

Who will benefit from the proposed increase to child tax credit?

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Summary

- This study assesses the consequences of increasing child tax credit for the second child in a family by 500 CZK per month, and for third and further children by 900 CZK per month, as proposed by the Czech government in late May 2014. This raise is planned to take place in three steps and would be complete in 2017.
- We estimate that such a raise would, when fully implemented, result in a loss to the state budget of 4.7 billion CZK per year.
- The proposed changes would reduce tax liability for approximately one fifth of non-retired households. The average household with more than one child would save c. 7 300 CZK per year.
- This would not, however, significantly improve the situation for the poorest households, because those households tend not to have a high enough income to be eligible for child tax credit, or may be subject to a maximum limit on tax credits. The poorest households with multiple children would save on average only 2 900 CZK per year, whereas the richest multi-child households would be better off by an average 7 000 to 9 000 CZK per year.
- Nearly one third of the total budgetary costs of the proposed changes (1.5 billion CZK per year) would be spent on supporting multi-child families in the upper half of the income distribution.
- The proposed raise would result in an increase in the already high tax differential between men and women, and would increase the disparity in taxation levels between childless individuals and married couples with children. In a country that holds the record (OECD) level of disparity in net taxes paid between unmarried childless individuals and married individuals with a dependent spouse and two children, that disparity would be further increased.

- Our study illustrates the type of impact assessment exercise that should be practiced in all cases of regulatory, i.e. public policy, proposals, including tax regulation. This should be a feature of the standard decision-making process for economic and other political policies, according to the principles of so-called evidence based policies and as part of mandatory Regulatory Impact Assessment (RIA).

Table 1. Impact of proposed increase in child tax credit on households by their income decile

Income decile of households	Average gross income from employment and entrepreneurship [CZK / year]	Share of households with two and more children	Share of household who would pay lower taxes (or receive higher tax credit)	Average change in taxes paid by multi-child households [CZK / year]	Decile share on the total drop of taxes paid
(1)	(2)	(3)	(4)	(5)	(6)
1	17 558	18,8%	6,0%	-2 870	3,1%
2	165 783	38,7%	37,2%	-8 032	18,6%
3	254 804	37,3%	36,5%	-9 016	19,2%
4	311 041	32,8%	32,3%	-7 694	15,6%
5	370 153	28,0%	27,8%	-7 135	12,0%
6	429 158	23,5%	22,9%	-7 288	10,3%
7	478 649	18,1%	17,3%	-6 722	7,4%
8	537 504	10,0%	9,8%	-6 631	4,5%
9	633 256	9,6%	9,6%	-7 964	5,2%
10	988 732	8,9%	8,9%	-6 939	4,1%
Total	411 517	22,8%	21,0%	-7 314	

Note: Income deciles are based on average gross family income from work activities per household member. The average represents equalised income reflecting consumptions units defined by the OECD with weight 1 for the household head, 0.7 for people 14 years old and older and 0.5 for children.

Source: Model TAXBEN, own computations.