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Children, family policy and taxation: transfers from the welfare and tax redistribution system to families in 2014

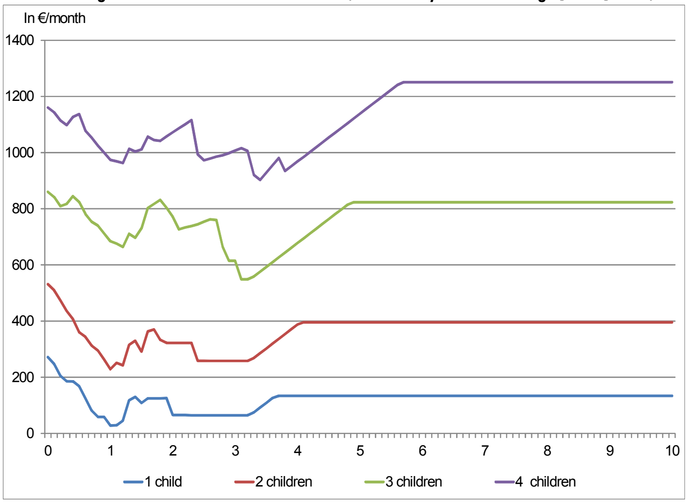
- Within Europe, France has an especially strong fertility rate with 2.01 children per woman against an average of 1.58 for the European Union as a whole in 2012. Women are also extremely active in the labour market, with a labour force participation rate of 83% of 25 to 54 year-olds in 2012 compared to the EU average of 79%. Although other factors are involved, these figures are often held up as victories for France's bold family policy.

- The three main goals of this policy are to provide financial assistance for dependent family members, to help disadvantaged families and to foster work-life balance. In line with these goals, the welfare and tax redistribution system factors in children in a variety of manners. These include family benefits (means-tested or not), taking account of children for tax assessment purposes and to calculate welfare benefits, childcare subsidies and pension premiums.

- Before taxes and welfare benefits, families generally have a lower equivalised income than households without children. On average, the equivalised income of one or two-children families is around 11% below that of childless households. For families with three or more children, the gap widens to 26%. Family-oriented measures provided for by the French welfare and tax redistribution system help narrow this inequality in two ways. First, by redistribution from childless households to families (horizontal) and, second, by redistribution from well-off to poorer families (vertical). Differences in equivalised incomes compared to childless households are therefore reduced to 7% for one or two-children families and to 15% for large families. The main beneficiaries are single-parent families and large families. Lastly, the poorest families are given extra support thus cutting the child poverty rate.

- Benefits granted by the welfare and tax redistribution system vary significantly according to the number of children in the family and the parents' income. The child-related increase in disposable income is higher as from the third child, to whom the system attaches great importance. This increase is higher for the poorest and wealthiest households than for middle-income households (see chart below). Recent government initiatives have better targeted the poorest households by lowering the cap on income splitting (*quotient familial*) which mostly benefits the wealthiest households and by increasing certain means-tested family benefits (family income supplement [*complément familial*] and family support allowance [*allocation de soutien familial*]).

Government benefit supplement based on the number of children, for a dual-earner couple, according to the household head's income (in statutory minimum wage [SMIC] units)



Source: Pâris model, 2014 legislation.

NB: The children are aged six to ten. It is assumed that the second partner earns the minimum wage for full-time work.

Note for the reader: Compared to a childless household, a dual-earner couple with the household head earning the minimum wage have €30 more disposable monthly income when they have one child and €680 more when they have three.

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1. French family policy: a bold multi-goal strategy

France has one of the highest birth rates in Europe with 2.01 children per woman against an average of 1.58 for the European Union as a whole[1]. **Women are also extremely active in the labour market** with a labour force participation rate of 83% of 25 to 54 year olds in 2012 compared to the EU average of 79%. These figures are often held up as victories for France's family policy. Whilst some studies do give credence to the contribution of family benefits to the birth rate (albeit with limited scope[2]), family policy is not the only explanation for the high fertility rate and the number of women in the workforce. It is highly likely that cultural considerations also play a part.

