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The potential effects for families of introducing the French fiscal system in Germany

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Abstract

In Germany 1,41 children are born per women which results in a much lower birth-rate than in France. Time and again it has been discussed if a family orientated tax- and transfer system can influence birth rates. In Germany, France is often designated as a role model. Based on a model calculation this contribution shows how disposable income of German families would change, if the French tax- and transfer system were introduced. It will be distinguished among different family and employment compositions. One of the results is that families with only one child would be financially worse off under the French system while families with more children would benefit.

Introduction

In Germany 1,41 children are born per women which results in a much lower birth-rate than in France. Additionally many families in Germany, especially single mothers are at risk of poverty. In the literature it has often been discussed if a family orientated tax- and transfer system can influence birth rates. Empirical evidence, however, is rare. Announcements that the 2007 introduced parental allowance (Elterngeld) would have led to increased birth rates in Germany have turned out to be premature.

In Germany, the tax- and transfer system of France is often designated as role model. With a birth rate of 1.98. France holds a leading position in the European birth statistics (indexmundi 2008).¹ However, we do not postulate a causal relationship between birth-rates and family benefits. For making such claims, the relations are too complex and the social structure and historical developments too different. Our contribution can rather be seen as an important

¹ These are birth rates for 2008. In 2008 Germany's birth rate was 1.41 (indexmundi 2008).

prerequisite for further investigations. Based on a model calculation this contribution shows how disposable income of German families would change, if the French tax- and transfer system were introduced. It will be distinguished among different family and employment compositions. Especially it will be shown, how the disposable of different family types changes if Germany would introduce the French tax system. Moreover, the German child benefit will be substituted by the French child benefit. Different family compositions range from married couples without kids to married couples with two kids. Furthermore it will be distinguished if both, one or none of the parents is employed.

Below the most important monetary benefits for families of the two countries will be introduced. The amounts are the benefits as they were paid to families in 2009. Also the model calculations presented in chapter 3 are based on these figures.

Monetary Benefits for Families

According to German income tax law married couples can choose between individual or joint taxation. In the case of individual taxation the income tax rate will be applied to each income separately.² If instead choosing the joint taxation, the following procedure applies:

1. The taxable income will be calculated and halved.
2. For the half taxable income the tax rate will be determined and the income tax calculated.
3. The calculated income tax will then be doubled to yield the joint income tax payments.

Choosing joint taxation, the ability to pay principle will not be applied to each spouse separately but instead to the marriage as economic community.

In France couples are assessed for taxation independent of their family status. Here a family splitting applies which implies that even children influence the resulting income tax payments. Not only the taxable income of the spouses will be calculated but the taxable income of all family members. The income tax payments in France are calculated as follows:

1. Calculating household income.
2. Calculating the *quotient familial*, which results from Table 1.
3. Dividing the household income by the *quotient familial*.
4. Applying the income tax rate on the calculated amount.
5. Multiplying the just calculated income tax by the *quotient familial*.

² In Germany income tax rates are progressive. Which means that tax rates increase with income.

Table 1: Weighting factors family splitting in France

Number of Children	0	1	2	3	4
Single	1	1	1,5	2	3
Couple	2	2,5	3	4	5

Source: Service Public 2010

The procedure of this method is similar to the joint taxation in Germany with the distinction that the number of family members reduce the progressivity of the income tax. This splitting advantage is limited for the first two children to 2,159 € each and for each additional child to 4,318 € a year (Bünnagel 2006).

Further instruments to support families financially are the child benefit and tax-exempt amounts (Kinderfreibetrag). Each year individuals subject to income taxation can deduct a tax exemption worth 1,932 € (2,184 € since 2010) from their tax liability for each child. This tax exempt amount mirrors the neuter subsistence level of a child. Alongside a tax exemption for upbringing, education and care worth 1,080€ (1,320€ since 2010) is possible. For spouses who decide to practice joint taxation these amounts are doubled. Therefore parents can receive a tax exemption worth 6,024 € per child.

