Tax Policy and Families with Children in Greece: Valuation and Policy Suggestions

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Abstract

Taxation is an important public policies' tool not only for redistributing wealth but also as a way to reflect what society values and gives priority to. Moreover, in view of the demographic winter hitting Europe, taxation policy is a strong instrument in fighting demographic decline and family poverty. The current situation in Greece is that tax policies lack a family friendliness dimension, and thus they become catalyst rather than impediment to child poverty in Greece, especially when it comes to large / multi-child families. Proposals for family friendly tax policies are provided on the basis of fairness against the financial burden of raising children as well as in view of their contributing to economic and social stability. Four recommendations are proposed for improving the family friendliness of the taxation policy.

Keywords: tax policy, demography, family-friendliness.

Introduction

The tax system of each state can be considered as a tool of economic policy [Lindencrona, 1979], development policy [Corbacho et. Al. 2013] and policy for social equality [Internet - taxation-as-a-tool-for-social-equality]. Each and every tax policy, (a) acts as an incentive for certain activities / actions / decisions that citizens intend to take, (b) reflects the values that the country prioritizes and has to do with basic principles, such as economy, social justice, social security, profit sharing, family friendliness, etc. and (c) narrows or widens the minimum and maximum limits of the range between wealth and poverty, within which groups and individuals can be placed.

Therefore, central policy choices and directions are reflected through fiscal policy. Tax measures can be catalysts or slowdowns in social phenomena, such as child poverty, the demographic problem as well as the quality of life of families. Tax policy options that impact families with children are mainly: income tax, housing tax, car tax, VAT and other types of indirect taxes.

Through special fiscal measures, a government signals that it recognizes the need to (a) prevent child poverty, (b) sustain financially stable families capable of contributing a new generation to society, and (c) prioritize its demographic and family policies as a whole, within the welfare state.

"The problems of family taxation are very important, central to income taxation, but they are relatively neglected in public economic theory" [Cigno et. al, 2011] as well as in social policy research. This article provides a brief overview of current fiscal policy in Greece with relation to family and demographic policy in general, and lists some of the proposals proposed as necessary to strengthen the social dimension of fiscal policy.

Summary of current tax legislation for families with children.

The current tax legislation is very poor in measures to support families with children. The only relevant provisions are the following:

- According to articles 16 and 29 of law 4172/2013, as in force, as the number of dependent children increases, the amount of income tax reduction of employees, retirees and farmers increases: "The resulting tax is reduced by the amount of seven hundred and seventy-seven (777) euros for the taxpayer without dependent children. The tax reduction amounts to eight hundred and ten (810) euros for the taxpayer with one (1) dependent child, nine hundred (900) euros for two (2) dependent children, one thousand one hundred and twenty (1,120) euros for three (3) dependent children and one thousand three hundred and forty (1,340) euros for four (4) dependent children."
- According to article 7 of law 4223/2013, as in force, in order to grant the discounts provided to the real estate tax, specific conditions must be cumulatively met. These conditions are more favorable for families with dependent children.
- With article 40 of law 4646/2019 from 1.1.2020, the reduced VAT rate is applied in baby and child food items and in items for baby safety and protection, i.e. absorbent diapers for babies and child car seats.

- According to article 80 of law 4646/2019, from the tax year 2019 onwards, private cars belonging to families of at least four (4) dependent childrenare exempted from the imposition of the luxury living tax of article 44 of law 4111/2013.

It is clear that the current tax measures are not a sufficient legislative arsenal to support families with children and need immediate reinforcement and update if they aim to support the quality of life of families with children and furthermore to provide demographic incentives so that parents may decide to acquire as many children as they wish without the fear of poverty and social exclusion.

In Greece, children at risk of poverty or social exclusion amounted to 686,000, or 35.4%, in 2012, from 30.4% in 2011, with more vulnerable the single parents ones (74.7%) and those with three or more children families (43.7%), as reported by the 2014 Unicef report for the situation of children in Greece. Today, families with three or more children face the greatest risk of poverty compared to other families, as announced by the Hellenic Statistics Authority [Internet-Poverty Risk].

