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FISCAL INSTRUMENTS SUPPORTING FAMILIES IN POLAND IN THE YEARS 2004-2017

MICHAŁ WOJCIUK¹, ŁUKASZ ZEGAROWICZ²

Abstract

The main objective of the study was an attempt to describe the policy for supporting families with children in Poland in the years 2004-2017 in the context of traditional support instruments. The following research methods were used in the article: analysis of the literature on the subject and legal acts, analysis of statistical data and comparative analysis. The study uses statistical data from reports of the Ministry of Finance and the Ministry of Family, Labor and Social Policy. The study did not confirm the research hypothesis which says that in the analyzed period, tax preferences were the dominant instrument of support for families in Poland. Shifting the burden of family policy towards direct benefits is unlikely to increase the transparency of this policy. With the introduction of new family benefits at a high level, which are the subject of exemption from personal income tax, public spending made with the use of tax expenditures will also increase. The lack of detailed and cyclical reporting of this type of expenditure in Poland reduces the transparency of the family policy.

JEL classification: H53, J13, H24

Keywords: family policy, fiscal policy, tax expenditures, tax preferences, family benefits

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INTRODUCTION

Generational replacement is an important determinant of stable economic growth and social welfare in the long run. A sustained decline in the birth rate may lead to a decrease in the share of the working age people in the population structure. Such changes in turn pose a threat to the stability of the labor market, public finances and the pension system (Adema et al., 2014). At the same time, from the 1970s to the end of the twentieth century, there was a significant decline in birth rates in the European Union and OECD countries, including Poland (Chart 1). The birth rate in Poland dropped from 2.2 in 1970 to 1.4 in 2000, while in the OECD and the EU it dropped from 2.7 and 2.3 to 1.7 and 1.5, respectively. In the case of Poland, as well as the average in the OECD, in 2016 the birth rate was at the same level as in 2000, i.e. 1.4 and 1.7 respectively. This year, on the other hand, the average rate in the EU increased to 1.7. It should be noted that the slowdown in the decline in birth rates to the current level observed in developed economies in the 21st century does not ensure generational replacement. As indicated by the OECD, population stability can only be discussed in the case of a rate of not less than 2.1 (OECD, 2018a). Therefore, the low birth rate remains one of the most important problems threatening economic stability, both in Poland and in other developed economies.

Attempts to deal with this phenomenon are made by conducting an adequate family policy. According to the results of researches performed by Luci-Greulich and Thévenon (2013), Gauthier (2013) and Adema et al. (2014), properly conducted family policy in developed countries may contribute to an increase in the birth rate or to a

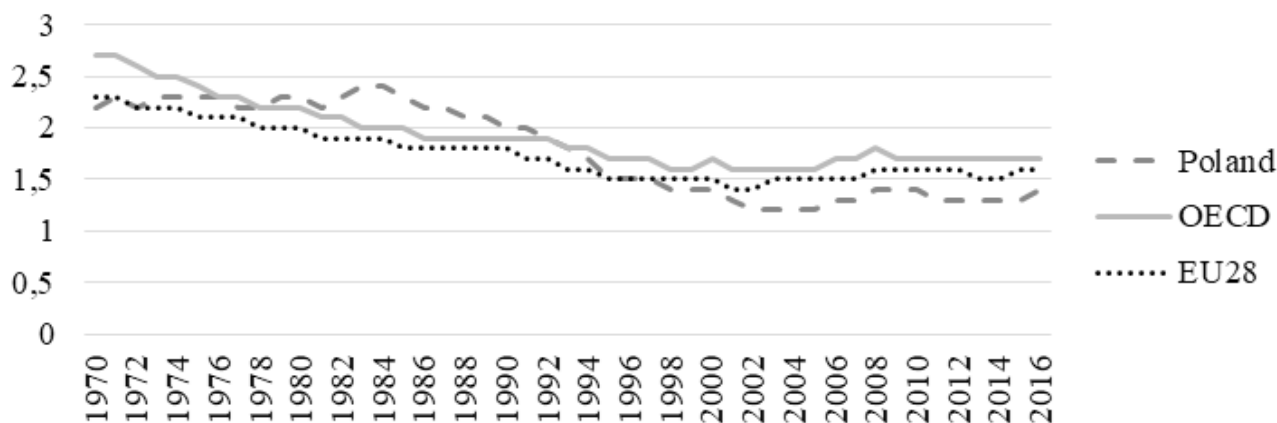
slowdown in its decline. All the cited authors also suggest that the type of the applied family policy instrument may affect its effectiveness in achieving the above objective. They emphasize that there is no universal instrument of this policy which would guarantee effectiveness. Different instruments may prove to be more effective in different countries. Therefore, they suggest that a combination of different tools, appropriately adapted to social and economic conditions, should increase the likelihood of family policies being effective.