1.1 Family policy goals from the birth rate to work-life balance

French family policy has a long history. At the end of the 19th century and in the early years of the 20th, some employers handed out wage premiums to parents to help pay for and offset the cost of having children. In 1932, an act made it compulsory for businesses to be affiliated to family allowance funds. In the aftermath of World War II, the policy became part of government action with the setting up of the Social Security system which centralised employer obligations and the introduction of income splitting for income tax assessments. At that time, family benefits were reserved for workers and were not means-tested. One of the main aims was to boost the birth rate to drive France's economic recovery. In 1978 the goalposts shifted when family benefits became universal and the first means-tested benefit, the family income supplement, was rolled out. A new goal also emerged, that of support for poor families.

French family policy is now centred on three complementary goals:

- **Providing financial assistance for dependent family members** by redistribution from childless households to families. Financial transfers partly offset the extra cost of having children. Non means-tested family benefits and taking account of children for tax assessment purposes also contribute to realising this goal.
- **Helping disadvantaged families** by redistribution from the wealthiest to the poorest households, in particular to alleviate child poverty. In 2011, the child poverty rate stood at 19.5% compared with 14.3% for the population as a whole[3]. Achievement of this goal is bolstered by means-tested family benefits paid in cash or kind and by scaling welfare benefits to family size and composition.
- **Fostering work-life balance** by expanding and paying for childcare options (not including when parents look after children themselves) to avoid parents (especially women) drifting away from the labour market. The supplement for free choice of childcare (CMG, complément de libre choix du mode de garde) to the PAJE (early childhood benefit programme) and special tax arrangements help reach this goal as does the development of professional childcare (creches, childminders, etc.). Conversely, the PAJE's supplement for free choice of working time (CLCA, *complément de libre choix d'activité*), which was replaced on 1 October 2014 by a shared benefit for child education (PreParE), is paid to parents (to mothers in 97% of cases) who do not work or reduce their working hours to look after their young children. Payment of this benefit drives down labour market participation[4].

1.2 Redistribution to families is carried out by family benefits and by the manner in which a number of welfare benefits and taxes are calculated

France earmarks very significant resources in pursuit of these goals. It is one of the leading OECD countries in terms of public spending on family benefits[5]. In 2011, monetary family benefits in France stood at €49.2 billion[6], i.e. 2.5% of GDP. However, child-related tax breaks are much more difficult to assess.

This huge expenditure item reflects the number of diverse mechanisms designed to offset the cost of having children:

- Family benefits: family allowances (*allocations familiales*), family income supplement, back-to-school allowance (*allocation de rentrée scolaire*), PAJE. The PAJE is comprised of maintenance benefits (birth grant [*prime de naissance*] and basic allowance [*allocation de base*]) and childcare allowances (supplement

(1) As measured by the total fertility rate for each age.

(2) Laroque and Salanié (2012), "Identifying the Response of Fertility to Financial Incentives", show, by examining variations in wages between women with "comparable" characteristics, that, in France, the decision to have another child is partly dictated by financial incentives. Using macroeconomic panel data, Luci and Thévenon (2012), "The impact of family policy packages on fertility trends in developed countries", INED (French Demographic Studies Institute) working paper, show that family policy packages (financial transfers, paid leave and childcare services) have a positive influence on fertility. Nevertheless, the findings explain more the varying birth rates within individual countries over time than differences in fertility rates between countries. See Sleebos (2003), "Low Fertility Rates in OECD Countries: Facts and Policy Responses" *OECD working document*, a review of the literature.

(3) The child poverty rate is the ratio of children in households living below the poverty line (60% of median income per consumption unit) to the total number of children. By nature, the fact that the child poverty rate is higher than the rate for the population as a whole means that, on average, poor households have more children than wealthy households. This is due to the fact that many poor families are single-parent households and to the way in which the poverty index is structured. The index divides the household's disposable income by the number of consumption units which increases with the number of children.

(4) Piketty (2005), "L'impact de l'allocation parentale d'éducation sur l'activité féminine et la fécondité en France, 1982-2002", in Histoires de familles, histoires familiales, *Les Cahiers de l'INED* no. 156, p. 79-109.

