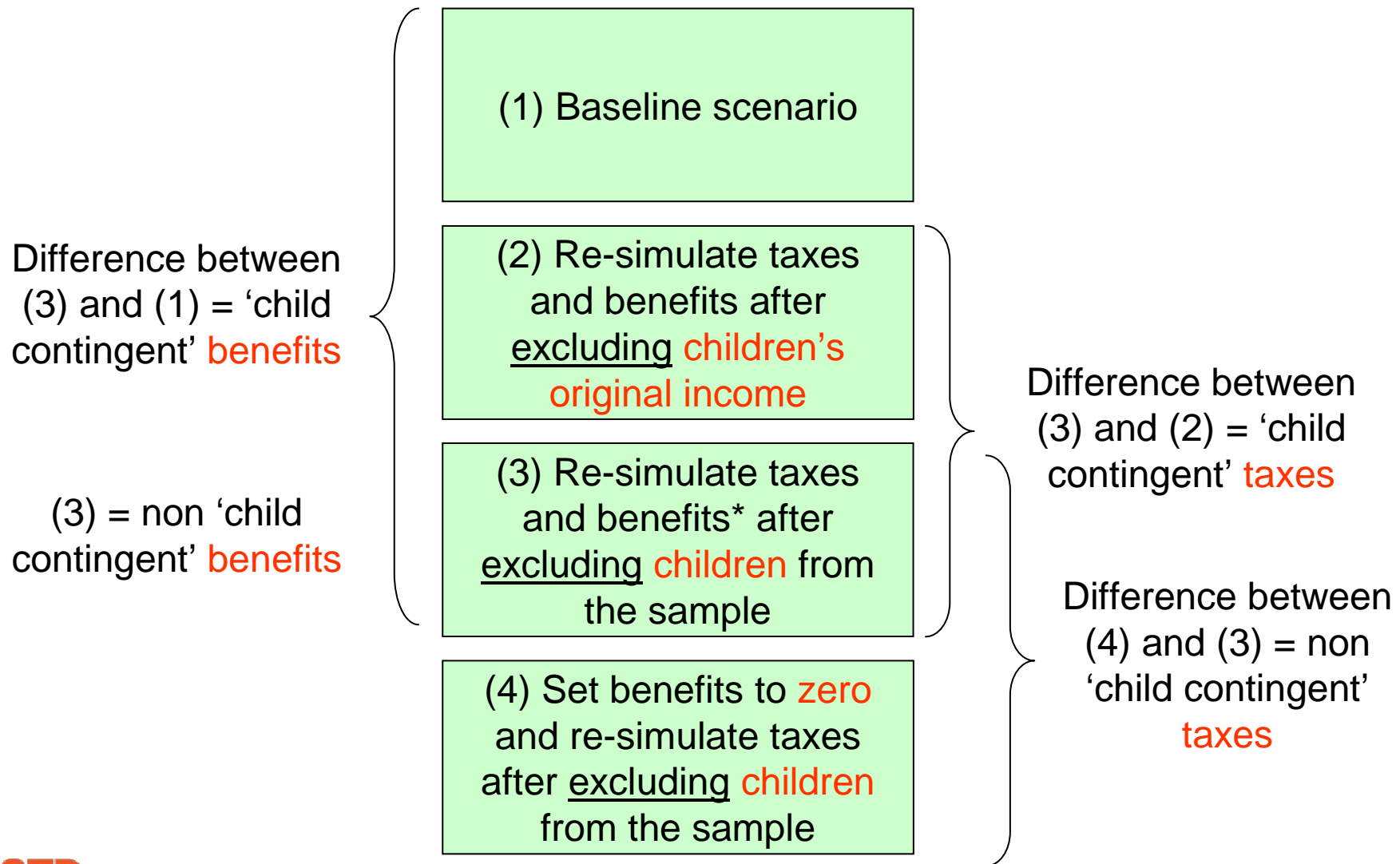
Typically focus on benefits labelled as for families/children:

