

## CHILD SUPPORT AND CHILDREN'S TAX ALLOWANCES IN SELECTED EUROPEAN COUNTRIES\*

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In order to capture adequately and completely the support provided by the state to families and their children – or the burden laid on them – and compare the results internationally, it would be necessary to examine the entire benefits and services, such as the availability of kindergartens, educational and health services, as well as the monetary transfers to families by the state, tax exemptions and deductions for families with children.

The following international comparison is limited to an investigation of the monetary transfers in the form of child support and how children are taken into account in the income tax system. Even with this restriction an international comparison is difficult because of the complexity and the different systems of family benefits in the individual countries. For this reason we include concrete examples of familial situations for which an international comparison is made. This approach has the disadvantage that from the cited examples generalisations for the entire population of a country can only be drawn to a limited extent, especially since family benefits and the effect thereof must be considered as a whole. Individual components, as we analyze them here, do not necessarily reflect the family friendliness of the entire regulatory system.

### Support for dependent children

In the countries investigated (Table 1 and Figure) the only

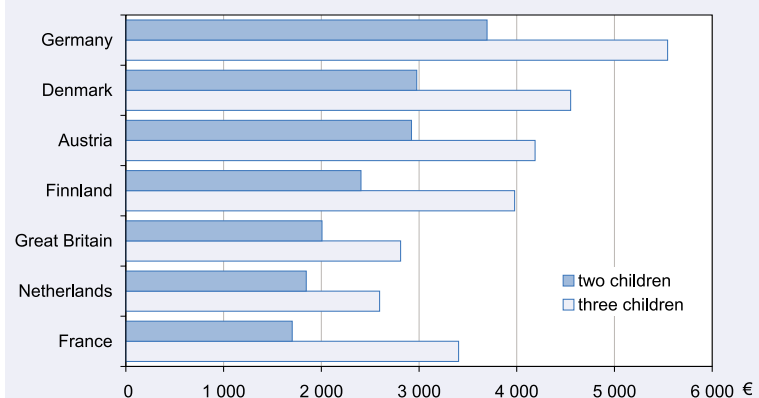
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similarity with respect to the support for dependent children is that the distribution of benefits is dependent on income and the benefits themselves are not subject to income tax. Otherwise the regulations vary considerably. In general the countries have based the amount of benefits on the number of children (Germany, Finland, United Kingdom) or according to the age of the child (Denmark and Austria). Only in France and in the Netherlands is there a double differentiation of the benefits based on age and on the number of children. In the case of the Netherlands this is a regulation which is being phased out and is valid only for children born before 1995. For all children born thereafter a system independent of the number of children has been established.

Because of the variety of regulations in connection with child support it is difficult to evaluate the family friendliness of the countries based on the allowances alone. For this reason two model families will be examined in order to compare the benefits of the individual country regulations. The one family has two children between the ages of 5 and 13; the other has three children aged 2, 5 and 13. The Figure shows the children's allowances in the individual countries per year.

The two sample calculations show that when solely viewing child support for the chosen family type, the German benefits as defined by law are the most advantageous of all the countries investigated. That is due to the continuously high payment for the first three children of €1,848 per year. However, it should be noted that child support payments within the framework of the German option model are offset against the tax effect of the

CHILD SUPPORT FOR FAMILIES WITH TWO OR THREE CHILDREN, 2003 IN SELECTED EU COUNTRIES, IN EURO P.A.



Source: Calculations of Ifo Institute.

