

**Background paper for the 4th Meeting of Working Group 3 (Tax Policy Analysis)  
of the MENA-OECD Investment Programme  
on Tax Implications of the Global Financial Crisis, Globalization and Taxation of SMEs,  
and ‘Tax Indicators’**

***Application of the Taxing Wages Framework:  
TAXING FAMILIES 2001-2002***

Source: Special Feature in the 2002 Taxing Wages Publication, OECD.

## SPECIAL FEATURE

### Taxing Families

#### I. Introduction

Households play an important redistributive role among their members: they share resources both between earners and non-earners (children, dependent spouse, disabled and elderly living in the household), and between earners of unequal incomes. This redistribution process operates by giving all family members access to shared resources even if they don't have any income or a job of their own. From the point of view of the earners, this redistribution can be seen as a cost<sup>1</sup> that reduces their ability to pay tax.

Governments of OECD member countries recognise the household as one of the most important means to redistribute welfare and the costs that this imposes on income-earners, and in many cases they provide special fiscal treatment to taxpayers with a dependent spouse or dependent children. In particular, most governments provide households with financial support through the benefit system and/or a more favourable tax regime. There are three major ways in which policy makers take into account family status:

- By application of a tax schedule that varies according to family-status. In these cases the tax unit is the family instead of the individual: different brackets and lower statutory tax rates are available for married taxpayers or families with dependent children (*e.g.* United States). Sometimes a “family quotient” or “splitting method” is applied to taxable family income, which allows incomes to be taxed at a lower rate on a progressive marginal rate schedule (*e.g.* France and Germany). In these cases, the favourable measures related to family status can be considered as basic elements of the overall tax system.
- By providing tax credits and allowances related to marital status and the presence of dependent children. In this case, the tax system is used as a means to deliver financial support to households.
- By supplying cash transfers to families with children, or providing benefits linked to marital status. These financial transfers – which flow from the government to households – are an integral part of the benefit system.

Together, these policies imply that the effective tax rates faced by married couples and taxpayers with children are usually lower than those faced by single individuals earning the same level of family income.

This special feature focuses on the methods used by governments to provide a special fiscal treatment to families. It summarises the provisions applying in each OECD country in 2001 and reports on the effect of those provisions on both average and marginal effective tax rates. The approach chosen follows the *Taxing Wages* methodology and provides figures for the five “standard” family types containing more than one person.

## 2. Tax and benefit provisions

### 2.1. The tax unit

Table S.1 provides basic information on the definition of the tax unit in each OECD country in 2001. Most OECD countries now practice individual taxation, although sometimes with modifications in specific circumstances. However, a few countries have chosen to use the family as the basis of income taxation.

### 2.2. Standard tax reliefs

For each OECD country, Table S.2 reports standard tax reliefs related to marital status and dependent children. The reliefs are called “standard” as they are unrelated to the actual expenditures incurred by families, and are automatically available to all taxpayers that satisfy the eligibility rules specified in the legislation. These reliefs may take the form of tax allowances (which reduce taxable income) or tax credits (which reduce the tax payable). Tax credits may be wastable (where they cannot result in a net payment to the taxpayer) or non-wastable (where any excess of the credit over the tax liability is paid to the taxpayer). The effect of an allowance on tax paid depends on the marginal tax rate, while the effect of a credit does not.

#### *Marital status relief*

Most of the tax allowances and credits provided by governments are associated with the presence in the household of a spouse with no income or a low income of her/his own. In many cases, the amount of this allowance or credit depends both on the taxpayer's and the spouse's income.

#### **Example:**

In Italy, a dependent spouse tax credit is available for married taxpayers. This tax credit is provided if the spouse's income does not exceed a certain amount. The amount of the tax credit is calculated according to income brackets.

#### *Single parent family reliefs*

Quite a few OECD countries offer a favourable fiscal treatment to single parent families, taking into account the difficulties faced by single parents in raising children.

#### **Example:**

The Irish government provides a tax allowance to single parent families, and its amount is equivalent to the basic tax credit.

#### *Standard reliefs for dependent children*

Most of the OECD countries provide tax credits and/or allowances which are related to the presence of dependent children. In some cases, the relief is gradually withdrawn at higher income levels.

#### **Example:**

In April 2001, the UK government has introduced a children tax credit, designed to help families who have at least one child under 16 living with them. The Children tax credit (CTC) is a wastable credit, and it is expressed as an additional allowance given at the flat rate of 10 per cent. For higher rate taxpayers the credit is reduced at the rate of 1 GBP for every 15 GBP of income in the higher rate band.

### 2.3. Cash transfers related to family-status

As shown in Table S.3, many OECD tax-benefit systems provide cash transfers to families with dependent children, while the amount of these transfers varies greatly among countries. The cash transfers can be a fixed amount or they can be related to the family income and they may also vary with the age and number of children. Sometimes higher benefits are granted to single parents or to children with a handicap. Only Italy grants families a cash transfer related to the presence of a dependent spouse (and it does not apply in the circumstances of any of the *Taxing Wages* households).

#### Example:

In Norway cash transfers are available for each dependent child. The amount is related to the number of children but not to family income; single parents receive transfers for one more child than the actual number. For children who are 1-2 years old there is an entitlement to additional child support. Families living in the northernmost part of Norway receive extra child support for each child aged 18 or under.

## 3. The impact on effective tax rates

Table S.4 reports the differences between the average tax rates actually paid by the five types of multi-person households and the rates they would have paid if the tax unit had been the individual and none of the tax reliefs or cash transfers related to family composition had been available. Throughout this special feature, the tax rates shown correspond to the total tax wedge: personal income tax plus employee and employer social security contributions (and payroll taxes) minus cash transfers, expressed as a percentage of labour costs (which comprise gross wages plus employer social security contributions and payroll taxes). Marital status or number of children does not normally influence the amount of social security contributions and payroll taxes due, so all of the differences shown in the tables are due to personal income tax and transfers.

