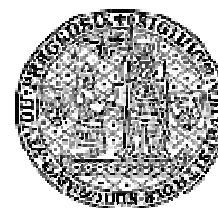


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# The Impact of Social and Tax Policies on Families with Children: Comparative Study of the Czech Republic, Hungary, Poland and Slovakia

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# The Impact of Social and Tax Policies on Families with Children: Comparative Study of the Czech Republic, Hungary, Poland and Slovakia

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## **Abstract:**

The paper compares the impact of government measures focused on families with children in the Czech Republic, Hungary, Poland and Slovakia. The ageing of population and the decline in fertility rates will in future importantly influence economic as well as social environment in the European countries. One of the responses on declining fertility rates is the promotion of demographic renewal in Europe through various kinds of policy measures ranging from better availability of quality provisions for combining child care and work, child care facilities and family support. We focus on the overall financial impact of governmental policies on families with children in the four examined countries. The paper evaluates impact of government subsidies and tax systems in the Czech Republic, Hungary, Poland and Slovakia on the net income of families with children compared to the childless couples.

**Keywords:** family policy, income taxation, subsidies, fertility

**JEL:** H24, J13.

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## 1. Introduction

The ageing of the population in the European countries is a well-known fact that brings serious troubles to policy makers and social scientist. A favourable feature of the problem is that ageing is well predictable and the European countries have sufficient amount of time to prepare. The demographic projections indicate that the first year when the overall population decline begins lies between the year 2000 and 2050. The Czech Republic, Hungary and Poland belong to the group of countries in which the population already started to decline. General decline in population is accompanied by the change in demographic structure, growing number of old people and diminishing share of young people in population.

This overall development will have implications for economic and social systems. In particular, we may expect that decline in working age population will lead to downward pressure on economic growth rates, the projections show that the average annual growth rate of GDP will decline from 2.4 over the period 2004 – 2010 to about 1.2 between 2030 and 2050 in case no measures are taken to prevent and alleviate impact of population ageing<sup>1</sup>.

The change in population structure will also lead to a great pressure on public spending mainly in the area of pension expenditures, health care expenditures, long-term care expenditures and education expenditures and unemployment benefits. The report of the European Commission<sup>2</sup> estimates that age-related public expenditures will rise between 2004 and 2050 by 7.2 GDP points for the Czech Republic, by 7.6 GDP percentage points for Hungary and by 2.9 GDP percentage points for Slovakia. In case of Poland age-related public spending is expected to decline by 6.7 GDP percentage points in case of unvaried policy measures.

The report prepared by the European Commission<sup>3</sup> sets the strategy aimed at ageing of the European population. As a first “constructive response to the demographic challenge” refers to promoting demographic renewal in Europe.”<sup>4</sup> In this paper we focus on financial impact of government policies (tax and subsidy systems) on net income of families with children compared to childless couples. Our main intention is to compare the impact of governmental policies in the four Visegrad countries - the Czech Republic, Hungary, Poland and Slovakia.

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<sup>1</sup> Commission of the European Communities (2006)

<sup>2</sup> European Commission (2006), pp. 25

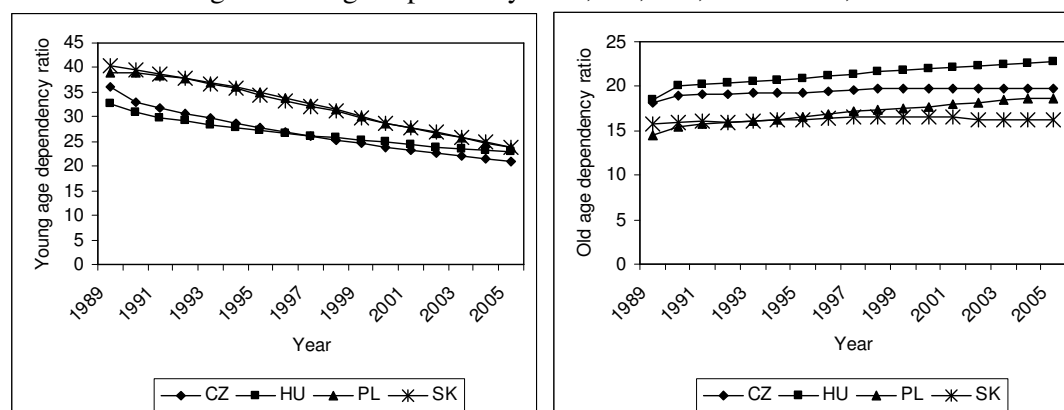
<sup>3</sup> Commission of the European Communities (2006)

<sup>4</sup> Commission of the European Communities (2006), pp. 7

## 2. Demographic development

The Czech Republic, Hungary, Poland and Slovakia face serious change in demographic structure since nineties when significant decline in fertility began. Since 1989 the young age dependency ratio declined by 9.8 percentage points in Hungary, by 15.2 percentage points in the Czech Republic and Poland and by 16.5 percentage points in Slovakia<sup>5</sup>. Furthermore, there is a stable rising tendency of the old age dependency ratio that will become even more visible in the following decades (see Figure 1).

FIGURE 1 Young and old age dependency ratio, CZ, HU, PL and SK, 1989 - 2005



Notes: young age dependency ratio = population aged 0-14 to population 15-64 years, old age dependency ratio = population 65 and over to population 15 to 64 years

Data source: Eurostat

The change in population structure is caused by the simultaneous decrease in fertility rates and increase in life expectancy. Life expectancy in the European Union is expected to rise by at least further 5 years by 2050<sup>6</sup>, reaching about 83-4 years for females and 77-79 years for males for the Visegrad Four citizens. The rising life expectancy is a consequence of better living conditions and rising quality of health care.