Closely linked to the just described tax-exemptions for children are the child benefits (Kindergeld) of which the amounts are presented in Table 2. In Germany families either receive the child benefit or the tax-exemption depending on which is more advantageous. Independently from the family splitting in France families with more than one child receive a child benefit (Table 2).

In both countries there are of course more monetary transfers to families. France pays an child-raising allowance of 552 € per month, for which parents are entitled if they take parental leave. Caring parents are granted parental leave if they have worked at least two years before the child was born. Families with only one child have the right for six months parental leave while families with at least two children can take three years. In Germany a parental benefit has been introduced instead which is 67% of net income earned before birth. This is at least 300 € but not more than 1.800 € which is paid for 12 months and can be extended two months if the partner also takes parental leave for at least two months. Independent of parental benefits each parent is entitled for a maximum of three years of parental leave.

Table 2: Child benefits and tax treatment of labour income³

Children	Germany	France
1	164 €	0 €
2	164 €	123,92 €
3	170 €	158,50 €
4	195 €	158,50 €
	Joint Taxation	Family Splitting
	Tax-Exemption 3.864 €	

Source: MISSOC 2009, Child benefits and tax-exemption as they applied in 2009.

In France the introduction of parental benefits has been discussed as well. Women shall join the labour force earlier after giving birth and father shall be motivated to take parental leave with a high income replacement rate (Salles 2009). Further financial support which families in France are entitled to are the birth-benefit of 890 € in the 7th month of pregnancy and a basic-support of 179 € until the third birthday of the child. This basic-support is dependent on income but according to Salles (2009) about 85% of the families receive this benefit.

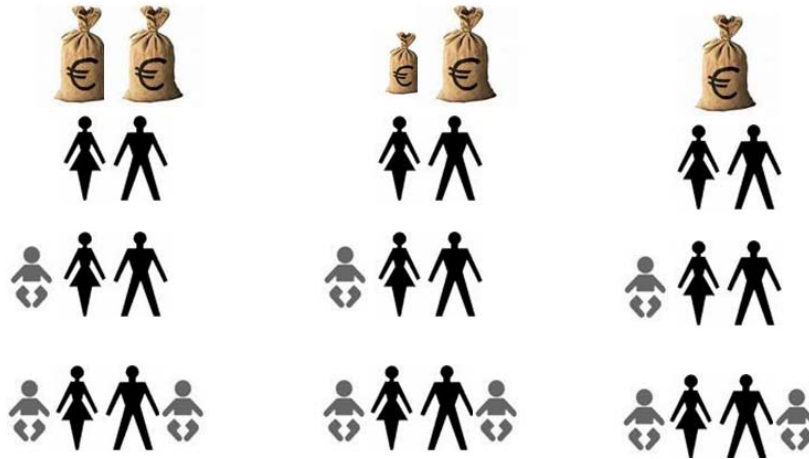
A substantial cost factor for families is often the external care of their children. From the age of three children in France have a statutory right for external care. For 14% of the children below the age of three care in the kindergarten or other day care opportunities are available. Admittedly, as in Germany also in France families complain about missing day care opportunities and flexibility. The costs for external care are subsidized on average by 90% such that parents have to pay only 10% of the costs. At the age of two but more often at the age of three many children are cared for in the *école maternelle* which is largely at no charge for the parents. If parents employ a state approved childminder, they are entitled to numerous forms of financial support. Thus the government takes over 100% of social contributions for the childminder. Other expenses for childminders will be considered when filing income taxes and additionally it is possible to apply for a means tested monthly support of 442 € (Salles 2009).

In Germany parents also have a statutory right for external care for their children from the age of three. However, this statutory right only includes half day care, either in the morning or in the afternoon. A study of the family journal “*Eltern*” (2008) has shown that contributions for half day care for three to six years old for half day care varies from 0 € to 333 € depending of where the parents live. For younger children the costs are mostly higher. If both parents or lone

³ In 2010 child benefits in Germany were increased by 20 € and the tax exempt amount has been increased to 4,368 €.

parents are employed they can deduct two thirds, a maximum of 4,000 € a year, of the costs for external care of children from the age of 0 to 14 as income-related expenses. If only one parent is employed, it is possible to deduct costs for day care for the three to six years old as special expenses.

