Simulation of an introduction of a basic security for children in Austria

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Current situation: Child poverty in Austria

• 16% of children (<18) are at-risk-of-poverty in 2022 in Austria (EM baseline)
• Current family support system consists of heterogenous tax/benefit policies:
  • Benefit: universal family allowance, universal child tax credit
  • Benefit: childcare benefit, child supplements for unemployment, pension, social assistance benefits
  • Tax: single earner tax credit, single parent tax credit, tax credit “family bonus” incl. negative tax for low-income families

• Especially tax credit family bonus tends to provide higher benefits for families with higher incomes,
• Thus, limited impact on counteracting (inheritance of) poverty
Policy reform: Arguments for a basic security for children

- Reduces complexity, thus higher transparency for families and stronger perception of positive effects of welfare state
- Easier access to benefits by reducing bureaucratic hurdles in application process (e.g., take children out of social assistance)
- Higher (ideally full) take-up of benefits by parents/guardians of eligible children
- Lower administrative costs

- In Austria proposed by NGO Volkshilfe, support by some political parties
- Introduction in Germany 2025 (lower amounts)
Total benefit amount (values 2022)

• In total up to € 872 per child and month
  • Universal component of € 285
  • Income-tested component of up to € 587

• Amount derived from reference budgets debt counselling

<table>
<thead>
<tr>
<th>Material Supply</th>
<th>Social participation</th>
<th>Health</th>
<th>Cultural Dimension</th>
</tr>
</thead>
<tbody>
<tr>
<td>567 €</td>
<td>127 €</td>
<td>44 €</td>
<td>134 €</td>
</tr>
</tbody>
</table>

Maximum amount in total 872 €
Universal component

• Derived from basic monthly family allowance for a child 10+ plus (universal) child tax credit, revalued in line with CPI 2000 from 2000
  • Replaces family allowance (incl. age and sibling-supplements, school start allowance) and child tax credit
  • Supplement for disabled children as well as benefits for children 18+ remain as in status quo
Income-tested component

• (Lower) limit for full amount (€ 587): yearly taxable family income of € 25,000
• Considerations:
  • Individual tax exemption limit in 2022 was € 11,000 per year (2*11,000=22,000)
  • Poverty threshold for 2 adults (EU-SILC 2021): € 24,678
• Upper Limit: yearly taxable family income of € 40,000
  • Primary budgetary considerations
  • Between € 25,000 and € 40,000 transfer is steadily reduced to 0
• Administrative setting (taxable family income) corresponds to more-children supplement within family allowance (up to € 55,000 yearly taxable family income)
• Replaces supplements for children in social assistance
Theoretical benefit distribution

For better presentation, the monthly household income was limited to € 4,500.
EUROMOD

- Austrian microsimulation model part of EUROMOD
- Joint project covering all EU-27 countries (+UK, SOUTHMOD, LATINMOD...)
- Coordinated by the European Commission (JRC)
- Includes tax/benefit policies of all EU-27 countries
- Policies & data updated yearly
- Input data based on EU-SILC & register data
- Planned extensions in 2024/2025: Modeling indirect tax policies & household budget input data
EUROMOD modelling (Version 3.5.8)

Policy year 2022
Input data: EU SILC 2021 – incomes 2020 uprated to 2022

New policies:
• Universal and income-dependent basic security components

Replaced policies:
• Universal: Family allowance (incl. age and sibling supplements, school start bonus) and child tax credit for children <18
• Income-tested: Child supplements in social assistance

Controls:
• Keep existing family allowance and child tax credit for children 18+
• Simulate social assistance only for receiving households in SILC (control for non-take up), in reform scenario drop supplements for children
Results
Fiscal costs

Total: 1.0% of GDP:
• Universal component: 0.3%
• Income-dependent component: 0.8%

Indirect profitability
• Combating child poverty yields:
  • Consumption return
  • Savings in children’s health costs
  • In adult life higher taxes and contributions, less social transfers

• (Fiscal costs of tax credit family bonus, which hardly reduces child poverty: 0.5% of GDP)
Results
Benefitting children <18

Number of benefitting children:
• Universal: 1,591,000 (100% of all children <18)
• Income-tested: 666,000 (42% of all children <18)
• Maximum income-tested component: 364,000 (23% of all children <18)

Benefit amounts:
• Universal component per child and month: € 285
• Average income-tested component per child and month, related to:
  • All 1,591,000 children <18: € 187
  • 666,000 children with income-tested component: € 447
Results: Income poverty

Total population - 4.7pp

13.3%

All

8.6%

<18 years - 13.5pp

16.3%

<18 years

2.8%
### Results: Income distribution

#### Annual equivalised disposable income by deciles

<table>
<thead>
<tr>
<th>Deciles</th>
<th>Before Reform (€)</th>
<th>After Reform (€)</th>
<th>Change in %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>12,279</td>
<td>15,236</td>
<td>+24.1</td>
</tr>
<tr>
<td>2</td>
<td>18,963</td>
<td>21,613</td>
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<td>3</td>
<td>22,929</td>
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<tr>
<td>4</td>
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<tr>
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<td>6</td>
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<td>+1.6</td>
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<tr>
<td>7</td>
<td>35,114</td>
<td>35,452</td>
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<tr>
<td>8</td>
<td>38,972</td>
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<tr>
<td>9</td>
<td>44,861</td>
<td>45,112</td>
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<tr>
<td>10</td>
<td>65,889</td>
<td>66,091</td>
<td>+0.3</td>
</tr>
<tr>
<td>TOTAL</td>
<td>32,564</td>
<td>33,588</td>
<td>+3.1</td>
</tr>
</tbody>
</table>
Conclusion

• Pooling of benefits, higher take-up, less administrative burden
• Employment incentives?: loop-in regulation, but relatively high amounts
• Drastic reduction of income poverty (vicious circle of child poverty)
  • All: - 4.7pp
  • <18: - 13.5pp
• Very progressive: especially persons in lowest 3 income deciles profit
• Additional fiscal costs
  • 1.0% of GDP
  • (Costs hardly poverty-reducing tax credit family bonus: 0.5% of GDP)