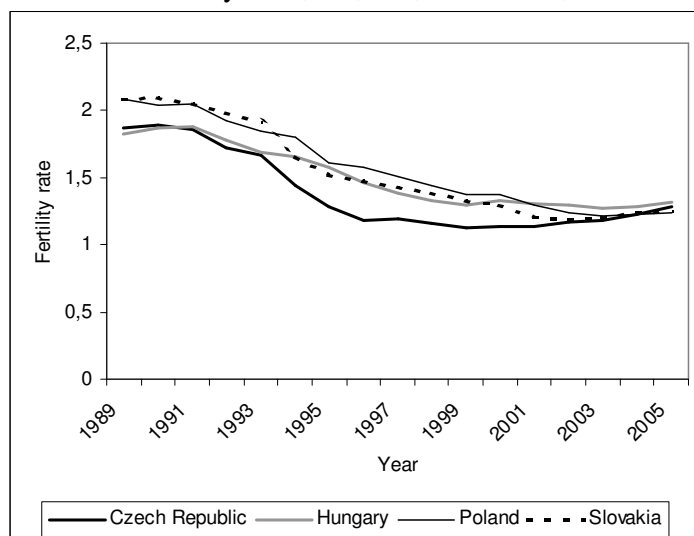
In this paper we will be mainly interested in the second feature – low fertility rates. The decline in fertility rates is visible in all European countries. The Czech Republic, Hungary, Poland and Slovakia faced sudden drop in fertility rates after the fall of communist regime at the beginning of nineties. The transformation of centrally planned economies into free markets together with change of political system led to high degree of insecurity felt by the population. Together with the change in lifestyles (towards the life style common in the western European states) these two factors caused significant decrease in birth rates.

Figure 2 shows the development of fertility rates in the Czech Republic, Hungary, Poland and Slovakia in the period 1989 to 2005. Fertility rates in all four countries decreased from about 2 per cents in 1989 to about 1.3 per cent in 2005. Minimum fertility rates were achieved in the Czech Republic in 1999, in Hungary and Poland in 2003 and in Slovakia in 2002. Slight fertility rise in the following years was among other caused by vanishing of the feeling of instability of environment and high volatility of income. Many women that postponed maternity due to unstable economic and social environment reached their thirties and decided to have children.

<sup>5</sup> Eurostat (2007)

<sup>6</sup> Commission of the European Communities (2006), pp.3

FIGURE 2 Fertility rates, CZ, HU, PL and SK, 1989 - 2005



Data source: Eurostat

During the 15 years after the fall of communist regime, the mean age of women at birth of first child increased between 1989 and 2003 from 22.47 to 25.9 in the Czech Republic, from 23.1 to 25.9 in Hungary, from 23.34 to 25.3 in Poland and from 22.64 to 25 in Slovakia. At the same time, there was a visible decline in family size over the period 1988 and 2005 (see Table 1). The data show significant absolute decrease in all categories with the rising share of first births compared to decline in second, third and fourth and following births.

TABLE 1 Live births by birth order

	Czech Republic		Hungary		Poland		Slovakia	
	1988	2005	1988	2005	1988	2005	1988	2005
First	61 852	49 930	55 216	45 388	219 188	186 453	34 148	25 250
Second	49 876	37 993	45 289	31 358	198 731	117 104	29 805	17 336
Third	154 66	10 271	15 572	12 745	99 586	37 317	12 437	6 220
Fourth and following	5 473	4 017	8 219	8 005	70 223	23 502	6 852	5 624
Total	132 667	102 211	124 296	97 496	589 938	36 4383	83 242	54 430

Data source: Eurostat

Opinion polls show significant gap between desired and actual family size for the European countries. The desired family size is about 2.3 children versus real family size of 1.5 children per family<sup>7</sup>. High Level Group<sup>8</sup> distinguished following features influencing the magnitude of excess of desired over actual number of children: the availability of quality provisions for combining child care and work, family support, child care facilities and societal values (the attitude towards outside marriage births etc.).

<sup>7</sup> European Commission (2004), pp. 64

<sup>8</sup> European Commission (2004), pp. 65

**TABLE 2 Reasons for not having had all the children wanted at the age 20 in ACC 13**

	% of mentions
Financial problems	15.3
Health problems	13.6
Problems with partner	13.0
Accommodation difficulties	11.6
Cost of children too high	9.4
Difficulty combining work and family (lack of nurseries, etc.)	7.1
Partner's health problems	6.0
Could not find the right time	6.1
Changed my mind about how many children I wanted to have	6.0

*Data source:* European Foundation for the Improvement of Living and Working Conditions (2004)

*Note:* ACC 13 means 12 new member states (enlargement 2004 and 2007) plus Turkey

The reasons why the desired number of children is lower than actual reported by the respondents of the opinion poll are summarized in Table 2. We can see that financial problems and finance related difficulties (accommodation, cost of children) are often mentioned. However, empirical studies do not provide convincing conclusion how the income influences fertility (for the debate see e.g. Brewster and Rindfuss (2000), Bettio and Villa (1998), Gauthier and Hatzius (1997)).