Instruments of family policy can be classified in two groups (Figure 1), depending on their relation to the disposable income of beneficiaries. The first group are traditional instruments, the mechanism of action of which is based on a direct increase in disposable income of families with children. Within this group, two more categories of instruments should be distinguished, taking into account the form of public funds spending: direct in the form of cash benefits and indirect in the form of tax preferences. On the other hand, non-income-based instruments do not directly contribute to the increase in the disposable income of beneficiaries (however, they may indirectly influence its amount). These comprise, for example, incentives included in legal regulations (e.g. maternity leave) or benefits in kind (e.g. provision of childcare in public institutions).

In OECD countries, A. H. Gauthier distinguishes four basic models of family policy (Gauthier, 2002):

- 1) social democratic (e.g. Finland, Norway, Sweden): publicly available cash benefits at a high level, long maternity leave, extensive public childcare system,
- 2) conservative (e.g. Belgium, France, Germany): publicly available cash benefits at an average level, tax

Chart 1: The fertility rate in POLAND, OECD and EU in the years 1970-2016



Source: Based on (OECD, 2018a)

preferences, long maternity leave,

3) southern European (e.g. Greece, Italy, Spain): publicly available cash benefits at a low level, (optional) tax preferences,

4) liberal: (e.g. Australia, UK, USA): cash benefits for low-income families at a high level, legal facilitations in combining work and childcare.

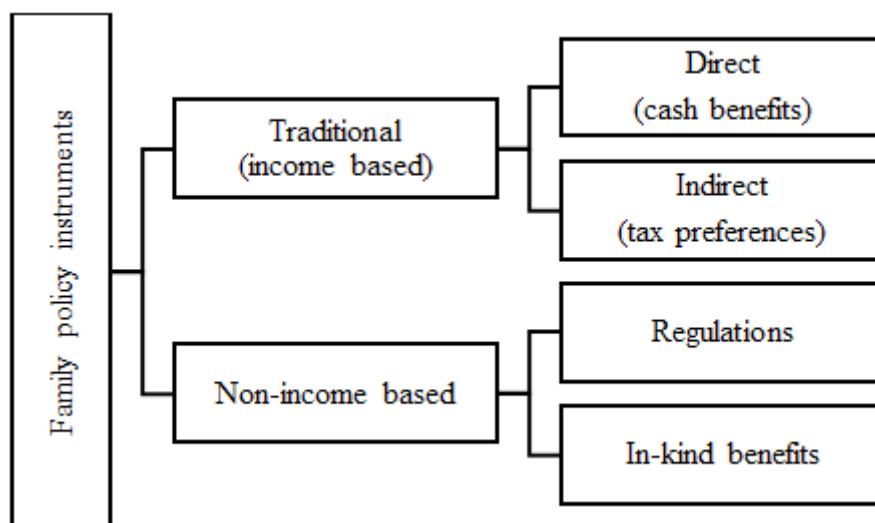
Despite the differences between individual models, traditional family policy instruments consisting in increasing the disposable income of families with children (especially through cash benefits) are an integral and universal element of this policy. Data on spending of public funds on family policies in developed economies confirm their significant importance. Traditional instruments (cash benefits and tax preferences) accounted for 61% of all public spending on family policies in OECD countries in 2013 (OECD, 2018b). Due to the universality and fundamental importance of income instruments in the implementation of family policy, the question of the actual level of use of tax preferences and cash benefits seems to be an important issue. This is particularly important due to the fact that the level of use of a specific form of funding can have an impact on the effectiveness of the whole policy.

