



# Categorising tax and benefit family policies in the EU during the COVID-19 pandemic\*

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## Introduction

The COVID-19 pandemic gave governments in EU countries and beyond many socio-economic issues to combat. These problems arose alongside public health crises and national lockdowns. One of these issues was the risk of financial hardship for families and children, with the IMF reporting that child poverty in the EU rose by almost 20% during the pandemic (Halleart et al., 2023). Governments attempted to prevent this in several ways, including by introducing specific tax and benefit policies. This policy brief focuses on categorising new tax and benefit family policies introduced during the pandemic in five EU countries: Austria, Germany, Hungary, Bulgaria and Sweden. Benefits closely modelled on existing social policies are also considered. The policy categorisation provides insight into the accessibility and inclusivity of said policies and contributes towards specific policy recommendations to increase the scope of beneficiaries. While this policy brief focuses on a finite number of policies, it provides insight into the breadth of family policies employed across the EU and the factors that differentiate them.

## COVID-19 in the EU: Context

Governments in EU countries attempted to limit the effects of the pandemic in many ways. They introduced social distancing measures and restrictions on businesses and international travel, triggering a collapse of global job markets. This, among other issues, threatened the financial well-being of families during the COVID-19 pandemic. Financial well-being in this brief is defined as having enough financial autonomy and stability to support your own lifestyle (Brüggen et al., 2017). Many were at risk of financial instability during the pandemic, with unemployment across the EU rising by over 7% from 2019 to 2020 (Botelho & Neves, 2021). And the risk of financial instability and poverty produced other risks related to, among others, children's mental health and educational opportunities.

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Governments endeavoured to curb a rise in financial instability in families; however, this was not without challenges. Timeframes, finances and the economic climate in 2020 made it tricky for policymakers working under pressure. Despite these challenges, Almeida et al. (2020) suggest that introducing policies significantly reduced the risk of income losses around the EU, but improvements could still be made.

## **Tax-Benefit family policies in five EU countries**

Across the European Union, countries implemented a wide range of distinct tax and benefit policies to protect families and curb a rise in child poverty. The data presented here has been collected primarily from Eurofound's (COVID-19) EU PolicyWatch database, the EUROMOD Country Reports, and EU, national government and international organisation reports.

Five European countries were selected that represent the different regions within the EU. These countries are Austria, Germany, Sweden, Hungary and Bulgaria. Germany is a Western European country and a founding member of the European Union (joined in 1954), while Eastern European country Bulgaria joined in 2007 (EU Country Reports, 2023). Neighbours Austria and Hungary bridge the gap between east and west, while Sweden represents the Nordic region, known for its prosperous social security systems (Murphy & McGann, 2020). These countries have all been affected by COVID-19 and the risk of child poverty. Each country had a robust framework of family policies to build on during the pandemic, especially Austria, Hungary and Germany (Bradshaw, 2020). All countries employed family benefits, while all but Sweden provided child tax benefits (Bradshaw, 2020).

This policy brief groups measures into three general categories: one-off lump-sum payments, parental leave schemes, and parental hardship funds. A one-off lump sum payment is a single financial benefit paid out by the State on one occasion. A hardship fund is a sum of money allocated to a targeted group experiencing situational financial instability, usually requiring applications. Parental leave schemes allow parents to take unpaid leave to look after their children during lockdown, while receiving wage replacements from the State. These measures differ from existing parental leave schemes that support families after the birth of a child, as they can be used to care for older children.

**Table 1: Categorisation of tax and benefit family policies introduced during the COVID-19 pandemic in Austria, Germany, Sweden, Bulgaria and Hungary**

Country	Policy Type	Policy Description	Amount	Date (in effect year-month)	Universal/ Means-tested	Application Required?	Paid per child/ family
<b>Austria</b>	Parental hardship fund	3-month family hardship fund ( <i>Familienhärtefonds</i> )	Up to EUR 1200	2020-04 to 2021-06	Means-tested	Yes	Per family
<b>Austria</b>	One-off lump sum	Additional financial support for young students receiving funding	EUR 300	2020-04 & 2020-09	Means-tested	No	Per child
<b>Austria</b>	One-off lump sum	Family allowance child benefit	EUR 360	From 2020-09	Universal	No	Per child
<b>Germany</b>	One-off lump sum	COVID child benefit	EUR 300	From 2020-06	Universal	No	Per child
<b>Germany</b>	Parental hardship fund	Compensation of income losses for parents affected by lockdowns	Up to EUR 2016 per month for up to 20 weeks	2020-03 to 2020-12	Means-tested	Yes	Per family
<b>Sweden</b>	Parental leave scheme	Financial aid for parents due to child-care responsibilities	Average minimum contribution of SEK 225 (EUR 19.35) per day	2020-04 to 2022-03	Means-tested	Yes	Per family
<b>Bulgaria</b>	Parental leave scheme	Assistance for parents taking unpaid leave due to a state of emergency	BGN 375	From 03-2020	Means-tested	Yes	Per family
<b>Hungary</b>	One-off lump sum	Personal income tax and simplified flat tax rebate for parents	Up to 12 times tax calculated on gross monthly average wage (EUR 2222)	01-2021 to 12-2021	Universal	No	Per family