**TABLE 3 Peoples preferences about child policy related measures (%)**

	Czech Republic	Hungary	Poland	Slovakia
Duration of parental leave	23	11	23	24
Availability of childcare	20	22	21	18
Child allowance	52	55	37	60
Level of parental leave	59	45	42	40
Flexible working conditions	11	15	7	8
Suitable accommodation	41	37	13	40
Cost of education	21	40	44	30
Tax reliefs	35	39	40	33
Fight against unemployment	24	31	57	38

*Data source:* European Foundation for the Improvement of Living and Working Conditions (2004)

*Note:* Respondents answered the question: "In order to improve life for families with children, which three of the following should the government make top priority?" Table shows the ratio of people who mentioned given policy measure.

Table 3 shows the ratio of the supported policy measures for the Czech Republic, Hungary, Poland and Slovakia. The opinion polls showed significant difference between policy measures supported in the EU-15 countries and new member states. In the fifteen old European Union countries people marked as the highest priority reducing unemployment, flexible working hours and childcare arrangements. In contrast, in new member states level of child allowance receives the highest priority together with level of parental leave, cost of education and reduction of unemployment. We can say that there exists a strong support of measures alleviating financial burden of childbirth and child rearing in the 12 new member states.

The Czech Republic, Hungary and Slovakia show very similar patterns with the level of child allowance and parental leave mentioned most often followed by the accessibility of suitable accommodation in the Czech Republic and Slovakia and cost of education in Hungary. Polish



citizens see the fight against unemployment as the highest priority followed by the cost of education and level of parental leave.

### 3. Financial impact of government on families with children

There are two main ways how government influences net income of families with children: transfers and taxes. Transfers are direct financial support from government and its net impact on families' budgets depends on tax and social contribution regime applied on the transfers. As concerns taxation, government influences net income of families usually through tax credits, tax allowances or joint taxation schemes. Following sections analyze government policies aimed at financial support of families with children in the Czech Republic, Hungary, Poland and Slovakia<sup>9</sup>.

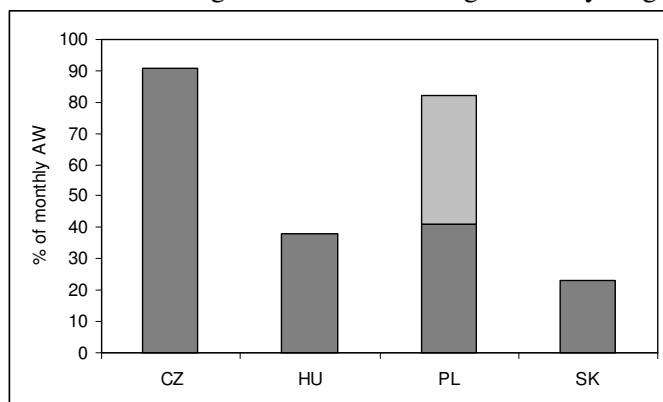
#### 3.1 Transfers<sup>10</sup>

Families with children receive financial support from government generally in three periods. First, maternity benefit is paid during the period shortly before and after confinement. Second, child-raising allowance is paid to the parent who provides care for a child usually up to the age of 2 to 4 years. Third, child benefit is paid to families with children usually up to the end of compulsory education.

##### *Birth grant*

The amount of birth grant ranged between 23 to 91 per cent of monthly AW<sup>11</sup> in 2007 (see Figure 3). Birth grant is not means tested (except for supplement to family allowance in Poland).

FIGURE 3 Birth grant as a % of average monthly wage



Source: MISSOC (2007)

<sup>9</sup> Amounts and rates quoted valid in 2007.

<sup>10</sup> Based on European Commission (2007). If not mentioned otherwise, family with 2 adults and 1 child considered.

<sup>11</sup> When referred to average wage (AW), the average wage for the year 2006 as published by OECD (2007) is meant. Average monthly wage is equal to CZK 19586 for the Czech Republic, HUF 159498 for Hungary, PLN 2447 for Poland and SKK 19305 for Slovakia.

The Birth grant was in the Czech Republic increased during 2006 from five times the Personal needs amount to 11.1 times Minimum subsistence level amount (from 45% of monthly average wage in 2006 to 91% of monthly average wage since 1<sup>st</sup> January 2007).

In Hungary the Birth grant is calculated as 225% of the minimum old-age pension and in 2007 amounted HUF 61 042, which is 38% of monthly average wage.

In Poland the Birth grant consists of two parts, One-time childbirth grant does not depend on family income and equals PLN 1000 (which is 41% of monthly AW), furthermore, there is a lump-sum as supplement to Family allowance equal to PLN 1000 for single child that is payable only to families entitled for Family allowance.

In Slovakia the Childbirth allowance is a lump sum SKK 4460, which is 23% of average monthly wage.

### ***Maternity allowance***

Maternity allowance is the benefit payable to mother after childbirth for the period of 18 weeks in Poland, 24 weeks in Hungary and 28 weeks in the Czech Republic and Slovakia. The allowance is in all four countries based on the previous earnings of woman.

Maternity allowance is paid for 28 weeks in the Czech Republic and amounts 69% of the Daily assessment base, Daily assessment base is calculated using gross earnings which are taken into account in the following way: up to CZK 550 per day 100% is taken into account, from CZK 550 to CZK 790 per day 60% is taken into account, earnings over CZK 790 are not taken into account. Maximum amount is equal to CZK 479 per day (CZK 14370 per month which is 74% of monthly AW) for woman whose gross monthly earnings exceeded CZK 23967 (which is equal to 123% of AW).

Pregnancy-confinement benefit is paid for 24 weeks in Hungary and the amount is equal to 70% of the daily average gross earnings of the previous year. The benefit subjects to taxation and pension contributions.