Although cash benefits and tax preferences interfere with the disposable income of beneficiaries, these two types of instruments differ significantly, both from the point of view of beneficiaries and the state budget. Only direct funding is recorded on the expenditure side of the state budget. However, it should be noted that both

types of instruments involve a budgetary burden. Indirect financing is possible thanks to the use of preferential tax solutions for families with children. Tax preferences mean the indirect expenditure of public funds by resigning from potential tax revenues. Such a method of spending public funds is referred to in the literature as tax expenditures (Dziemianowicz, 2015). While in the case of direct funding there are no problems with planning and measuring the value of public funds allocated for family policy, in the case of tax expenditures one can only estimate this value. It should also be noted that few countries include tax expenditures in their budget reports. For this reason, this type of public expenditure is characterized by a much lower level of transparency (Dziemianowicz, 2015).

Another significant difference between tax expenditures and cash benefits is their “invasiveness” in the initial income distribution. Cash benefits are most often the result of discretionary decisions of government administration. This in turn influences the way of making the decisions on the forms of earning (or lack thereof), which results in high transaction costs, both on the public and private side. Tax preferences are financed ex post, which is at the same time an incentive to independently obtain income (in order to take full advantage of the possibilities offered by tax credit, one would have to firstly earn a certain amount of taxable income and pay tax). On the other hand, ex post funding increases the risk of the instrument’s progressiveness and its low effectiveness in increasing the disposable income of the poorest families. This effect can in turn be achieved through ex ante funding within cash benefits.

Figure 1: Family policy instruments classification



Source: Own elaboration based on (Billingsley & Ferrarini, 2014; OECD, 2011; Lohmann, Peter et al. 2009)

Table 1: Differences between cash benefits and tax preferences

Type of instrument	Cash benefits	Tax preferences
Type of the state budget burden	Budget expenditures (direct)	Tax expenditures (indirect)
Measurement and control	Exact amounts	Estimates
Invasiveness in disposable income	High	Low
Moment of funding	Ex ante	Ex post

Source: Own elaboration

The main objective of the study is an attempt to describe the policy for supporting families with children in Poland in the years 2004-2017 in the context of traditional/income-based support instruments. The study attempts to verify the following research hypothesis: In the years 2004-2017, tax preferences were the dominant instrument of family support in Poland. The reason for this phenomenon may have been the willingness to conceal part of public expenditure in the form of the so-called tax expenditures.

METHODS AND MATERIALS

The verification of the adopted research hypothesis required the division of the study into three stages. In the first part, the focus was on the description of the instruments of direct family support being in force in the analyzed period and determination of the level of public expenditure allocated to these objectives. The second stage of the study was devoted to the indirect instruments of family policy. It consisted in indicating and characterizing the existing tax preferences in the Polish personal income tax aimed at increasing the disposable income of families. In the last stage, the level of public expenditure made with the presented instruments was compared in order to characterize the Polish fiscal policy aimed at implementing the assumptions of family policy.

The implementation of the new system of family benefits in Poland as of 1 May 2004 set a new direction of the fiscal policy aimed at supporting families. The new system integrated and ordered the existing solutions. The family benefit system is a state funded supply system based on the principle of subsidiarity, which means that parents are primarily responsible for supporting their children, and in the event that their resources or rights are insufficient, they are entitled to state aid in the form of family benefits (Informacja o realizacji świadczeń..., 2016). The legal basis for the system in force to date is the family benefits Act of 28 November 2003 (Act of 28 November

2003). The family benefits system is complemented by two legal acts: the Act of 7 September 2007 on assistance for persons entitled to maintenance, which sets out the rules for material assistance provided by the state to persons having difficulties in enforcing maintenance claims from parents and the Act of 11 February 2016 on state aid in raising children (Act of 7 September 2007; Act of 11 February 2016). The time frame of the study covers the years 2005-2017. Due to the fact that the new family benefits system did not apply throughout 2004, it was omitted in the analysis of the data.

Characteristics of instruments of direct support for families, being in force in the analyzed period, were made on the basis of analysis of legal acts regulating the functioning of particular instruments and analysis of studies prepared by the Ministry of Family, Labor and Social Policy of the Republic of Poland (MFLSP). For this purpose, the provisions of the Act of 28 November 2003 on family benefits and the Act of 11 February 2016 on state aid in raising children were analyzed in detail. Statistical data on the level of public expenditure implemented through the indicated instruments come from reports prepared by the MFLSP.

