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Distributive and fiscal impact of monetary family benefits in Austria: Family tax credit "Familienbonus Plus" vs. basic security for children*

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Introduction

In this Policy Brief we compare two different monetary benefits for families with children in Austria: the family tax credit "Familienbonus Plus" recently introduced by the conservative government and the hypothetical basic security for children proposed by the NGO Volkshilfe Österreich. The two measures differ distinctly in their main focus and direction of impact. Basically, there is much to be said against increasing the already high level of monetary family benefits in Austria even further.[1] However, these highly discussed policy proposals merit a distributional analysis that will reveal the impact of these different approaches to family welfare especially when low-income families are considered.

Overview of the family tax credit "Familienbonus Plus"

The "Familienbonus Plus" was introduced in Austria at the turn of the year 2018/19. It represents a family tax credit of up to EUR 1,500 (for children below 18 years of age) and EUR 500 (for children aged 18 years and older in full-time education) per child (for whom there is entitlement to the child- or maintenance tax credit) and year. It is limited by the extent of individual income tax liability

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1 As measured by international comparative figures, monetary transfers (still) dominate social expenditure for families and children in Austria. While the orientation and instruments of family policy differ considerably across countries, in many cases the extension of the supply in institutional childcare facilities is prioritised (see e.g. Schratzenstaller, 2015). However, both the conservative government and Volkshilfe Österreich intend(ed) to extend institutional childcare facilities in addition to the introduced/proposed monetary benefit.

Except for an additional amount for low-income groups, the family tax credit is basically limited by the extent of income tax liability.

and does not allow for a negative tax. However, there is some room for manoeuvre in the sense that, per child, the tax credit can be either fully attached to one parent or shared equally between the parents. For low-income families entitled to the single earner or single parent tax credit an additional amount ("Kindermehrbetrag") of up to EUR 250 per child and year qualifying for negative tax is available.[2] The former child tax allowance and the tax deductibility of childcare costs were abolished in the course of the reform.

Overview of the basic security for children

The basic security for children should guarantee participation beyond the pure security of a subsistence level.

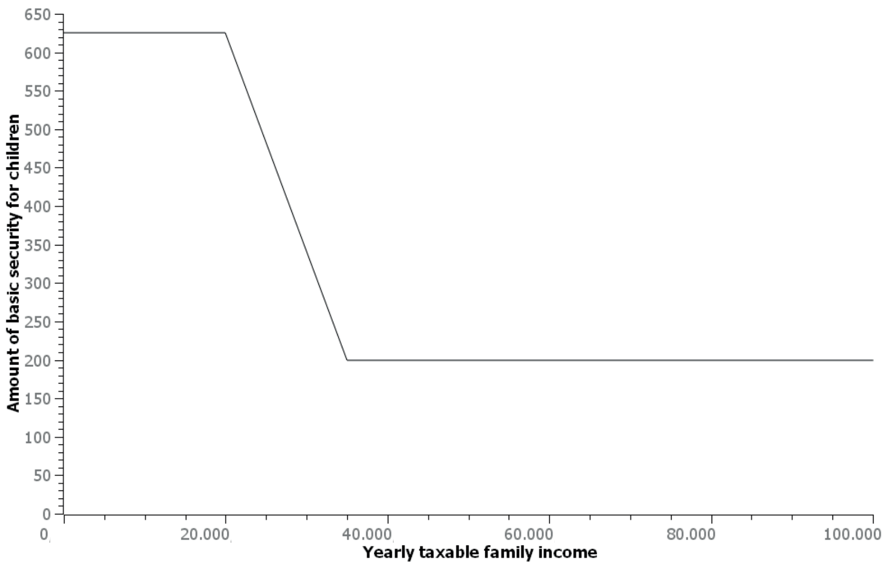
The basic security for children represents an alternative cash transfer for children below 18 years of age[3] which should increase participation prospects for children at risk of poverty but also provide more transparency within the current mix of family benefits and reduce administrative barriers in the access to means-tested benefits. It contains a universal component of EUR 200 and an income-tested component of up to an additional EUR 425 per child and month. The universal component should replace the hitherto existing family allowance and child/maintenance tax credit for children below 18 years of age (it equals the respective basic amounts for a child above 9 years of age). Together with the income-tested component, it is oriented at reference budgets by the debt counselling which should guarantee participation related to several dimensions (cultural, material, social and health) beyond the pure security of a subsistence level.[4] The income-tested component is paid out in its entirety (EUR 425 per child) up to a yearly taxable family income of EUR 20,000; above EUR 35,000, it is completely omitted; while a proportional adjustment (EUR 0 – EUR 425 per child) occurs between the two thresholds.

