

# Family benefits: family business?

By [Hélène Périvier](#)

[Bertrand Fragonard has submitted his report to the Prime Minister](#); it aims, first, to enhance the redistributive nature of family policy and, second, to rebalance the accounts of the family branch, which have recently been running a deficit, by 2016. A realignment of family benefits towards low-income families is proposed as the first objective. As for the second, the two options proposed are adjusting benefits based on means, or taxing them. How can 2 billion euros be found in today's lean times?

***With the cow already thin, is it really the time to put it on a diet?***

The cutbacks in spending on family policy are part of a broader economic austerity policy aimed at rebalancing the public accounts. The government deficit is of course a serious issue, which cannot simply be swept under the rug. It is bound up with the durability and sustainability of our welfare state, and as concerns the topic being discussed here more specifically, with the future of family policy. But the magnitude and timing of the fight against deficits are central to its effectiveness. The OFCE's forecasting work shows that the massive reductions in public spending being made by France will undercut growth. The lack of growth will in turn slow deficit reduction, which will thus not live up to expectations. Ultimately, you can't have your cake and eat it too, in particular if the economy isn't producing the ingredients.

If we continue down this path of trimming family policy, then how should we proceed? Who should bear the cost? Should we cut

spending or increase revenues?

### ***Staying the course?***

A number of principles guide public action. They constitute a compass that helps to stay the course that we have set and to develop the tools needed to do this. With regard to family policy, the first principle concerns horizontal equity: this requires that a household should not see its standard of living fall with the arrival of a child. In other words, based on this principle, all households finance support that benefits only households with dependent children. This constitutes redistribution from households without children to those with children, whether the household is rich or poor. This sharing of the cost of children is justified by the idea that a healthy birth rate benefits everyone. Family allowances are emblematic of this principle.

The second principle concerns vertical equity: every household should participate in the financing of family policy in a progressive manner based on its income, and low-income households with dependent children should receive special assistance, such as the family income supplement [*le complément familial*], a means-tested assistance for families with three or more children.

Nothing of course prevents us from changing tack by changing the relationship between these two principles. Indeed, family policy does need to be reformed: it should take into account the changes undergone by French society in recent decades (which policy now does only partially): increased numbers of women in the workforce, the rise in divorce and unmarried partnerships (today most children are born to couples who are neither married nor civil partners), new family configurations, concern for the equality of children with respect to collective care and socialization, territorial inequalities, etc. ([Périvier and de Singly, 2013](#)). These considerations on family policy need to be integrated into an

overall vision of the tax-benefit system for families –otherwise public policy risks becoming incoherent. The mission statement behind the Fragonard report highlights above all rebalancing the family branch accounts by 2016, “with a significant shift from 2014”.

### ***Don't lose your bearings!***

While staying the course on family policy, some leeway is possible. To draw on the contributions of all households, the taxation of the couple could be reviewed. Under the current system, married couples or civil partners have two tax shares; this leads to tax reductions that increase in line with the difference in the income of the two partners (the extreme case being that of Mr. Breadwinner and Mrs. Housewife, the arrangement that this type of taxation was designed to encourage). This is what is called the conjugal quotient [\[1\]](#). This “benefit” is not capped [\[2\]](#), unlike the benefit related to the presence of a child (the famous family quotient, whose ceiling was recently reduced to 2000 euros). Capping the conjugal quotient would not call into question the principle of horizontal equity, as many childless couples benefit from it, couples who, for the most part, had dependent children in the past and have benefited from a generous family policy. Doing this would spread the effort to rebalance the family branch accounts over a wide range of households, including those who do not have or no longer have dependent children [\[3\]](#). The complete elimination of the conjugal quotient (*i.e.* the individualisation of taxes) would provide additional tax revenue of 5.5 billion euros [\(HCF, 2011\)](#). This tax “benefit” could initially simply be capped: the yield would be greater or smaller, depending on the ceiling adopted [\[4\]](#). The distribution of the gain for couples related to the marital quotient is concentrated among the highest income deciles ([Architecture des aides aux familles, HCF, 2011](#)). Another possible tax revenue concerns the extra half-share granted for having raised a child alone for at least 5 years. Now capped

at 897 euros, this benefit could be eliminated, as it does not meet any of the principles set out above and it is doomed to disappear.

