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## **TAX INSTRUMENTS AS AN ELEMENT OF PRO-FAMILY POLICY IN FRANCE AND IN POLAND**

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**Summary:** In the face of the demographic crisis, special attention is paid to tax preferences, the most frequently inbuilt into the income tax systems. They are an important instrument which enables to soften family's fiscal duties since a family suffers from high costs generated by children. The paper is a review of tools of tax policy in the framework of income taxes, as an element of pro-family policy in France and in Poland. France is an example of a country where relevantly designed tax system is one of substantial factors of fertility rate growth (the fertility rate exceeds 2). In turn, Poland is a country characterized by a very low fertility rate – acc. to CIA's data the fertility rate in Poland in 2013 equaled 1,28 which places Poland 212th (among 224 examined countries). In the author's opinion the tax regulations intended for families, which are already functioning, are not a significant support for them and therefore, in the conclusion section some desired directions of changes are suggested.

**Keywords:** fertility, tax instruments, family policy.

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### **1. Introduction**

Negative demographic tendencies are a more and more serious problem for many economies in the world, including EU countries. A decrease in the fertility rate and ageing of the society cause a series of negative social and economic phenomena. In many European Union member countries the fertility rate fell down far below the simple generation replacement rate which means substantial deficiency of the work force in the future, which is one of crucial factors of the economic growth, and a collapse of the social insurance system. Having these facts in mind, countries use very varied range of economic policy instruments to support families.

Special attention is paid to tax preferences, the most frequently "inbuilt" into the income tax systems. The preferences are an important instrument which enables to soften a family's fiscal duties since a family suffers from high costs generated by

children. The analysis regarding justice of taxation directly recommend different privileges for families with children to compensate their usability losses caused by higher taxation compared to tax payers who have no children [Rękas 2011, p. 304].

The purpose of this article is a comparative analysis of tax tools as an element of pro-family policy in two selected EU countries that is in France and in Poland. The aforementioned states were selected because of very different effects of the tax policy and extremely different instruments applied to support families in the field of income taxes. The article has verified the hypothesis that the corresponding structure of income tax in France is an important part of family policy, fiscal policy neutralizes incomes of families with children and contributes in the long term to fertility increase. At the same time the tax regulations in force in Poland do not support the family and do not affect the level of fertility.

## 2. Pro-family policy and its instruments

In the face of the demographic crisis the family policy has become an economic necessity and hence many countries in the world have been increasing the level of their expenses on (pro)family goals in order to keep relevant age structure of the societies and – at least – a simple re-production rate which is 2,1 child per woman. At the same time, the scope of the family policy has been evaluated and contemporarily, more and more frequently, there is emphasized the meaning of a family not only in the field of care for children, but also for adult members of families – that is spouses, partners and elderly persons [Balcerzak-Paradowska 2009, p. 19]. The change in the way a family is recognized and defined resulted in the change in instruments and goals selected for “wider” group of entities.

The term “pro-family policy” was established in the course of discussion over social policy approaching families and children and it means activities to the benefit of them. A goal of the family policy was established as follows: “Having an impact on a situation of families with children, or individuals in their family roles [Balcerzak-Paradowska 2009, p. 20]”. In turn, A. Kurzynowski claims the family policy comprises “[...] general legal standards, actions and measures of a country intended to develop good conditions for a family, to establish a family, to enable functioning (of a family) and playing all socially important roles” [Dragan, Woronowicz 2013, p. 3]. The second of the afore-mentioned definitions is more extensive and points out that a social policy of a country should clearly set out rules of pro-family policy and the ways it is going to be carried out and financed.

In the literature on the subject varied types of pro-family policies are distinguished: on the grounds of a criterion of goals – traditional and modern pro-family policies. The goal of the traditional pro-family policy is to provide support (adjustment) of a demographic development and to counteract poverty of families, and in particular – families with children. Modern pro-family policy puts pressure on the quality aspects of family development as a basic place, where personality and sys-

tem of values are established [Kowalczyk, Kamińska 2013, p. 240]. Consequently, contemporary pro-family policy develops goals of the traditional policy and moves its stress on the equalization of professional opportunities of children who originate from different social environments and, acc. to European literature, on the assurance of partnership in a family and conditions enabling partners to combine professional and family roles [Rymsza 1996, p. 149-150].