Table S.4 shows great variety between countries and family types. At one extreme, Mexico and Turkey give no special fiscal treatment for either marriage or children. At the other, the United Kingdom reduces the average tax rate on single parents by 35.3 percentage points and Luxembourg lowers that on single-earner couples by 22.4 percentage points. However, several patterns emerge clearly. First, the single parent household receives the largest fiscal advantages in most OECD countries (except France, Greece, Japan and Spain). This results both from the low income in the selected household (only 67 per cent of the APW wage level) and the fact that there is usually recognition of the particular financial difficulties that single parents face. Second, for couples with children, the fiscal advantages are generally highest in the case where one of the partners is economically inactive (except France). Third, couples without children obtain a reduction in taxes in only nine OECD countries: Denmark, France, Germany, Ireland, Iceland, Korea, Luxembourg, Switzerland and the United States.<sup>2</sup> Even in these countries, the fiscal benefits are substantially smaller than those provided to the other family types distinguished in this report.

These patterns suggest that it is appropriate to focus on two main family types for deeper analysis:

- Single parents earning a salary equal to 67 per cent of the APW wage level, and with two dependent children.
- Married couples with a sole earner at the APW wage level, with two dependent children.

The analysis will first consider average tax rates, which are most relevant for analysing the distributional effects of the fiscal advantages. It will then turn to incentive issues, by considering the effects on marginal tax rates.

### 3.1. Average tax rates

Table S.5 shows actual average tax rates paid by a single parent (and her/his employer) with two children, earning 67 per cent of the APW wage level. In addition, the table shows the increase in average

rates that would result from removing all special tax treatment (family taxation and tax reliefs) and transfers. Actual average tax rates are negative in four countries (Australia, Iceland, Ireland and the United Kingdom) and range from -11.8 per cent in Australia to 42.6 per cent in Turkey. The total increase in average tax rates that would result from removing all special fiscal treatment (taxes and transfers) ranges from zero (Greece, Mexico and Turkey) to 35.3 percentage points (United Kingdom).

As well as showing a wide range of fiscal support for single parent families, countries show considerable diversity in the way this support is delivered. A small number of countries, notably Germany, Hungary, Netherlands, the United Kingdom and the United States provide high standard tax reliefs linked with the presence of dependent children. Of these, Germany and the United States have a family tax unit, and the change of the tax unit does not lead to any change in their average tax rates. On the other hand, the tax unit issue plays an important part in determining average tax rates in countries like Switzerland, Spain and Norway. In Norway, the entire 3.9 percentage points tax change depends on the tax unit choice. In Switzerland 5 percentage points of the total 5.3 point tax change is related to the fact that single parents face different brackets and lower statutory tax rates than do single individuals without children. In Spain, about 1.5 of the 5.1 percentage points change is associated with the tax unit choice. About one third of the OECD countries provide no tax reductions (family taxation, tax credits or allowances) to the example single parent household.

Focusing now on cash transfers related to the presence of children, Australia, Austria, the Czech Republic, Iceland and Denmark grant transfers which reduce the average tax rate by more than 20 per cent. Eight countries (Germany, Greece, Japan, Korea, Mexico, Spain, Turkey and the United States) provide no transfers to single parents. In most countries (apart from the United Kingdom and those without transfers), the effect of the transfers is larger than that of the special tax treatment.

Table S.6 shows the changes in average tax rates for single-earner couples (at the APW wage level) with two children, if all existing tax and benefit provisions for families were removed. A large number of countries provide tax reductions linked to this combination of marital status and presence of dependent children. These reliefs reduce average tax rates up to 15.4 percentage points (Germany).

The structure of the tax system is important in determining the average tax rates in almost all countries having a family tax unit. In France, 4.2 points of the total rate reduction of 4.6 points is due to the "quotient familial". Similarly, in Switzerland 5.4 of the 5.9 percentage points rate reduction is associated with the tax unit choice.

Focusing now on cash transfers related to the presence of children, only one quarter of the OECD countries provide no benefits to families with children. Austria, the Czech Republic, Iceland and Luxembourg grant transfers that reduce the average tax rates by 10-14 percentage points. For the remaining countries providing benefits, the average tax rates are reduced by 2.8 points (New Zealand) to 9.1 points (Australia and Slovak Republic).

Observing the total change in average tax rates associated with the removal of all tax and benefit provisions related to family composition, once again the large differences among OECD countries are striking. Mexican and Turkish tax systems exhibit no changes in the average tax rates at all. Countries like Greece, Korea and New Zealand provide benefits reducing average rates by less than 3 percentage points. On the other hand, countries like Austria, Germany, Hungary, Iceland and Luxembourg acknowledge the marital status of taxpayers and the presence of children by providing them with a range of fiscal benefits leading to an overall reduction of average tax rates by 15-25 percentage points.

### 3.2. Marginal tax rates

Table S.7 reports actual marginal effective tax rates faced by single parents at 67 per cent of the APW wage level, and the change that would occur if all special fiscal provisions (family taxation, tax allowances, tax credits and transfers) were removed. In just over half of the OECD countries, there would be no change in the marginal tax rate. However, the remaining countries show great diversity, the change in marginal rates ranging from -38.5 percentage points (Australia) to 20.9 points (Hungary). Marginal rates tend to be high in cases where fiscal preferences (normally tax credits or transfers) are

targeted on low-income families, and are withdrawn as income rises. This can produce very high marginal effective tax rates, such as 72.7 per cent in the United Kingdom and 61.1 per cent in the Czech Republic. The removal of these fiscal preferences, therefore, substantially reduces the marginal tax rate faced by the families concerned but, of course, one direct consequence of this would be a lower reward to labour market participation for those affected. On the other hand, the removal of family taxation or the removal of tax allowances under a progressive marginal rate tax structure is likely to increase the marginal rate, as in the cases of Luxembourg and Spain. However, the increase in the marginal rate for Hungary is for a different reason: the removal of the (wastable) child tax credit moves the single parent from having a zero to a positive personal income tax liability, and so from a zero to a positive marginal income tax rate.