- Macro-level (e.g. statistics on government expenditures)
 - Better measurement of in-kind support (in monetary terms)
 - Exclude effect of taxes
 - No distributional insights
 - Usually not adjusted with the number/share of children
- Micro-level (e.g. household income or budget surveys)
 - Poor measurement of in-kind support (in monetary terms)
 - May partly cover taxes (e.g. net of withholding taxes; however, inconsistencies across countries)
 - Full distributional information
- Microsimulation models
 - Provide detailed information on the tax-benefit system (e.g. tax concessions)
 - Allow to separate out different effects by simulating and comparing relevant counterfactual scenarios
 - But their full potential has not been utilised in this context

Our approach

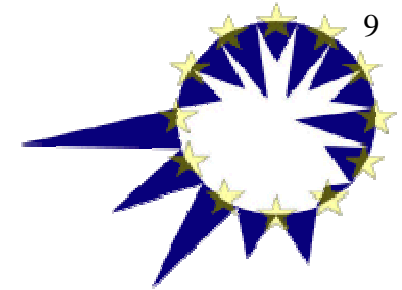
- Our aim is to provide a comprehensive measure of support for families with children
 - By accounting for all support that is contingent on the presence of children (‘child-contingent’ support)
 - Builds on Corak, Lietz and Sutherland (EUROMOD WP, 4/2005)
 - Focus on cash support (like standard welfare measures, e.g. inequality)
- Calculation strategy:
 - Simulate taxes and benefits for the representative micro-data sample
 - Remove children from the sample (i.e. drop observations)
 - Repeat tax-benefit calculations
 - Calculate the difference in hh disposable income under two scenarios
 - Other benefits grouped as ‘non child contingent’ support

Calculation procedure



Further specifics

- Children aged 0-17
- Parental benefits (and non-simulated family benefits) considered as part of child contingent payments
- All household members are assumed to benefit equally from any income source (both child contingent and other)
- Implicitly assumed that children's original income is the 'top slice' of the tax base, followed by child contingent benefits, other benefits and adults' original income
- Results are presented as average payment per child (after dividing payments equally between all household members) as a share of per capita disposable income