Source: Euromod Country Reports and Eurofound Policy Databases

The above table depicts parental leave schemes, hardship funds and one-off lump sums targeting families, introduced in the five chosen countries. The listed characteristics of these policies are pertinent to the categorisation.

## Policy categorisation

Further categorisation can be made based on the characteristics of these groups of benefits, notably whether they are means-tested or universal, require an application, and are paid out per child or family unit. These dimensions impact the accessibility and inclusivity of policies, which determines how many families and children benefit directly.

### Means-testing

Most of the categorised policies are means-tested rather than universal. A universal benefit pays out to all target beneficiaries regardless of income or financial situation. Means-tested measures target beneficiaries below a specified income threshold or eligibility criteria. This may be due to the extra expenses of implementing blanket policies and the effort to target the most vulnerable groups, such as unemployed parents. The only universal policies are the one-off child benefit in Germany and Austria and the Hungarian tax rebate. This is surprising given that the pandemic provoked widespread financial instability in families that would benefit from universal support (Murphy & McGann, 2020).

### Means-tested benefits were less successful than universal benefits

Universal benefits are expensive and do not specifically target those in need (Patel & Kariel, 2021). Means-tested benefits create a stigma around accepting money from the State, can incur extra administration costs and are only sometimes more effective at targeting specific groups (Gugushvili & Hirsch, 2014). A study conducted in the US on policies combatting single-mother poverty concluded that means-tested policies were less successful than universal benefits (Gugushvili & Hirsch, 2014). Experts do not always deem means-tested benefits more effective, with Economist and Philosopher Amartya Sen (1995) stating that “benefits meant exclusively for the poor often end up being poor benefits”.

Concerning the categorised policies, Austria's COVID Parental Hardship fund benefited around 90,000 families by the end of 2020 (Steiber et al., 2020). However, given that 22% (280,000) of Austrian children were at risk of poverty in 2020 (European Commission, 2020), a universal policy may have provided more protection. A universal policy would likely reach significantly more families. For example, the universal child benefit implemented in Germany had the scope to reach over eight million households (Boumans & Lens, 2021). Less targeted,

universal benefits aim to protect more individuals and, in this case, vulnerable families from financial instability.

### **Application processes**

Based on the selected policies, applications are most common in means-tested benefits, as universal benefits do not require proof of financial hardship. In all policies studied, parental leave schemes require applications with proof of childcare responsibilities, taking time off work, or lack of paid holiday days. This is the case in Germany, Sweden and Bulgaria.

Application processes can be linked to issues concerning take-up (Fuchs et al., 2020). While non-take-up can result from many factors, application processes can act as facilitators. Non-take-up can occur for many reasons, including initial application costs, extensive application processes and stigma. Sometimes, application processes require extensive documentation or can only be processed online, which is a barrier to those most in need who may not have access to sufficient technology. If applications must be made in person, travel costs must be considered. Single parents may need help to bring children to the application centre or find childcare, which often incurs high costs (Fuchs et al., 2020). A benefit is deemed to have failed if these barriers prevent beneficiaries from accessing support.

Non-take-up of family policies during COVID-19 may have exacerbated child poverty, illiteracy, and malnutrition, all of which have devastating long-term effects. In Bulgaria, for example, the parental leave scheme had such strict application criteria that it became challenging to gather all necessary documents and proof (Eurofound, 2021). Parents had to prove, among other things, that they had taken unpaid leave, had childcare responsibilities, and that no relatives could provide childcare. This was one of the reasons that in the two months after implementation, the policy had only benefitted around 2,000 families (Eurofound, 2021). The strict application process reserves funds for those most in need and prevents others from abusing the benefit. In Germany, the parental leave scheme paid out up to EUR 2,016 per month (Eurofound, 2021), so if it were not for an application process, those who were not disadvantaged could have received significant unneeded financial aid.

**Complex application processes and other associated expenses can significantly reduce uptake**

Complex application processes and other associated expenses can significantly reduce uptake but can also mitigate abuse of services. In the context of the categorised policies, providing proof of childcare responsibilities and taking unpaid leave as a requirement maintains that the State pays out to those who need it most.

