

# The taxation of family benefits – is this the right debate?

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*Debate on the taxation of the family allowance has begun once again. Faced with a deficit in the government's family accounts of about 2.5 billion euros in 2012, the idea of taxing the allowance has resurfaced as a way to refill coffers that have emptied, in particular as a result of the economic crisis. The debate often pits an accounting logic that aims to make up the deficits quickly against the logic of a conservative family policy. This post offers a broader perspective that goes beyond this binary approach to the issue.*

## **From family accounts that were balanced...**

In the current period, dealing with the budget involves squaring a circle: less tax revenue and greater social spending because of the economic crisis. The temptation is to solve this equation by reducing social spending to make up for declining revenues. It is in this context that the proposal to subject the family allowance to income tax has resurfaced.

During economic crises, the automatic stabilizer role played by social welfare, including family policy, is fundamental. It limits the effects of the crisis on the living standards of those who are most at risk, and therefore also helps to contain the rise in inequality. By supporting household income, it prevents a collapse of economic activity. During the kind of economic downturn we are experiencing today, cutting social spending is not desirable and can be [counter-productive macroeconomically](#).

However, it is not absurd to try to balance the budget for family expenditure over the medium and long term, as this ensures that public action to support families will be sustainable. The deficit in the family accounts comes to 2.5 billion euros. But this is mainly because of the crisis and the consequent reduction in revenues, and is thus cyclical. Mechanically, with legislation unchanged, the family accounts should balance again within a few years if economic growth returns (these assumptions are based on [an annual growth rate of 2% from 2014](#)). Although a debt would still exist due to the accumulation of deficits in 2012 and the following years [1], this could be gradually eliminated using the surpluses generated after the return to equilibrium. But the outlook changes if there is no return to growth or if recovery takes longer than expected, in which case questions about the family budget allocation could be raised with regard to its redistribution or its level. The CNAF pays more than 12 billion euros for the family allowance [2], regardless of the parents' income. Families with two children receive 127 euros per month for the two children and 163 euros for each additional child. These family benefits are not taxed. Taxing them would reduce the amount of post-tax benefits paid to families, progressively in line with income. This would generate additional tax revenue of approximately 800 million euros. It might seem fairer if families with higher incomes bore more of the burden of budget cutbacks than families on lower incomes. But this issue is more complex than it appears.

The taxation of family benefits might seem to be a way to make up for the loss in the progressivity of the tax system that has occurred over the years, which is mainly due to lower marginal rates in the income tax system, and thereby make things more equitable. But this answer is only a race to the bottom socially, a headlong rush by our welfare state that would lead to reducing its scope of action.

Taxing the family allowance reduces the level of transfers

from households without children to families with children, *i.e.* it violates the principle of horizontal equity. Of course, it also helps in particular to increase the level of transfers from the best-off families with children to those less well-off. But to strengthen the overall degree of vertical redistribution (that is to say, to increase the level of transfers from the richest households to the poorest), the tax system has to be made more progressive, which is what was done with the latest fiscal adjustments ([introduction of a 45% tax bracket in particular](#)). In this context, the universality of family allowances could then be maintained, which has the advantage of consolidating the support of high-income households for the principle of the welfare state: they pay more taxes, but they receive the same amount of family benefits when they have children.

The taxation of the family allowance is not simply an adjustment in family policy, it also affects its values — and in particular the principle of horizontal equity. While it may be necessary to rethink the objectives of family policy, which are now outdated in many respects, as we show in the next section, the current period is probably not the best for conducting this debate, because the urgency of the situation and the desire to find more room for fiscal manoeuvring would lead to the adoption of a short-term vision, whereas family policy is intrinsically long-term policy.

### **...to a balanced family policy**

Nevertheless, this debate on the relevance of taxing the family allowance should not lead to policy paralysis. The principles of current family policy were established based on the way society was viewed over 70 years ago. Although adjustments have been made, the principles remain. Yesterday's objectives do not reflect tomorrow's challenges. It is thus essential to renegotiate the foundations of family policy. How should the welfare state's family activities be reoriented? What compass should be followed? This is the question we need

to answer.

One of the goals of contemporary family policy is to prop up the birth-rate. State support increases with the birth order of the child, for example, by granting an additional one-half personal allowance on taxation per child, starting from the third child. When considering how to redeploy spending on family policy, removing the one-half personal allowance should be a top priority for proposals to rebalance the accounts. Similarly, the family allowance is paid only from the second child. France is one of the only countries in Europe not to grant an allowance from the first child. But the dynamic fertility rate found in France is not the result of pro-childbirth family policies like this; instead, it has more to do with the support given for working women with children: kindergarten, extracurricular childcare, care in early childhood, as well as support for mothers in the workforce (rather than stigmatizing this, as is the case in Germany). Family policy needs to be reoriented towards an objective that respects the rights of every child regardless of their birth order. It should focus on the social citizenship of the individual (that is to say, a more individually-based method of acquiring social rights) from birth to death (while taking into account longer life spans).

A renovated family policy would reflect the principle of equality between children and equality between women and men, including in particular an overhaul of early childhood support, a massive increase in childcare and changes in the system of parental leave. The cost of dealing with early childhood support would be about [an additional 5 billion euros per year](#). Furthermore, the latest publication of the OECD, [Education at a Glance 2012](#), shows that in France children's academic success is strongly correlated with the level of the parents' education. Finally, the [level of child poverty is disturbing](#). These are all major challenges we must meet.

The rise of partnerships outside marriage but also of divorces

(and separations more generally) and family recompositions are a sign of greater individual freedom with regard to life choices. This constitutes a progressive step in the way our society functions. But separations are often accompanied by a decline in living standards and often are not financially possible for individuals on low incomes. In addition, the economic consequences when the couple breaks down hit women harder than men. [\[3\] Single-parent families](#), most often mothers with the children in their care, are more exposed to poverty than other households. A family policy that is more in line with these new living arrangements, and which would accompany changes in the family structure over the life cycle, needs to be considered.

It is necessary to redefine the content and contours of our future family policy, but the desire to balance the family accounts cannot be the sole engine driving this process. We must stop thinking about this kind of change in a narrow way, as we need to reform the very foundations of the system based on new needs and on the principles of justice and solidarity that underpin our social welfare state.

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[\[1\]](#) In 2011, the debt in the family accounts was transferred to the Caisse d'amortissement de la dette sociale (CADES), ([Organic Law 2010-1380 – in French](#)).

[\[2\]](#) Which represents about 15% of the total amount of benefits paid out of the family accounts.

[\[3\]](#) Jeandidier Bruno and Cécile Bourreau-Dubois, 2005, “Les conséquences microéconomiques de la disunion”, In Joël M.-E. and Wittwer J., *Economie du vieillissement. Age et protection sociale*, Ed. L'Harmattan,, Vol. 2, pp. 335-351.