In the second stage, the focus was exclusively on the analysis of tax preferences operating under the personal income tax, which was considered to have the greatest impact on family income levels as it relates to the individual income situation of the taxpayer. For this purpose, the Act of 26 July 1991 on personal income tax and reports of the Ministry of Finance on tax preferences in the Polish tax system were analyzed in detail (Act of 26 July 1991). At the beginning, the existing tax preferences in the tax analyzed were indicated, and then each of them was assigned to the appropriate category, according to the classification derived from the report of the Ministry of Finance (Preferencje podatkowe..., 2010). Out of the preferences classified in the category “Family and social” those were identified which, according to the authors, are addressed exclusively or specifically to families with children. Statistical data on the level of public expenditure

resulting from the functioning of tax preferences come from the reports of the Ministry of Finance published in the years 2010-2018.

RESULTS

The period analyzed in the context of the family benefits system can be divided into two stages. The first stage are the years 2004-2012, in which an attempt was made to organize the old system, which in turn was to contribute to the creation of a new, transparent and structured organization of family benefits. During this period, the support system of direct cash transfers consisted of five categories functioning since 2004 and one functioning since 2006 (Table 2). The assistance was addressed mainly to the poorest families, which is indicated by the need to meet the income criterion in order to receive, among others, a family allowance with all extra allowances and benefits from the maintenance fund. Only assistance addressed to the disabled and the payment of a one-off benefit due to the birth of a child did not depend on meeting the income criterion (Przegląd systemów..., 2017; Informacja o realizacji ustawy o

postępowaniu..., 2006).

The level of state budget expenditure on the payment of family benefits in the years 2005-2012 increased from PLN 7,798 million in 2005 to PLN 9,144 million in 2012, i.e. by approx. 17% (Table 2). In this period, the share of the state budget expenditure on the payment of benefits dependent on the fulfillment of the income criterion dropped from approx. 81% in 2005 to approx. 63% in 2012. The decrease in the share of expenditure on the above benefits in the total expenditure in the analyzed period was mainly due to a decrease in expenditure on extra allowances for family allowances and an increase in expenditure on support for families with a disabled dependent. The decrease in expenditure on family allowances and supplemental benefits was due to the lack of changes in the income criterion in this period. The lack of changes in this criterion resulted in the decrease of the number of recipients of these benefits from approx. 5.5 million in 2004 to approx. 2.5 million in 2012 (Przegląd systemów..., 2017).

The second stage, i.e. the period from 2013, can be described as a period of expansion of family policy within the scope of cash transfers directed to families. In the

Table 2: The level of state budget expenditures on cash transfers for families in Poland in the years 2005-2017 (in million PLN)

No.	State budget expenditures												
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
1.	2853	2807	3112	2746	2553	3091	2843	2651	2783	2576	2477	2942	2894
2.	3229	2627	2656	2420	2246	2057	1876	1662	1512	1314	1264	1457	1517
3.	1112	1209	1336	1416	1535	1603	1649	1685	1703	1702	1691	1683	1684
4.	354	357	349	336	349	667	1031	1363	1072	929	1595	1817	2074
5.	250	823	770	795	1100	1200	1330	1410	1475	1497	1483	1437	1378
6.	-	387	380	412	414	413	398	373	273	279	279	305	372
7.	-	-	-	-	-	-	-	-	58	0*	-	-	-
8.	-	-	-	-	-	-	-	-	36	78	163	242	265
9.	-	-	-	-	-	-	-	-	-	-	-	863	1138
10.	-	-	-	-	-	-	-	-	-	-	-	17295	22823
Σ	7798	8210	8603	8125	8197	9031	9127	9144	8912	8375	8952	28041	34145

Legend:

- | | | | |
|----|-----------------------------------|-----|--|
| 1. | Family allowance | 6. | One-off childbirth grant |
| 2. | Supplements to family allowance | 7. | Supplement to nursing benefit |
| 3. | Medical care allowance | 8. | Special attendance allowance |
| 4. | Nursing benefit | 9. | Parental benefit |
| 5. | Benefit from the maintenance fund | 10. | Benefit from the "Family 500+" program |

*Value less than PLN 1 million

Source: Own elaboration based on (Informacja o realizacji świadczeń..., 2006-2017; Przegląd systemów..., 2017; Informacja o realizacji ustawy o postępowaniu..., 2006-2008; Informacja o realizacji ustawy o pomocy..., 2009-2016)

years 2013-2016, three new benefits were introduced, which are used until today, and one supplement benefit to the nursing benefit, which was in force in the years 2013-2014. During this period, two important changes were also introduced in the existing system:

1) making the payment of the one-time birth grant dependent on meeting the income criterion, effective from 1 January 2013,

2) entrance into force of the mechanism of proportional reduction of family benefits, the so-called “złotówka za złotówkę” (“złoty for złoty”) on 1 January 2016, concerning family allowances and supplement benefits³.

