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Income support to families with children in Spain

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JRC TECHNICAL REPORT

Income support to families with children in Spain

*JRC Working Papers on
Taxation and Structural
Reforms No 10/2021*

Adrián Hernández, Fidel Picos
2021

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Executive summary

Combating poverty and social exclusion of children is at the centre of EU policy-making. In 2021, the European Commission launched its proposal for establishing a European Child Guarantee to ensure access to a set of key services for children, such as education, healthcare, childcare, healthy nutrition and adequate housing. Moreover, the implementation of the European Pillar of Social Rights aims to take, by 2030, five million of children out of risk of poverty or social exclusion.

The negative consequences of child poverty and social exclusion are unquestionable. The recurrence of this status has long-term consequences, and the role of policies in preventing and breaking the poverty cycle is crucial to ensure an effective integration of children in society. In this context, tax-benefit systems are widely used in the EU to provide income support to families with children. This support brings several positive outcomes, such as enhancing horizontal equity between families with and without children, fostering fertility rates or promoting children's education. Besides, it is clearly an effective way of reducing poverty and redistributing income.

In Spain, child poverty remains very high, being one of the EU countries with the highest child at-risk-of-poverty rates. Although child poverty is a complex and multidimensional problem, the role of the Spanish tax-benefit system in providing income support to families with children is limited. Official Eurostat statistics show that Spain is one of the EU countries reducing the child at-risk-of-poverty rate the least through social transfers.

In this paper, we provide a comprehensive measurement of the income support to families with children provided by the Spanish tax-benefit system. To measure the extent of this support, we do not focus only on the role of social transfers targeted to families with children, but also on the support provided by tax reliefs and complements in other benefits due to having children. We investigate how this support is allocated across the income distribution and to what extent it reduces inequality and poverty.

To this end, we use EUROMOD, the tax-benefit microsimulation model for the EU countries. EUROMOD simulates the main tax-benefit rules of the EU countries in combination with data from the European Survey of Income and Living Conditions (EU-SILC). Our results suggest that the level of income support in Spain is one of the lowest in the EU, showing a very different composition with respect to other EU countries. Whereas child-related benefits are the main source of income support to families with children across most EU countries, in Spain, child-related tax reliefs outpace the former.

This policy portfolio points out different distributional and poverty consequences. On the one hand, we find that the total income support to children in Spain is redistributive, although this effect is mainly driven by the extent of complements in unemployment and social assistance benefits due to having children, rather than by child-related benefits. Tax credits have the least redistributive effect due to the non-refundable nature of the main tax credits for children. On the other hand, we also find a poverty-reducing effect of the total income support to children, although the role of child-related benefits is still very limited. In light of potential labour market changes, the delivery of income support to children through complements in unemployment and social assistance benefits due to having children deserves more attention and offers a natural follow-up to this analysis.

Income support to families with children in Spain

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June 2021

Abstract

Families with children receive support from the tax-benefit system to a different extent across countries. In Spain, child poverty remains high as compared to other EU countries, possibly pointing to a weaker role of the public sector in providing income support to families with children. In this paper we provide an in-depth assessment of the income support to families with children in Spain. We distinguish between three different forms of income support: (1) benefits aimed to ease the cost of raising children (child-related benefits); (2) supplements to other benefits due to having children (non-child-related benefits); and (3) tax reliefs (allowances and/or tax credits) reducing the tax burden of families with children (child-related tax reliefs). To measure these three dimensions, we use EUROMOD, the tax-benefit microsimulation model for the EU. We follow a similar methodological approach to Corak et al. (2005) and Figari et al. (2011), consisting in building a counterfactual scenario as if there were no children. For assessing the redistributive impact, we adapt the decomposition methodology of Onrubia et al. (2014), based in turn on Kakwani (1999). Our results suggest that the level of income support to families with children in Spain is low and mainly concentrated on tax reliefs, which are regressive in absolute terms. Nevertheless, the total income support to families with children is redistributive in relative terms, this effect being mainly dominated by the extent of supplements in unemployment and social assistance benefits due to having children. Child income support also reduces poverty intensity and incidence, although not to a large extent.

JEL classification: H53, H23, I38

Keywords: poverty, child poverty, family benefits, redistribution, microsimulation, EUROMOD

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The results presented here are based on EUROMOD version I3.0+. Originally maintained, developed and managed by the Institute for Social and Economic Research (ISER), since 2021 EUROMOD is maintained, developed and managed by the Joint Research Centre (JRC) of the European Commission, in collaboration with EUROSTAT and national teams from the EU countries. We are indebted to the many people who have contributed to the development of EUROMOD. The results and their interpretation are the author's(') responsibility. We are especially grateful to Cristina López Vilaplana, Isabelle Maquet, Leonardo Pérez Aranda and Pavel Vanev for their valuable comments and support.

1. Introduction

Spain faces one of the highest at-risk-of-poverty rates of children in the EU. Followed only by Romania, in 2018 the at-risk-of-poverty rate of children was 26.8%, 6.6 p.p. above the EU27 average (Figure 1). Three reasons have been traditionally put forward as the main drivers of this result: first, the Spanish labour market is characterized by high and persistent unemployment rates, which rise significantly in periods of economic downturn (OECD, 2011). In this regard, the employment status of the household head is crucial for determining the risk of child poverty (Cantó & Mercader-Prats, 1998; Gradín & Cantó, 2012; Aguayo et al., 2016). As pointed out by Bárcena-Martín et al. (2018), in Spain, children living in jobless households “...have more than three and a half times higher odds of being poor than those living in households where at least one person is working” (p.749).

Second, as is commonly found in the literature, families with children living in poverty face a higher recurrence of this state than families without children. This recurrence is particularly high in Spain, as compared to other EU countries (Gradín & Cantó, 2012) and it draws attention to the role of tax-benefit systems in preventing poverty persistence. In this regard, Ayllón (2013) shows that about half of the poverty dependence is explained by previous poverty experiences, whereas the other half is correlated with the characteristics of the household head (e.g. employment status, education level, etc.). This author concludes that the policy response to poverty recurrence “...should equally focus on income-support policies—in order to break the vicious circle of consecutive poverty—and on individual and household characteristics—promoting employability via education and training, enhancing the conciliation of working and family life...” (p. 229).