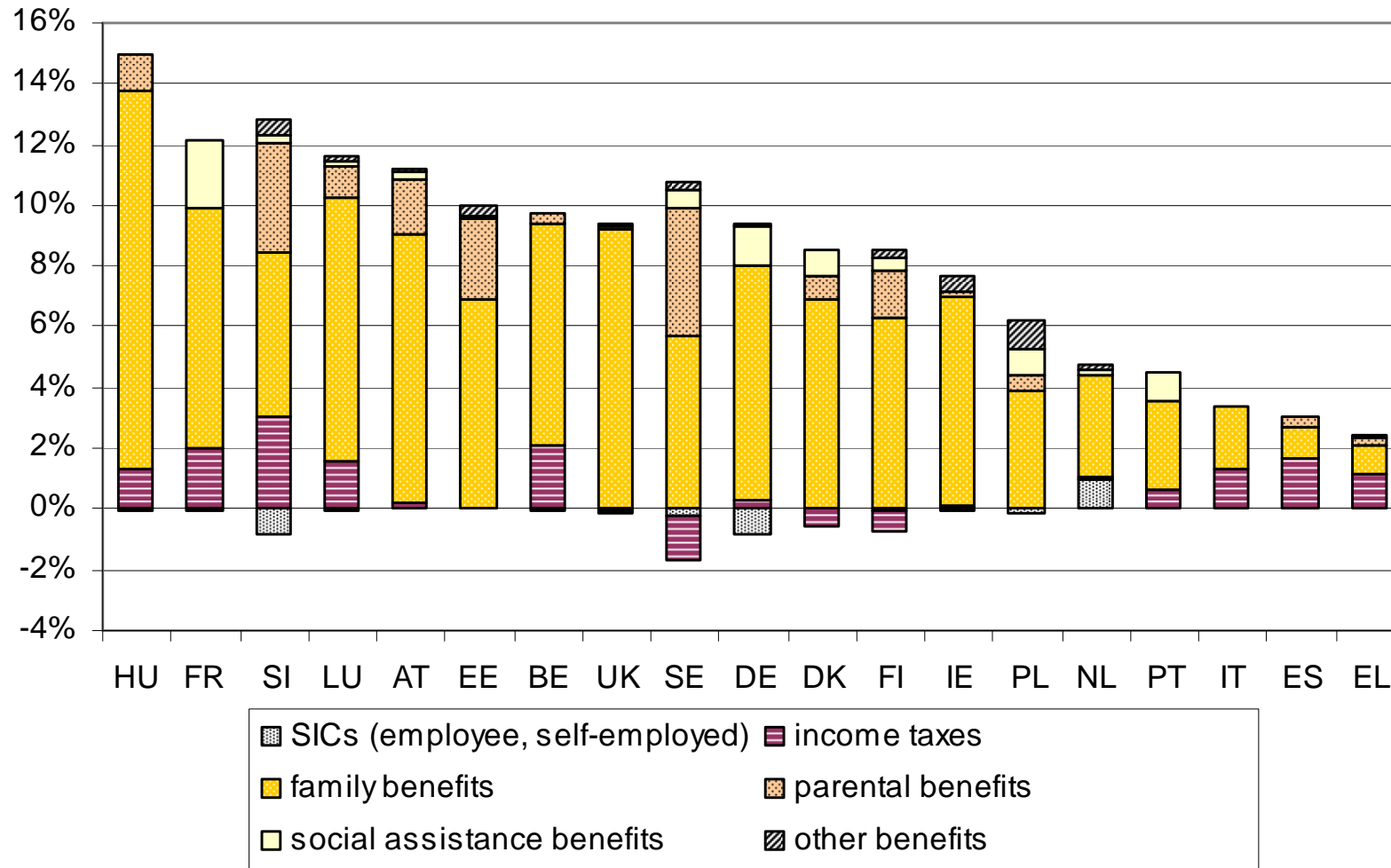


EUROMOD

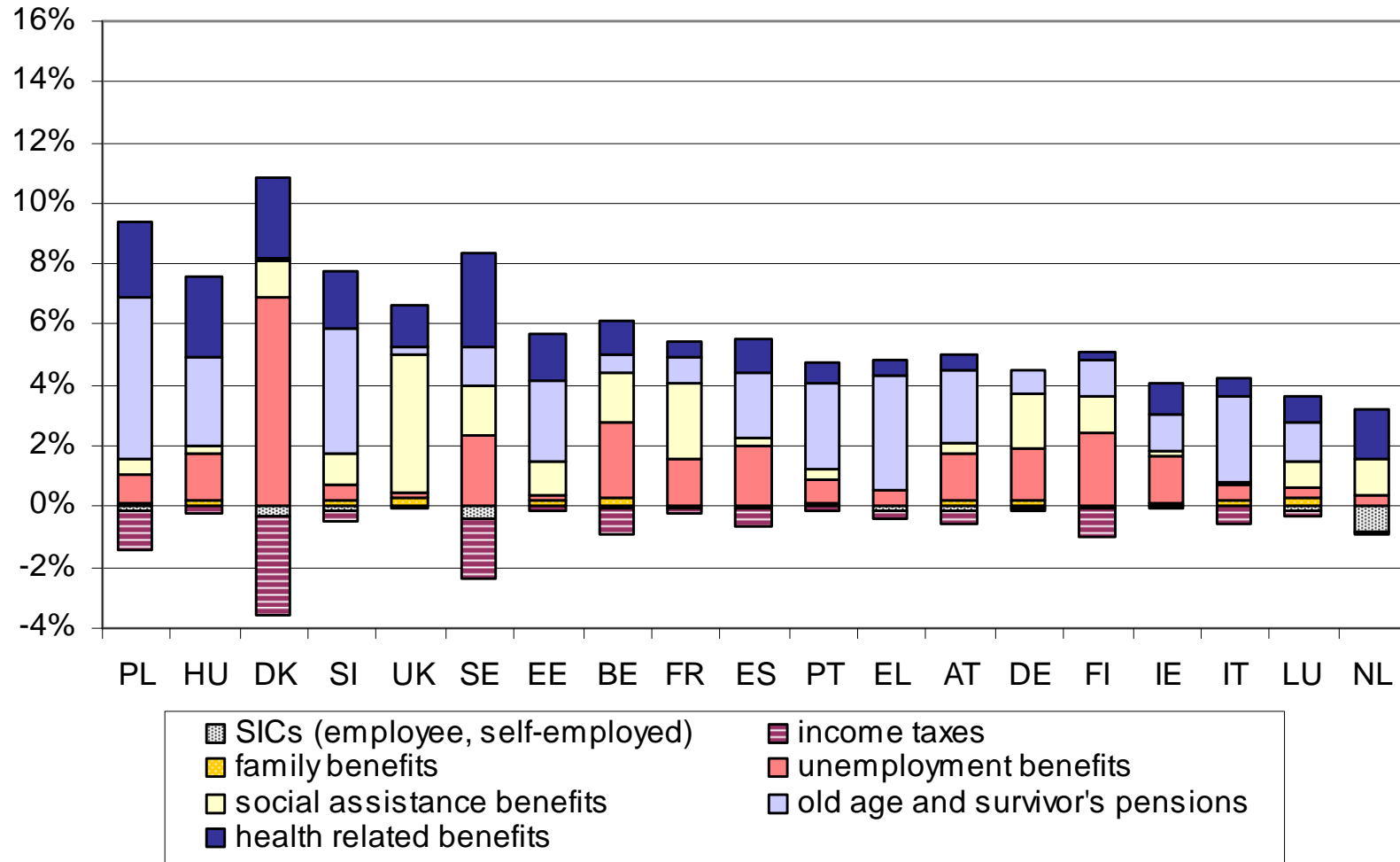
- Static tax-benefit microsimulation model for the European Union countries (currently includes EU-15 + Estonia, Hungary, Poland, Slovenia)
- Focus on direct taxes and cash benefits (indirect taxes and/or non-cash benefits available for some countries)
- Most contributory benefits and pensions not fully simulated
- Focus on the intended effects of the tax-benefit systems, i.e. assuming full benefit take-up and no tax evasion
- Most datasets either match policy year or precede it a few years (then updated), no population reweighting
- **We use the latest policy year for each country:**

Policy year	EE	HU	PL	SI	EL	ES	BE	DE	LU	NL	AT	PT	FI	UK	DK	FR	IE	IT	SE
1998					+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
2001					+	+	+	+	+	+	+	+	+	+	+	+	+	+	+
2003					+	+	+	+	+	+	+	+	+	+					
2005	+	+	+	+	+	+													