On the grounds of applied instruments, one may enumerate: direct (*explicite*) and indirect (*implicite*) family policies. Family oriented policy – *explicite* – means particular actions (e.g. programs), trying to achieve particular goals regarding a family as an entirety or regarding roles of individual members of a family. *Explicite* pro-family policy may include, e.g., social policy, social benefits related to the care and upbringing of children, benefits for working parents, health services for a mother, a child etc. In countries which carry out direct family policy there are frequently established special institutions seated in a government's structure to coordinate actions designed for families. In turn, – *implicite* – family oriented policy includes operations performed in other fields of country's policies, which are designed to achieve goals not connected with a family in a direct way, but which have consequences for a family, (e.g. policy preventing unemployment including professional activation of women, tax policy) [Dragan, Woronowicz 2013, p. 2-3].

The most frequently recognized object of a family-oriented policy is a family plus children (so called: nuclear family). Today, it is recognized that the definition of a family must be extensive enough to include variety of types, structures, roles and relations regarding (usually) at least one adult and one child. A subject of interest of the pro-family policy should be a marriage with children, parents (concubinages) with children, one parent with children (single father, single mother), spouses, partners and elderly persons. Depending on the accepted main goal a pro-family policy may be addressed to all families with children or selected categories of families with children (e.g. poor families, families with a lot of children, incomplete families, families suffering from social pathologies).

Carrying out goals and tasks for families, a country together with all entities has very varied family policy instruments. The following instruments may be enumerated: legal, economic, informational, personnel as well as space shaping [Kowalczyk, Kamiński 2013, p. 245]. In the framework of particular instruments, family supporting policy may apply a series of specialist tools, including the most frequently occurring ones:

- free of charge health services for a mother with a child,
- social benefits (allowances, benefits, bonuses),
- special leaves (maternity leave, parental leave, child care leave),
- tax tools (tax discounts, tax-exempt amounts),
- flexible forms of employment,
- special bonuses (e.g. housing benefits),
- institutional care for a child (nursery, kindergarten, school, day-rooms),

- special discount cards, e.g. for families with a lot of children [Dragan, Woronowicz 2013, p. 4].

It must be emphasized that in the European Union every country runs its pro-family policy oriented to the accurately set out main goal (the most frequently – growth in the fertility rate) and other detailed goals. In case of Poland, the goals of the pro-family policy were determined in form of guidelines regarding social policy and include (among others): shaping an approach and behaviors to/related to marriages and establishing a family, change in an approach to procreation behaviors, increase in life quality of individuals and families and provision of opportunities for a young generation to participate actively in the demographic development, social-economic and cultural development of a country [Kowalczyk, Kamiński 2013, p. 243-245].

It should be noted, however, that in the face of low levels of fertility in most EU countries, there are introduced mechanisms neutralizing fiscal policy for taxpayers with children. This phenomenon is fully justified, because family income is depleted of expenses for the offspring, which the single people do not bear. Another problem is the scale and scope of the applicable tax relief for families, that is why the author makes a comparative analysis of two EU countries – France and Poland.

An overview of the world literature can show the results of research in which the authors used the evaluation studies to assess the effectiveness of different instruments measuring the pro-family policies to improve fertility. These studies focused on two directions of Aug. activities: Work Life Balance (WLB), which implement family policies such solutions that facilitate the reconciliation of work and family, and instruments representing compensation expense related to families with children, including taxes.

The impact of family financial support in the form of benefits or tax credits was mainly the subject of correlative study, in which the tendency to have a child also explained a variable determining the level of household income. Such an approach, however, raises the risk of error, because the income of women who decide to have another baby may be affected by the same factors that simultaneously determine the fertility decision. Using the findings from the model of A. Rosen it can be noted that in the face of fewer jobs for women and smaller chances of finding them, women may be more likely to decide to have another baby and resign from work [Rosen 1993, p.5]. Lack of taking into account in the study such characteristics of women as motivation to perform paid work and their chances of finding a job can lead to underestimation of the effect of income on fertility behavior.

In recent studies that aim to establish a causal link between increased income and fertility these methodological objections are taken into account by introducing the method of instrumental variables [Baranowska-Rataj, Matysiak 2012, p. 12], and so for example:

- Cohen et al. [2007] used the change in the amount of family benefits which are dependent on the number of children and which are already possessed as variables that flow into the family income, but do not have a direct influence on the decision about the next child.

- Azmat and Gonzalez [2010 Brewer et al. [2010] and Milligan [2005] have joined in the research of Cohen concerning individual decisions about having children and presenting information on reforms in the system of benefits and tax credits for families with children. Such data allow to identify parents who are actually able to benefit from the reforms and thus more accurately assess what changes in the system of family benefits could affect the level of fertility.

Due to the complexity of the problem the author has discussed in different publications<sup>1</sup>, only the issue of the impact of taxes on fertility and effectiveness of family policy instruments is presented in the article.