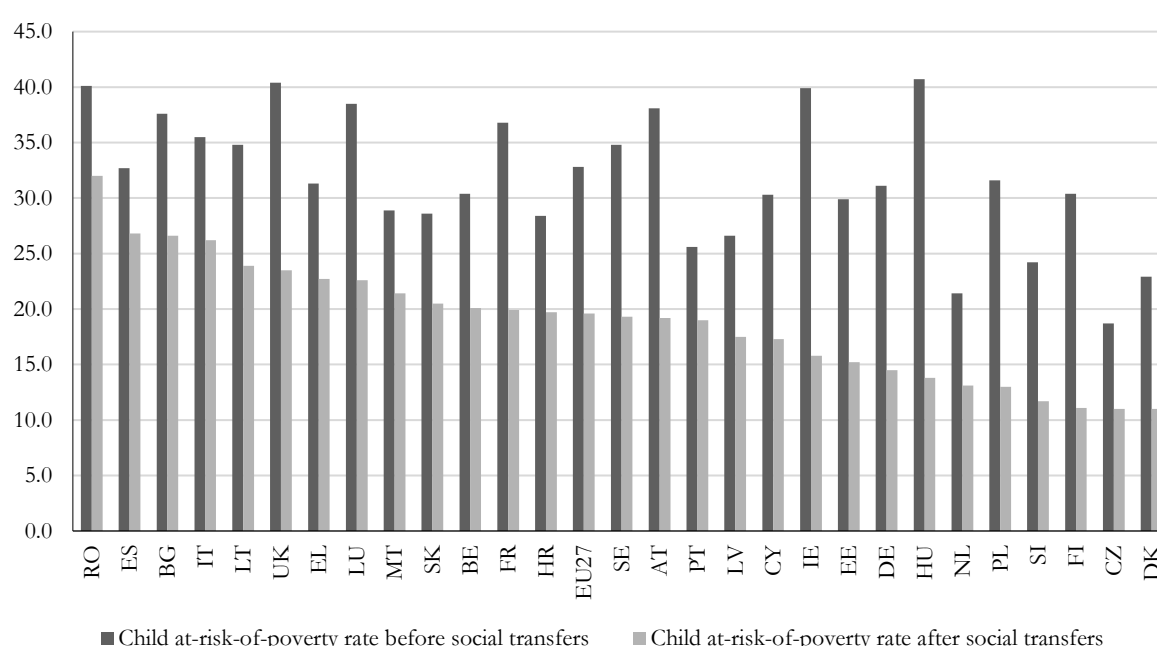
Third, social transfers in Spain play a weak role in reducing the risk of child poverty (European Commission, 2019; Matsaganis et al., 2006). As shown in Figure 1, whereas countries with lower child at-risk-of-poverty rates before social transfers than Spain (such as Austria, France, Estonia or Hungary) manage to halve their child at-risk-of-poverty rates after social transfers, Spain reduces this by only 18%, being the EU country reducing child at-risk-of-poverty rates the least after social transfers.

In this regard, several studies have remarked on the positive outcomes that tax-benefit systems offer by providing an adequate income support to families with children (income support to children, hereinafter).³ In particular, the redistributive and poverty-reducing effect of income

³ Among others, enhancing horizontal equity between families with and without children (Verbist, & Van Lancker, 2016; Penne et al., 2020), fostering fertility rates (Haan & Wrohlich, 2011) or promoting children education and development (Milligan & Stabile, 2011).

support to children is a well-known finding in the literature. On the one hand, Joumard, et al. (2013) highlight that family benefits are the most progressive transfer in most OECD countries, having a significant redistributive effect depending on the size of these benefits. On the other hand, Leventi et al. (2019) show that child-related benefits, together with social assistance benefits, are the most cost-effective way of reducing poverty in a selection of EU countries. Along the same lines, Bárcena-Martín et al. (2018) find that in the EU a pro-child targeting strategy reduces child poverty more than a pro-poor strategy, this result being particularly driven by the location of families with children at the lower end of the income distribution.

Figure 1. Child at-risk-of-poverty rates before and after social transfers, 2018



Source: Eurostat.

In this paper we provide an in-depth assessment of the income support to children in Spain.⁴ By comprehensively describing and measuring all means by which the Spanish tax-benefit system provides income support to children, we look into the inequality and poverty impact of these instruments. We pay special attention to how this support is allocated across the income distribution, and we show how each instrument contributes to poverty reduction and income redistribution.

In line with previous cross-country analyses (Figari et al., 2011; Penne et al., 2020), our results show that in Spain the level of income support to children is one of the lowest in the EU. In

⁴ Throughout the paper, we use the term “income support” as a synonym of “cash support”, i.e. in-kind benefits are not accounted for in the analysis. These benefits, however, can be of great relevance as shown by Förster, M. & Verbist, G. (2012).

addition, it is strongly concentrated on tax reliefs, whereas benefits play a weaker role. From a more in-depth assessment, we find that, when using an absolute inequality criterion, benefits are progressive, whereas tax reliefs are regressive. Nevertheless, both elements are progressive when assessed by using a relative inequality criterion. Noticeably, the final redistributive effect it is mainly dominated by the extent of the supplementary amounts provided by social assistance and unemployment-related benefits due to having children, as opposed to benefits targeted to families with children. The incidence and intensity of poverty in Spain also decreases after income support to children, although not to a large extent.

The paper is organised as follows. Section 2 provides an overview of the different means by which families with children receive income support via the Spanish tax-benefit system. Section 3 describes the data and methodology used, while Section 4 assesses the distinctive features of the Spanish situation in the EU context and analyses in detail the budgetary, distributional and poverty impact of income support to children in Spain. Section 5 concludes.