**Table 1**

**Child support in selected EU countries**

Country	Standard age limit (maximum)	Differentiation based on			Standard amounts (per annum) in € per child				Beneficiaries	Subject to tax
		Age	No. of children	Income						
Austria	19 (26)	√	-	-	0-3 years old 1,264.80	3-10 years old 1,352.40	10-18 years old 1,570.80	19-26 years old 1,832.40	All those obliged to support children with habitual residence or ordinary residence in Austria	-
Denmark	18	√	-	-	0-3 years 1,736	3-6 years 1,576	7-18 years 1,240		Danes and foreigners subject to income tax. In some cases a minimum period of residence is required for foreigners	-
Finland	17	-	√	-	1 child 2 children 3 children 4 children 5 children Additional payment for single parents			1,080.00 1,326.00 1,572.00 1,818.00 2,064.00 403,20	Couples, singles and same sex partnerships with child living in Finland	-
France	20	√	√	-	Child support 1 child 2 children 3 children and more Additional support 11-16 373.68			1,328.52 1,702.08 over 16 664.32	All individuals who live in France with at least two children	-
Germany	18 (27)	-	√	-	for 1-3 Children more than 3			1,848 2,148	All Germans and foreigners with a valid resident permit subject to income tax	- <sup>a)</sup>
Netherlands	16 (18)	√	√	-	Children born before 1/1/95 families with ... children 1 2 3 4 5 6 etc.	8-11 years old 857.84 969.04 1,006.08 1,087.52 1,136.40 1,168.96	12-17 years old 1,009.24 1,140.04 1,183.60 1,279.44 1,336.92 1,375.24		All those obliged to support children with residence in the Netherlands or with employment subject to income tax in the Netherlands and membership in the national insurance	-
United Kingdom	16 (19)	-	√	-	Children born after 1/1/95 0-6 years old 706.48	6-12 years old 857.84			Individuals responsible for child-rearing and ordinary residence in the United Kingdom	-

<sup>a)</sup> Child support is not subject to income tax in Germany, but contributions to social insurance are required for the benefits.

Source: Mennel and Förster (2003); design of the table and additional information provided by the Ifo Institute.

payments. That means a family can choose between child support and the deduction of a certain amount per child depending on which is more beneficial to them. For this reason it is not possible to say for Germany – in contrast to the other countries – which part of the child allowance is an actual state transfer payment and thus a true component of family support. Only for families with such

a minimal income that no wage or income tax is paid can the child allowance be classified completely as family support.

The child support systems of Denmark and Austria, which are based on children’s age, fall considerably behind Germany for both our model families of two and three children. What is notice-

**Table 2**

**Tax deductions and exemptions for children in selected EU countries**

Country	Name	Type	Differentiation according to			Standard amounts (yearly) in € per child	Beneficiaries	Income limits	Special features
			Age	Number of children	Income				
Austria	Kinderabsetzbetrag	Tax deduction/transfer payment	-	-	-	€ 610.80	Those subject to tax and entitled to receive child support	-	Direct payment to beneficiaries
	Alleinerzieherabsetzbetrag	Tax deduction	-	-	-	€ 364	Single parents subject to tax and married couples with a sole earner	-	Deduction from tax debt. If tax debt less, payment as a negative income tax
Denmark	– <sup>a)</sup>	no tax deductions nor exemptions for children							
Finland	–	no tax deductions nor exemptions for children							
France	– <sup>b)</sup>	no tax deductions nor exemptions for children							
Germany	Kinderfreibetrag	Statutory tax exemption	-	-	-	€ 3,648	Those subject to tax with a child under 18 years of age	Indirect due to option model	Option model
Netherlands	Kinderkorting	Tax deduction	-	-	√	€ 40	Those subject to tax which child under 18 years of age	Max. € 56,191	If the conditions are fulfilled, the individual deductions are added together.
	Aanvullende kinderkorting		-	-	√	€ 341 € 428		Max. € 29,096 Max. € 25,704	
	Combinatiekorting		√	-	√	€ 190	Those subject to tax with child under 12 years of age and minimum income from present employment	Minimum income € 4,060	
	Alleenstaande-ouderenkorting		√	-	-	€ 1,301	Single parents with child under 27 years of age	-	
	Aanvullende alleenstaandeouderenkorting		√	-	-	4.3% of the income, maximum € 1,301	Single parents with a child under 12 years of age	-	
United Kingdom	Child Tax Credit	Tax deduction/transfer payment	-	-	√	Family component: € 785; Baby component: <sup>c)</sup> € 785; Children's component: € 2,081; Handicapped component: € 4,350	Families with children independent of gainful employment	Family component: € 72,015 Children's component: € 19,185	Direct payment to beneficiaries

<sup>a)</sup> Only individuals obliged to support children who live with them are entitled to an exemption of € 3,445. – <sup>b)</sup> Is only valid for the birth year. – <sup>c)</sup> Working parent are entitled to an allowance for small children (AGED) which includes a tax deduction of up to € 5,000.