The majority of benefits introduced after 2013 are characterized by the lack of the need to meet the income criterion in order to obtain such benefits. The lack of the need to meet the income criterion for individual benefits results in the assistance reaching a larger group of people. This, in turn, results in a significant increase in the level

of budgetary expenditure on the payment of family benefits. In the case of Poland, a significant increase in expenditure on family benefits is particularly visible since the introduction of the “Family 500+” programme in 2016, where the income criterion concerns only the grant of the benefit for the first child in the family. It should be emphasized that the value of public expenditure for this programme in 2017 was more than twice the value of expenditure allocated to all other existing benefits. The level of state budget expenditure on cash transfers to families increased in the analyzed period and amounted to 34,145 million PLN in 2017, mainly due to the introduction of this programme. This means that in 2017, the level of this expenditure was more than four times higher than in 2005 and more than 3.5 times higher than in 2015.

In the years 2004-2017, the number of tax preferences in PIT aimed at achieving the assumptions of family policy increased. In 2004, there were eleven tax preferences, which were addressed exclusively or specifically to families with children, and in 2017 there were already fifteen of them (Act of 26 July 1991; *Preferencje podatkowe...*, 2018). Most of the tax preferences in force in the analyzed period consisted in exemption from income tax on income obtained from benefits financed

³ It should be mentioned here that in 2018 one more benefit of PLN 300 was introduced under the “Dobry start” (“Good Start”) programme for each child in the family who is attending school (Ordinance of the Council of Ministers of 30 May 2018).

Table 3: The level of tax preferences supporting the family in Personal Income Tax in Poland in the years 2009-2017 (in million PLN)

No.	The level of tax preferences								
	2009	2010	2011	2012	2013	2014	2015	2016	2017
1.	2693	2880	2979	3067	3174	3143	3210	n/a	n/a
2.	385	334	335	397	397	426	449	n/a	n/a
3.	1478	1557	1625	1582	1540	1458	1562	n/a	n/a
4.	n/a	74	72	67	49	50	50	n/a	n/a
5.	88	88	88	103	102	101	105	n/a	n/a
6.	n/a	820	813	727	821	819	808	n/a	n/a
7.	n/a	n/a	n/a	n/a	10	2	2	n/a	n/a
8.	5633	5684	5740	5699	5530	5589	5617	5625	5556
9.	-	-	-	-	-	1338	1365	1307	1323
Σ	10277	11437	11652	11642	11623	12926	13168	6932	6879

Legend:

- | | |
|--|--|
| 1. Joint taxation of spouses' income | 6. Social assistance benefits |
| 2. Preferential taxation of the income of single parents | 7. Alimony |
| 3. Family benefits | 8. Child tax credit |
| 4. One-off childbirth grants | 9. Return of the unused amount of the child tax credit |
| 5. Cash assistance for foster families | |

Source: Own elaboration based on (*Preferencje podatkowe...*, 2010-2018; *Informacja dotycząca rozliczenia...*, 2010-2018; Act of 26 July 1991)

from the state budget, such as: family benefits, social assistance benefits addressed to families, allowances, etc. Within the preferences applicable in this period, three solutions should be distinguished, which were addressed exclusively to families and did not consist in exempting certain benefits from income tax. These are: the possibility of joint taxation of spouses' income, the possibility of preferential taxation of the income of single parents and the possibility of using the child tax credit.