Table S.8 reports actual marginal rates for the single-earner couple with two children at the APW wage level, and the effect on those rates of removing all special fiscal provisions for families. The marginal tax rate for the principal earner follows the standard definition of additional tax paid on a unit increase in gross wages. In contrast, the marginal tax rate for the inactive spouse is defined as the proportion of the labour cost associated with moving into work paid at 33 per cent of the APW wage level that is paid in tax. This approach is consistent with the treatment of inactive spouses throughout *Taxing Wages*.

Table S.8 shows that just over half of the OECD countries show no change in the marginal tax rate for the principal earner, but less than a third show no change in the marginal tax rate for the spouse. This difference arises because many countries target their tax reliefs for marriage on those couples where the lower-earner earns little or nothing. That aside, the pattern of marginal tax rate changes is fairly similar to the pattern shown in Table S.7. The significant drop in marginal rates for the principal earner reflects situations where the tax credits or cash transfers are targeted on families with low total income, and are withdrawn as income rises. The reason why the reduction in the spouse's marginal rate is typically smaller in these cases is that their move into work will have lifted the family out of the income range where the tax credits and/or transfers are withdrawn.

The countries with family taxation, such as France, Germany and Luxembourg show substantial increases in marginal rates for the principal earner after removing current fiscal provisions for families, because they lose the advantage inherent in splitting their income with their non-employed spouse, which currently moves them into a lower tax bracket. However, the advantage for the spouse is smaller.

#### 4. Conclusions

This special feature illustrates the enormous diversity in the fiscal advantages families in OECD countries enjoy. This diversity partly reflects different views as to the extent to which the state should support different types of families. In addition, there is a wide choice of instruments to provide financial support to families. Some countries prefer the family to the individual as the tax unit, other countries have opted to use tax allowances and credits, while still others favour cash transfers. Many countries use a combination of these various instruments. Finally, countries vary widely in their targeting of financial support to families, which has significant consequences for marginal effective tax rates on labour.

### NOTES

1. Of course, families can also be expected to produce benefits for the earners.
2. In Belgium and Portugal, such couples actually pay slightly more tax than if they were single, because the amount of the basic tax credit is less for married people than for singles.

Table S.1. Tax unit, 2001

|                 | Tax unit 2001  |
|-----------------|--|
| Australia       | <b>Individual</b>  |
| Austria         | <b>Individual</b>  |
| Belgium         | <b>Family.</b> However, couples who both receive earned income are taxed separately on that income. If one spouse has no earned income, the couple can benefit from a "quotient conjugal" system: a fraction of taxpayer earned income can be attributed to the other spouse, and the two incomes are taxed separately according to the tax schedule.  |
| Canada          | <b>Individual</b>  |
| Czech Republic  | <b>Individual</b>  |
| Denmark         | <b>Individual</b>  |
| Finland         | <b>Individual</b>  |
| France          | <b>Family.</b> The "quotient familial" takes into account the marital status of taxpayer and the dependent children. The system divides the income by the number of parts (1 for the husband, 1 for the wife, ½ for each child and other dependent persons, 1 for the 3rd child, a supplementary ½ for handicapped household members). The total amount of tax due is equal to the amount of tax for one part multiplied by the total number of parts. |
| Germany         | <b>Family.</b> Income tax is computed by the income splitting method. Spouses have however the option of being separately assessed. The income of dependent children is not assessable with that of the parents.   |
| Greece          | <b>Individual</b>  |
| Hungary         | <b>Individual</b>  |
| Iceland         | <b>Individual,</b> except for unearned income of married couples, which is taxed jointly.  |
| Ireland         | <b>Family.</b> An option allows either spouse to opt for assessment as a single person, in which case they are treated as separate units.  |
| Italy           | <b>Individual</b>  |
| Japan           | <b>Individual</b>  |
| Korea           | <b>Individual</b> in most cases, but in the case of a married couple receiving rental income from real estate property or interest and dividend income (in excess of a threshold amount), the income of both spouses is combined to determine their taxable income.  |
| Luxembourg      | <b>Family.</b> Non-salary income of children under 18 is combined with that of parents in the calculation of taxable income.   |
| Mexico          | <b>Individual</b>  |
| Netherlands     | <b>Individual</b>  |
| New Zealand     | <b>Individual</b>  |
| Norway          | <b>Individual</b> in most cases (tax class 1), but in some cases, when spouse has no income or low income, optional taxation as a couple is more favourable (tax class 2). Single parents will be taxed under the class 2 schedule. Children less than 17 are generally taxed with their parents, but may be taxed individually. All other income earners are taxed individually (tax class 1).  |
| Poland          | <b>Individual,</b> but couples married during the whole calendar year can opt to be taxed on their joint income. In the latter case, the "splitting" system applies: the tax bill for the couple is twice the income tax due on half of joint income, provided the joint income does not include capital income.   |
| Portugal        | <b>Family.</b> The total taxable income is calculated using the "splitting system".  |
| Slovak Republic | <b>Individual</b>  |
| Spain           | <b>Choice.</b> Individual as a general rule, but families have the option of being taxed:<br>As married couples filing jointly on the combined income of both spouses and dependents.<br>As heads of households (only unmarried or separated individuals with dependents).   |
| Sweden          | <b>Individual.</b> Spouses are taxed separately.   |
| Switzerland     | <b>Family:</b> the incomes of married couples are combined together. Spouses living together and widowed, separated and unmarried taxpayers living with their own children face a more favourable tax schedule than persons living alone. The earned income of children is taxed separately.   |
| Turkey          | <b>Individual.</b> Spouses are taxed separately on earned income.  |
| United Kingdom  | <b>Individual,</b> but certain reliefs depend on family circumstances.   |
| United States   | <b>Choice.</b> Families are generally taxed in one of three ways:<br>As married couples filing jointly on the combined income of both spouses.<br>As married individuals filing separately and reporting actual income of each spouse.<br>As heads of household (only unmarried or separated individuals with dependants).<br>All others, including dependent children with sufficient income, file as single individuals.                             |