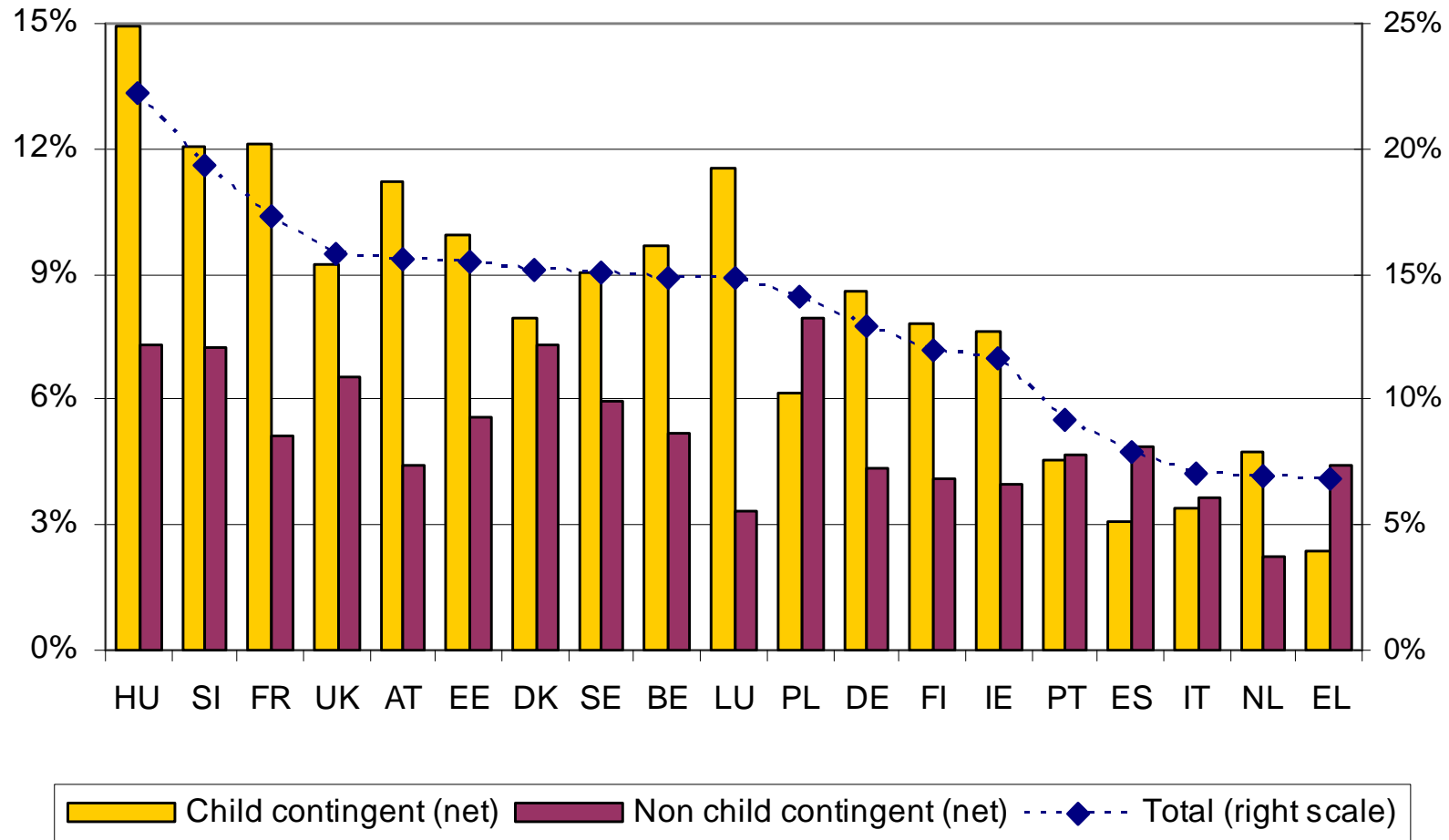
Child contingent cash payments per child by benefit and tax categories (% of per capita disposable income)



Non child contingent benefits per child by benefit and tax categories (% of per capita disposable income)