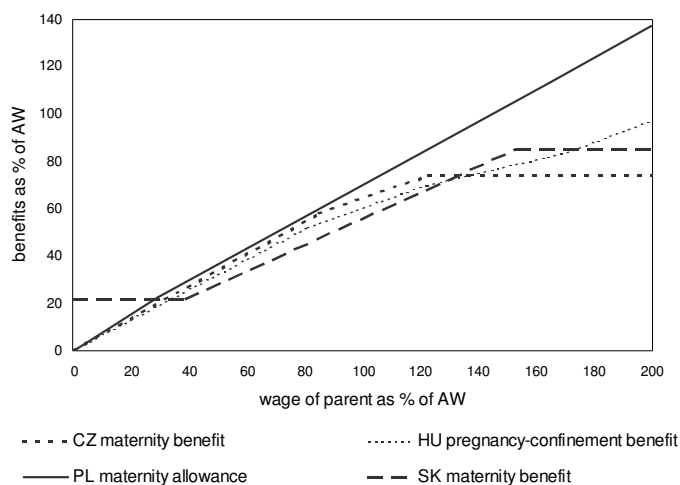
Maternity allowance in Poland is paid for 18 weeks for the first child, 20 weeks for each subsequent child. The amount of maternity allowance is equal to 100% of reference wage and subjects to taxation and deduction of contributions for health care, old-age, invalidity and survivors' insurance.

Maternity allowance is paid for 28 weeks in Slovakia and is equal to 55% of the assessment base. Minimum and maximum amounts of benefit are given as minimum wage and 1.5 times the national average monthly wage respectively. Maternity benefits subject neither to taxation nor to social security contributions.

Figure 4 shows the amount of maternity benefit in the Czech Republic, Hungary, Poland and Slovakia for woman with gross income ranging from 0 to 200 per cent of AW (in the year prior to childbirth). In all countries maternity benefits are based on previous earnings. The replacement rate for woman with previous gross income between 40 and 120 per cent of average wage does not differ considerably among countries. With rising income the gap

increases due to the ceiling on the maternity benefits in the Czech Republic and Slovakia that does not allow the benefit to exceed 74 and 85 per cent of average wage respectively.

FIGURE 4 Maternity allowance for different levels of woman's previous earnings



Source: OECD (2007), MISSOC (2007), authors' calculations

Note: We assume family with two adults, woman's gross wage prior to pregnancy is depicted on horizontal axis, vertical axis shows net benefits (in case of HU and PL benefits subject to taxation and social contribution).

### Child-raising allowance

The system of financial support of parents taking care for children up to the age of 2 to 4 years differs significantly between the four countries.

In the Czech Republic the Parental allowance is paid to a parent who personally provides regular care for at least one child up to the age of 4 years. The amount paid was calculated as 1.54 times Personal needs amount (monthly CZK 3696 which is 19% of AW) until the end of 2006. Since 1<sup>st</sup> January 2007 the amount was increased to 40 % of the average monthly wage in non-business sector i.e. CZK 7582 for the year 2007.

In Hungary two different benefits are paid to parents of children up to the age of 3 years.

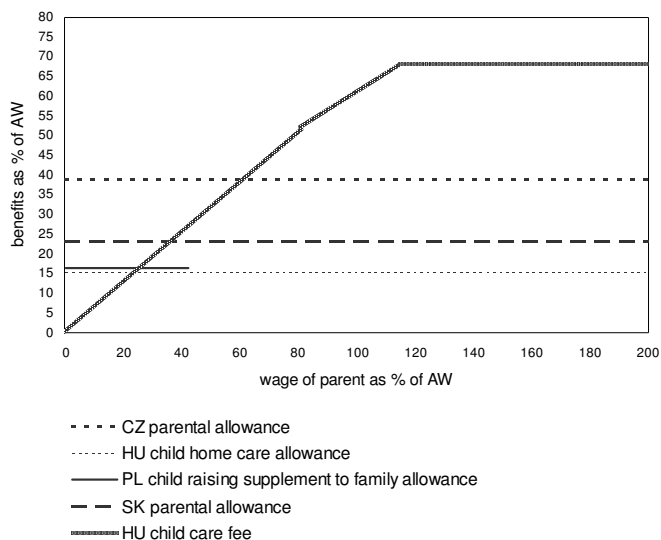
In case of not insured parents the Child home care allowance is paid to parent who care for the children up to the third birthday of the child. Child home care allowance equals the minimum old-age pension and subjects only to pension contributions (in 2007 it was HUF 27130 (17% of monthly AW)).

In case of insured parents the Child care fee is paid to parent from the end of the maternity leave period up to the second birthday of the child. The amount of the Child care fee is given as 70% of previous gross average earnings. There is a ceiling on the Child care fee set to 70% of the double of the minimum wage. Child care fee subjects to taxation and pension contributions. Between second and third birthday of their child insured parents taking care of their children receive Child home care allowance.

In Poland the child-raising allowance is a flat-rate supplement to Family allowance. It is paid for 24 months to workers taking leave to care for children provided the monthly income per family member does not exceed 25% of the average wage for the previous year, it is equal to PLN 400 per month.

In Slovakia the child-raising allowances are paid to parents who personally provide regular care for at least 1 child up to the age of 3. The allowance equals SKK 4440 per month.

FIGURE 5 Child raising allowance for different levels of parent's previous earnings



Source: OECD (2007), MISSOC (2007), authors' calculations

Note: We assume family with two adults, both of them receiving the same wage prior to the childbirth; one of parents stays at home and provides full-time regular care for the child.