Table S.2. Standard tax reliefs related to marital status and dependent children, 2001

|                | Marital status  | Dependent children  |
|----------------|---|---|
| Australia      | <p>A standard tax credit is available when a taxpayer contributes to the maintenance of a dependent spouse (legal or de facto). The amount for a dependent spouse without children is fixed, and it is reduced at a certain rate when the spouse's separate net income exceeds a specific amount. The rebate for a dependent spouse with a dependent child has been replaced by the Family Tax Benefit Part B (FTB(B)).</p> <p>To contribute towards the cost of basic medical and hospital care, a medical levy is imposed on the taxable incomes of resident payers. Certain thresholds are applied before the levy is imposed: the thresholds vary according to the family status of the taxpayer.</p> | <p>From 1 July 2000 the "new family benefit" (FTB) has replaced several forms of tax relief and cash transfers. The FTB can be claimed either through the taxation system or as a cash transfer: in this report it is treated as a cash transfer.</p> <p>From 1 July 2001 a non-wastable tax credit, called "baby bonus", was introduced. This tax relief cannot be considered in the calculations, as <i>Taxing Wages</i> considers only children between 5 and 12 years old.</p>  |
| Austria        | Sole earner's (if married) and sole parent's tax credit: the sole earner's credit is not given when a spouse's income exceeds a certain amount, and is different if there are dependent children.   | Children's tax credit for each child.   |
| Belgium        | The amount of basic credit depends on the marital status of the taxpayer.<br>Deduction related to particular family status, as for example dependent persons other than children, spouse without income or with handicap, single parents.   | Deduction related to the number of dependent children: the amount is doubled for children with a handicap.  |
| Canada         | A taxpayer supporting a dependent spouse or partner receives a tax credit, reduced by 16 per cent of the dependant's income above a threshold. The same amount is available to heads of single-parent families with respect to eligible dependants.   | A credit is provided for eligible dependants, including children under age 18. The amount is reduced by 16 per cent of the dependant's net income above a threshold. The non-wastable Goods and Services Tax credit provides an additional amount for each qualified dependent under age 19. Single parents can claim a higher adult credit amount for one dependent child in lieu of a spouse. The total credit is reduced when family net income exceeds a threshold. ( <i>Note: this latter credit is not included in the APW calculation.</i> ) |
| Czech Republic | Marital status relief: an allowance is given in respect of a spouse living in a common household if the spouse income is less than a certain amount.  | <p>One spouse may claim an allowance for each dependent child who is:</p> <ol style="list-style-type: none"> <li>1. aged below 18;</li> <li>2. or aged below 26 and receiving full-time education;</li> <li>3. aged below 26 and physically or mentally disabled, provided that the child is not in receipt of a state disability payment.</li> </ol> <p>The allowances are given irrespective of the child's own income.</p>   |
| Denmark        | Each person is granted a personal allowance, which is converted to a wastable tax credit by applying the marginal tax rate of the first bracket of the income tax schedule. If a married person cannot utilise the personal allowance, the unutilised part is transferred to the spouse.  | None  |
| Finland        | None  | None  |
| France         | The "prime pour l'emploi", is a tax credit for low-wage employees: the basic threshold to obtain the "prime pour l'emploi" changes according to the family status. Also, the "prime pour l'emploi" has a supplement for an inactive spouse and a single parent.   | The system of "quotient familial" provides tax relief to taxpayers with children.<br>If the taxpayer has dependent children, the amount of "prime pour l'emploi" increases.   |
| Germany        | An allowance is provided for single parents.  | A tax credit is provided for children: its amount depends on the number of children.  |
| Greece         | None  | Tax credit: its amount depends on the number of children.   |

Table S.2. Standard tax reliefs related to marital status and dependent children, 2001 (cont.)

|             | Marital status  | Dependent children  |
|-------------|---|---|
| Hungary     | None  | Tax can be reduced by the family allowance, which is different for the 1st or 2nd child, and in the case of three and more dependent children.  |
| Iceland     | Married couples may utilise up to 85 per cent of each spouse's unutilised portion of his/her basic tax credit (a fixed tax credit is granted to all individuals 16 years and older, regardless of their marital status. Unutilised tax credits or portions thereof are wastable).   | None  |
| Ireland     | Married taxpayers are allowed an additional tax credit equal to the basic tax credit.<br>An allowance is provided to single parent families, and its amount is equivalent to that of the basic tax credit.  | Exemptions from income tax are available to individuals with small income. The exemption limit is increased by a fixed amount per child for the first two qualifying children and by a higher amount for the third and subsequent children.   |
| Italy       | Dependent spouse tax credit: provided if the spouse's income does not exceed a certain amount. The amount of tax credit is calculated according to income brackets.   | Children tax credit: the amount is related to the number of children.   |
| Japan       | Allowance for spouse. A further special allowance is provided according to the income of the spouse, provided certain requirements are met.   | An allowance is given for each child. The amount of the allowance depends on the age of the child.  |
| Korea       | A taxpayer can deduct a certain amount from his/her income if his/her spouse's taxable income is below a specific threshold amount.<br>A special allowance for single income earners with a dependent (spouse, child).  | A taxpayer can deduct a certain amount per person from his/her income if his/her children aged 20 or under have a taxable income below a specific threshold. An additional allowance is provided when the dependants fall into certain categories (e.g. child under 6 years of age of a single parent).   |
| Luxembourg  | An extra deduction is designed for a spouse who receives a positive wage.   | A tax credit is available for each dependent child. The amount is fixed.  |
| Mexico      | None  | None  |
| Netherlands | All taxpayers are entitled to (at least) a general tax credit. The tax credits are wastable. If, however, a spouse/partner with insufficient income to fully exploit his/her tax credit has a partner with a surplus of tax & premiums payable over his/her own tax credit, the tax credit of the first mentioned taxpayer is increased by (at most) the surplus of tax & premiums payable of his/ her fiscal partner. As a consequence, the tax credit of the first mentioned taxpayer will exceed his/her tax & premiums payable, resulting in a pay out of the residual tax credit to the taxpayer by the tax authority;<br>A single parent is under certain conditions entitled to the single parent credit;<br>A single parent who is entitled to the single parent credit receives an additional credit of 4.3 per cent of his or her income from work, with a maximum. | A single parent or the highest earner of a couple receives a child credit if the taxpayer supports a child below 16 years of age if his or her income does not exceed a certain amount.<br>If a person receives the ordinary child credit and the joint income does not exceed a certain amount, he or she is also entitled to the additional child credit.<br>A taxpayer with a child below the age of 12 years is entitled to a combination credit if the individual income from work exceeds a specific threshold. |
| New Zealand | None  | None  |
| Norway      | None  | None  |
| Poland      | None  | None  |
| Portugal    | The basic tax credit provided to taxpayers depends on the family status. The tax unit is the family and the tax evaluation is based on the splitting method.  | A tax credit is available for each dependent child. If there is a child with handicap, this tax credit is increased by 50 per cent .  |