(5) In 2011, France was in seventh place amongst OECD countries for public spending on family benefits, OECD Family Database 2014. According to Albis and Greulich, « Pour une politique familiale efficace », *Journées de l'économie de Lyon* (2013), amounts earmarked for the French family policy represented 4.9% of GDP in 2005.

(6) "La protection sociale en France et en Europe en 2011", Drees 2013.

for free choice of working time and supplement for free choice of childcare). The main aim of these allowances is to offset the cost of having children and they are therefore based on the number and ages of children. The PAJE also helps cut the cost of childcare for very young children in tandem with direct subsidies to Early Childhood Care Establishments (EAJE).

- Welfare benefits other than family benefits, such as the 'Revenu de solidarité active'[7] (RSA), or active solidarity income, and housing benefit (*allocations logement*), also take account of children in their scales so as to factor in the effect of having children on the equivalised income of families. This increases the maximum amount of these allowances and, more importantly, the income threshold below which entitlement is triggered. As a result, beneficiary households may receive these benefits even if they have higher incomes.
- Lastly, tax assessment also takes account of children when examining a household's tax capacity. Having children lowers income tax through income splitting arrangements[8] and also by deduction of school fees, the earned income tax credit (*prime pour l'emploi*), or tax credits for childcare outside the home and for home help services (not only for families). Residence tax (*taxe d'habitation*) factors in family composition by raising the maximum income level for entitlement to the automatic tax deduction or the cap based on the number of dependent children.

Deferred benefits, such as pension premiums[9], can also be derived from having children. Lastly, there is other special support that is not available to all households. This includes the family allowance (*supplément familial de traitement*) in the civil service and services offered by works councils.

Conversely, social levies are mainly charged to individuals. ISocial security contributions, the General Social Security Contribution (CSG) and the Social Security Debt Repayment Contribution (CRDS) on earned and unearned income and winnings from gambling are levied on a purely individual basis. However, CSG on replacement income does take some account of tax capacity (through criteria concerning base taxable income per unit and income tax liability) and, therefore, family composition.

Table 1: Amounts of certain family benefits in 2014

	1 child	2 children	3 children	Per additional child
Family allowances	-	€129/month	€295/month	€166/month
Family income supplement	-	-	€168/month	-
Family income supplement premium	-	-	€17/month	-
Back-to-school allowance*	€383/year	€765/year	€1,148/year	€383/year
	€32/month	€64/month	€96/month	€32/month
Family support allowance**	€96/month	€191/month	€287/month	€96/month
Income splitting cap				
For a two-parent family	€1,500/year	€3,000,/year	€6,000/year	€3,000/year
	€125/month	€250/month	€500/month	€250/month
For a single-parent family	€3,540/year	€5,040/year	€8,040/year	€3,000/year
	€295/month	€420/month	€670/month	€250/month

NB: amounts at 1 April 2014, net of CRDS, rounded figures.
* For a child at middle school.
** The family support allowance is mainly paid to single parents.

Table 2: 2012 income caps for benefit entitlement

	1 child	2 children	3 children	Per additional child
Family allowances	-	-	-	-
Family income supplement	family with one wage earner		37,295	6,216
	single-parent family or family with two wage earners		45,623	6,216
Family income supplement premium	family with one wage earner		14,918	2,279
	single-parent family or family with two wage earners		19,082	2,279
Back-to-school allowance	24,137	29,707	35,277	5,570
Family support allowance	-	-	-	-

(7) The RSA is composed of a guaranteed minimum income and of an additional revenue for low-income working families, aiming at increasing their incentives to work.

(8) Income tax takes account of the number of people in the tax household through income splitting. It is not the household's income that is assessed on the tax scale but this income divided by the number of units, thus reducing the amount of tax. The benefits of these arrangements are subject to a cap.

(9) The three family-related pension benefits are old-age insurance for the parents in the household (parents who look after their child acquire pension rights), increased duration of insurance (validation of pension insurance quarters for parents) and pension premiums for parents of three children. Refer to the 6th Report of the Pensions Advisory Council, "Retraites: Droits familiaux et conjugaux", 2008.