2. Classification of income support to children in Spain

Families with children can receive income support by different means from the tax-benefit system. Previously referred to as child-contingent payments (Figari et al., 2011) or the child cash benefit package (Penne, et al., 2020), there are three main channels to realise this support: first, by receiving benefits specifically aimed to alleviate the cost of raising a child (child-related benefits). Second, by receiving additional amounts due to having children, via benefits that rather address other issues, such as unemployment, poverty, housing affordability, etc. (non-child-related benefits). Third, by being entitled to tax reliefs eventually reducing the tax burden (child-related tax reliefs).

One might expect that the distribution of income support to children would be eventually shaped by the relative size of each of the above-defined categories. For example, tax-benefit systems mainly relying on child-related tax reliefs may show a regressive distribution of the income support to children, whereas those mainly depending on (means-tested) benefits may depict a more progressive picture.⁵

The main means of income support to children in Spain, as of 2020, are briefly described in Table A.1 of the Appendix. As regards child-related benefits, the main recurrent benefit to families with children in Spain is delivered through a means-tested national scheme that provides, on a yearly

⁵ This would also depend on the relative position of families with children in the income distribution. We have confirmed that in Spain the distribution is rather uniform across the income distribution, with slightly larger shares in bottom income deciles (of around 12%).

basis, 341 EUR per child to low income households. This amount is additionally increased by 247 EUR for the poorest families, and it increases significantly for children with disabilities. The support from this main scheme is complemented via other one-off benefits at childbirth, only available for families with special circumstances, such as single parents or large families. In some Autonomous Communities, regional benefits are also put in place as a complement to the national level support. Nevertheless, it is important to note that there is no universal child benefit in Spain at the national level, as compared to other EU countries (“*Familienbeihilfe*” in Austria, “*Lapsetoetu*” in Estonia, “*Családi Pótlé*” in Hungary, “*Allocation Familiale*” in France, among others).

Besides child-related benefits, other schemes in Spain provide additional benefit amounts due to having children. This is the case for unemployment and social assistance benefits, whose benefit amounts are increased if there are dependent children in the family unit. In this regard, the floor and ceiling of the unemployment insurance benefit increase due to having children, as do the guaranteed minimum income amounts of the regional and national minimum income schemes. Moreover, the entitlement to the unemployment assistance benefit arises if there are dependants in the family unit.

On the tax side, a number of tax reliefs for families with children are in place. First, the personal income tax (PIT) takes into account the family circumstances of the taxpayer by allowing the deduction from the tax base of certain national and regional tax allowances in the case of having children. These allowances are designed, together with other personal allowances, to calculate the portion of income that will not be taxed in order to satisfy the basic needs of the taxpayer. Importantly, they are non-refundable, so the final tax liability cannot turn negative after they are deducted. Second, and as opposed to the previous allowances, some additional tax credits in Spain can be received as a direct transfer even if taxable income is below the exempted tax threshold. These tax credits aim, overall, to support taxpayers with special family circumstances, such as working mothers with children below three years of age, families with dependent children with disabilities, large families or single-parents with at least two children.

3. Data and methodology

Simulations in this paper use EUROMOD (version I3.0+), the tax-benefit microsimulation model for the EU countries (Sutherland and Figari, 2013), applying 2018-2020 policy rules to the EU-SILC 2018 (2017 income reference period).⁶ Up-rating factors are used to bring the income values from the income reference period up to the different policy years.⁷

EUROMOD allows the calculation of income support to children, not only by identifying those benefits labelled as “child-related”, but also as a way of comprehensively obtaining all income support due to having dependent children.⁸ To this aim, we follow the methodology used by Corak et al., (2005), and applied, among others, by Figari et al., (2011), consisting in creating a counterfactual as if there were no children. To construct the counterfactual scenario, we drop children in the input database and re-compute benefit entitlements and tax liabilities according to the new distribution of households (see Table 1). Our definition of children corresponds to those aged below 18 years of age who do not have any source of market income; we do not remove children with some source of market income, as a way to keep the original household income constant in the counterfactual dataset.

However, two caveats should be pointed out. First, the definition of dependent children varies across policies. This means, in our counterfactual scenario, that we may still have some families receiving income support due to having children aged 18 or older that make them eligible for a specific policy. Second, non-simulated benefits or taxes are not captured by this methodology. Although we could account for this by identifying and dropping these components from the input database in the counterfactual scenario, we deliberately keep them in the analysis. In Spain, the main non-simulated component in EUROMOD as regards income support to children is parental leave benefits, which we rather consider as a replacement income for parents than as a benefit targeted to children. Since they are present in both the original and the counterfactual dataset, they will not be classified as income support for children.

⁶ Detailed information about EUROMOD can be found in <https://euromod-web.jrc.ec.europa.eu/>.

⁷ Importantly, our simulations do not account for labour market shocks between the data period and the policy year. This implies that the 2020 baseline does not reflect the impact of the COVID-19 crisis. Therefore, results should not be interpreted as the impact that child-related income support has at this specific moment in time, but rather as the impact that they would have in a “normal” situation. Even if EUROMOD offers the possibility of simulating labour market changes, it was decided not to simulate them in order to be able to compare policy changes between years, abstracting from drastic changes that would make it difficult to interpret the results.

⁸ This compares to traditional analyses using SILC data, where benefits are usually classified according to their social protection function (e.g. unemployment-related, housing-related, family-related, etc.), complicating the computation of the income support via other non-child-related benefits or child-related tax reliefs.

Moreover, EUROMOD simulations generally assume full benefit take-up. For Spain, however, a non-take-up calibration has been applied to the simulation of the regional minimum income schemes, given the limited coverage these schemes have in practice (Hernández et al., 2020). All remaining benefits, such as child-related benefits or the national-wide minimum income approved in 2020, run under a full take-up assumption and their simulations might overestimate their real effects. Regarding the former, EUROMOD simulations do not deviate significantly from official numbers, whereas for the latter the available information with respect to the performance of this scheme is still not sufficient to account for the extent of non-take-up.