These steps would increase tax revenue and help fund family policy. These options would unquestionably increase the tax burden on households. If we add to the effort requested the constraint to not increase taxation, then the 2 billion euros would have to be found through cuts in spending on family benefits. The room for manoeuvring becomes almost razor thin. Out of concern for vertical fairness, these cuts must be borne by the best-off families with children. But this vertical redistribution is conceived within the limited framework of families with children. Yet vertical equity generally consists of a redistribution from better-off households to poorer households. What is therefore being applied here would be a principle of vertical equity that could be described as "restricted vertical equity".

### ***There is no free lunch...***

The family allowance is clearly in the firing line in this narrow framework for family policy that excludes from its scope the taxation of couples in particular. It represents 15% of the family benefits paid, or 12 billion euros. There are two main options: the amount could be adjusted in line with the level of household resources, or the benefits could be taxed. But which? Both options have advantages and disadvantages.

Subjecting the family allowance to conditions would help to target wealthy families while not affecting the others. This targeting would enhance the redistributive character of the system, which would definitely be an advantage. But this requires setting income thresholds above which the amount of benefits received decreases. So families in similar situations would receive different levels of benefits depending on whether their incomes were just below or just above the

threshold. This would undermine the universal commitment to the welfare state. Furthermore, the thresholds could lead to a contraction in the labour supply of women in couples: the “classic” trade-off would be, “if I work more, we will lose benefits” – it is still the activity of women, and always the activity of women, that suffers. To limit these negative effects, the thresholds could be smoothed and variable income ceilings introduced based on the activity of the two partners by raising those applying to couples where both work. What would gradually emerge is a huge white elephant, a Rube Goldberg machine that generates higher management costs with extra work for the CAF service. In addition, the system would be less transparent, because it is more complex, leading to overpayments, fraud, and even more annoying, a lack of take-up (those eligible for a benefit don’t apply). Finally, selective benefits are the breeding ground for debate around a culture of dependency, with the suspicion that “the reason these people don’t work is in order to get benefits”. Note that this risk disappears if the thresholds are set at a high level.

Taxing the family allowance would get around these problems: it is simple, with no extra management costs, as the amount of benefits received would just be added to taxable income. So the progressiveness of the income tax system would apply. More affluent families with children would pay more than those on lower incomes. But targeting would be less accurate than before: many families with children would be affected, and households that were previously not taxable may become so (even if this involved small amounts). Finally, the tax burden would increase, which is politically costly.

By construction, in both cases families that have only one child would not be affected because, under a family policy designed to promote high birth-rates, they do not receive family benefits. And in both cases families without dependent children are not required to contribute.

***Don’t throw the baby out with the bath water ...***

Adjusting the family allowance for income is the track that seems to be preferred by the Fragonard report. The opinion of the High Council for the family (HCF) indicates that this approach has been rejected by the majority of that body's members. Overall, the measures proposed in the report are to reduce the spending on families with dependent children within the limited scope of family policy, namely benefits. The danger looming is that the guidelines proposed lead to paralysis by freezing the different oppositions and exacerbating the conservative visions for family policy. Some will justly view this as a systematic attack on family policy, since the overall budget is cut. Nevertheless, an overhaul of family assistance is needed, but it cannot involve a reduction in spending in this area as the need is so great, especially to ensure progress with regard both to gender equality and equality between children. Any reform must be based on the principles of justice and on an approach to the welfare state that needs to be reviewed and renegotiated. Even though the budget constraints are serious, we cannot reduce the amount allocated to family policy, but nor should we retreat from the in-depth reform that is needed.

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[\[1\]](#) Note that mechanisms such as a tax break or incentive to promote employment tend to favour people who are cohabiting over married couples. The interactions between the multiple tax provisions complicate comparisons of the tax treatment of people with different marital statuses.

[\[2\]](#) It is, implicitly, but for extremely high levels of income, reaching the upper end of the income tax brackets with or without the marital quotient (this implicit cap limits the advantage to 12,500 euros).

[\[3\]](#) On condition that these additional tax revenues are paid

to the family branch.

[\[4\]](#) For a ceiling of 2,590 euros, the extra tax revenue from capping the conjugal quotient would be about 1.4 billion euros ([HCF, 2013](#)).

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

By [Hélène Périvier](#) and François de Singly

*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.