A family's tax paying capacity should not only be related to family income; it is clearly constrained by the cost of having and raising children, in proportion to their number. “The presence of children alters their parents’ ability to pay and so merits recognition in the tax liability assigned to the family.” [Milligan, 2005]Therefore, the policies of direct and indirect taxes as well as the relevant tax exemptions act as a catalyst upon the quality of life of the family and ultimately poverty at the level of family and children. Finally, there is no special provision for large families, which are entitled to the special care of the State, according to article 21, par. 2 of the Constitution.

Framework of correlation between tax policy and the risk of poverty of families with children

Fiscal policies aiming at supporting families with children have two aspects: one is "benefit" or credit (eg cash benefits per child per month) and the other is taxation. Allowances and financial benefits should not be taxed because they should not be considered income and should therefore always be exempt from tax, subject to no other conditions. Taxation from Local Authorities has a similar role to play.

In order for citizens' personal taxation to be properly redistributed, it must not only be calculated on the income, but also on the number of people who depend on this income; should not discriminate on the family size and compensate the most vulnerable families. In the current aging populations of Greece and of Europe on average, taxation is also a tool to address the challenges of demographic change. It should therefore be used to enable rather than discourage young couples acquire as many children as they would like to. Tax cuts in this perspective are equivalent to direct cash benefits, which have a positive and significant effect on fertility rates, as a survey in 22 OECD countries has shown [Gauthier & Hatzius, 1997].

Tax Foundation conducted a survey [Internet – Tax relief for families Europe] using a comparison of the tax burden on a family with one employee and two children versus a family with a single employee without children as a way to measure targeted family tax relief. “One way to measure targeted tax relief for families is to compare the tax burdens on labor of a family with one earner and two children and a single worker without children, both earning the same pretax income. Larger differences imply more extensive tax relief for families.” Greece has a difference of -3, ranked as the 2nd worst country based on the labor tax index, among 27 OECD countries, when the average of these countries was measured at -11.3 (a big difference compared to -3 of Greece).

Compensation for family burdens is a fair recognition of the financial costs incurred by families with children. Several studies, including some by family organizations, show the significant share represented by children's costs. The study commissioned by the European Commission entitled "The costs of raising children and the effectiveness of policies to support parenthood in European countries: a Literature Review" (2008) clearly shows that the relative cost of raising a child is on average 20 with 30% of the annual budget of a childless couple [Letablier et. al., 2009], [Luci et. al., 2008]

Recognizing the financial burden on families due to children upbringing is vital to stopping the spread of occupational poverty (a major cause of which is the income deficit against the needs of all dependents, even if wages are not low as an absolute number) [Internet - Working poor in the European Union]. It also helps to strengthen family solidarity between the generations (e.g. caring for an elderly parent)

As the cost of raising a child represents on average 20 to 30% of a childless couple's budget as mentioned above, the reduction in taxable income per child should not be less than 30% of the taxable income for a childless couple. This should be taken into account in the monthly withheld tax (advance taxation) and not only in the clearance of income tax because otherwise it can create conditions of risk of poverty due to cash flow issues. Municipal taxation should also be much more adapted to family commitments than it is today (mainly in terms of municipal fees). The relevant policy can be either in the form of a monthly tax refund or non-withholding the tax-free amounts for children.

The tax system can and should be used as a means of combating demographic decline so that the choice of having children does not involve negative discrimination. Tax breaks can serve as benefits for children so that fiscal policy does not act as a barrier for families to acquire children or as an accelerator factor for the risk of poverty and social exclusion for multi-child families.

