

# Child benefits in the European Union

**The future of a universal child benefit in the UK is currently under threat. Here Jonathan Bradshaw looks at how the UK compares with other European Union countries in its provision of child benefits and asks what the introduction of a means test will mean for families.**

## Child benefit in the UK

Child benefit has already been frozen for three years. Now the government has decided to claw back child benefit from higher rate taxpayers from 2013. This means that the UK will become one of the very few countries in Europe that do not have a universal child benefit. The estimates vary, but between 19 and 23 per cent of families with children will have their child benefit clawed back, saving the government £2.5 billion a year.

There are many reasons why we should be anxious about this. Child benefit is one of the very few universal elements left in our social security system – a system which has become ever more remorselessly means-tested over time.

Child benefit is a recognition by the state of the contribution to our society made by all parents in the task of rearing children. It is a transfer from the single and childless to families with children. It is simple and efficient to administer, requiring only a birth certificate as evidence of entitlement. It is paid whether or not you are employed and whatever your income, provided you have a child, so there are no moral hazards involved. Because it is paid to the mother, it is a secure and independent source of income at times of family disruption and gives a degree of independence to women where resources are not shared. Evidence suggests that mothers spend the money directly on their children. Child benefit is also the passport to contribution credits in the retirement pension.

Now it will become much, much more complicated. If either parent is a higher rate taxpayer, s/he will be expected to declare that s/he is receiving child benefit and have it clawed back by HM Revenue and Customs (the Revenue). However, it is not clear who it will be clawed



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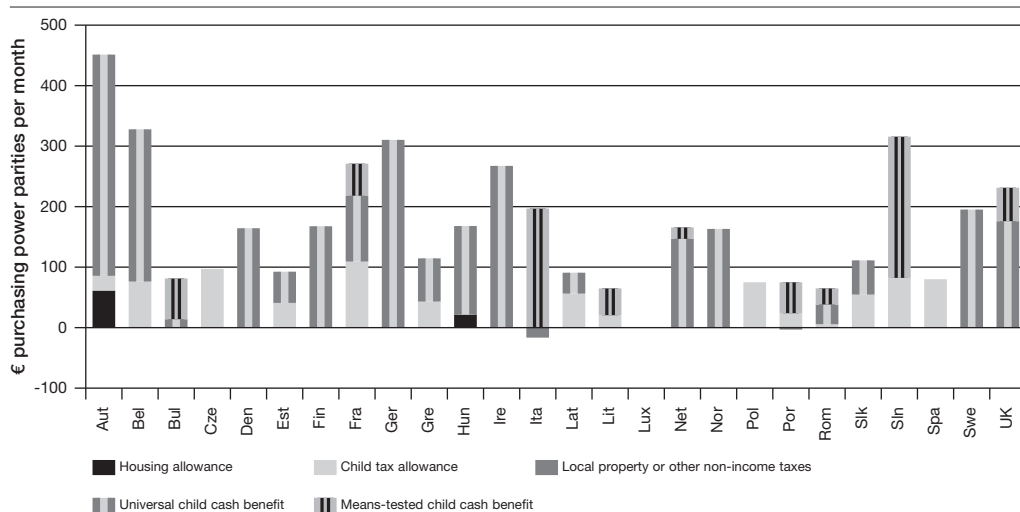
back from if both parents are higher rate taxpayers. Two parents each earning £40,000 will be entitled to continue to receive child benefit, but a family with one earner on £45,000 will lose it.

As with any means test, the change introduces the potential for a number of unfortunate behavioural responses. There may be an incentive at the margin not to earn more if it means the loss of child benefit (worth £2,449 a year for a three-child family). The claw-back will introduce the dreaded cohabitation rule into Revenue processes, so couples may be better off living apart. There will be fines for non-compliance, incentives for tax planning and all sorts of complexity to do with changes in circumstances in a tax year.

## Benefits in Europe

It will also make us different from most of our European partners. The Herman Deleeck Centre for Social Policy (CSB) at the University of Antwerp in the Netherlands has compiled data on the level and composition of minimum income protection packages in Europe (the CSB-Minimum Income Protection Indicators data set), as at June 2009.<sup>1</sup> Based on data gathered on model families, it provides a picture of the approach to supporting families in each of the countries in the European Union (Norway is also included, but there is no data for Cyprus and Malta).

Figure 1: **Structure of the child benefit package for a couple with two children, one earner, average earnings, June 2009<sup>2</sup>**



Source: CSB – Minimum Income Protection Indicators Dataset, 2011

Figure 1 presents the family benefit packages for a couple with two school-aged children, with one earner earning the national average wage. The figure shows the difference in the amounts that would be received by such a family compared with a childless couple on the same earnings – that is, the contribution made by the state in respect of children. The package is made up of universal child cash benefits, means-tested child cash benefits, child tax allowances or non-refundable tax allowances, local tax benefits and housing allowances. The most common element of the package is universal child cash benefit.