Child-raising allowance is a flat-rate benefit in all four countries (see Figure 5). In the Czech Republic and Slovakia the benefit is not means-tested. In Hungary insured and not insured parents are treated differently up to the second birthday of the child, the flat rate Child home care allowance is paid to all parents for one year between second and third birthday of the child. In Poland, supplement to family allowance is paid only to families with monthly income per family member lower than 25 per cent of the average wage for the previous year. We can see that flat rate take-home benefits range between 16 and 39 per cent of AW.

### Child benefit

In the Czech Republic Child benefits are means-tested income related benefits paid until the completion of compulsory education (children in the Czech Republic attend compulsory education until the age of 15 years). The period is extended in case that the child remains in further education or vocational training up to 26 years.

Monthly amount is based on child's Minimum subsistence level (MSL) according to the following scheme: child benefit equals 0.36 times child's MSL if family income does not exceed 1.5 times the family MSL, 0.31 times child's MSL if family income is between 1.5 and 2.4 times the family MSL, 0.16 times child's MSL if family income is between 2.4 and 4.0 times the family MSL. Minimum subsistence level is equal to CZK 1600 for children under 6 years, CZK 1960 for children 6 to 15 years old, CZK 2250 for children 15 to 26 years old. Hence, the amount of child benefit depends on the age of the child and family net income and ranges from CZK 256 to CZK 810 per month (the amount does not exceed 4.2% of monthly AW). The net income per capita of families entitled for the benefit usually does not exceed 50% of monthly AW.

In Hungary each family with children irrespective of its income receives Family allowance. Family allowance is paid from birth to the termination of studies in compulsory educational system (usually up to the age of 16 years), up to the age of 23 years in case of secondary school education or vocational training.

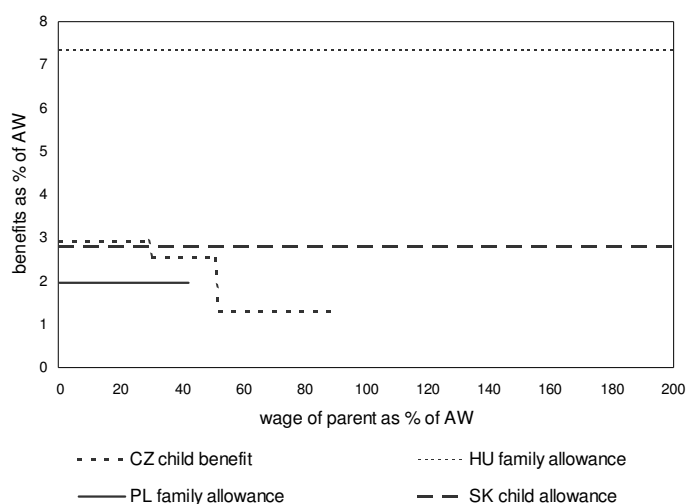
Monthly amount depends on the number of children in family and the status of the parent (single or not). The amount ranges between HUF 11700 for family with 1 child and HUF 15900 per child for single parent with three or more children. Family allowance does not subject to taxation or social contributions.

Child raising support is provided to parents who raise three or more children in their own home, if the youngest child is between 3 and 8 years old and beneficiary does not pursue gainful activity more than 4 hours a day. The amount is equal to the minimum old-age pension and subjects only to pension contribution.

In Poland Family allowance is granted to families with income per capita lower than PLN 504 per month with monthly amounts PLN 48 for the child younger than 5 years, PLN 64 for a child between 5 and 18 years and PLN 68 for a child between 18 and 24 years. The allowance is paid until the end of the child education at school (usually to the age of 18), in case the child continues education at school or university the allowance is paid until the age of 21.

In Slovakia, Child allowance is granted to all families regardless of family income for each child until the end of compulsory education (usually at the age of 16), up to the age of 25 in case of full-time vocational trainees and university students. The allowance amounts SKK 540 per child and month.

FIGURE 6 Family benefits for different levels of parent's earnings



Source: OECD (2007), MISSOC (2007), authors' calculations

Note: We assume family with two adults, both of them receiving the same wage and one children under 6 years old, vertical axis shows net benefits, horizontal axis shows income of one parent.

Child benefits are income related in the Czech Republic and Poland (see Figure 6). Families with income over 42 per cent of AW in Poland and 90 per cent of AW in the Czech Republic are not entitled for family benefits at all (for family with 2 adults and 1 child under 6). When we compare the level of benefit Hungary provides the most generous amount of family allowance.

### ***Main changes in transfers since 2002***

Since 2002 there were only small changes in family benefits in the Czech Republic except for the birth grant and parental allowance.

The real amount of the birth grant slightly declined between 2002 and 2006. However, during 2006 birth grant was doubled reaching CZK 17500.

The amount of parental allowance was augmented on 1<sup>st</sup> May 2004 from 1.1 times Personal needs amount to 1.54 times Personal needs amount. Between years 2002 and 2006 the change in the Parental allowance equaled 36% (from CZK 2552 in 2002 to CZK 3696 in 2006). From 1<sup>st</sup> January 2007 the allowance started to be derived from the average monthly wage in non-business sector and more than doubled compared to previous year.

In Hungary family related allowances have been significantly increased since 2002. Birth grant was increased on 1<sup>st</sup> January 2003 from 150% to 225% of the minimum old-age pension. Birth grant in 2006 was by 81 % higher compared to 2002 amount. Child home care allowance in Hungary was during the whole 2002 to 2007 period defined as equal to minimum old-age pension that in this period increased by more than 30%. Family allowance rose significantly. For all types of families the allowances increased more than 2.5 times over the period 2002 to 2007.