Source: Mennel and Förster (2003); design of the table and additional information provided by the Ifo Institute.

able is the different philosophy in both countries. The Danish child support payments for children to the age of three are almost as high as those paid in Germany. With increased age the allowance is reduced, and the difference to Germany increases as the child grows older. In Austria, on the other hand, the age differentiation works the other way around. Here the payments increase as the child becomes older

The Danish approach – reduction in payment with increased age – is an exception among the countries investigated. In most cases child allowances remain constant or increase regardless of the number and age of the children. The United Kingdom is an exception in that the payment for the first child is approximately 50 percent higher than for the following children. This has led to – for our model families – an allowance in the United Kingdom that is slightly higher than in the Netherlands and France, where the lowest child support is provided. In these countries child support payments for families with two children between the ages of 5 and 13 make up about only half of those paid in Germany.

If one now views child support payments for a family with three children, the ranking of the countries remains basically the same (see figure). Only France moves up two places due to generous support for the third child, thereby reaching just under the support for the third child in Germany. Due to the lower level of support for the first child, the French child support payments for families with three children are, however, still lower than the German, Danish, Austrian and Finnish benefits.

The time period for payment of child support benefits also varies considerably from country to country. The age limit is generally between 16 (the Netherlands, United Kingdom) and 20 years of age (France). The maximum age is, however, in some countries considerably higher if studies and professional training are taken into consideration. In Germany it is nine years beyond the general age limit of 18 years. This means that the time period is valid for at most 27 years. In Denmark, Finland and France the maximum and the standard age limit are the same.

In summary it can be said – if we overlook the option model problem – that the German child support payments are the most generous among

the European countries considered. If the deduction of the child support payment is taken into account as a result of the option model, then the top position of Germany is even strengthened. The child support payments in the United Kingdom and in the Netherlands are considerably lower.

#### **Allowance for dependent children as an income tax deduction**

In most of the investigated countries the allowance for dependent children (Table 2) is conceived in such a way that it can be deducted from the tax debt. It is a fixed amount that is dependent on income and the individual tax level of the family. Germany is the only country where the allowance for dependent children lowers the taxable base. The reduction of the tax debt thus depends on the individual tax rate of the family.

In Austria and the United Kingdom the benefits are paid directly to the beneficiaries. If the statutory deductions surpass the actual tax payment, they are treated as a negative tax. The British “child tax credit” has a feature that is also found in Dutch tax deductions. In both countries the deduction is only valid up to a specific upper limit of family income. Families with a higher income thus do not qualify for this tax deduction. In contrast the option model in Germany has its effect in the opposite direction of a lower income limit, under which a tax deduction is not possible.

The system in the Netherlands is particularly complicated. Let it suffice to note that in the Netherlands there is not only a (varying) upper income limit for the deductible child allowance (Kinderkorting) and the complimentary child allowance deduction, but also a minimum income as a prerequisite to qualify for an additional deduction, which, however, at €4,060 is quite low. In the Netherlands the deductions are also connected with further conditions, the age of the children being an important component.

In Denmark there is no general deductible child allowance. Only parents still obliged by law to support their children can deduct an allowance if their children do not live with them. Finland also does not have a deductible allowance in its tax system. In France income is assessed on the basis of a family splitting system and divided by the so-called

“parts”, which are determined on the basis of marriage status and the number of children. For married couples with one child, this is set off against a factor of 0.5. The third child increases the factor to 1.0 (Mennel and Förster 2002). It should be emphasised that both France and the Scandinavian countries have placed the emphasis of family support onto providing child care. There are numerous ways to have a child cared for, both inside and outside the home. The parents are supported by the state and thus have the choice of staying at home with the children or continuing to work.

### Summary

Due to the complexity of the regulations in the countries investigated it is difficult to compare in a comprehensive and simplified way the extent of monetary and tax support provided to families. The differences in child support are considerable, but tax deduction possibilities make up – at least partially – for these differences. The family friendliness that is often ascribed to the French system only sets in with a larger number of children. It is most likely motivated by population policy concerns. In contrast it is often maintained that in Germany families with children are treated unfavourably with respect to monetary support and possible tax deductions. This study shows, however, that a general criticism of this sort does not hold.

It should be mentioned that the provision of additional benefits and services that could not be investigated here varies greatly in an international comparison. In Germany, for example, child care possibilities are relatively limited (except for the new Länder), whilst the provision of kindergartens is generous in the Scandinavian countries.

### References

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