2. The welfare and tax redistribution system redistributes substantial amounts from childless households to families

Before taxes and transfers, families generally have a lower equivalised income than households without children. The welfare and tax redistribution system helps narrow this inequality in two ways. First, by redistribution from childless households to families (horizontal) and, second, by redistribution from well-off families to poorer families (vertical). Using a representative sample of households[10], we will be examining the situation prior to redistribution and the scope of the redistribution carried out. Some benefits paid or received in kind to offset the cost of childcare for very young children (creches, supplement for free choice of childcare) are excluded. There may be significant public expenditure on these benefits. For example, in 2013, €5.8 billion was paid out for the supplement for free choice of childcare[11] and €5.5 billion for care establishments for children under three (not including the CMG "structure" allowance paid directly to parents when the Family Allowance Fund (CAF) does not finance the creche in question)[12]. Local benefits and transfers, such as special school dinner rates, are also excluded from the model.

Families or households with children are defined as those with at least one child under 25 years of age and either a father or a mother. This definition is fairly wide-reaching as family benefits are only paid for children up to the age of 20 or 21. However, the RSA, income tax and residence tax (under certain conditions) are calculated by taking account of children up to the age of 25 which is why they have been included in our definition.

2.1 Before redistribution, families have an equivalised income that is broadly lower than that of childless households

Before redistribution from the welfare and tax redistribution system (on the basis of earned and replacement income, net of social security contributions, before taxes and transfers), households with children have, on average, less income than childless households, for single people or one wage earner (see table 3). However, in households where the couple both work, families have more income on average than couples without children.

But, these differences in income only partially explain the variations in standards of living between childless households and families. We intend to compare these different-sized households by establishing a ratio between this income and the size of the family. As various family members pool part of their expenditure (housing, refrigerator, heating, etc.), there is no point simply dividing the income by the number of people in the household. For example, a single person earning a given income has a lower equivalised income, all other things being equal, than a couple earning exactly twice as much. **We use an equivalence scale to account for savings made owing to sharing of resources.** Each household member is assigned a number of consumption units, based on age and number of children in the household, which represent that individual's consumption in relation to that of the household head (see box 1). The household's income is then divided by the number of consumption units. It is this ratio, known as equivalised income, that is used to compare families' income. **This method shows that, before redistribution, families have a much lower equivalised income than childless households.** To illustrate this, before redistribution and on average, couples with one wage earner and without children have an equivalised income equivalent to more than €2,400 per month, one and a half times higher than that of couples with one wage earner with one or two children (€1,620 per month) and 2.2 times higher than couples with one wage earner with three or more children (€1,100 per month) (see table 4).

Box 1: Equivalence scales for comparing the equivalised incomes of different-sized households

An equivalence scale is used to compare the income of different-sized households. Each member of the household is assigned a number of consumption units representing that individual's consumption relative to that of the household head.

Equivalence scales are statistical estimates based on consumption and income data gathered from a large sample of households. This microeconometric estimate is based on simplifying assumptions that have a partial impact on the results and are at least partly arbitrary. The estimates lack robustness as different approaches to the same data give results that vary widely.

We are using the Insee equivalence scale that assigns one consumption unit to the household head, 0.5 units to other individuals aged 14 or over and 0.3 units to children under 14. The simplifying assumptions for this scale are as follows:

- It does not change with household income, whereas the cost of having a child is not necessarily proportional to the household's income
- Insee's scale assigns the same number of consumption units to children regardless of how many are in the family even though economies of scale can occur based on the number of children

Despite these shortcomings, equivalence scales are still useful for comparing the equivalised incomes of different-sized households.

(10) For an overview of the micro-simulation model used refer to Favrat A. and Prady D. (2012), "Living standards of minimum-wage earners", *Trésor-Economics* No. 99, March 2012.

(11) Source: CNAF (National Family Allowance Fund).