In Greece, anti-poverty measures in the framework of the European Year 2010 against poverty and social exclusion were not related at all to tax policy. In November 2012, the then new tax bill abolished the special tax-free limit (tax exempted income amount) for large families [four or more children] and the tax-free limit for the children of other families, presenting the argument that this was a universal measure offered regardless of the family's financial situation and that it was intended to be replaced by a targeted children cash benefit, according to the financials of the family. The legislature has considered ever since a family with children to have the same tax paying capacity as childless couples, leading many families to lower and lower living standards and increasing poverty risk and social exclusion. As the UNICEF report on the "Situation of Children in Greece 2014" pointed out: "The introduction in 2012 of the single child support allowance not only replaced all previous forms of family allowance, but also replaced the abolition of tax-free limits for families with children. In this way, the indirect burden on families from the losses of the favorable measures replaced by the single allowance is likely to be greater."

In 2019, the Government reintroduced the amount of 1,000 euros as an additional tax-free limit for each child, recognizing, as it should, that in this way the legislator complies even ostensibly with the Constitutional provision of article 4, par. 5 according to which: "Greek citizens contribute without discrimination to public burdens, depending on their strength." It is common sense that a family with children cannot be considered as contributing to the public burden equally to other families, if the costs of having and raising children are not taken into account.

It is obvious that tax policy must adjust the contribution of families to public taxes according to the number of children taking into account the cost of acquiring and raising them, otherwise it produces an increased risk of poverty and social exclusion depending on income level, cost of living and inflation. In this area, Greek law has failed to address the correlation between fiscal policy and the risk of family poverty with children and, ultimately, child poverty leading to social exclusion. Even in times of recession and bad fiscal situations, the measures that are imposed horizontally and indiscriminately, i.e. the reduction of pensions and, the universal, or for some categories of beneficiaries, abolition of benefits (... family and multi-child family ones...), to the extent that they are disproportionately affecting low incomes, are contrary to the principle of equality in public burdens, which is guaranteed by art. 4, par. 5 of the Constitution." [Chrysogonos, 2013]

Other countries are also looking into the issue. “According to a study promoted by the Spanish Federation of Large Families, with the support of the Ministry of Health, Consumption and Social Welfare, and carried out by the University of Vigo, tripling the deductions for large families would offset by almost a third the cost of caring for children for these households. Specifically, the increase in tax deductions would cover 28.6% of the cost of raising children, without children under 3 years of age in the home.” [Internet – A study reveals caring for children] As the report says, “Currently the family deduction in the income tax in Spain for large families – € 1,200 for large families of the general category and € 2,400 for families of special category-, cover 15.7% of the cost of childcare. Tripling these deductions would make it possible to cover 28.6% of the cost for families with three children, none of them under 3 years old, for a household with two income earners, each of them with a gross income of 25,000 euros per year.” So, it is obvious that research is carried out to find ways to compensate fairly families for the cost of raising children.

Policy proposals for family-friendly taxation with children

The contribution of parents to the human resources of a society, i.e. the replacement of generations for the benefit of the stability of society and the economy, should be rewarded at the tax levelto reinforce the practical application of the Constitutional requirement of Article 4 which stipulates in paragraph 1 that "Greeks are equal before the law" and in paragraph 5 that "Greek citizens contribute without discrimination to public burdens, according to their strength." In order for tax policy to be a deterrent to the risk of family reunification with children, tax policies need to be improved along three axes:

Axis 1 - Tax-free amount for families with children. The tax-free amount must be set fairly and objectively on the one hand and, on the other hand, it is unreasonable to tax any income below the poverty line. The Hellenic Statistical Authority (ELSTAT), in its press release issued on 21-6-2019 announced that the poverty line is for a single person is at 4,718 euros, and that this limit is increased for the married without children by 50% (EUR 2,359) for the wife and (a) by 50% (€ 2,359) for any protected child over 14 years of age and (b) by 30% (€ 1,415) for each protected child up to 14 years of age. The taxation of income from the first euro of income without taking into account the family situation of the taxpayer constitutes unequal and unfavorable treatment of families with children, and especially large families, with a multiplier effect on child poverty. Moreover, income below the poverty line should be tax free. Income higher than the poverty line can be taxed taking into account the cost of raising children and the number of the children of the family.

