

Supporting Families with Children Through the Tax and Welfare System

JIŘÍ ŠATAVA

Summary

- The state may provide financial assistance to families with dependent children either by reducing their tax burden or by increasing their welfare benefits. Both means of support increase their net wage, thus providing financial support. This paper provides an overview of financial support amounts provided to families with dependent children or families with the youngest child aged 1 to 3, and of measures limiting such support.
- The lower tax burden of families with children ensues from lower income tax, not from the social and health care security systems. Within this system, tax support provided to families with children is comparable to that provided to low-income families without children. Additional support provided to families with children includes tax benefits tied directly to children in the family, and tax credit for a dependent spouse. Should the tax system not provide such benefits, families with children, or rather families with a youngest child aged 1 to 3 would have a higher effective tax rate than childless families with comparable income.
- Unfortunately, only a third of families with a youngest child aged 1 to 3 are able to take full advantage of all tax benefits available to them. Tax benefits available to families with dependent children regardless of the children's age are fully utilized by about one half of such families. This is a considerably lower rate than that of childless families, where available tax benefits are fully utilized by approximately two thirds of such families.
- Consequently, simply increasing some of the benefits utilized by families with children may not lead to an increase in their net income; a large number of such families have a difficulty in utilizing all such benefits in order to reduce their tax burden and increase their net income.

- The total support provided to families with children through a reduced tax burden and increased welfare benefits is comparable to that of low-income childless families. In case of families with children, the ratio of their net tax (i.e. tax burden reduced by the welfare benefits provided) to their “super-gross wage” (gross wage including payroll deductions) is approximately half that of childless families. For families with a youngest child aged 1 to 3, the ratio is approximately ninth that of childless families.