(12) Source: National Early Childhood Monitoring Centre 2014, *L'acceuil du jeune enfant en 2013*, Données statistiques CNAF.

Table 3: Average net monthly income of households, before redistribution (in € per month)

	No children	1 or 2 children	3 children and more
Single people	1,870	1,880	1,400
Couples (1 wage earner)	3,690	3,400	3,000
Couples (2 wage earners)	4,640	4,820	5,830

Source : Saphir model, based on the 2010 Survey on social transfers and taxable income (ERFS), 2014 legislation.

Table 4: Average net monthly equivalised incomes of households, without redistribution (in € per month)

	No children	1 or 2 children	3 children and more
Single people	1,790	1,200	610
Couples (1 wage earner)	2,410	1,620	1,100
Couples (2 wage earners)	3,030	2,320	2,170

Saphir model, based on the 2010 Survey on social transfers and taxable income (ERFS), 2014 legislation.

These variations in equivalised incomes are illustrated by poverty breakdown. If there was no redistribution, the poverty rate would be much higher in families than in childless households. It would be 20.9% in one or two-children households and 44.3% in three-children households, compared with 13.5% in childless households. Before redistribution 54.6% of single-parent families would be affected.

2.2 On average, families receive more in benefits that they pay in taxes

We would now like to look at redistribution by the French welfare and tax redistribution system by examining direct taxes (income tax, residence tax) and all monetary benefits (minimum welfare benefits, family benefits, *RSA Activité* [in-work income supplement], housing benefit). The analysis will not extend to pension-related family benefits, exemptions from social security contributions for childcare and benefits in kind (education, healthcare, creches). It also excludes social security contributions (we do not factor in the family composition criterion for exemption from the CSG on replacement income).

Families benefit considerably from the welfare and tax redistribution system with 57% being net beneficiaries[13]. This means that they receive more in benefits than they pay in tax. For childless households, the figure is only 25% (see table 5). On average, large families receive more than €4,300 in net transfers per year with 85% being net beneficiaries. Conversely, although they are, on average, net contributors to the system, one and two-child families contribute much less than childless households that average around four times more contributions (see table 5).

Tableau 5 : Net beneficiaries and contributors to the welfare and tax redistribution system by number of children and household type

	Number of net beneficiary households (% of category)	Number of net contributor households (% of category)	Redistribution per household (in €/per annum)	Number of household (in millions)
Childless households	25	67	−2,080	18.8
Families	57	40	360	9.5
One or two-children families	*51*	*46*	*−530*	*7.7*
Families with three or more children	*85*	*14*	*4,370*	*1.7*
Single people	33	57	−720	10.7
Single-parent families	71	27	4,240	2
Childless non-working couples or couples with one wage earner	15	77	−3,200	5.8
Non-working couples or couples with one wage earner with child/children	69	29	2,850	2.4
Childless couples with two wage earners	10	87	−5,600	2.3
Couples with two wage earners with child/children	46	51	−2,400	5
Overall	**36**	**58**	**−1,260**	**28.2**

Source: Saphir model, based on the 2010 Survey on social transfers and taxable income (ERFS), 2014 legislation.

NB: Net beneficiaries (or contributors) to the welfare and tax redistribution system are households whose income increases (or falls) by at least €10 per month owing to welfare benefits and taxes. Education, healthcare, Early Childhood Care Establishments and the supplement for free choice of childcare were not included in the analysis.

Note for the reader: 71% of single-parent families receive more in benefits that they pay in income tax and residence tax. On the other hand, 27% pay more in tax than they receive in benefits. On average, the system redistributes €4,240 per annum to single-parent families.

A large majority (71%) of single-parent families are net beneficiaries of the system. On average, they receive over €4,200 in transfers net of taxes. Childless non-working couples or couples with one wage earner are net contributors with an average of €3,200 per annum whilst non-working couples or couples with one wage earner with children are net beneficiaries to the tune of €2,850. Whether they have children or not, couples with two wage earners are, on average, net contributors to the system. However, those with children contribute 2.3 times less (€2,400 per annum) than childless couples (€5,600 per annum).