In Poland Family allowance amount depended on number of children in family until 31<sup>st</sup> August 2006. Since September 2006 the amount of family allowance depends on child's age. Compared to 2002 rules the tax relief on maternity allowance for families with income lower than certain threshold was abandoned. The threshold for family allowance eligibility was decreased from PLN 961.91 per month in 2002 to PLN 504. Child-raising allowance was increased from PLN 308.8 monthly in 2002 to PLN 400.

In Slovakia birth grant was increased by 30% between 2002 and 2006. System of child benefits was significantly simplified from 6 different income and age related amounts in 2002 to only one amount. Parental allowance was increased by about 45 per cent between 2002 and 2006.

### **3.2 Taxation**

In the Czech Republic payable tax credit of CZK 6000 per child was introduced in 2005 for parents of children younger than 18 years (26 years in case that the child receives full-time education). The tax credit is not influenced by child's own income.

Joint taxation of spouses with children was introduced in 2005 that is advantageous mainly for families with significant difference in income of spouses. The tax is decreased in two ways. First, joint taxation may lead to lower tax rate on taxable income and second, tax credit of the spouse can be used even if one partner earns no or small income (in case of filling separately this credit would not be used). Tax credit is equal to CZK 7200 (37% of monthly AW) since 2006.

For families with one parent taking parental leave (having no earnings) and the other earning 33% of AW the amount saved equals 1.3% of parent's gross earnings, with rising income the amount saved increases, in case the spouse earns 200% of AW the amount saved equals 7.9% of parent's gross earnings.

In Hungary tax credits for children are provided to families with three or more children, the exact amount of tax credit depends on family income and number of children (maximum

amount of tax credit is HUF 4 000 per month per child). Tax credit may be either claimed by one parent or split between spouses.

In Poland couples married during the whole year as well as single individuals with dependent children can use joint taxation scheme. There is no tax relief for children.

In Slovakia the allowance for children was in 2004 replaced by non-wastable tax credit. The amount of the credit was 6480 per child in 2006 and is adjusted each year. Only parent with annual income greater than six times the minimum monthly wage is eligible for the credit. There is an additional tax allowance to principal earner in respect of a spouse living in a common household if the spouse earns less than 19.2 times minimum living amount.

### 3.3 Overall impact

Table 4 summarizes the financial impact of government taxation and social policy on families with child up to the three years of child. We compare net income of childless married couple over the period of three years (taxation rules valid for 2007) and net income of family with one child over the period of three years beginning at the birth of the child (taxation rules and social benefit system of 2007).

TABLE 4 Net income of family with 1 child over the period of first 3 years after childbirth as a percentage share of net income of family without children over 3 years

% of AW	CZ	HU	PL	SK
<b>33</b>	130	101	83	101
<b>67</b>	96	93	65	81
<b>100</b>	85	91	62	77
<b>133</b>	79	88	57	72
<b>167</b>	75	83	57	68
<b>200</b>	73	79	56	66

*Data source:* authors' calculations

In all four countries the loss of income due to parenthood is greater for families with higher earnings. In the Czech Republic the system of family support is more advantageous for families with low income, Table 4 shows that for family with gross earnings at 33% of AW net income increases by 30% if raising the child. This is caused by relatively high (40% of AW) flat rate child-raising allowance. Family benefit system supports narrowing of income differences between families raising children.

Hungary is the country with lowest differences in income gaps caused by parenthood, the gap between previous income and net income if raising the child only slightly increases with rising earnings. The main reason for this lies in Child care fee, a relatively generous child-raising benefit for insured parents.

In Poland families with children have significantly lower net income than childless couples for all wage levels, the gap between childless families and families with children increases with rising earnings. Table 4 shows that for families with earnings higher than 133% of AW the net income of the family approaches the half of two-earners couple income, which indicates that the government support is almost imponderable. The most visible income loss due to parenthood is in Poland where all investigated family types loose compared to their childless counterparts.

Table 5 shows sources of income for families with one child over 3-year period from childbirth in the Czech Republic. We can see that Parental allowance is the benefit causing relatively lower income gap compared to the three other countries. Child benefit that is the only benefit for which families are entitled at least until the 15<sup>th</sup> birthday of the child is negligible or even missing for high-income families.

TABLE 5 Sources of income for families with one child over 3-year period from childbirth, Czech Republic (in %)

% of AW	husband's income	birth grant	maternity allowance	parental allowance	child benefit	social allowance
<b>33</b>	42	3	4	45	4	1
<b>67</b>	59	2	5	32	2	0
<b>100</b>	66	2	6	25	1	0
<b>133</b>	71	2	6	21	1	0
<b>167</b>	75	1	6	18	0	0
<b>200</b>	77	1	5	16	0	0

Data source: authors' calculations

Table 6 shows the evolution of family support during first three years after the childbirth. Table 6 indicates that for low-income families the support is relatively stable, for higher-income families the support compared to previous earnings declines after first years. Henceforth, high-earning parents are slightly more motivated to return to work soon after childbirth compared to parents earning 33% of AW.