Table 1. Sample and population size before and after dropping children, Spain

	Scenario with children [A]		Scenario without children [B]	
	Sample level	Population level	Sample level	Population level
Number of households	13,368	18,545,946	13,368	18,545,946
Number of individuals	33,581	45,937,197	28,043	38,403,198
aged < 25 living with their parents	7,951	10,809,142	2,413	3,275,143
aged < 18 living with their parents	5,836	7,961,321	298	427,322
aged < 18 living with their parents & without any income	5,538	7,533,999	0	0

Source: own elaboration using 2018 EUROMOD input data (EU-SILC 2018).

The main outcome of our analysis is household disposable income. The difference between this variable in the original scenario with children (hereinafter “final income”) and without children (hereinafter “initial income”) measures the total income support provided by the tax-benefit system due to having children, which can be further disaggregated into its main components, namely: child-related benefits, child-related tax reliefs, and non-child-related benefits. Our assessment is then presented in fiscal, distributional and poverty terms.

In order to have a clear picture of the redistributive effect of each type of income support, we compute the impact of each component and further decompose it in a progressivity and a level effect. In particular, we adapt the decomposition proposed by Onrubia et al. (2014) for tax credits, which is in turn based on Kakwani (1977), so that we can compute the total redistributive impact as:⁹

$$\Pi^{RS} = \sum_{i=1}^m \frac{\bar{C}_i}{\bar{Y}_D} \Pi_{Y_B, Y_B + C_i}^K - R \quad [1]$$

⁹ These authors use the original decomposition to assess the effect of tax credits when analysing the impact of personal income taxes.

where,

Π^{RS} is the total redistributive effect (Reynolds-Smolensky index) of total income support for children

Y_B is initial income

Y_D is final income

C_i is each of the m components of child support

$\frac{\bar{C}_i}{Y_D}$ is the level effect (average component over average final income)

$\Pi_{Y_B, Y_B + C_i}^K$ is the progressivity effect (Kakwani index) corresponding to component i , which is the difference between the concentration index of the component (sorted by initial income) minus the Gini coefficient of initial income ($C_{C_i} - G_{Y_B}$)

and R is a re-ranking effect, i.e. the Gini coefficient of disposable income minus the concentration index of the same variable, but sorted by initial income ($G_{Y_D} - C_{Y_D}$).

4. An in-depth assessment of the income support to children in Spain

4.1. Comparison with respect to other EU countries

Figure 2 depicts the average income support received by families with children across EU countries in 2020, expressed in purchasing power standard (PPS) per child (top graph). Results are disaggregated into child-related benefits, non-child-related benefits and child-related tax reliefs. The bottom graph illustrates these categories as a share of the total average support.¹⁰

Focusing on the levels of income support to children, the top graph shows a great heterogeneity across EU countries. The differences between the most and the least generous countries exceed 3,000 PPS per child. Luxembourg, Austria and Germany display the largest support packages, whereas Greece, Cyprus and Spain the smallest. In particular, Spain only provides an average income support to children of around 960 PPS per child, slightly above the results depicted for Cyprus and Greece. If we had only accounted for those benefits labelled as child-related, Spain would have shown the lowest support in the EU, with an average provision of only 100 PPS per child. The inclusion of child-related tax reliefs and other non-child-related benefits bring further

¹⁰ In some countries, the category corresponding to tax reliefs depicts negative values, which are the result of taxing child-related and/or non-child-related benefits (i.e. the gross income gains from benefits are discounted by the value of taxes paid on them), as shown by Figari et al. (2011).

income gains, and it speaks to the importance of a comprehensive measurement of the income support provided to families with children.

Regarding the composition of income support to children, the bottom graph illustrates the predominance of child-related benefits in the EU. For all countries except Czechia and Spain, child-related benefits account for more than 50% of the average support to children, and in most of them it rises to over 70%. Child-related tax reliefs are also an important source of income support to children in some countries (e.g. Spain, Czechia, Croatia and Italy), whereas non-child-related benefits complement to a lesser extent. Importantly, Spain stands out as the country with the lowest relative share of child-related benefits, of approximately 10% of the total average support, although it depicts the highest relative share when it comes to child-related tax reliefs, of around 60%. This provides clear evidence of a very different composition of the income support to children in Spain, as compared to other EU countries, which may have different implications at the distributional level depending on how this support is allocated across the income distribution.

Figure 3 sheds light on this issue by depicting the average income support to children across deciles of equivalised household disposable income, for a subgroup of EU countries. The top graphs compare the distribution of three countries, Italy, Greece and Spain, whose welfare systems are often classified as Mediterranean, which provide similar levels of income support to children; whereas the bottom graphs focus on a selection of Continental (Austria and France) and Nordic countries (Finland) providing much higher levels of support.

Overall, the distribution of income support to children in Spain depicts a rather neutral pattern in absolute terms, i.e. the average income support for all income deciles is somewhat similar, receiving on average between 800 and 1,000 PPS per child. Only the first decile receives higher support, as does the top decile, though to a lesser extent in the latter. This pattern contrasts with the one observed in Italy and Greece, whose tax-benefit systems seem to support families with children at the bottom-middle income deciles to a greater extent than those at the top. In fact, the means-tested nature of the Spanish benefit system in terms of child support, strongly characterized by the targeting to low-income households, contrasts with the allocation of child-related tax reliefs. In this regard, tax reliefs in Spain clearly benefit high-income households, whereas they are barely received by low-income households.