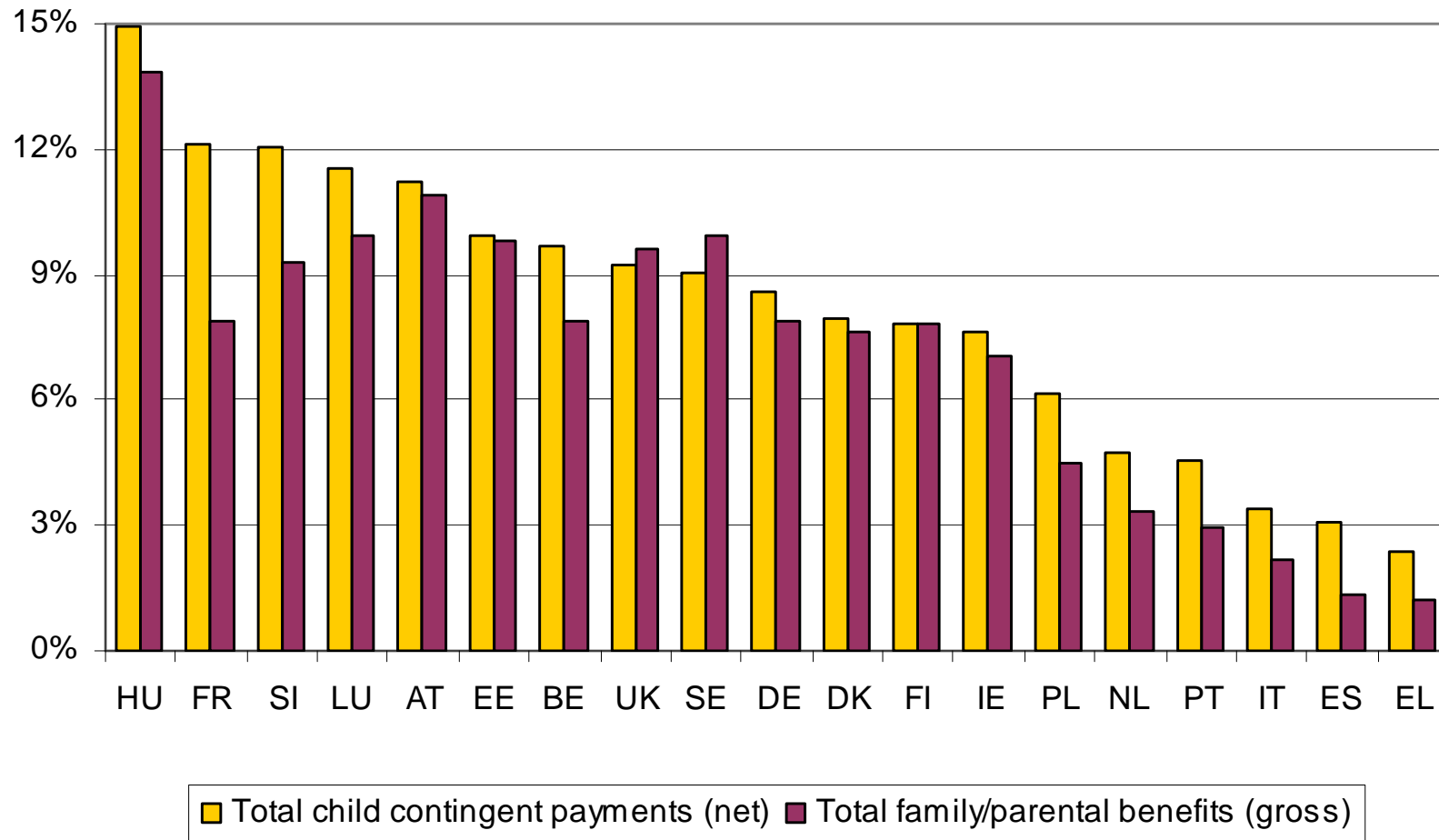


Total net child contingent and non child contingent cash payments per child (% of per capita disposable income)