TABLE 6 Net income of family with one child during first 3 years as a percentage of prior annual income, Czech Republic

% of AW	1st year	2nd year	3rd year
33	131	130	129
67	100	94	93
100	91	82	82
133	85	76	76
167	81	72	72
200	78	70	70

Data source: authors' calculations

Table 7 summarizes sources of income for family with one child under 3 years in Hungary. Compared to the Czech Republic high-income families are less disadvantaged compared to low-income families. Hungarian family support system is more "previous earnings based" than family support systems in all other countries and hence the financial burden of child-raising is more evenly distributed among families with different earnings. Furthermore, an important part of the family support system is Family allowance, not means-tested flat rate benefit that is paid at least up to the age of 16 years of the child.



TABLE 7 Sources of income for family with one child over 3-year period from childbirth, Hungary (in %)

% of AW	husband's income	birth grant	pregnancy confinement benefit	child care fee	child home care allowance	family allowance
<b>33</b>	49	2	6	20	9	13
<b>67</b>	54	1	7	24	6	8
<b>100</b>	55	1	8	26	4	6
<b>133</b>	57	1	8	25	4	5
<b>167</b>	60	1	9	22	3	5
<b>200</b>	63	1	9	20	3	4

Data source: authors' calculations

Table 8 shows evolution of net income of family with one child during first 3 years as a percentage of prior annual income in Hungary. We can see that for families with prior earnings at 33% of AW net income gradually decreases whereas for families with average and above average prior earnings there is a significant drop in income in third year. This is caused by change of benefits source from Child care fee (earnings related) to Child home care allowance (flat rate benefit).

TABLE 8 Net income of family with one child during first 3 years as a percentage of prior annual income, Hungary

% of AW	1st year	2nd year	3rd year
33	109	102	92
67	105	100	73
100	105	101	68
133	103	98	65
167	96	90	62
200	92	84	60

Data source: authors' calculations

Sources of income for family with one child over 3-year period from childbirth in Poland are shown in Table 9. Compared to the three other countries social system in Poland is much less supportive as concerns net income of families with children. The income of the spouse not staying out of work to raise children is much more important source of income than in other three countries, which is important especially in case of low income families that may face serious financial troubles caused by income loss due to parenthood.

TABLE 9 Sources of income for family with one child over 3-year period from childbirth, Poland (in %)

% of AW	husband's income	birth grants	maternity allowance	child-raising allowances	family allowances
<b>33</b>	62	6	7	20	5
<b>67</b>	78	2	9	9	2
<b>100</b>	81	1	9	6	2
<b>133</b>	89	1	10	0	0
<b>167</b>	89	1	10	0	0
<b>200</b>	89	1	10	0	0

Data source: authors' calculations

In Poland, family support is concentrated in the first year after the childbirth, in subsequent years it is much lower especially in case of families with average and above average earnings (see Table 10).

TABLE 10 Net income of family with one child during first 3 years as a percentage of prior annual income, Poland

% of AW	1st year	2nd year	3rd year
33	106	79	62
67	73	65	56
100	71	60	54
133	70	50	50
167	70	50	50
200	69	50	50

Data source: authors' calculations

Slovak system of family support is close to the Czech family support system; the main benefit aimed at improving financial situation of child raising families is Parental allowance. However, the amount of the benefit is lower compared to the Czech Republic.

TABLE 11 Sources of income for family with one child over 3-year period from childbirth, Slovakia (in %)

% of AW	husband's income	birth grant	maternity allowance	parental allowance	child benefit
<b>33</b>	55	1	5	34	5
<b>67</b>	68	1	6	22	3
<b>100</b>	74	1	6	16	2
<b>133</b>	77	0	7	14	2
<b>167</b>	80	0	7	12	2
<b>200</b>	82	0	6	10	1

Data source: authors' calculations

The evolution of net income of family with one child during first 3 years as a percentage of prior annual income in Slovakia is shown in Table 12. We can see relatively stable support over the three years with only slight decline after the first year for families with prior earnings at 33% of AW. Families with higher previous earnings experience more significant drop in net income after the first year.

TABLE 12 Net income of family with one child during first 3 years as a percentage of prior annual income, Slovakia

% of AW	1st year	2nd year	3rd year
33	103	100	100
67	86	79	79
100	83	74	74
133	80	68	68
167	76	65	65
200	72	62	62

Data source: authors' calculations

Table 13 shows evolution of tax burden between 2000 and 2006 for two types of families (single person at 67% of average earnings and two-earner married couple one at 100%

average earnings and the other at 33% of average earnings) without children and with 2 children.

The table allows comparing the level of taxation for the same types of families with and without children as well as the development in the period 2000 and 2006.

TABLE 13 Income tax plus employee contributions less cash benefits as a % of gross wage earnings

		2000	2001	2002	2003	2004	2005	2006
Single persons without children at 67% of average earnings	CZ	20.8	20.7	21.0	21.2	21.5	21.7	19.1
	HU	30.0	30.5	27.9	23.7	24.3	22.2	22.8
	PL	30.4	29.9	29.8	30.1	30.4	30.5	30.8
	SK	17.9	18.9	18.1	18.3	18.4	18.3	18.7
Single persons with 2 children at 67% of average earnings	CZ	-17.2	-15.5	-14.9	-12.8	-10.3	-10.9	-9.0
	HU	4.8	3.6	2.1	-1.8	0.0	-1.1	-1.7
	PL	22.4	21.7	21.4	21.8	27.6	27.7	28.1
	SK	-3.9	-1.0	-2.1	-0.9	1.2	1.5	1.9
Two-earner married couple with no children, one at 100% average earnings and the other at 33%	CZ	21.0	20.9	21.3	21.7	22.2	22.5	20.3
	HU	31.9	34.2	32.2	27.9	29.2	28.6	29.1
	PL	30.4	29.9	29.8	30.1	30.4	30.5	30.8
	SK	17.9	19.4	19.1	19.5	19.0	18.9	19.3
Two-earner married couple with 2 children, one at 100% average earnings and the other at 33%	CZ	7.7	9.4	9.4	11.2	13.2	12.5	10.3
	HU	20.4	21.8	20.4	16.2	18.2	18.0	17.8
	PL	27.7	27.2	29.8	30.1	30.4	30.5	30.8
	SK	10.1	11.9	10.5	11.1	10.2	10.3	10.9