Although this neutral pattern of income support to children can be also observed in Austria or France, both countries provide instead high universal child-related benefits¹¹ as compared to the

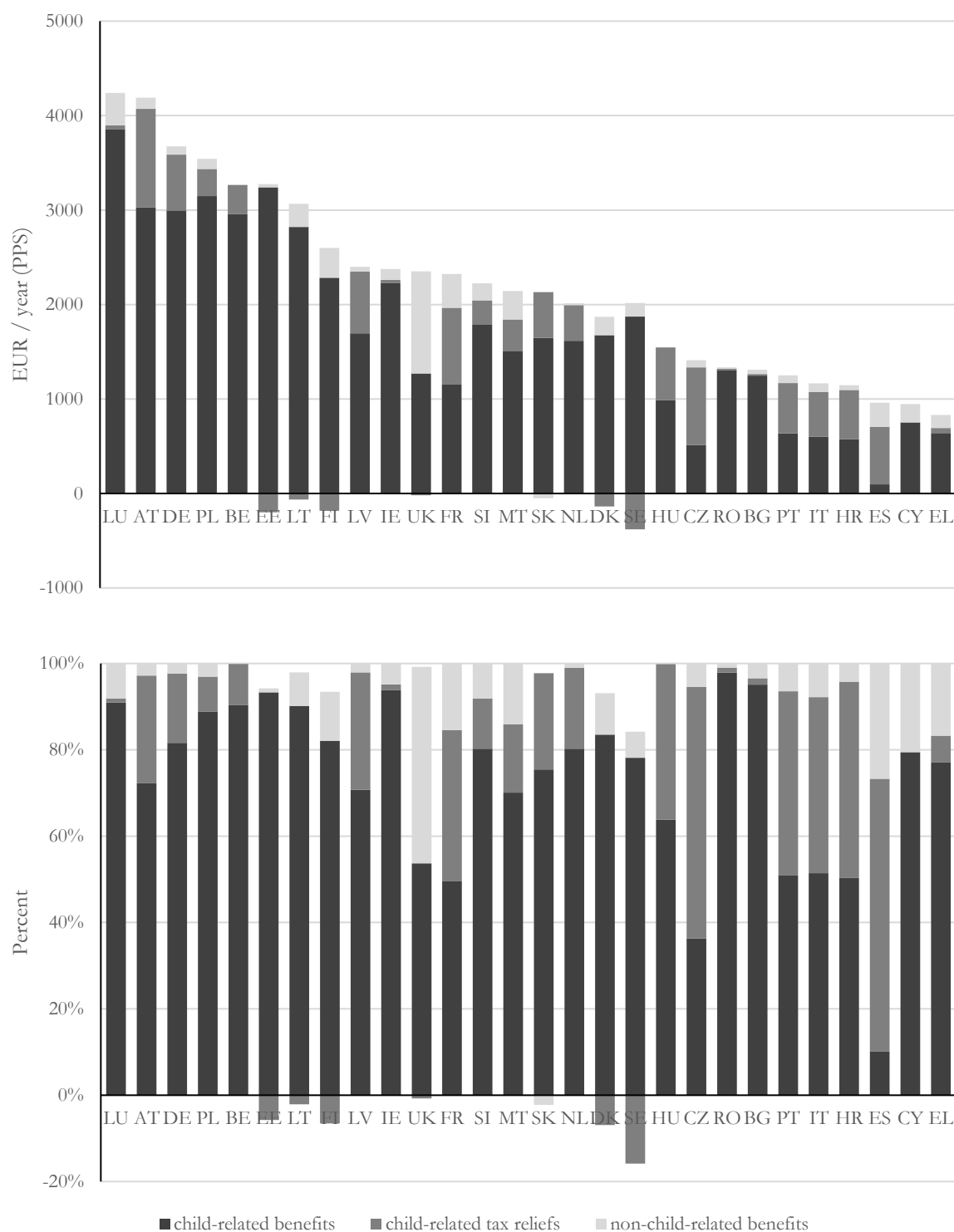
¹¹ Finland also delivers universal child-related benefits, but they are supplemented at the bottom income deciles (i.e. the basic amount of the child homecare allowance includes a means-tested supplement for low-income households). This shapes the distribution towards a more pro-poor pattern, as opposed to France or Austria.

Spanish case. In particular, child-related benefits in Spain are very low for all income deciles, they fade out around the fifth decile and they slightly increase again at the top part of the income distribution, mainly due to the provision of higher maternity benefits to top-income earners.¹²

Another important feature of the Spanish tax-benefit system derives from the pro-poor effect that non-child-related benefits have at shaping the distribution of income support to children. Without accounting for the extent of the support received via non-child-related benefits, such as increases in social assistance or unemployment-related benefits, the distribution of income support to children in Spain would have depicted a pro-rich pattern, as child-related tax reliefs outpace child-related benefits. This is also the case in France, although as already mentioned, the size of child-related benefits provided by the French tax-benefit system is significantly higher than that of Spain.

¹² Note that, as an exception to the general rule stated in section 3, in Figures 2 and 3 we also account for the extent of non-simulated family benefits, such as parental leave benefits. Otherwise, the ordering of countries across the EU undermines the level of support provided by Nordic countries, which strongly rely on the provision of high levels of support through parental leave schemes.