Figure 1: Family- and Employment Compositions



In the following chapter it will be shown how the disposable income of the nine in Figure 1 shown family constellations change, if one would introduce the French tax system or the French child benefit in Germany. All other family benefits discussed above will not be considered yet.

Changes in disposable income due to the introduction of the French tax- and transfer system

Table 3 shows which financial consequences German married couples face if the French Tax- and Transfer system would have been applied. Thus the introduction of the family splitting (Table 3) in Germany would not influence disposable income for married couples without children. Joint taxation as practiced in Germany and the French family splitting both lead to joint taxation of the couple which means that the couple's joint income will be halved to determine the applicable tax rate. Income changes would appear with the birth of the first child. In this case the child would be part of the *quotiente familiale* with a weight of $\frac{1}{2}$. Due to progressive income taxation in Germany parents would benefit from a resulting lower tax rate which reduces the payable tax liability. The higher the parents taxable income, the larger the tax savings due to the French family splitting. Clearly this effect can be observed from *couples with one child*. Table 3 shows that a full-time employed couple would have a 188 € higher yearly disposable income if the family splitting and the French child benefit would have been applied. The other two family compositions would be worse off under the French

system. This observation does not mean that family splitting would have negative effects for families with lower income but in fact that no child benefits are paid for the first child after the French system. Introducing only the family splitting and keeping the German child benefit would mean 95.50 € extra per month for a family with one income earner.⁴ Considering now *couples with two children*, the situation changes. It is still the families with a high income who profit the most but still even the other two family constellations would benefit from the introducing the French system.

Table 3: Changes in disposable income due to the introduction of the French tax- and transfer-system *

	Implementing tax- and transfer system	Implementing Tax system only	Implementing child benefit only
Couple no child			
both full-time	0	0	0
full-time/part-time	0	0	0
one full-time	0	0	0
Couple one child			
both full-time	188	2,256	-2,068**
full-time/part-time	-473	1,495	-1,968
one full-time	-822	1,146	-1,968
Couple two children			
both full-time	672	3,121	-2,448
full-time/part-time	469	2,918	-2,448
one full-time	91	2,540	-2,448

* Calculations based on the socio-economic-Panel and monetary benefits as they were paid in 2009. The stated amounts are changes in the disposable yearly household income due to implementing the French tax- and or transfer-system.

**This change is higher than in the other two employment constellations (full-time/part-time, one full-time) because in the case of both working full-time, the tax exempt amount is applied instead of the child benefit.

⁴ 95.50 € are calculated based on Tabel 3: 1,146 € divided by 12.

Conclusion

In general the introduction of the French family splitting and child benefit would lead to a lower disposable income for German families with one child. The situation is different for families with two children because these families would generally benefit from the introduction of the French system. A couple where one partner is working full-time and one partner part-time, earning an average income, for example would have about 54 € extra per month. These findings can be ascribed to the fact that no child benefits are paid for the first child. Introducing only the French family splitting and keeping the German child benefit would mean an additional 96 € per month for a family with one income earner and one child. Similar results are found in a contribution by Wrohlich et al. (2005) who investigated the redistributive effects of the tax-system in Germany and France for families. They conclude that both the redistribution between households of different size as well as of households of different income is more pronounced in Germany than in France.

Finally, it is hardly possible to infer something about the effective financial burden for different family types based only on different tax systems or the amount of child benefit. The model calculations merely show, how, under German circumstances, disposable income of German households' changes if the French tax-system or child-benefit were introduced. Other kinds of financial support and institutional differences like the social-insurance system and child care remain unconsidered. Scholars discovered that countries that employ family policy as an instrument of employment policy or equal opportunity policy for men and women often have a higher fertility rate than other countries (Neyer 2003). In France great importance is attached to labor force participation of women. Thus countries in which there is a good reconciliation of work and family life often also have more offspring (Gauthier 2007). These reasons and the fact that France especially supports families with more than one child may also explain the high fertility rate in France.

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