### **3. Family supporting instruments in the framework of income tax in France and in Poland – comparative analysis**

France is an EU country which has substantially increased capital expenditures on the pro-family policy for the last decade. French expenditures on the pro-family policy makes 8,3% of total social expenditures and as a result the fertility rate exceeds 2. France is one of few EU countries with growing number of citizens. In turn, expenditures on the pro-family policy equal just 4,2% of total social expenditures in Poland and the fertility rate does not exceed 1,3 [Wyzwania demograficzne... 2012]. Income tax preferences are one of group instruments promoting the family. Therefore, they shall be a subject of the analysis hereunder.

The tax system in France is one of the most pro-family systems in the EU countries. French citizens are provided with a series of tax reliefs. A horizontal re-distribution rule dominates there that is from families who do not have children to families who have children, and more and more frequently – vertical re-distribution, which means an intent to reduce a life level difference among families who have the same number of children but their incomes are very different [International... 2014].

Mutual taxation in Poland is not, however, related to the number of children. Hence, when spouses are taxed together or in case of single parents, total income of a family is divided into half and then it is taxed (with consideration given to tax-exempt amount) and finally, calculated tax is always multiplied by “2”.

In the French system the possibility of mutual taxation depends directly on family “size” since a tax scale is applied to total income of parents. The income is divided by a “family quotient” (*quotient familial*), which means transfer of financial means (in the framework of a group of families with the same incomes) from families who have no children to families who have children. The afore-mentioned family quotient depends on “fiscal parts” calculated on the basis of the number of members of a family presented in Table 1.

<sup>1</sup> Vide: M. Rękas, *Effectiveness family policy instruments – a review of research*, Scientific conference on labor market and social policy in the twenty-first century. Aspect of macroeconomic and regional, Supraśl 21-23 May 2013 (publication of the review, in press) and M. Rękas, *Fertility in the European Union and the factors affecting its level – a review of research*, in *Economy*, ed. J. Sokolowski, Prace Naukowe UE Wrocław nr 305, 2013, pp. 638-652.

Total family income to be taxed in France is an amount arising from real income divided by a relevant number of “fiscal parts”. Such a calculated amount is a basis for taxation acc. to applicable scale and multiplied by the number of fiscal parts.

The analysis of the table shows that the family quotation enables a family in France to pay much lower tax in case a family is numerous since the quotient for a spouse with a single child equals to 2,5, while in case of three children it equals to 4 parts. In case when a single parent has a sole child, the quotient equals 1,5 and in case of 3 children, it increases up to 3,5; therefore (contrary to solutions in Ireland) it promotes full families in France. Generally, giving birth to the third child in a family with average incomes means total release from income tax. Additionally, in a situation when a disabled child is brought up, the family quotient may be increased by another 0,5 of the “fiscal part” [Cazain, Nicolas 2012, p. 23].

**Table 1.** Value of the quotient index dependent on the number of children in French and Polish tax systems

Number of children	French system		Polish system	
	marriage or civil partnership	single parent	marriage	single parent
0	2	1	2	1
1	2.5	2	2	2
2	3	2.5	2	2
3	4	3.5	2	2
4	5	4.5	2	2

Source: M. Myck, M. Kundera, M. Oczkowska, *Finansowe wsparcie rodzin w Polsce – przykład modyfikacji w systemie podatkowym*, Micro-stimulation Report 02/13, Economic Analysis Center Foundation, CenEA, Szczecin 2013, p. 5.

**Table 2.** Tax scale in Poland and in France in 2014

Tax scale in France 2014	Tax scale in Poland 2014
<ul style="list-style-type: none"> <li>• income up to 6.011 euro – rate 0%</li> <li>• income 6.011 – 11.991 euro – rate 5,5%</li> <li>• income 11.991 – 26.631 euro – rate 14%</li> <li>• income 26.631 – 71.397 euro – rate 30%</li> <li>• income 71.397 – 151.200 euro – rate 41%</li> <li>• income exceeding 151.200 euro – rate 45%</li> </ul>	<ul style="list-style-type: none"> <li>• income up to 3.091 PLN (740,84 euro)* – rate 0%</li> <li>• 3.091 to 85.528 PLN (20.499 euro)* – rate 18 %</li> <li>• exceeding 85.528 PLN (20.499 euro) – rate 32%</li> </ul>

\* exchange rate dated 2 April 2014, 1 euro = 4,1723 PLN

Source: own work on the basis of data from EUROSTAT.

