

## Taxes as a tool of family policy: What kind of family benefits from the Czech social security and tax system?

Nowadays financial support to the family with dependent child/children is an inseparable part of family policy in developed countries and in essence it is provided as a compensation for costs related to children rearing and/or as an acknowledgement regarding fulfilment of family functions. The support is granted directly via social security system or indirectly via tax system. Although both systems are frequently interconnected, the study is focused predominantly on support via taxes. More specifically, the framework of the Czech tax system is utilized in analysis. The Czech tax system was chosen purposely due to its comparability to other European tax systems and the broad range of changes considering the family in the recent past. Therefore, the aim of the study is to discuss in which form taxes can be employed in family policy, what are advantages and disadvantages of indirect financial support to the family with dependent child/children and what kind of family benefits the most from the systems considering framework of the Czech Republic.

Taxes are specified as financial charges or levies upon a taxpayer which are imposed by state or its functional part. The basic division of taxes is into direct and indirect taxes (See Table 1). Taking the Czech system into account, indirect taxes consist of value added tax, excise duties and ecological taxes. These taxes are imposed deliberately and selectively to put strains on sales in order to limit consumption. Although indirect taxes influence budget of each individual, the taxes are paid by retailers. On the other hand, direct taxes which involve income and property taxes are paid by each person both natural and legal. In general, taxes are imposed to fulfil state budget, but in case of the family the basic idea behind application of indirect financial support is to leave more money to families, strengthen their independence from social security system and self-sufficiency, and improve employment. In reality indirect financial support is provided through tax technique. For instance, in case of the natural person income tax, which is the most important tax with respect to the family, tax technique can be illustrated as a remission of tax via extraction of object of the tax, as a tax deduction for a husband/wife or a dependent child, as a tax relief, as a zero tax rate, or as a choice of subject to taxation, etc.

Table 1: Taxes, the Czech Republic

<b>Direct taxes</b>	Income taxes	Legal person income
		Natural person income
	Property taxes	Real estate taxes
		Transfer tax
		Road tax
<b>Indirect taxes</b>	Value added tax	from Natural Gas
	Excise duties	from Fossil Fuel
	Ecological taxes	from Electricity

Source: Pelech, Pelcl and Stuchlíková, 2002; Author's actualization

The indirect financial support to the family with dependent child/children was introduced in the Czech Republic in the early 90's of the 20<sup>th</sup> century, when the transformation of command economy to market structure began. Until then the family was supported predominately by the social security system which provided a broad range of benefits (child benefit, social allowance, housing allowance, parental allowance, birth grant, maternity benefit, foster care benefits etc.). The system of direct financial support has remained relatively unchanged except for amounts of provided benefits and requirements over transformation process. But it does not hold for indirect financial support to the family. From the early 90's to the year 2005 the technique of tax deductible items was applied. Afterwards tax exemption for a dependent child was abolished and replaced by tax relief and tax bonus and common taxation of married couple was introduced. The next year, in 2006, non-taxable amount for a person was cancelled and substituted with tax relief. Afterwards, in 2008 a concept of the super-gross wage was established and the common taxation of married couple was abolished. In the year 2010 tax relief for a child was increased. The tax rates and amounts of tax deductible items or reliefs were modified several times over twenty years. The changes are important not only for its impact on financial situation of the family, but they demonstrate what tax technique, which may have different consequences, can be utilized in family policy.

The goal of the analysis is to answer the questions what kind of family benefits the most from the Czech social security and tax system with respect to all listed changes and whether the provided financial support could contribute to increased variety of family forms (See Table 2). Therefore, the impact of changes in taxes and benefits on financial situation of families in accordance with the basic family structure and wide range of gross incomes are calculated. More specifically, the financial situation of incomplete family and cohabitation are compared to the complete family based on marriage, while characteristics as employment status of a partner, different income levels, number of dependent children and their age are considered. The preliminary results reveal that before introduction of common taxation of married couple it was more beneficial in financial terms to cohabit rather than to get married and that replacement of common taxation of married couple by "the super gross wage" did not make families with dependent children worse off.