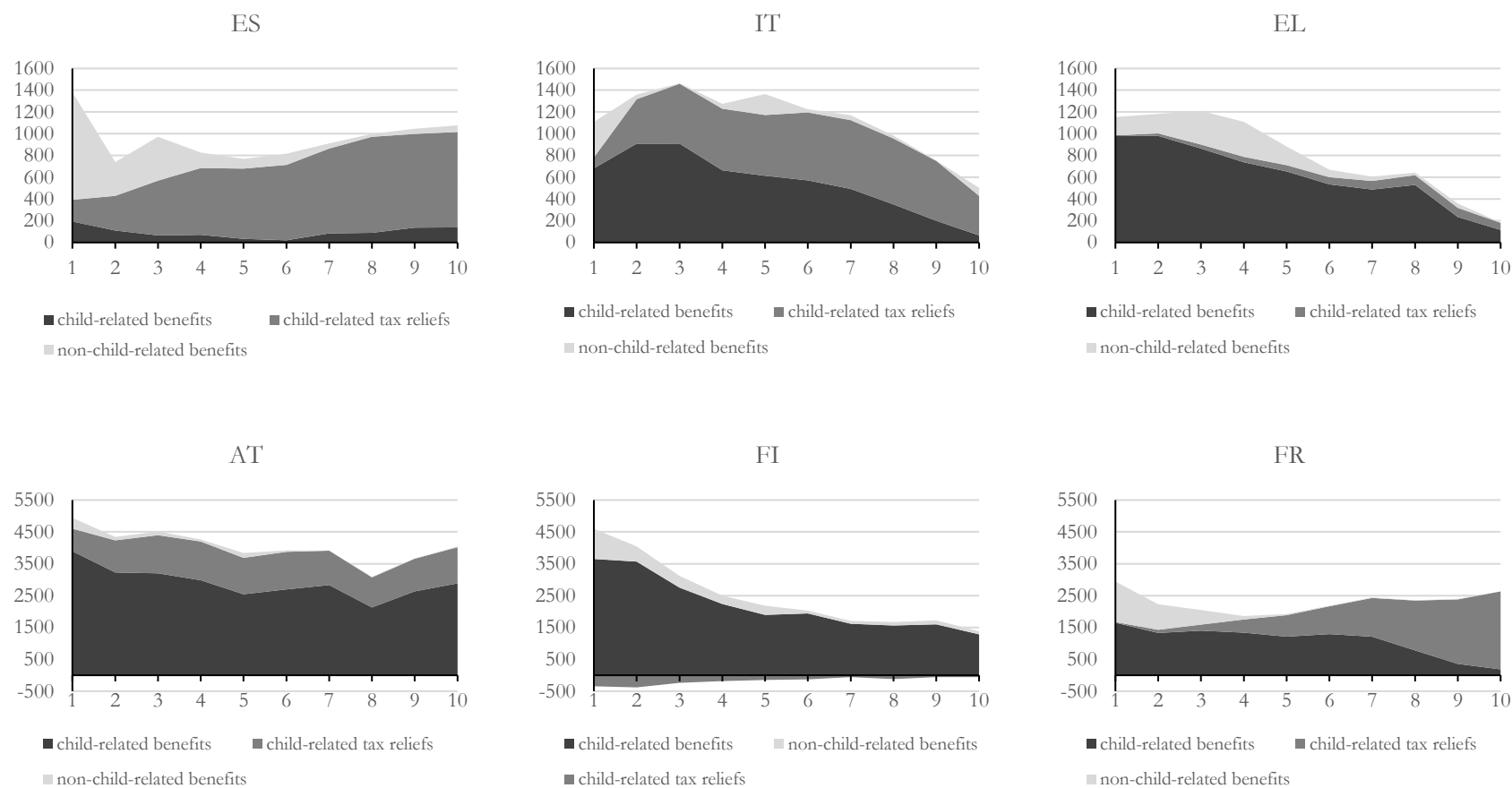
Figure 2. Mean income support to children across EU countries, in PPS per child (top graph) and shares by income component (bottom graph), 2020



Note: non-simulated family-related benefits, such as parental leave benefits, are accounted for in the graph.

Source: own calculations using EUROMOD.

Figure 3. Distribution of income support to children across a selection of EU countries by income deciles, in PPS per child, 2020



Note: non-simulated family-related benefits, such as parental leave benefits, are accounted for in the graph. The Y-axis is drawn at different scale in bottom and top graphs.

Source: own calculations using EUROMOD.

4.2. In-depth analysis of the Spanish case

As shown in the previous sub-section, the specificities of Spain in terms of income support to children with respect to other EU countries call for an in-depth assessment. This section assesses the budgetary, distributional and poverty impact of income support to children in Spain. In particular, we look into the 2018-2020 tax-benefit rules, in order to capture the latest developments towards supporting families with children in Spain, such as the increase in the main child benefit for poor households in 2019 or the introduction of the nation-wide minimum income in 2020.¹³

4.2.1. Budgetary results

Total spending on income support to children in Spain is shown in Table 2. Results are presented according to our categorisation of income support (child-related benefits, non-child-related benefits and child-related tax reliefs), along with a further breakdown of some components. Overall, our simulations depict a total spending on income support to children of around 6,500-7,000 mil. EUR. This estimate should be interpreted as a lower bound, since we are not accounting for the additional expenditures related to children aged 18 or above, who are eligible for some policies (e.g. children up to 25 years old in PIT family allowances or children with disabilities in most policies).

Of the total spending, around 68% corresponds to tax reliefs, whereas the remaining 32% comes from benefits. Importantly, most of the total income support from tax reliefs corresponds to non-refundable tax credits, which are only applicable to individuals whose tax bases are large enough to experience a reduction in their tax liabilities (i.e. the tax liabilities cannot turn negative as result of these tax credits).

Regarding the benefit side, Table 2 shows that benefits classified as child-related only represent in 2020 a small share of the total spending on income support to children (around 6%), whereas non-child-related benefits account for more than 26%, the latter being driven by the extent of unemployment and social assistance supplements due to having children.

Looking further into the recent changes to income support to children, two reforms are of special relevance. First, the increase in 2019 of the main child benefit in Spain, from 291 EUR/year to 341 EUR/year, and up to 588 EUR/year for the poorest households; and, second, the introduction in 2020 of the new nation-wide minimum income. As can be seen in Table 2, the former entailed

¹³ Once again, it is important to note that the simulation of the new nation-wide minimum income assumes full take-up. Therefore, its results should be interpreted as the intended effect of this policy. The coverage of this scheme in 2020 was far from being complete, although it is expected to develop further in the medium-to-long term.

a 40% increase in the total spending on child-related benefits in 2019 with respect to 2018, whereas the latter almost quadruples the income support to children by means of social assistance-related benefits. Notably, the introduction of the nation-wide minimum income involves a progressive abolishment of the main child benefit in Spain, as entitled families will be moved from one scheme to the other (see the decrease in spending of child-related benefits between 2019 and 2020).

Table 2. Spending on income support to children in Spain, 2018-2020

Type of support		Total spending (mil. EUR/year)			Diff. 2020-2019 (mil. EUR/year)	Vertical share (%), 2020
		2018	2019	2020		
Child-related benefits		486.16	689.11	396.42	-292.69	5.72
Non-child-related benefits	Unemployment-related	753.73	796.05	788.09	-7.96	11.37
	Social assistance-related	149.05	126.12	840.65	714.53	12.13
	Other non-child-related	217.27	222.76	225.79	3.03	3.26
Total benefits		1,606.21	1,834.04	2,250.95	416.91	32.47
Tax reliefs	Non-refundable tax credits	3,144.06	2,961.16	2,919.42	-41.74	42.11
	Refundable tax credits	1,750.47	1,758.77	1,761.66	2.89	25.41
Total tax reliefs		4,894.54	4,719.93	4,681.07	-38.85	67.53
Total		6,500.75	6,553.97	6,932.02	378.06	100.00

Source: own calculations using EUROMOD.