Table S.2. **Standard tax reliefs related to marital status and dependent children, 2001** (cont.)

|                 | Marital status   | Dependent children  |
|-----------------|--|---|
| Slovak Republic | An allowance is given in respect of a spouse living in a common household if that spouse earns no more than a certain income.  | One spouse may claim an allowance per child for children of the household who satisfy one of the following criteria:<br>1. aged below 18;<br>2. aged below 26 and receiving full-time education;<br>3. aged below 26 and physically or mentally disabled provided that the child is not in receipt of a state disability payment.<br>The allowances are given irrespective of the child's own income.   |
| Spain           | An allowance is provided to married taxpayers (twice the basic allowance) if one spouse has no income. An allowance is provided to single parent families (approximately 1.64 times the basic allowance).  | An allowance per child is provided for the first two dependent children under 25 years. This allowance is increased for subsequent children (3rd and 4th). A supplementary allowance is provided for each child between 3 and 16 years of age to cover part of the costs of education.  |
| Sweden          | None   | None  |
| Switzerland     | An allowance is provided if taxpayer's partner receives a positive salary.   | An allowance is provided for each child below 18, or for older dependent children receiving full-time education.  |
| Turkey          | None   | None  |
| United Kingdom  | None   | The Children's Tax Credit is a wastable tax credit for families who have at least one child under 16 living with them. If an adult in the family is a higher rate taxpayer, the credit is reduced at the rate of GBP 1 for every GBP 15 of the highest earner's income in the higher rate band.<br>Working Families' Tax Credit (WFTC): A non-wastable tax credit available to low and middle income families where one earner works at least 16 hours a week and who have at least one child under 16 (or 19 if still in full time non advanced education). The amount depends upon the hours worked, the number and ages of children. This credit is reduced by 55 pence for each GBP 1 of net income above a weekly threshold. |
| United States   | Married couples generally benefit from a more favorable schedule of tax rates for joint returns of spouses. There are no other general tax reliefs for marriage. A personal exemption is given to every taxpayer, including both the husband and the wife when filing a joint return and the exemption depends on the family status. | For each child and other person claimed as a dependent on a taxpayer return, the taxpayer is entitled to a dependency exemption. Low income workers with dependent children are allowed a non-wastable earned income credit, which is phased down when income exceeds a certain amount. Taxpayers are permitted a tax credit for each qualifying child under the age of 17. The maximum credit is reduced for taxpayers with income in excess of certain threshold amounts.   |

Note: Not all reliefs for children are included in the tax equations because of the age of the children to which they apply. Also, no additional reliefs for disabled people are included in the tax equations.

Table S.3. Standard cash transfers related to dependent children, 2001

|                |   |
|----------------|---|
| Australia      | <p>FTB has 2 parts: families may be entitled to one or both parts depending on their family circumstances. Part A: eligibility is based upon the combined taxable income of the parents. There is an income ceiling, over which the transfer is reduced by 30 per cent, and the amount increases with the number of children. Part B: targeted at single income families, eligibility contingent upon the spouse meeting a separate income test and the existence of at least 1 dependent child under the age of 16 (or under the age of 18 if a full time student). FTB(B) is payable at a higher rate where the family has a child aged under 5. There is no income ceiling, but there is a spouse income threshold above which the amount is reduced by 30 per cent.</p> <p>Parenting Payment (at single and partnered rates) is a taxable payment available for low income sole parent and couple families with a qualifying child aged under 16. The payments are subject to income and asset tests. Pharmaceutical Allowance is a standard non-taxable supplement to Parenting Payment (single).</p> <p>Parents with entitlements to these payments receive the maximum amount of FTB(A).</p> |
| Austria        | A family allowance is granted for each child: the monthly payment depends on the number of children. This allowance is increased for children above 10 years of age and for students.   |
| Belgium        | The annual amount of cash transfer for children depends on the number of children (up to the 3rd child) and on the age of children.   |
| Canada         | The Canada Child Tax Benefit (CCTB) provides a benefit for each child under age 18, with additional amounts for a third and subsequent child. An additional amount is provided for each child under 7 where no child care expenses are deducted. The CCTB consists of a base benefit for low- and middle-income families and a supplement (called the National Child Benefit supplement) for low-income families. Benefits are reduced when family income exceeds a threshold.  |
| Czech Republic | A cash transfer is provided for each dependent child, if the family income does not exceed three times the relevant minimum living standard (MLS). An additional allowance is paid to low income families. A family is also entitled to a social allowance if there is at least one child in the family and the net monthly income of the family is below 1.6 MLS.  |
| Denmark        | Cash transfers for dependent children, independent of the parents' income. The amount of the transfer is related to the age of children.<br>Special amounts for single parents and a state transfer per year for each dependent child in case an "absent parent" does not contribute to the family.   |
| Finland        | The government provides an allowance for dependent children. The amount depends on the number of children. The child subsidy is increased for single parents.   |
| France         | Cash transfers for dependent children: the amount depends on the number of children. There is also an allowance for young children under 3 years old.   |
| Germany        | None  |
| Greece         | None  |
| Hungary        | The amount of cash transfers for dependent children varies according to the number of children, and it is increased for single earner families, and for disabled children.  |
| Iceland        | Allowances are provided for dependent children: the amount is related to the number of children and to the family status (a higher amount is provided to single parent families). The allowances are available to married couples and to single parents with income below certain thresholds.   |
| Ireland        | Cash transfers are available for children under the age of 16 (or under 19 years, if the child is undergoing full-time education or is incapacitated). These payments do not depend on any insurance or on the means of the claimant.<br>Transfers for low income families: payable where either the principal earner and/or the spouse are in full-time employment. The level of this cash transfer is dependent on the amount of family income and the number of children, and there is a fixed ceiling.  |
| Italy          | The cash transfers for dependent children take into account both family income and the number of dependent persons: transfers are reduced when family income increases.   |
| Japan          | Cash transfers are provided for children less than 3 years old: the amount is related to the number of children.  |
| Korea          | None  |
| Luxembourg     | Cash transfers are provided for dependent children: the amount of these transfers is related to the number of children.   |
| Mexico         | None  |
| Netherlands    | Families with children receive a tax exempt benefit, depending on the number and age of the children.   |
| New Zealand    | The "Parent Tax Credit" provides a cash transfer per week for the first eight weeks of each child's life. The "Family Support Tax Credit" is available for each dependant, while the "Child Tax Credit" is an additional transfer per dependant, available to families not receiving any of the main social welfare benefits. The total of these three credits is abated against the combined income of the parents.  |