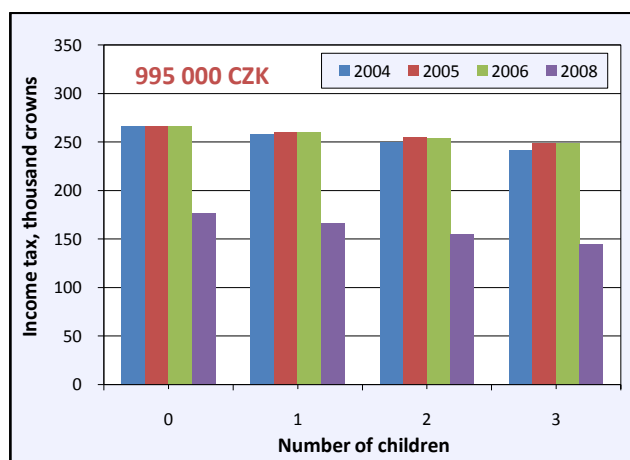
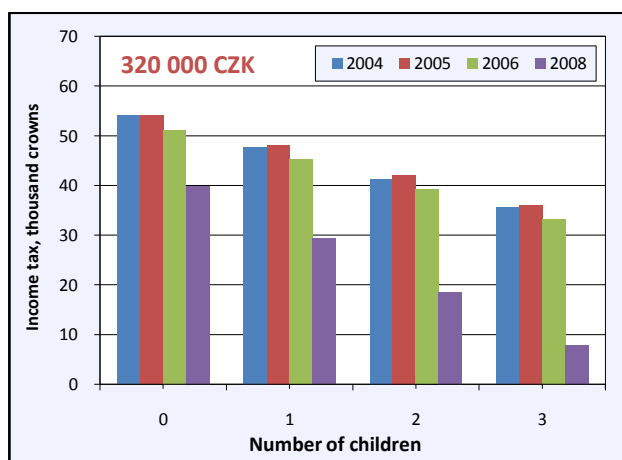
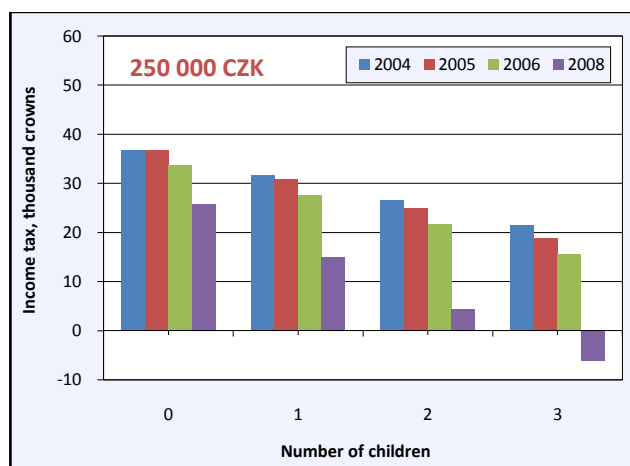
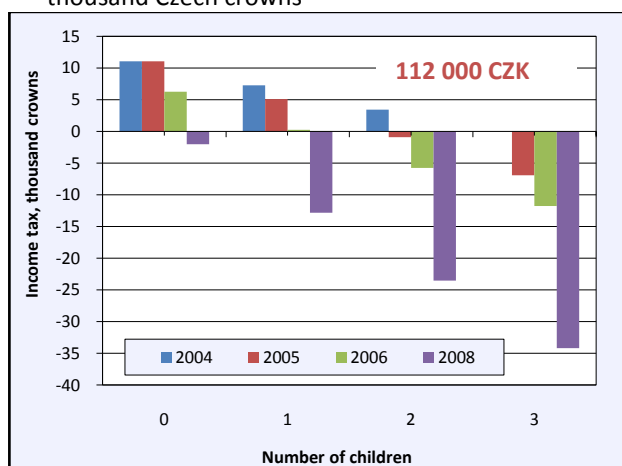
In sum, the study deals with an issue of financial support to various forms of families with dependent child/children from the perspective of taxes and benefits in the framework of the Czech Republic. It discusses the nature of taxes, how taxes can be utilized in family policy, map the features of social security and tax system in the Czech Republic from the early 90's of the 20<sup>th</sup> century to the present and analyses what kind of family benefits from the systems considering all changes, i.e. whether it is more beneficial in pecuniary terms cohabitation rather than marriage and vice versa or under which conditions it is beneficial pretending to be a single parent rather than confirming cohabitation.

Table 2: Family households by type with dependent children, the Czech Republic, census 1991 and 2001

Type of the family	Year	Number of dependent children				Total	In %	Index 2001/1991
		1	2	3	4+			
Completed family: married couple	1991	546 281	657 301	131 985	20 816	1 356 383	82.2	76.6 %
	2001	445 499	500 088	78 888	14 876	1 039 351	72.5	
Completed family: cohabitation	1991	19 190	13 820	4 738	1 737	39 485	2.4	149.8 %
	2001	28 181	16 448	4 838	1 952	51 419	3.6	
Single-parent: male	1991	21 007	7 753	1 245	223	30 228	1.8	163.4 %
	2001	28 818	12 017	1 711	374	42 920	3.0	
Single-parent: female	1991	144 964	65 671	11 223	1 997	223 855	13.6	154.4 %
	2001	193 156	90 352	14 070	2 907	300 485	21.0	
Total	1991	731 442	74 4545	149 191	24 773	1 649 951	100	86.9 %
	2001	695 654	618 905	99 507	20 109	1 434 175	100	

Source: The Czech Statistical Office

Chart 1: Income tax with respect to number of children and tax base, the Czech Republic, selected years, thousand Czech crowns



Source: Pelcl, 2006; Author's calculation

**References:**

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THE CZECH STATISTICAL OFFICE: <<http://www.czso.cz/>>.