2.3 The welfare and tax redistribution system reduces the gap in equivalised incomes between families and childless households

Overall, the system buttresses the standard of living of families. Besides horizontal redistribution, many families also benefit from vertical redistribution. It is not only family policy that dictates redistribution to families. Families whose income is lower, on average, than that of households as a whole benefit from redistribution for low-income households through other parts of the welfare and tax redistribution system geared towards vertical redistribution.

(13) Net beneficiaries (or contributors) to the welfare and tax redistribution system are households whose income increases (or falls) by at least €10 per month owing to welfare benefits and taxes.

Before redistribution, the equivalent income of one or two-children families is approximately 11% lower than that of childless households. For families with three or more children this figure is 26% (see table 6). Redistribution narrows the gap by more than a third to around 7% and 15% respectively. Benefits received by one or two-children families, as a percentage of their equivalent incomes, are 90% higher than those received by childless households. For three-children families, the benefits are four times higher. As children are taken into account when assessing taxes paid by families, the latter pay less tax than childless households. This is especially true for single-parent families, which have a higher income splitting cap for their first child or families in which only one parent works.

Table 6: Equivalent incomes compared to that of all households, before and after redistribution

	Equivalent income without redistribution	Equivalent income after redistribution
Overall	**100**	**100**
Childless households	104	103
One or two-children families	93	96
Families with three or more children	77	88
Single people	88	85
Single-parent families	56	66
Childless non-working couples or couples with one wage earner	118	109
Couples with two wage earners without children	149	134
Non-working couples or couples with one wage earner with (a) child/children	73	77
Couples with two wage earners with (a) child/children	112	108

Source: Saphir model, based on the 2010 Survey on social transfers and taxable income (ERFS), 2014 legislation.

NB: The analysis does not include benefits in kind such as education, healthcare, Early Childhood Care Establishments and the supplement for free choice of childcare.

Note for the reader: Before redistribution, the equivalised income of households with at least three children is on average 23% lower than the figure for all households as a whole. After redistribution, this figure is 12%.

Redistribution *via* the welfare and tax redistribution system therefore substantially reduces poverty levels for families from 44.3% to 24.5% for families with at least three children and from 20.9% to 13.6% for one or two-children families. For single-parent families, the rate of poverty is brought down from 54.6% to 33.4%.

3. Child-related monetary benefits differ according to income and birth order

Whilst large families, single-parent families and those with one wage earner receive the most benefit from the welfare and tax redistribution system, the impact varies significantly based on income levels and the number of children in the household. We therefore need to assess the change in a typical family's disposable income due to having children in order to accurately pinpoint redistribution through social benefits and taxes. We will be looking at families with two wage earners but the results are essentially the same for families with one wage earner and single-parent families. The assessment is based on detailed modelling of the welfare and tax redistribution system using the Directorate General of the Treasury's Pâris model[14]. For given family compositions and income levels, the model calculates all domestic welfare and tax transfers according to legislation in force in 2014[15]. Local benefits and transfers (such as special school dinner rates) are excluded. The model ultimately measures the household's disposable income after transfers and levies. The increase in disposable income due to having children is taken as being the difference between the disposable income of a household with children and that of the same household without children.

3.1 Transfers to families depend on income

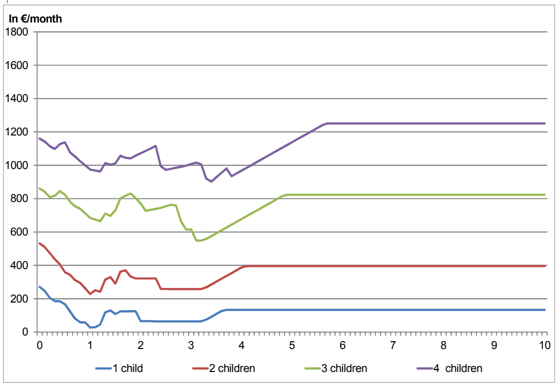
The manner in which the welfare and tax redistribution system increases families' disposable income is complicated. Up to a given level of income, overall, the gain in disposable income decreases as income rises. They then increase up to a point where they become stable for a certain equivalised income based on the number of children (see chart 1). This "U-curve" scenario is due to the fact that there are three main types of assistance for families (see chart 2):