Table S.3. **Standard cash transfers related to dependent children, 2001** (*cont.*)

|                 |  |
|-----------------|--|
| Norway          | Cash transfers are available for each dependent child. The amount is related to the number of children. For children who are 1-2 years old there is additional child support. Families living in the northernmost part of Norway receive extra child support for each child aged 18 or under.  |
| Poland          | A non-taxable family benefit per child is paid to employees whose annual income per each household member, in a calendar year preceding a period of collecting benefit, did not exceed 50 per cent of the national average wage for the same calendar year.  |
| Portugal        | A cash transfer is provided for each dependent child. The amount of this transfer is related to the family income, to the age of children (first 12 months of life, and subsequent age) and to the number of children. A special cash transfer is available for children with handicap.  |
| Slovak Republic | The government pays an allowance in respect of each dependent child based on the family income level and provided that family income does not exceed two times the relevant minimum living standard. The amount of this transfer is related to the age of children.<br>An additional allowance is paid to low income families. The transferred amount varies according to the types of allowance and the income of family. |
| Spain           | A cash transfer is provided for each dependent child, to taxpayers with annual gross earnings below a fixed amount. This transfer is not taken into account in the tax equations because the APW gross wage earnings level (and even 67 per cent of the APW wage level) is always higher than the threshold.   |
| Sweden          | A cash transfer is available for each dependent child. The amount depends on the number of children.   |
| Switzerland     | None   |
| Turkey          | None   |
| United Kingdom  | Child benefit is paid in respect of each child in the family up to the age of 16 (or 19 if still in full-time non-advanced education). The amount of this benefit is related to the number of children. For eligible one parent families there is a higher rate of child benefit in respect of the first child. None of these payments is subject to tax.  |
| United States   | None   |

*Note:* Not all cash transfers for children are included in the tax equations because of the age of the children to which they apply. Also, no additional cash transfers for disabled people are included in the tax equations.

Table S.4. **Fiscal treatment of families, 2001**

|                 | Increase in average tax rate if fiscal provisions for families were removed (% of labour costs) |  |   |   |  |
|-----------------|---|--|---|---|--|
|                 | Single parent<br>earning 67 per cent<br>of APW  | Couple with children<br>earning 100 and<br>0 per cent of APW | Couple with children<br>earning 100 and<br>33 per cent of APW | Couple with children<br>earning 100 and<br>67 per cent of APW | Couple without children<br>earning 100 and<br>33 per cent of APW |
| Australia       | 31.0  | 9.1  | 3.5   | 2.8   | 0.0  |
| Austria         | 24.4  | 15.5   | 10.8  | 8.6   | 0.0  |
| Belgium         | 16.1  | 12.2   | 6.6   | 5.2   | -0.5   |
| Canada          | 22.5  | 10.0   | 3.5   | 1.9   | 0.0  |
| Czech Republic  | 24.4  | 14.9   | 6.8   | 3.5   | 0.0  |
| Denmark         | 25.6  | 8.5  | 6.3   | 4.0   | 1.4  |
| Finland         | 14.3  | 7.1  | 5.3   | 4.3   | 0.0  |
| France          | 7.5   | 8.9  | 10.0  | 9.1   | 4.6  |
| Germany         | 16.3  | 15.4   | 13.4  | 12.9  | 6.8  |
| Greece          | 0.0   | 1.2  | 1.0   | 0.8   | 0.0  |
| Hungary         | 26.2  | 16.3   | 12.2  | 9.8   | 0.0  |
| Iceland         | 26.8  | 24.2   | 8.7   | 4.3   | 1.5  |
| Ireland         | 18.9  | 13.0   | 11.6  | 13.3  | 7.9  |
| Italy           | 16.5  | 10.7   | 3.0   | 2.0   | 0.0  |
| Japan           | 2.8   | 3.9  | 1.5   | 1.2   | 0.0  |
| Korea           | 0.4   | 0.7  | 0.5   | 0.2   | 0.1  |
| Luxembourg      | 23.7  | 22.4   | 22.0  | 22.1  | 9.8  |
| Mexico          | 0.0   | 0.0  | 0.0   | 0.0   | 0.0  |
| Netherlands     | 18.1  | 9.8  | 4.2   | 3.4   | 0.0  |
| New Zealand     | 18.5  | 2.8  | 0.0   | 0.0   | 0.0  |
| Norway          | 20.6  | 10.0   | 5.6   | 4.5   | 0.0  |
| Poland          | 4.9   | 3.3  | 2.4   | 2.0   | 0.0  |
| Portugal        | 10.4  | 6.3  | 4.9   | 5.0   | -0.2   |
| Slovak Republic | 15.7  | 11.2   | 5.6   | 4.5   | 0.0  |
| Spain           | 5.1   | 6.8  | 1.2   | 1.7   | 0.0  |
| Sweden          | 11.1  | 7.4  | 5.6   | 4.5   | 0.0  |
| Switzerland     | 14.6  | 11.6   | 9.9   | 9.2   | 3.0  |
| Turkey          | 0.0   | 0.0  | 0.0   | 0.0   | 0.0  |
| United Kingdom  | 35.3  | 11.3   | 6.9   | 5.4   | 0.0  |
| United States   | 22.4  | 9.8  | 8.1   | 8.8   | 2.9  |