2 There is no entitlement to the "Kindermehrbetrag" in case unemployment benefit, unemployment assistance or minimum income benefit were received for at least 330 days in the calendar year.

3 For children aged 18 years and older and in full-time education (up to the age of 25), an extension of the system of student grants is being contemplated but could not be considered for the current analysis. Here the benefits for children aged 18 years and older remain unchanged.

4 The universal component of EUR 200 for all children builds on the cultural dimension which is related to education and care. The income-tested component of up to EUR 425 consists of the following dimensions: 1. Material dimension: up to EUR 300 related to housing (EUR 120), nutrition (EUR 115) and clothing (EUR 65); 2. Social dimension: up to EUR 95; 3. Health dimension: up to EUR 30 related to personal hygiene (EUR 11) and health provision (EUR 19) (see Holz et al., 2012).

Figure 1: Design of the "Basic Security for Children" (universal and income-tested component per child and month)



The income test is derived from the current supplement for multiple children within the family allowance.[5] The lower income limit of EUR 20,000 corresponds roughly to the limit of tax-free yearly income or to the yearly at-risk-of-poverty threshold for two persons while the upper income limit of EUR 35,000 was inserted due to budgetary and need-related reasons. As the model relates to reference budgets per child, a graduation according to the number or age of children is not foreseen (see also Volkshilfe Österreich, 2018). Besides family allowance and child/maintenance tax credit, child tax allowance and tax deductibility of childcare costs would be abolished (as it is the case with the "Familienbonus Plus").

Method

We conducted a fiscal and distributional analysis to explore the distinct impact of these different approaches to family welfare. For the analysis, we used the tax-/benefit microsimulation model EUROMOD/SORESI with the policy system 2018 as baseline or pre-reform scenario. The model contains the Austrian part of the EU-wide model EUROMOD with specific adaptations to the tax-/benefit system in Austria. It is a flexible tool that enables research on the effects of policy reforms on the distribution of income and the risk of poverty. The change of single components of a tax-/benefit system can be analysed for different

5 EUR 20 per month for the third and each further child in case that the yearly taxable family income did not exceed EUR 55,000 in the previous calendar year. The yearly taxable income is calculated in the following way: gross incomes minus special payments (13th, 14th salary) minus social insurance contributions minus tax allowances.

population groups (such as by income group). The areas of policies covered by EUROMOD and SORESI include social security contributions, income tax as well as cash benefits. The underlying income data is EU-SILC 2016 (incomes for 2015 that are indexed to 2018) provided by Statistics Austria. The sample size is representative for the Austrian population and comprises 13,016 persons in 6,000 households. The baseline 2018 is compared to the scenario with "Familienbonus Plus" and the scenario with the basic security for children.

Results I: Fiscal costs

Expenditure for the family tax credit is about EUR 400 million lower.

The fiscal net costs (costs of the reform measure minus costs for abolished measures) for the "Familienbonus Plus" amount to about EUR 1.5 billion; for the basic security for children to about EUR 1.9 billion per year. Thus, expenditure for the family tax credit is around EUR 400 million lower. An interesting fact is that the conservative government estimated the costs for the "Familienbonus Plus" with only EUR 1.2 billion (Österreichische Bundesregierung, 2018). However, other known simulations also estimate net costs of around EUR 1.5 billion (see Baumgartner et al., 2018; GAW, 2018). One possible explanation might be that the government did not assume a full take-up as the family tax credit has to be applied for either at the employer or at the assessment of taxes.

Table 1: Net costs* in million EUR per year

Family Bonus	Basic Security for Children
1,522	1,921

* Costs of the reform measure minus costs for abolished measures.

Source: Authors' calculations based on EUROMOD/SORESI.

Results II: At-risk-of-poverty rates

The basic security for children would strongly downsize the at-risk-of-poverty rate.