- means-tested family benefits (family income supplement, PAJE) and some welfare benefits with family-based scales (RSA and housing benefit). Owing to means-testing, the child-related gain in disposable income decreases the higher the amount of income earned.
- taking account of children in tax scales (income tax, residence tax) only applies to households paying these taxes, that is to say from a certain level of income. Reductions in income tax due to having children, mainly through income splitting, increase up to a capped amount.
- universal family benefits (family allowances) for all families (with more than two children) regardless of their income.

(14) For an overview of the Pâris model, refer to "Living standards of minimum-wage earners", *Trésor-Economics* No. 99, March 2012.

(15) Allowances included in the early childhood benefit programme (PAJE), childcare subsidies and income tax credits for childcare costs are excluded as, for the sake of simplicity, we are considering families in which the children are aged between six and ten. To calculate housing benefit, it is assumed that the households are tenants in zone two (urban areas with more than 100,000 inhabitants, outside the Ile-de-France region, but including Corsica. At the end of 2011, 41% of housing benefit recipients lived in zone two).

Chart 1: Benefit supplement based on the number of children, for a dual-earner couple, according to the household head's income (in statutory minimum wage units)

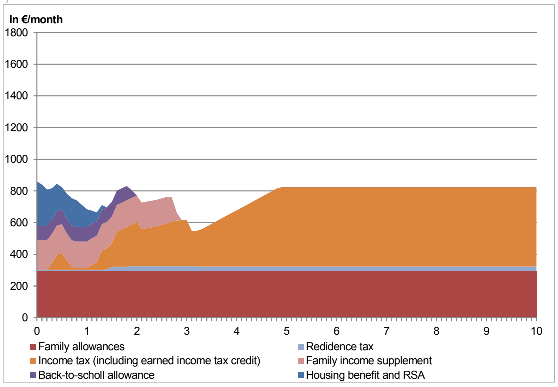


Source: Pâris model, 2014 legislation.

NB The children are aged six to ten. It is assumed that the second partner earns the minimum wage for full-time work.

Note for the reader: Compared to a childless household, a dual-earner couple with the household head earning the minimum wage have €30 more disposable monthly income when they have one child and €680 more when they have three.

Chart 2: Breakdown of the difference in disposable income between a dual-earner couple with three children and a dual-earner couple without children, according to the household head's income (in statutory minimum wage units)



Source: Pâris model, 2014 legislation.

NB The children are aged six to ten. It is assumed that the second partner earns the minimum wage for full-time work.

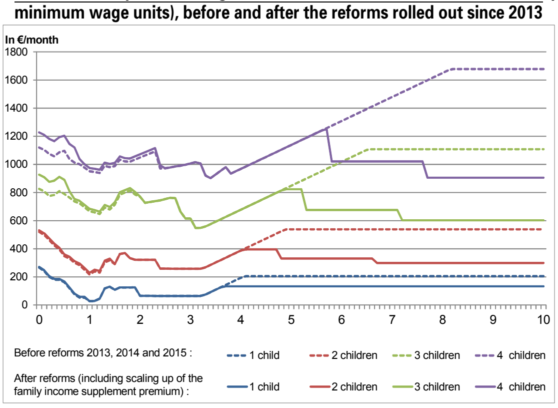
Note for the reader: In addition to what they would receive if they had no children, a dual-earner couple with three children, with the household head earning the minimum wage for full-time work, receive €91 for the back-to-school allowance, €295 in family allowances, €168 for the family income supplement, €113 in RSA and housing benefit, and €9 for the earned income tax credit. They pay €9 less in residence tax.

Overall, taking account of children in the welfare and tax redistribution system is illustrated by a flatter "U-curve". The rise in child-related income is higher for households at both ends of the distribution spectrum, and lower for households in the middle. Recent reforms (see box 2), particularly the lowering of the income splitting cap, have lessened benefits for the wealthiest households and provided support to the poorest.