Differences in taxation between Polish and French tax systems are also reflected by a tax scale. In France there is a 5 grade tax scale while in Poland the tax scale is 2 grade only, with different thresholds and tax-exempt income presented in the table hereunder.

In case of Poland the tax-exempt amount is 8,11 times lower compared to France, which means that Polish family must pay the tax much more "quickly". Additionally, in case of an income exceeding the second tax threshold, Polish family pays the tax at the 32% rate, whereby at the same income level, living in France it would pay 14% rate.

Comparative analysis of basic parameters of the income tax shows that for families with the same number of children and income level, benefits originating from tax reliefs will be very different. Unquestionably, tax benefits in France will be higher compared to Poland.

Other tax instruments applied in France (Polish tax system does not assume other than those described above) are deductions:

1. From taxable income – alimonies and financial aid to the benefit of children aged above 18, and married children, provided that payment is documented, apart from the fact that "beneficiaries had an urgent need" [Myck, Kundera, Oczkowska 2013, p. 6],

2. Two non-returnable tax reliefs:

a) from the tax – a direct tax relief related to costs incurred by parents to educate their children in "college" or "lycee" school – in 2014 accordingly: 61 euro and 153 euro monthly, and in case of studies – 183 euro monthly [*International...* 2014],

b) from a tax – there are deducted costs related to hire of a housekeeper, up to maximal amount equal 6.000 euro annually; since 2013 this value has been increased by 750 euro/person if a member of a household is a child or a person aged over 65 and is maintained by the tax payer [Inspector...].

3. Limited return tax relief including the costs of care of children. An employee who has a contract for employment or is self-employed has an opportunity to deduct from the tax amount to be paid up to 50% of expenses to maintain every child beyond home (aged less than 7) in connection with day nursery or kindergarten, or use of babysitters' services. Annual deduction limit amounts to 1.150 EUR per one child [Inspector...].

In case of the returnable tax relief related to costs of care for a child (see clause 3 above) an excess which occurs after the consideration of deductions from tax and tax reliefs is returned to a tax payer. However, the upper limit of total deductions from the tax and tax reliefs equals to 18 thousand euro plus 6% of taxable income [Myck, Kundera, Oczkowska 2013, p. 7].

A tax relief applied in France granted to persons who work at home is also worth attention as annual deduction from the tax in 2003 amounted to 3.700 EUR and since 2005 it has equaled to 5.000 EUR. In the opinion of certain labor market analysts, an increase in the relief in question resulted in the immediate growth in the number of parents who individually took care of their small children, combining professional life and private life [Szukalski 2010].

Such expanded tax reliefs make that the aid for families who have children in France is several times higher compared to Poland. PricewaterhouseCoopers experts

compared 25 countries of the European Union. A working marriage, consisting of parents earning average salaries in a particular country with two children aged 2 and 5, was the basis for the calculations. The analysis showed that a Polish family may win an aid in form of tax in amount averagely equal PLN 2,3 thousand (2,6 of annual incomes, compared EU's average 5,5 of annual incomes). Only parents in Bulgaria, Italy and Greece are in a worse situation. The highest support is assured for French families. Tax related support is the equivalence of nearly PLN 28,5 thousand which makes 11,4% of their annual incomes. Other nations which may expect similar aid are Fins and Germans (nearly 27 thousand PLN). In their case the support poses nearly 10% of their incomes [Zwoliński 2013].

The form of the present child tax relief (a form of deduction from the tax) creates a situation in which the high number of children in a family means small tax relief. The analysis of CenEa Foundation shows that approx. 32% of taxpayers who have children, cannot apply maximal deductions arising from the number of children because of too low incomes gained by the families. The rate of families in Poland who have a chance to apply the full amount of the relief is relatively high in case of families with the only child (76,1%) but it falls down as the number of children grows up. In case of families with two children the rate of parents who may apply the tax relief fully equals to 67,6% and in case of higher number of children – 30,8% [Bosak 2013].

The modification of the tax relief valid from 1 January 2013 made that spouses who had income exceeding 112 thousand PLN lost the tax relief if they had one child only. In other words, it means that the most wealthy marriages with a single child, with gross incomes exceeding 10400 PLN, will have no right to the child tax relief. In turn, families whose incomes do not exceed the threshold referred to in the previous sentence may be granted a support in the amount of PLN 92,69 monthly while the poorest families with one child only receive the aid in amount of (up to) PLN 115,00. The difference is relatively low and the level of incomes very high. No data for 2013 (tax returns have already been submitted) enable assessment of modification of the children related tax relief.