Axis 2 – Real estate tax. Real estate tax policy increases the risk of poverty for families with children, as it does not take into account the size of the family and the other dependent members cohabiting with the parents. There is an obvious need to adjust the tax legislation for real estate, based on the calculation of the necessary areas that are necessary for the decent living of individuals, regardless of age. Family organizations in Europe, based on international studies, estimate the necessary surface for each individual at 25 sq.m. at least, as decent living conditions.

Therefore, for a family of four (two parents and two children), the first 100 square meters (= 25 sq.m. * 4 people) must be tax free. Property tax must begin from this point onwards.

The lack of family dimension in real estate tax policy creates conditions that may increase the risk of family poverty and child poverty as a consequence. The current property policy is not in line with the decision of the European Parliament that adopted on 24-11-2020 a series of recommendations to combat homelessness and the end of the exclusion from housing in the EU. Specifically, the decision states that [Internet - EU should set goal to end homelessness by 2030]: "Although the housing policy does not fall within the jurisdiction of EU, it can indirectly affect housing conditions through regulations (e.g. state aid rules, tax legislation and competition law) and measures, in particular through recommendations and guidelines." It is clear that the EU recognizes the impact of tax legislation on housing costs and the number of homeless people in Europe. Therefore, real estate tax legislation is a catalyst in the field of housing and consequently in child poverty as a whole.

Axis 3 - Other direct and indirect taxes In general, all direct and indirect taxes of both the central and the local Governments / authorities should offer a tax reduction based on the number of children, with a higher reduction rate for large families, as defined in the each country's legislation. The reduction should be based on the logic of reciprocal benefit to families with children, so as to reduce the risk of child poverty and to avoid negative discrimination against families with more children.

Conclusions

Reviewing the measures to address Child Poverty and Social Exclusion in Greece, itwas revealed that taxation policy is not family friendly and needs significant revamping and alignment to the Constitution, if it is going to be used as a weapon in the fight against child poverty and social exclusion. Tax policies have a catalytic effect on the quality of family living and ultimately on the risk of poverty they face. The current tax policies in Greece are not considered family-friendly, they are assessed as inadequate as tools for tackling child poverty and the risk of poverty for families with children. This finding was recently confirmed by a study by the International Tax Foundation which shows that Greece has the 4th highest taxation of workers with children among the 36 OECD countries. The 2019 changes "in personal income taxation and the benefits connected to children will impact the tax wedge. In Greece, a one-earner married worker with two children who is making the average wage faces a tax wedge of 38 percent, 11 percentage points higher than the OECD average of 27 percent." [Enache, 2021]

Given the very low support for families with children, tax policy should be improved in four dimensions:
(a) establishment of the country's poverty line as the tax-free income. Applying the poverty thresholds defined by the National Statistics Authority (ELSTAT) as the income level to be exempted from tax, would result in a much family friendlier definition of the income levels that should be taxed.
(b) tax-free limit for real estate tax must be equal to the minimum number of sq.m. required for decent living per person, and
(c) reduction of taxes on direct and indirect taxes of the Government and the Local Authorities based on the number of children.
(d) Families with children, especially large/multi-child families, are contributing more to VAT, due to consumption, as compared to the rest of the citizens; therefore, some sort of return should be devised to reward their contribution to the public income. In the past, cash benefits to large / multi-child families were considered as a reward to some extent; however, these have been abolished without any substitute, making large/multi-child families very vulnerable to changes in the macro-economic environment.

Family policies are central to the organization of a strong welfare state, and tax policy plays a catalytic role in this. The adoption of more family-friendly tax policy measures creates a sense of security, serves social justice, reduces the risk of family and child poverty, and lays the foundation for stronger social protection for families with children, which lay at the core of the development of the human capital in any society.

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