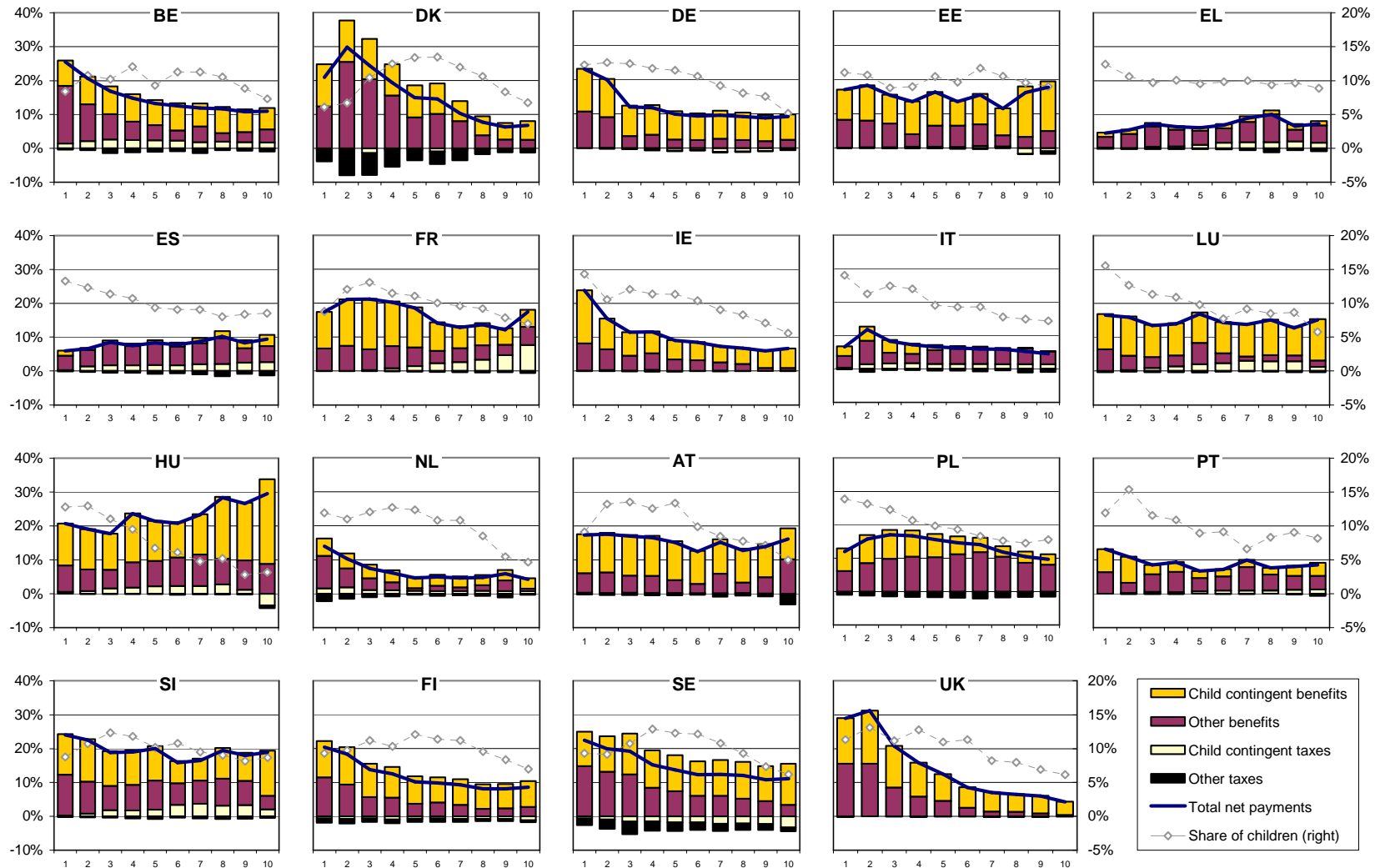
Child contingent measure vs family/parental benefits

(% of per capita disposable income)