#### **4. Financial support for families in Poland – acc. to French modification – Cenea Foundation's Surveys**

In the framework of the survey program carried out by Economic Analysis Center Foundation CenEA in Szczecin, there was conducted a simulation of implementation of two versions of the French system into the Polish tax system. In the first variant it was assumed that the French system of the family quotient would be implemented and simultaneously the children tax relief binding in Poland would be maintained. The second variant assumed that the French system would totally replace Polish solutions and consequently the children tax relief would be liquidated.

As a result of the simulation it was noticed that in connection with very low progression (just two tax thresholds in Poland) the tax system, after the connection of the French family quotient with children tax relief liquidation, families with children in Poland would lose 4,2 billion PLN annually, and in the second case, after adding the quotient system to the present system of the children tax relief, the families would gain 2,2 billion PLN. In the first case the lost would regard on average all income groups, but the highest loss would concern families with two (and more) children, from the middle of income distribution. In turn, benefits originating from adding the quotient system to the Polish tax system are concentrated among the most wealthy 10% households, which would gain generally 0,9 billion PLN [Myck, Kundera, Oczkowska 2013, p. 28].

The survey included also an alternative solution (proposed by Polish President) consisting in the replacement of the children tax relief with a system based on tax-exempt income based on the number of children in a family. The implementation of such a solution in a form which would not modify the financial situation of families who already benefit from total children tax relief, generates additional gains for families with children equal to 1,7 billion annually. Such a solution would be advantageous mainly for families from the first half of income distribution who, in the present system, cannot fully benefit from children tax relief. In case of families having two children, the implementation of multiplicity of the tax-exempt amount means benefits for the taxpayers equal to 2,6 billion annually [Myck, Kundera, Oczkowska 2013, p. 29].

## 5. Conclusions

Pro-family programs are very cost generating and their effects are long-term ones. Nevertheless, countries fighting against unfavorable fertility rate make varied efforts to promote the fertility.

The range of French preferences supporting families is much more extensive compared to Polish one. At the same time the level of encumbrances is several times higher in Poland while the level of potential benefits originating from tax reliefs is a few times lower. Consequently, the Polish tax system must be modified in order to make it pro-family one. The family support program presented by the Polish President in May 2013 and setting up so called All-Poland Family Card estimates 44 actions intended to support a family and this is the first such a complex pro-family program. Among proposed changes in the field of taxes there occurred the liquidation of previous relief for children in a form of deduction from the tax and the implementation of multiply tax-exempt amounts based on the number of children. This solution must be rated a positive one since it would guarantee every family who pays an income tax a chance to apply the total amount of the relief, which is confirmed by CenEA Foundation's simulations. However, the change in the tax preferences – from a deduction from the tax to the tax-exempt amounts – would require looking

for savings, which could compensate a deficiency in the national budget. It would be necessary to consider a change in the tax threshold, change in income gain costs or amounts of deduction of health service premium which, in turn, would require other deep studies.

However, it should be rated negatively that Poland still makes experiments with the pro-life policy. There is no stable pro-family system and permanent changes of the system do not promote a decision on having or increasing the number of children. Nevertheless, there is still hope that the family support system, despite costs, will be implemented. Otherwise, we must face a situation like e.g. in Romania, where in 2013 the number of retired persons exceeded the number of employees. It generates negative economic, cultural and social effects. The costs of their liquidation are frequently higher than the costs of prevention of the demographic catastrophe by family aid programs.

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## INSTRUMENTY PODATKOWE JAKO ELEMENT POLITYKI RODZINNEJ WE FRANCJI I POLSCE

**Streszczenie:** W obliczu kryzysu demograficznego szczególnego znaczenia nabierają ulgi prorodzinne, najczęściej wbudowane do podatków dochodowych. Stanowią one ważny instrument łagodzenia fiskalizmu rodziny, w obliczu zwiększonych kosztów jej funkcjonowania w przypadku posiadania dzieci. Artykuł stanowi przegląd narzędzi podatkowych wykorzystywanych w podatkach dochodowych jako elementu polityki prorodzinnej we Francji i Polsce. We Francji odpowiednio skonstruowany system podatkowy jest jednym z istotnych czynników wzrostu dzietności. Polska zaś to kraj o bardzo niskim wskaźniku dzietności zaledwie 1,28 w 2013 r., co plasuje Polskę na 212 miejscu na 224 badane kraje na świecie. Zdaniem Autorki, obecnie funkcjonujące w Polsce regulacje podatkowe kierowane do rodziny nie stanowią istotnego jej wsparcia, dlatego też w zakończeniu zaproponowano pożądane kierunki zmian.

**Słowa kluczowe:** dzietność, instrumenty podatkowe, polityka rodzinna.