4.2.2. Distributional results

Figure 4 extends the scope of Figure 3 for Spain. In particular, it additionally shows how the distribution of income support to children has changed since 2018. Moreover tax reliefs are now disaggregated into refundable and non-refundable tax credits, as this distinction is key to show how low-income households barely benefit from child-related tax reliefs in Spain.

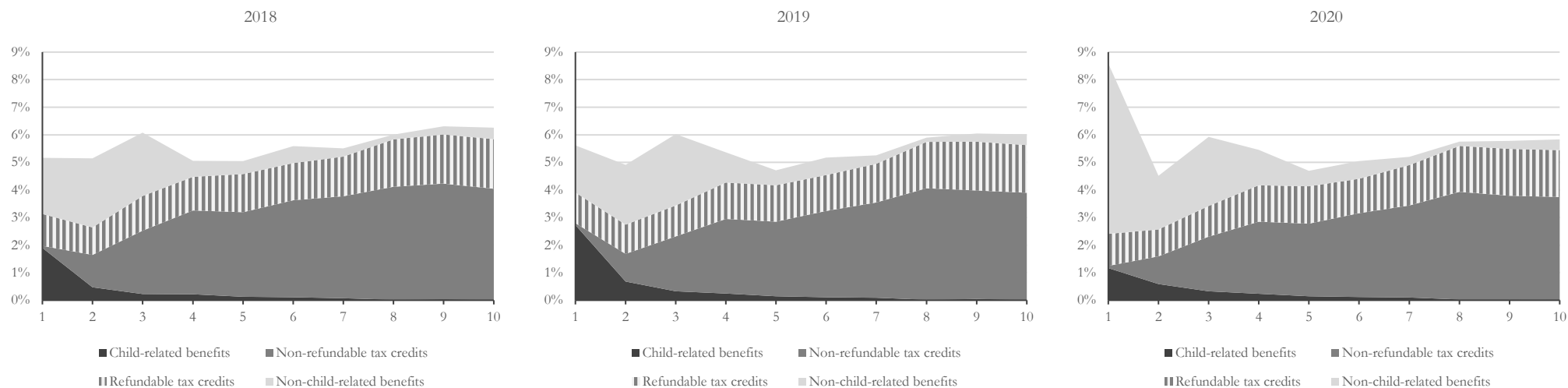
As mentioned before, total income support does not show a clear progressive or regressive pattern in absolute terms, i.e. it is not continuously increasing or decreasing across deciles. However, patterns are more evident when we analyse each component. First, non-child-related benefits show a clearly pro-poor pattern, although the amounts represent a low share of the total support. Second, non-refundable tax credits show the opposite pattern, since only individuals with positive gross tax liabilities can benefit from them. Third, refundable tax credits are more equally distributed across deciles, although values are higher in top deciles, probably due to a higher share of working mothers. Finally, non-child-related benefits are pro-poor, the amounts being mostly concentrated in the first half of the income distribution.

If we put aside non-child related benefits, we see that families with children in the 1st decile receive, on average per child, between 2 and 4% of the median equivalised disposable income by means of child-related benefits and tax reliefs, whereas this percentage goes up to around 6% for the top

deciles (8th, 9th and 10th). This regressive result is relevant for at least two reasons. On the one hand, the relative importance of social assistance and unemployment-related benefits in supporting families with children may diminish if unemployment tends to decrease, so this component could be interpreted as non-structural support. On the other hand, non-take-up rates for non-child-related benefits, such as social assistance benefits, are particularly high in Spain, especially as compared to child-related benefits, so that the cushioning effect on non-child-related benefits in supporting low-income households might not be as large as depicted in Figure 4.

When adding non-child-related benefits the pro-rich pattern is somewhat weakened, as families with children in bottom income deciles now receive supplements via unemployment and social assistance-related benefits. In particular, the inclusion of these benefits helps to close the gap with respect to top income deciles, although the income support to children is still slightly higher for high-income families in 2018 and 2019. However, the introduction in 2020 of the new nation-wide minimum income scheme changes this pattern: under the assumption of full take-up, the average support of the first decile goes up to 8.5% of the median equivalised disposable income, surpassing the support received at the very top end of the income distribution.

Figure 4. Distribution of income support to children in Spain by income deciles, as a percentage of median disposable income, 2018-2020



Note: total income support is calculated per child and expressed as a percentage of the median equivalised disposable income. Income deciles are those of the whole population (including families with and without children) and based on disposable income before child-related income support. Non-simulated family benefits, such as parental leave benefits, are not accounted for in this graph.

Source: own calculations using EUROMOD.

Another way of looking at the distribution of income support to children involves concentration curves, as shown in Figure 5. The concentration curves on the top row compare the cumulative distribution of different income components due to having children, with the cumulative distribution of population ranked by equivalised disposable income before income support to children (initial income). A curve lying exactly on the main diagonal would mean that the corresponding income component is equally distributed across the population, i.e. the amounts given to families would be independent of their initial income. Therefore, curves lying above (below) the main diagonal show that low-income families receive more (less) of this component than high-income families. This comparison against the main diagonal is consistent with measures of absolute inequality. Additionally, curves lying below the main diagonal but above (below) the curve of initial income (in red) mean that the amount of the benefit received is a higher (lower) proportion of their initial income for low-income families than for high-income families. This comparison against the curve of initial incomes is consistent with measures of relative inequality.¹⁴