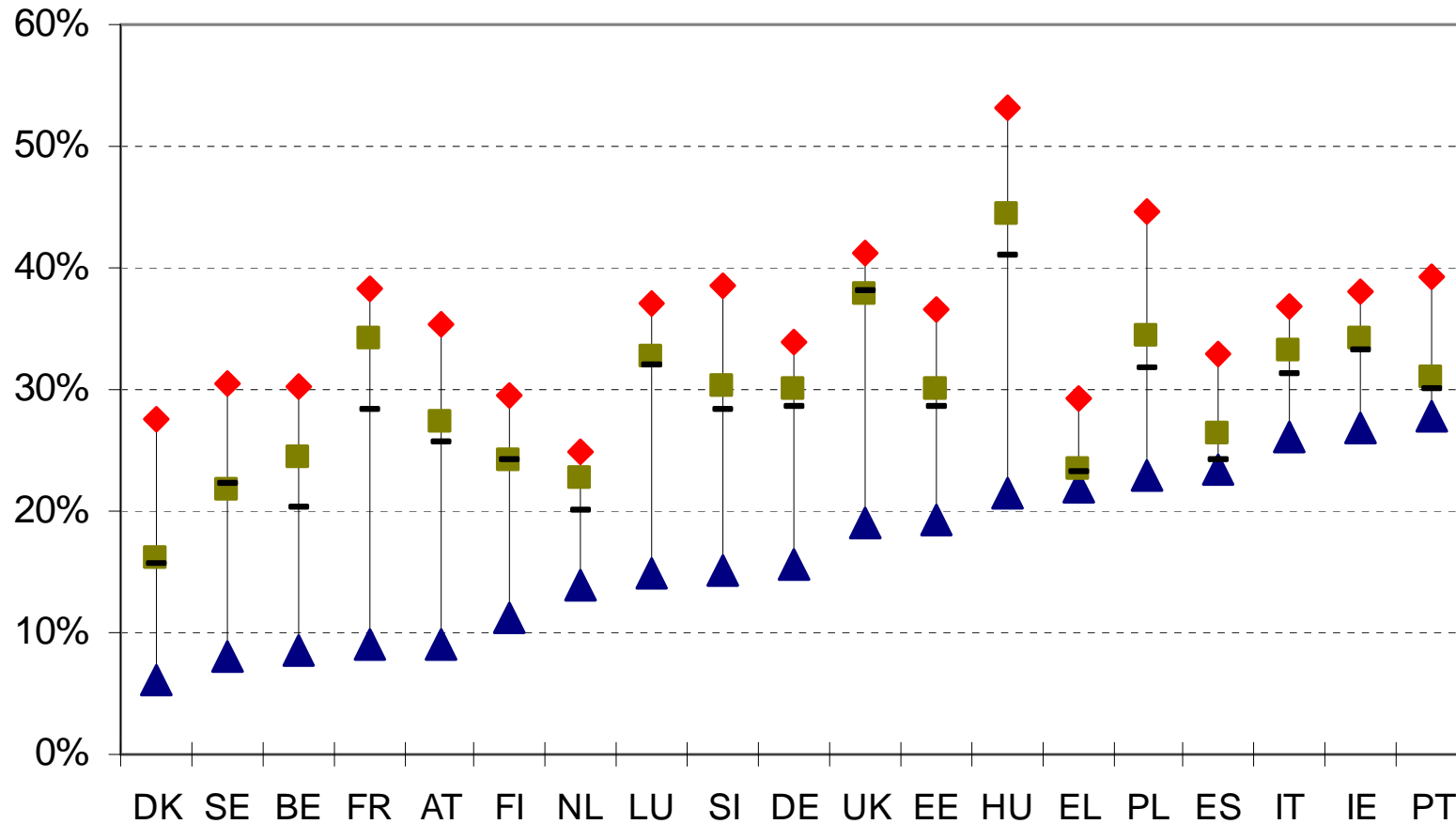
Child contingent and non child contingent cash payments per child by income deciles

(% of per capita disposable income)



Effect on child poverty

(poverty line = 60% of national median equiv. disposable income; using OECD modified equivalence scale)



- ▲ Baseline
- ◆ Excluding total net payments
- Excluding net child contingent payments
- Excluding gross family/parental benefits

Summary

- Benefits labelled for families/children (gross) underestimate child related payments nearly by one fifth (on average for 19 EU countries)
- Gap mainly due to tax concessions (e.g. Southern European and Benelux countries, FR, SI)
- Child related components of other benefits matter less (however, large effect in PL)
- Notable size variation of child contingent support:
 - Across countries (more compared to non-child contingent)
 - By income level – the form of support has an important effect how it is distributed across income deciles

Thank you!

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<http://www.iser.essex.ac.uk/research/euromod>