### Per child or family basis

Benefits aimed at protecting children are usually paid per child or family unit. Per child COVID-19 benefits would award proportionately more emergency child benefits or hardship funding to larger families than those with one or two children. Most countries paid financial aid per family, with only Austria and Germany implementing policies that reward more to larger families. Classic child benefits are typically paid per child with no restrictions on family size (Reader et al., 2023). However, in 2017, the UK introduced a cap on child benefits beyond two children. This further restricted an already means-tested benefit for larger families. The scheme was introduced with the idea that restricting benefits for larger families would boost the percentage of parents in employment in these groups. Policy analysts found no link between the benefit cap and increased employment and, instead, worried about a potential rise in child poverty (Reader et al., 2023).

#### **Some politicians believe that larger families receive too much state funding**

Some politicians believe that larger families receive too much state funding due to a lack of restrictions (Reader et al., 2023). The motives behind capping child benefits to one or two payments per child do not translate into a crisis like the COVID-19 pandemic. When the labour market took a negative turn across the EU, parents did not have access to the same abundance of employment opportunities as they did pre-pandemic.

Specific to the categorised policies, the tax rebate in Hungary is an interesting example of paying benefits per family instead of per child. The scheme applied to all employed parents who paid personal income tax (almost 2 million) but failed to pay incrementally more to large families (Eurofound, 2021). Since parents with three or more children pay proportionately less tax than smaller families – due to a small tax relief for each additional child – they benefit less from the scheme. The families receiving the most support were single-child, high-earning households, while low-income families that paid little to no tax did not benefit (Eurofound, 2021). This measure could be more inclusive of vulnerable groups experiencing economic hardship due to the pandemic. While paying benefits per family is more cost-effective than per child, it does not cater to the increased living costs of larger families.

### Take-away messages

The selected countries of Austria, Germany, Sweden, Bulgaria and Hungary employed varied tax and benefit family policies that provided financial aid to many. These policies helped to protect the financial well-being of families and children to a certain extent. The policy categorisation highlights certain trends.

The chosen policies can be categorised based on specific criteria: whether they are means-tested or universal, require an application, and whether they are paid per family or child. Most policies are means-tested rather than universal, the only universal policies are the one-off lump sums in Austria and Germany and the tax rebate in Hungary. Only those who meet the government's financial requirements would benefit from these policies. It is difficult to determine whether these policies more effectively target low-income groups than universal policies. There is no clear bias regarding whether the categorised policies require applications or not. All parental leave schemes required an application, while one-off child benefits did not. Application processes have been linked to problems with take-up, meaning associated measures may have been less accessible. Most countries paid benefits per family, with child benefits in Austria and Germany choosing to pay per child. Paying per family means larger families would not receive proportionate financial aid, potentially risking their financial well-being.

**One-off child  
benefit schemes in  
Germany and Austria  
are the most accessible  
in design**

One-off child benefit schemes in Germany and Austria are the most accessible in design, as they are universal, paid per child and do not require applications. Policies in Sweden and Bulgaria have been designed with fewer features linked to accessibility, as they are means-tested and require applications, all of which could narrow the pool of target beneficiaries. Importantly, this policy brief focused on a limited number of tax and benefit policies. Other EU countries introduced tax and benefit policies and may have employed different measures to protect the financial well-being of families.

Analysing the chosen policies within the categorisation framework gives rise to certain suggestions for improvement and for future crisis responses. Universal policies may be better designed for blanket financial support in future crisis responses. For example, one-off lump sums that are paid to large target groups like children, students or parents. Means-tested policies can be necessary for more targeted measures like parental leave schemes, through which beneficiaries receive wage replacements. Application processes can be complex, the well-designed benefits analysed in this brief avoid overly complicated application processes or omit them entirely. Benefits paid per child provide proportionate financial support to larger families, which may be important when introducing additional or altered child benefits. It makes sense for benefits that are centred around children rather than parents to be paid per child. It may not be practical to implement this design feature when introducing parental hardship funds or parental leave. All things considered, the one-off lump sum child benefits analysed in this brief have been designed well and contain features that should make them simple to distribute. They are universal, do not require an application and are paid per child. Based on design alone, these benefits would be recommended in future crisis responses.



It is worth noting that this policy brief focuses on the design of the chosen policies, and all suggestions are based on this rather than the implementation of the chosen policies and their tangible impact on target beneficiaries. In future, it is encouraged to analyse the implementation of these policies and wider COVID-19-specific policies. This would allow for further specific recommendations based on real-life successes or failures relating to uptake and outcomes.

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