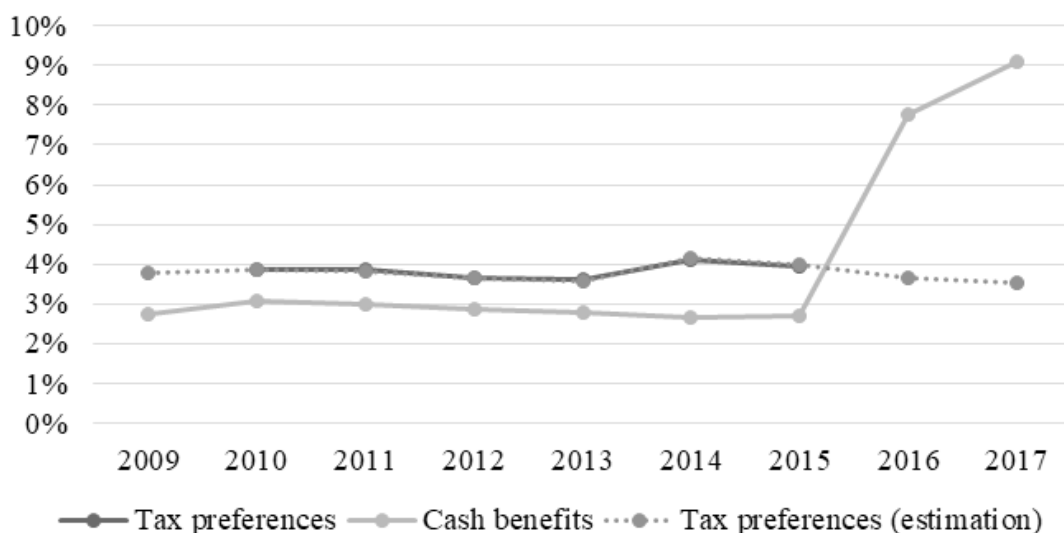
The possibility of joint taxation of spouses' income has been in force since 1992 within the framework of income tax. The aim of introduction of this solution was to reduce the tax progression for spouses with different income. Spouses may take advantage of this solution after fulfilling the conditions specified in the Act. This solution consists in setting the tax as a twice the tax calculated on half of their total income. This allows for its significant reduction in case of low incomes of one of the spouses. In the analyzed period, the joint taxation of spouses ranked second in terms of the value of tax preferences in the total value of all tax preferences in PIT supporting the family (Table 3). The level of preferences on this account increased from 2,740 million PLN in 2005 to 4,054 million PLN in 2008 (Preferencje podatkowe..., 2018). In 2009, the value of preferences on this account decreased to 2,693 million PLN, which was caused by a change in the previously applicable tax scale. Since that year, the level of preferences resulting from the joint taxation of spouses increased and in 2015 reached the value of 3,210 million PLN, which accounted for approx. 24% of the total value

of preferences in that year.

Preferential taxation of the income of single parents was introduced into personal income tax in 1993. The method of taxation of income is similar to joint taxation of spouses, where a single parent sets the tax as twice the amount of the tax calculated on half of his or her income. The aim of this solution was to support single parents by reducing the tax burden (Preferencje podatkowe..., 2018). In the years 2004-2008, there were no detailed analyses of this solution as well as the other tax preferences being the subject of analysis, with the exception of a child tax credit, therefore the data contained in Table 3 presents only the data for the period 2009-2015. The share of the value of preferences on this account in the total number of all preferences ranged from approx. 2.9% in 2010 to approx. 3.5% in 2015. The decrease in preferences for single parents in 2010 compared to 2009 by approx. 13% may have resulted from the clarification of the term of "single parents" and intensified controls of tax authorities aimed at indicating persons who were not entitled to benefit from this preference (Rękas, 2014).

The most burdensome preference for the state budget is the child tax credit introduced in 2007 to support families raising children (Preferencje podatkowe..., 2018). This relief consists in the possibility to deduct a certain amount from the tax for each child. Since its introduction in 2007, it has undergone significant changes, which has translated into the sum of preferences resulting from its use. In 2009, the method of accounting for the relief was changed from annual to monthly, which contributed to the

Chart 2: The level of direct benefits and tax preferences supporting the family as a percentage in the expenditure of the state budget in the years 2009-2017



Source: Own elaboration based on data from tables (2, 4) and (Sprawozdanie z wykonania..., 2010-2018)

use of the relief only for the actual duration of childcare. From 2013 onwards, the possibility of using relief depends on the number of children and the level of family income. The most significant change was introduced in 2015, which consists in the possibility of obtaining a refund of the amount of unused relief when the taxpayer is unable to deduct the full amount of the relief due to the low tax payable (Act of 26 July 1991)⁴. In the years 2009-2015, the share of child tax credit preferences in the sum of tax preferences targeted at families ranged from approx. 47.6% in 2013 to approx. 53.6% in 2015. The high share of this relief in the total value of preferences means that the most important from the point of view of budgetary expenditure in the form of tax preferences is child tax credit.