The starting point for the at-risk-of-poverty rate in the base or pre-reform scenario (13.1% for the whole population, 15.3% for persons below 20 years of age)[6] is a bit lower as shown in official EU-SILC statistics by Statistics Austria as we calculated it with the policy system for 2018 which, for example, already includes the increase of the family allowance in 2018. The introduction of the family tax credit leads to a decrease of the at-risk-of-poverty rate for the whole population by 0.6 percentage points, and for persons below 20 years of age by 1.5 percentage points. In contrast the basic security for children would reduce

6 As the target groups of the two measures are a bit different (basic security for children below 18 years of age, "Familienbonus Plus" also for children aged 18 years and older in full-time education for whom there is entitlement to the child or maintenance tax credit), we used the standard age category below 20 years of age.

the respective rates by 3.5 and 9.3 percentage points. It can be concluded that the "Familienbonus Plus" has only a very moderate poverty-reducing impact whereas the basic security for children would strongly downsize the at-risk-of-poverty rate as a matter of fact, especially for persons below 20 years of age.

Table 2: At-risk-of-poverty rates

	Pre-reform	Post-reform, actual "Familienbonus Plus"	Post-reform, proposed Basic Security for Children
Risk-of-poverty, all	13.1%	12.5% (-0.6 pp)	9.6% (-3.5 pp)
Risk-of-poverty, below 20 years of age	15.3%	13.8% (-1.5 pp)	6.0% (-9.3 pp)

Source: Authors' calculations based on EUROMOD/SORESI.

Results III: Impact on the income distribution

The "Familienbonus Plus" primarily benefits the middle class; while low-income households would definitively profit most from the basic security for children.

For the impact on the income distribution we look at the equivalised net disposable household income[7] per income decile. If we consider the whole population (incl. persons in households not affected by the reform measures), benefits from the introduction of the family tax credit go mainly to the middle income deciles. In the case of an implementation of the basic security for children the benefits would end up serving almost exclusively the lowest three income deciles. If we only look at persons in households affected by the reform measures, little change can be observed for the basic security for children while from this point of view, the benefits related to the family tax credit favour higher-income classes (even) more. This can be explained by the fact that, on average, there are fewer children in households in higher-income deciles. The small losses associated with the basic security for children in higher-income deciles are due to the abolishment of the child tax allowance and the tax deductibility of childcare costs as well as to the effective abolishment of the sibling supplements within the family allowance. To sum up, the "Familienbonus Plus" primarily benefits the middle class while low-income households would definitively profit most from the basic security for children.

7 Modified OECD-scale: 1 for the first adult; 0.5 for the second adult; 0.3 for each child.

Table 3: Change in monthly equivalised net disposable household incomes per decile

Decile	Income pre-reform	Change "Familienbonus Plus"		Change Basic Security for Children	
	All persons	All persons	Persons in affected households	All persons	Persons in affected households
1	827	9	28	149	320
2	1,294	27	53	136	236
3	1,537	38	69	74	124
4	1,759	38	74	21	39
5	1,978	37	73	2	4
6	2,203	30	65	-3	-6
7	2,466	29	68	-5	-11
8	2,765	26	64	-8	-21
9	3,195	17	52	-5	-15
10	4,866	15	49	-8	-25
Total	2,289	27	62	35	77

Source: Authors' calculations based on EUROMOD/SORESI.

Conclusion

In our comparative analysis of the family tax credit "Familienbonus Plus" and the basic security for children, we looked at three dimensions: fiscal costs, at-risk-of-poverty rates and distributional consequences.

The family tax credit "Familienbonus Plus", implemented by the conservative government at the turn of the year 2018/19, represents a financial relief for working parents. As a result, it benefits families whose income tax (=income) is sufficiently high. In the sense of a horizontal redistribution, it also relieves families with children liable to taxation compared to persons without children liable to taxation. A further argument brought forward by the government for the concentration on higher income classes, was that families with low incomes already paid no (or little) income tax before the reform and thus, need not be relieved (much) further.

In the case of the basic security for children, monetary transfers are increasingly oriented at the material household situation and the (deficient) financial endowment of the child. Income-poor and disadvantaged families (e.g. single-parent households) benefit in particular. Poverty and social disadvantages should not lead to unequal opportunities and social exclusion of children and youth. At somewhat higher costs than the family tax credit, the basic security for children would be socially very unerring while at the same time incurring a low administrative burden (building on an already existing income test within the family allowance).

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