Box 2: **Recent reforms have improved allocation of family benefits to the poorest families and favour vertical over horizontal redistribution**

- The income splitting cap was lowered from €2,336 to €1,500 per half unit for 2013 income tax .
- The family support allowance will be raised by 25% between 2014 and 2018.
- The family income supplement will be increased by 50% for the poorest families between 2014 and 2018.
- The amount of the PAJE basic allowance has been halved for households earning more than a certain amount, for children born as from April 2014.
- In 2014, the supplement for free choice of working time premium was abolished for households earning more than the maximum amount for the PAJE basic allowance.
- The Act on equality between men and women changes arrangements for the supplement for free choice of childcare to encourage both parents to take leave to look after their child. Entitlement to the whole period of parental leave is subject to the second parent taking part of this leave.
- The Social Security Budget Act for 2015 provides for a differentiation of family allowances based on household income and an increase from €0.75 to €1.50 per hour of the exemption from contributions for looking after children aged between six and 13 at home.

Graphique 3 : Government benefit supplement based on the number of children, for a dual-earner couple, according to the household head's income (in statutory minimum wage units), before and after the reforms rolled out since 2013



Source: Pâris model.

NB The children are aged six to ten. It is assumed that the second partner earns the minimum wage for full-time work. The dotted lines represent the levels of Government benefit supplements related to the number of children had the lowering of the income splitting cap, the revision of the back-to-school allowance in 2013 and the introduction of the family income supplement premium in 2014 not taken place. The solid lines show the position after the reforms, including the scaling up of the family income supplement premium (taken at its 2018 level). These lines also factor in the differentiation of family allowances depending on income (the smoothing mechanism is not shown and the thresholds are only used as examples) which will come into force in 2015.

3.2 As it currently stands, the French welfare and tax redistribution system attaches great importance to the third child and to very young children

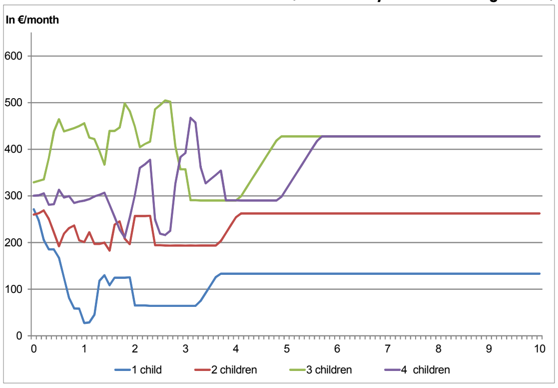
Child-related increases in disposable income are largely dependent on the number of children in the family and their birth order. The French system is more generous from the third child onwards and for young children.

Having a third child substantially raises the household's disposable income (see chart 4). Each child from the third onwards represents a full tax unit for income tax whereas the first two only count as a half unit. Similarly, family benefits, especially family allowances and the family income supplement, are higher for children of rank three or higher. In the scales for other allowances (not including family benefits), less importance is placed on the birth order. As an example, the RSA takes little account of the rank of the child who may represent 0.3 or 0.4 units[16] (except for the first child of a single-parent family who counts as 0.5 units).

Children under three also come in for special treatment. Parents of these children receive a specific means-tested allowance (PAJE basic allowance) and the PAJE birth grant.

In addition, support is available to offset the cost of childcare.

Chart 4: Marginal increase in disposable income owing to the presence of an additional child for a dual-earner couple, according to the household head's income (in statutory minimum wage units)



Source: Pâris scale, 2014 legislation.

NB The children are aged six to ten. It is assumed that the second partner earns the minimum wage for full-time work.

Note for the reader: For a dual-earner couple, with the 2nd partner earning the minimum wage for full-time work, the welfare and tax redistribution system increases disposable income by €30 per month for the first child and by €460 per month for the third.

Denis BOISNAULT, Anne FICHEN

(16) The first and second child of a couple and the second child of a single-parent family count as 0.3 units, the first child of a single-parent family as 0.5 units and subsequent children as 0.4 units.

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