Note: The tax rates correspond to the "total tax wedge": income taxes plus employee and employer social security contributions (and payroll taxes) minus cash transfers, expressed as a percentage of labour costs (gross wage earnings plus employer social security contributions).

Table S.5. Average tax rates single parent (at 67% of APW wage level) with two children, 2001 (%)

|                 | Actual rate | Removal of special tax treatment | Removal of transfers | Total increase |
|-----------------|-------------|----------------------------------|----------------------|----------------|
| Australia       | -11.8       | 0.8                              | 30.2                 | 31.0           |
| Austria         | 15.3        | 2.9                              | 21.5                 | 24.4           |
| Belgium         | 33.1        | 5.1                              | 11.0                 | 16.1           |
| Canada          | 3.9         | 5.6                              | 16.9                 | 22.5           |
| Czech Republic  | 17.2        | 4.0                              | 20.4                 | 24.4           |
| Denmark         | 14.9        | 0.0                              | 25.6                 | 25.6           |
| Finland         | 26.7        | 0.0                              | 14.3                 | 14.3           |
| France          | 30.8        | 0.5                              | 7.0                  | 7.5            |
| Germany         | 29.2        | 16.3                             | 0.0                  | 16.3           |
| Greece          | 34.3        | 0.0                              | 0.0                  | 0.0            |
| Hungary         | 19.5        | 11.0                             | 15.2                 | 26.2           |
| Iceland         | -7.9        | 0.0                              | 26.8                 | 26.8           |
| Ireland         | -1.9        | 2.9                              | 16.3                 | 19.2           |
| Italy           | 26.3        | 4.6                              | 11.9                 | 16.5           |
| Japan           | 20.4        | 2.8                              | 0.0                  | 2.8            |
| Korea           | 14.7        | 0.4                              | 0.0                  | 0.4            |
| Luxembourg      | 5.1         | 4.4                              | 19.3                 | 23.7           |
| Mexico          | 9.2         | 0.0                              | 0.0                  | 0.0            |
| Netherlands     | 18.7        | 11.0                             | 7.1                  | 18.1           |
| New Zealand     | 0.2         | 0.0                              | 18.5                 | 18.5           |
| Norway          | 13.2        | 3.9                              | 16.7                 | 20.6           |
| Poland          | 36.5        | 0.0                              | 4.9                  | 4.9            |
| Portugal        | 19.1        | 1.4                              | 9.0                  | 10.4           |
| Slovak Republic | 25.3        | 2.0                              | 13.7                 | 15.7           |
| Spain           | 28.3        | 5.1                              | 0.0                  | 5.1            |
| Sweden          | 35.7        | 0.0                              | 11.1                 | 11.1           |
| Switzerland     | 12.4        | 5.3                              | 9.2                  | 14.6           |
| Turkey          | 42.6        | 0.0                              | 0.0                  | 0.0            |
| United Kingdom  | -10.8       | 24.6                             | 10.7                 | 35.3           |
| United States   | 5.0         | 22.4                             | 0.0                  | 22.4           |

Note: The tax rates correspond to the "total tax wedge": income taxes plus employee and employer social security contributions (and payroll taxes) minus cash transfers, expressed as a percentage of labour costs (gross wage earnings plus employer social security contributions).

Table S.6. Average tax rates single-earner couple (at APW wage level) with two children, 2001 (%)

|                 | Actual rate | Removal of special tax treatment | Removal of transfers | Total increase |
|-----------------|-------------|----------------------------------|----------------------|----------------|
| Australia       | 14.2        | 0.0                              | 9.1                  | 9.1            |
| Austria         | 29.0        | 1.2                              | 14.3                 | 15.5           |
| Belgium         | 40.3        | 4.9                              | 7.2                  | 12.2           |
| Canada          | 20.4        | 3.7                              | 6.3                  | 10.0           |
| Czech Republic  | 28.2        | 3.3                              | 11.6                 | 14.9           |
| Denmark         | 30.7        | 1.8                              | 6.6                  | 8.5            |
| Finland         | 38.8        | 0.0                              | 7.1                  | 7.1            |
| France          | 39.4        | 4.6                              | 4.3                  | 8.9            |
| Germany         | 32.7        | 15.4                             | 0.0                  | 15.4           |
| Greece          | 35.9        | 1.2                              | 0.0                  | 1.2            |
| Hungary         | 32.8        | 7.5                              | 8.8                  | 16.3           |
| Iceland         | 1.4         | 12.2                             | 12.0                 | 24.2           |
| Ireland         | 12.8        | 8.1                              | 4.9                  | 13.0           |
| Italy           | 35.4        | 3.9                              | 6.8                  | 10.7           |
| Japan           | 20.4        | 3.9                              | 0.0                  | 3.9            |
| Korea           | 15.9        | 0.7                              | 0.0                  | 0.7            |
| Luxembourg      | 11.5        | 9.5                              | 12.9                 | 22.4           |
| Mexico          | 14.4        | 0.0                              | 0.0                  | 0.0            |
| Netherlands     | 33.0        | 5.1                              | 4.7                  | 9.8            |
| New Zealand     | 16.7        | 0.0                              | 2.8                  | 2.8            |
| Norway          | 26.9        | 2.6                              | 7.4                  | 10.0           |
| Poland          | 37.8        | 0.0                              | 3.3                  | 3.3            |
| Portugal        | 24.1        | 2.3                              | 4.0                  | 6.3            |
| Slovak Republic | 30.9        | 2.1                              | 9.1                  | 11.2           |
| Spain           | 31.1        | 6.8                              | 0.0                  | 6.8            |
| Sweden          | 41.1        | 0.0                              | 7.4                  | 7.4            |
| Switzerland     | 17.9        | 5.9                              | 5.7                  | 11.6           |
| Turkey          | 43.6        | 0.0                              | 0.0                  | 0.0            |
| United Kingdom  | 18.2        | 4.8                              | 6.5                  | 11.3           |
| United States   | 18.3        | 9.8                              | 0.0                  | 9.8            |