Data source: OECD (2007)

In the Czech Republic tax burden of single persons and families without children is significantly higher than tax burden of people with children as concerns families with earnings indicated in the table. There was about 10 percentage points difference in tax burden for two-earner couple with and without children in 2006. For single individuals the difference is even more visible with 28 percentage points gap. Since 2000 there has been a tendency towards convergence of tax burden, still, profound differentiation in tax burden between families with and without children especially as concerns single persons persists.

The difference in tax burden in Hungary was in 2006 24.5 percentage points for single persons with earnings 33% of average earnings and 11.3 percentage points for two-earner married couple one at 100% average earnings and the other at 33% of average earnings. Compared to year 2000 tax burden decreased for all family types with the most profound decline for single persons.

In Poland the tax burden differentials between families with and without children are very small, differences even narrowed during 2000 and 2006 period when tax burden of single persons with 2 children was increased from 22 to 28 per cent.

Slovakia shows stable tax burden for all types of families over the observed period. There is 16.8 percentage points gap between single persons with earnings 33% of average earnings and 8.4 percentage points gap between two-earner married couple with zero and two children.

When comparing tax burdens for family types summarized in Table, we can conclude that in most cases tax and subsidy systems are set to favor families with children, only in case of Poland tax rates are within the range of 3 percentage points for all family types, which indicates low support for analyzed types of families with children compared to other three countries.

#### 4. Government expenditures on families/children

Government expenditures on social policy aimed at families and children are relatively stable in time. Table 14 summarizes government expenditures on the support of families and children in 2004 as a percentage share on GDP. Table mirrors similar pattern visible in previous section with the highest expenditures in Hungary (non means-tested benefits account for 2.2% of GDP) followed by Slovakia, the Czech Republic<sup>12</sup> and Poland with only 0.9% of GDP devoted to family and children support policies.

TABLE 14 Government expenditures on families/children, 2004, % of GDP

	CR	HU	PL	SK
<b>Social protection benefits</b>	<b>1.6</b>	<b>2.5</b>	<b>0.9</b>	<b>1.8</b>
Non means-tested	0.8	2.2	0.3	1.8
Means-tested	0.8	0.3	0.6	0.0
<b>Cash benefits</b>	<b>1.4</b>	<b>1.9</b>	<b>0.9</b>	<b>1.6</b>
Non means-tested	0.6	1.6	0.3	1.6
Means-tested	0.8	0.3	0.6	0.0
<b>Periodic</b>	<b>1.2</b>	<b>1.8</b>	<b>0.9</b>	<b>1.6</b>
Non means-tested	0.5	1.6	0.2	1.6
Means-tested	0.6	0.3	0.6	0.0
<b>Lump sum</b>	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
Non means-tested	0.0	0.0	0.0	0.0
Means-tested	0.1	0.0	0.0	:
<b>Benefits in kind</b>	<b>0.2</b>	<b>0.6</b>	<b>:</b>	<b>0.1</b>
Non means-tested	0.2	0.6	:	0.1
Means-tested	0.0	0.0	:	:

Data source: Eurostat

#### 4. Conclusions

In these days the decision about parenthood is usually willful decision, in which many factors, conditions, circumstances and consequences are taken into account. As shown in the first part of this paper, financial situation of the family is one of important factors playing role in the decision. In case of parenthood, financial situation usually does not play the prohibitive role. In most cases, people do not stay childless due to financial reasons. However, financial aspects may lead to postponement of parenthood (and consecutively to lower number of children) or to the decision not having all the children wanted e.g. at the age 20.

There are two questions connected with their financial situation that young couples try to answer when considering whether and when they want to become parents. First, will we have sufficient resources to sustain a family? And second, what will be the income loss caused by the parental leave of one of parents? The first question is often crucial for low-income families that usually do not have sufficient savings and to whom loss of one salary may cause serious financial problems (e.g. with paying the rent, mortgage etc.). The second question is usually important for high-income couples considering postponement of parenthood due to high opportunity costs (loss of earnings) in case of parental leave of one of them.

When we compare situation of low-income families in the four examined countries, the family benefits system in the Czech Republic is most supportive, providing sufficient

<sup>12</sup> Expenditures on family related policies in the Czech Republic will probably increase from 2006 onwards because of augmented Parental allowance.

resources mainly through flat rate Parental allowance independent on previous earnings or insurance. In Poland, Hungary and Slovakia low-income families with previous gross earnings at 33% of AW fall below 70% threshold of median equivalised income<sup>13</sup> that is sometimes classed as poverty line (usually 60% of median equivalised income is used).

On the other hand, as concerns families with above average gross earnings, Hungary is the country with lowest income loss due to parenthood in the first three years after childbirth. This is the consequence of the long-term entitlement for Child care fee (income related insurance conditioned benefit).

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<sup>13</sup> At risk of poverty threshold (70% of median equivalised income), 2005. Data source: Eurostat.

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