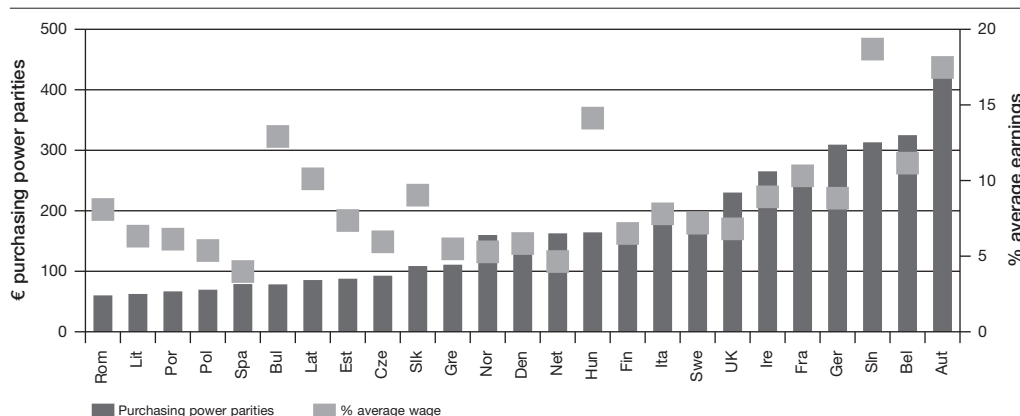
The following countries had universal child cash benefits: Austria (Aut), Belgium (Bel), Bulgaria (Bul), Denmark (Den), Estonia (Est), Finland (Fin), France (Fra), Germany (Ger), Greece (Gre),

Hungary (Hun), Ireland (Ire), Luxembourg (Lux – missing in the figures), Latvia (Lat), the Netherlands (Net), Norway (Nor), Romania (Rom), Slovakia (Slk), Sweden (Swe) and the UK.

Of those that do not have universal child benefits, six countries – the Czech Republic (Cze), Lithuania (Lit), Poland (Pol), Portugal (Por), Slovenia (Slv) and Spain (Spa) – have a child tax allowance. In the Czech Republic and Lithuania, the allowance performs a similar function to universal child benefit in that it does not vary with income. There is only one country in the European Union – Italy (Ita) – where the child cash benefit is entirely means-tested.

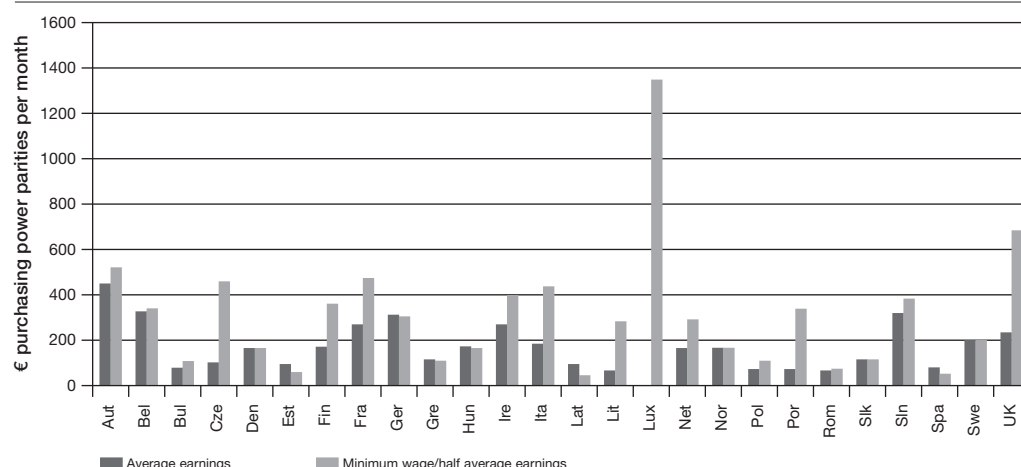
There are child tax allowances in Austria, Belgium, the Czech Republic, Estonia, France, Greece, Latvia, Lithuania, Poland, Portugal,

Figure 2: **Level of the child benefit package for a couple with two children, one earner, average earnings, June 2009**



Source: CSB – Minimum Income Protection Indicators Dataset, 2011

Figure 3: **Comparison of the child benefit package at minimum wage/half average earnings and average earnings for a couple with two children, June 2009**



Source: CSB – Minimum Income Protection Indicators Dataset, 2011

Romania, Slovakia, Slovenia and Spain. There are means-tested cash benefits still payable at this income level in Bulgaria, France, Italy, Lithuania, the Netherlands, Portugal, Slovenia and the UK (child tax credit). Three countries have higher local taxes for households with children (Estonia, Italy and Poland). Austria and Hungary still have housing allowances for households at this income with children.

### The value of the child benefit package

There are two ways to assess the value of the child benefit package – each one gives rather different results. Figure 2 shows the value of the package in Euro purchasing power parities and as a percentage of average earnings. Using the purchasing power parity measure, Austria, Belgium, Slovenia and Germany have the most generous packages, and Romania, Lithuania and Portugal the least generous packages. The UK comes seventh. When the comparison is made using the percentage of average earnings, Slovenia, Austria and Hungary have the most generous packages, while Spain, the Netherlands and Norway have comparatively low child benefit packages. The UK comes fifteenth.