Note: The tax rates correspond to the "total tax wedge": income taxes plus employee and employer social security contributions (and payroll taxes) minus cash transfers, expressed as a percentage of labour costs (gross wage earnings plus employer social security contributions).

Table S.7. Marginal tax rates, single parent (at 67% of APW wage level) with two children, 2001 (%)

|                 | Actual rate | Change after removing special fiscal provisions |
|-----------------|-------------|---|
| Australia       | 70.0        | -38.5   |
| Austria         | 62.6        | -11.4   |
| Belgium         | 65.6        | 0.0   |
| Canada          | 54.7        | -20.9   |
| Czech Republic  | 61.1        | -16.2   |
| Denmark         | 49.8        | 0.0   |
| Finland         | 52.9        | 0.0   |
| France          | 62.6        | 0.0   |
| Germany         | 56.1        | 2.6   |
| Greece          | 34.3        | 0.0   |
| Hungary         | 34.7        | 20.9  |
| Iceland         | 46.7        | -7.9  |
| Ireland         | 64.6        | -34.7   |
| Italy           | 49.1        | 0.0   |
| Japan           | 25.2        | 0.0   |
| Korea           | 17.4        | 0.0   |
| Luxembourg      | 24.4        | 15.7  |
| Mexico          | 15.4        | 0.0   |
| Netherlands     | 49.8        | 3.7   |
| New Zealand     | 39.0        | -18.0   |
| Norway          | 43.1        | 0.0   |
| Poland          | 45.3        | 0.0   |
| Portugal        | 28.1        | 9.7   |
| Slovak Republic | 44.4        | 0.0   |
| Spain           | 28.3        | 20.5  |
| Sweden          | 52.7        | 0.0   |
| Switzerland     | 28.2        | 3.8   |
| Turkey          | 45.6        | 0.0   |
| United Kingdom  | 72.7        | -33.4   |
| United States   | 49.4        | -14.9   |

Note: The tax rates correspond to the "total tax wedge": income taxes plus employee and employer social security contributions (and payroll taxes) minus cash transfers, expressed as a percentage of labour costs (gross wage earnings plus employer social security contributions).

Table S.8. Marginal tax rates, single-earner couple (at APW wage level) with two children, 2001 (%)

|                 | Actual rate      |        | Change after removing special fiscal provisions |                     |
|-----------------|------------------|--------|---|---------------------|
|                 | Principal earner | Spouse | Principal earner                                | Spouse <sup>1</sup> |
| Australia       | 61.5             | 22.7   | -30.0   | -13.3               |
| Austria         | 55.6             | 39.1   | 0.0   | -3.6                |
| Belgium         | 63.6             | 60.0   | 2.8   | -10.9               |
| Canada          | 46.7             | 34.9   | -4.7  | -16.0               |
| Czech Republic  | 57.9             | 55.8   | -9.8  | -17.5               |
| Denmark         | 44.3             | 45.5   | 5.5   | -0.2                |
| Finland         | 57.4             | 34.3   | 0.0   | 0.0                 |
| France          | 44.2             | 35.0   | 8.8   | 13.7                |
| Germany         | 58.3             | 56.1   | 8.8   | 7.3                 |
| Greece          | 44.1             | 34.3   | 0.0   | 0.0                 |
| Hungary         | 55.6             | 40.7   | 0.0   | 0.0                 |
| Iceland         | 46.7             | 42.7   | -7.9  | -37.8               |
| Ireland         | 33.9             | 29.2   | 0.0   | -7.2                |
| Italy           | 54.5             | 40.7   | 0.0   | -7.4                |
| Japan           | 26.3             | 26.6   | 2.7   | -5.6                |
| Korea           | 20.4             | 14.1   | 0.0   | 0.0                 |
| Luxembourg      | 24.4             | 24.4   | 23.5  | 20.9                |
| Mexico          | 25.0             | 3.7    | 0.0   | 0.0                 |
| Netherlands     | 51.0             | 39.0   | 0.0   | -12.7               |
| New Zealand     | 63.0             | 25.1   | -30.0   | -8.5                |
| Norway          | 43.1             | 34.6   | 0.0   | -7.7                |
| Poland          | 45.3             | 42.6   | 0.0   | 0.0                 |
| Portugal        | 37.8             | 31.0   | 1.6   | 0.5                 |
| Slovak Republic | 44.4             | 48.8   | 5.1   | -11.3               |
| Spain           | 41.2             | 44.2   | 4.3   | -15.9               |
| Sweden          | 50.4             | 44.8   | 0.0   | 0.0                 |
| Switzerland     | 31.6             | 27.4   | 5.5   | 4.9                 |
| Turkey          | 45.6             | 41.0   | 0.0   | 0.0                 |
| United Kingdom  | 72.7             | 15.9   | -33.4   | -7.2                |
| United States   | 54.0             | 36.2   | -19.6   | 3.0                 |

1. The tax rates correspond to the "total tax wedge": income taxes plus employee and employer social security contributions (and payroll taxes) minus cash transfers, expressed as a percentage of labour costs (gross wage earnings plus employer social security contributions).

1. The marginal tax rate for the spouse is defined as the proportion of labour costs that would be paid in tax if the spouse moved into work at 33 per cent of the APW.