Expenditures on income-based family policy instruments in Poland were at a relatively stable level until 2015 and accounted for approx. 7% of all state budget expenditures (Chart 2.)⁵. In the years 2009-2015, indirect expenditure related to the functioning of tax preferences oscillated around 4% of budget expenditure in individual years, while direct transfers accounted for approx. 3% of the budget. Since 2016, there has been a significant change in the family policy due to the emergence of parental benefit and benefits under “Family 500+” programme. The amount of direct expenditure from the budget for these two benefits in the years 2016-2017 was twice the cumulative expenditure related to the operation of all direct instruments applicable before 2016. As a result, the relative amount of expenditure on direct transfers from the state budget within the framework of the family policy tripled compared to 2015 and in 2017 it amounted to 9% of all budgetary expenditure. As a result, starting from 2016, the sum of cash benefits related to family policy exceeded the sum of tax preferences, and in 2017 it was more than twice as high⁶. Therefore, starting from 2016, cash benefits

became the fiscal instrument on which the family policy in Poland is based. There has also been a significant increase in the total amount of budgetary expenditure (direct and indirect), the estimated relative value of which amounted to about 13% of the state budget in 2017.

CONCLUSIONS

In the years 2009-2015, tax preferences were the dominant traditional instrument of family policy in Poland. However, starting from 2016, there has been a drastic shift in the burden of this policy towards direct transfers. While maintaining the current shape of this policy, it is also expected that the dominant role of cash benefits will be maintained in the coming years. Such results indicate a falsification of the adopted research hypothesis. It cannot be unequivocally stated that tax preferences were the dominant instrument of family support in Poland in the analyzed period.

The authors would like to note, however, that shifting the burden of family policy towards cash benefits is unlikely to increase the transparency of this policy. Cash benefits are in fact a fiscal instrument that is much more transparent in terms of measuring and controlling public expenditures. It should be remembered, however, that in Poland the tax preferences have not been replaced by direct expenditure. At the same time, as a result of introduction of new family benefits at a high level, which are exempt from personal income tax, an increase in indirect public expenditure should be expected as well. Therefore, in the absence of detailed and cyclical reporting of tax expenditures in Poland, the transparency of the family policy cannot be expected to increase.

The above results also raise a question about the change of the model of family policy in Poland in recent

⁴ Although the refund of the unused relief constitutes a direct transfer from the state budget to the taxpayer, the authors have classified this type of transfer as a tax preference because it is an inseparable element of the functioning child tax credit.

⁵ In Poland, tax preferences are not recognized as budgetary expenditure. The amounts of expenditure on both types of income instruments of the family policy were related to the amount of budgetary expenditure included in the reports on the execution of the state budget for the years 2009-2017.

⁶ The amount of expenditure related to tax preferences addressed to families in the years 2016-2017 has not yet been estimated by the Ministry of Finance (except for child tax

credit). The authors made their own estimation of the value of the instrument assuming that each category of tax preferences from groups 1-7 in the years 2016 and 2017 will develop in accordance with the trend from the years 2009-2015. Under this assumption, the estimated relative level of tax preferences in 2016 and 2017 should amount to 3.67% and 3.53% of budget expenditure, respectively. It is worth noting that in connection with the introduction of new direct benefits, the third category of tax preferences, i.e. family benefits, should also be excessively increased. However, this element is not included in the prediction due to difficulties in estimating the scale of this increase, such as lack of information on the form of taxation of the beneficiaries' income and the effective tax rate of their income.

years. The family policy in Poland cannot be unequivocally attributed to any of the models. Various researchers place Poland on the border of the southern European and liberal models (Thévenon, 2011) as well as the conservative and liberal ones (Billingsley & Ferrarini, 2014). However, it may be assumed that the introduction in 2013 of new universal benefits based on direct transfers, in which there

is no income criterion, or it is limited, has brought the Polish family policy closer to the continental (conservative and social democratic) models. However, indicating a specific model requires an additional examination of non-income-based instruments existing in Poland. Therefore, this research problem requires further analysis and discussion.

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