Figure 3 compares the child benefit package in purchasing power terms for the same family type but at minimum wage/half average earnings compared with average earnings. On low earnings, the child benefit package is more generous in most countries – the exceptions are Denmark, Estonia, Germany, Greece, Latvia, Norway, Slovakia, Spain and Sweden. The package is far more generous at low earnings in the Czech Republic, Finland, France, Ireland, Italy, Lithuania, the Netherlands, Portugal and the UK. These are all countries with a substan-

tial element of means-testing in their child benefit packages. Apart from Luxembourg (which is rich and tiny), the UK has by far the most generous child benefit package for a low-paid working family than any country in the European Union.

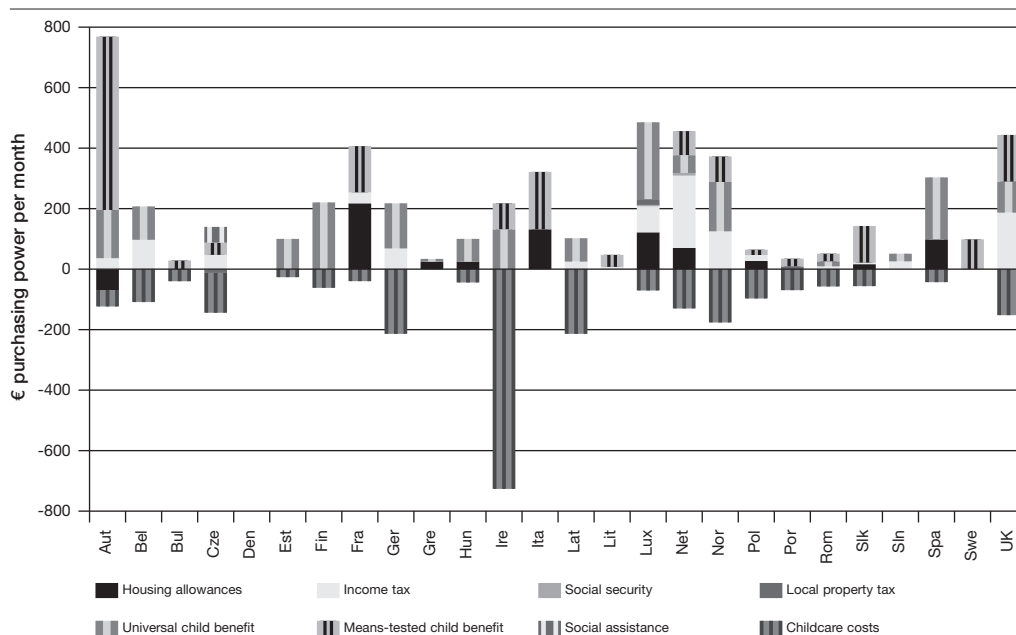
So far, childcare costs have not been taken into account. Figure 4 shows the impact of childcare costs (for the most prevalent full-time formal childcare in each country) for a lone parent with one pre-school child on half average or minimum earnings. It can be seen that net childcare costs effectively wipe out the value of the package in the Czech Republic, Germany, Ireland, Latvia, Poland, Portugal and Romania.

### Conclusion

The UK will join Italy, Poland, Portugal, Slovenia and Spain as one of the countries in the European Union without a universal child benefit or child tax allowance. Ironically, Japan, influenced by British experience, has just introduced a universal child benefit, partly in order to do something about its desperate fertility rate.

The best outcome would be for the coalition government to abandon this scheme. It was ill-thought through and its impact was grossly under-estimated by the Treasury. It is always much easier to make a universal benefit means-tested than to make a means-tested benefit universal. One reason that successive governments failed to uprate the basic state pension in line with earnings for so long was the belief that it was better to concentrate help where it was needed most – the means-tested pension credit. The same arguments will now apply to child benefit.

**Figure 4: Child benefit package at minimum wage/half average earnings for a lone parent with one pre-school child, June 2009**



Source: CSB – Minimum Income Protection Indicators Dataset, 2011

The fear is that the means-test threshold will be shifted down the income distribution. There is already a possibility that the higher rate threshold will be lowered to offset the losses suffered as a result of having raised the tax threshold. The government, having abandoned universalism, may be tempted to tighten the means test by, for example, absorbing child benefit into universal credit. This will further impact on many families already struggling to make ends meet. ■

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- 1 N Van Mechelen, S Marchal, T Goedemé, I Marx, B Cantillon, *The CSB-Minimum Income Protection Indicators Dataset (CSB-MIPI)*, Hermann Deleeck Centre for Social Policy, University of Antwerp, 2011
- 2 All tables have been compiled using figures from the CSB-MIPI data set.



## CPAG relaunches Save Child Benefit campaign

The current freeze and proposed claw-back to child benefit is unfair because:

- only families with children lose out – seven of the wealthiest 10 households don't have children;
- child benefit is paid to the main carer – normally the mother – so it deliberately cuts women's income;
- it's unaffordable for families: family incomes are already squeezed and living standards are falling, so it will make life much tougher for families;
- the mechanism for the tax is unfair and unworkable.

**Child benefit recognises the importance of children. Cutting child benefit reduces our contribution to the wellbeing of all children.**

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