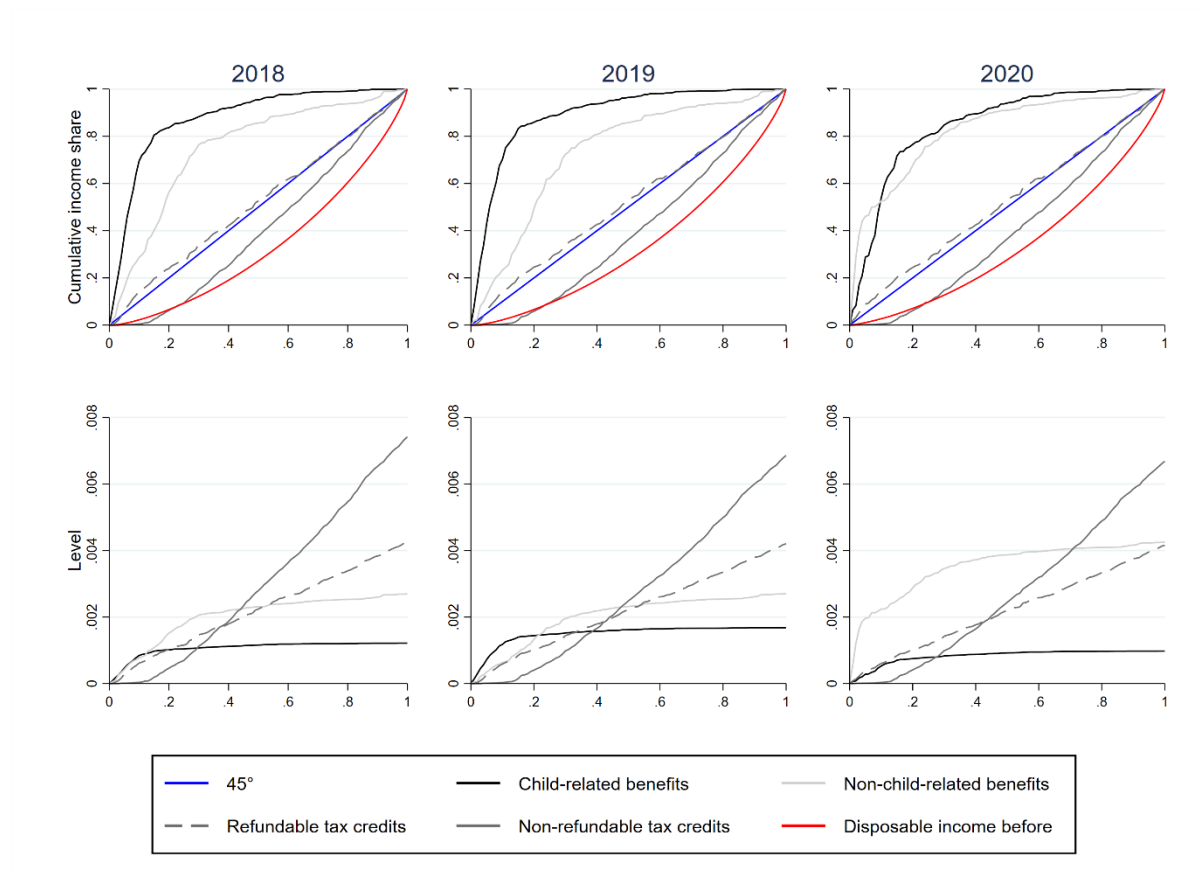
As already intuited by looking at Figure 4, the first row in Figure 5 confirms that child-related benefits (black curve) are in absolute terms progressive, whereas tax reliefs, mainly determined by the extent of non-refundable tax credits (dark grey solid curve) are regressive. Non-child-related benefits (light grey curve) are also progressive in absolute terms, although less than child-related benefits, while refundable tax credits (dark grey dashed curve) are mostly neutral. In any case, all components are progressive in relative terms, since they all lie above the curve of initial incomes, except non-refundable tax credits at the very lower end of the income distribution.

Analysing the curves in more detail, once again it becomes clear how the poorest households do not benefit from non-refundable tax credits, as the income share arising from this component is almost null for these households (see the flatness of the dark grey solid curve for the poorest decile). When it comes to benefits, it is interesting to note that, in 2018 and 2019, child-related benefits (black curve) are more concentrated among the poorest households than non-child-related benefits (light grey curve), as the former curve lies far above the latter. However, this pattern changed somewhat in 2020, when both curves reduced their distance to each other. This is the result of the introduction of the new nation-wide minimum income, which eventually aims to reallocate the support to families with children from the main child benefit to the new minimum income scheme.

¹⁴ Note that this means that relative inequality does not change if everybody receives a fixed proportion of their incomes, while absolute inequality does not change if everybody receives equal absolute amounts. The former is the usual benchmark for taxes, whereas the latter might be a more reasonable benchmark for benefits.

The second row of Figure 5 depicts the absolute concentration curves, i.e. the same curves multiplied by the level effect of equation [1] in Section 3. This gives an intuition about the redistributive role of each component for each (cumulative) income level. As a general rule, benefits lie above tax reliefs in the first deciles, but they lag behind as we move up the income distribution, the only exception being non-child-related benefits in 2020. The furthest right point of each graph indicates the overall level of each component in relation to final income.

Figure 5. Concentration and level of the income support to children by income component, 2018-2020



Source: own calculations using EUROMOD.

In order to quantify how each type of income support actually contributes to the (relative) redistribution of disposable income, we use the decomposition methodology developed in Section 3. Results are shown in Table 3 below.

Table 3. Redistributive impact of income support to children, 2018-2020

2018	Concentration of component [A]	Gini coefficient of initial income [B]	Progressivity (Kakwani index) [C=A-B]	Level [D]	Redistribution [E=-C*D]	% of total redistribution [F]
Child-related	-0.78118	0.330525	-1.11171	0.001162	0.001292	23.73817
Non-child-related	-0.49638		-0.82691	0.002547	0.002106	38.71245
Refundable tax credits	-0.03458		-0.36511	0.004196	0.001532	28.15547
Non-refundable tax credits	0.18941		-0.14111	0.007308	0.001031	18.95298
Re-ranking					-0.00052	-9.55912
Total effect					0.005441	100
2019	Concentration of component [A]	Gini coefficient of initial income [B]	Progressivity (Kakwani index) [C=A-B]	Level [D]	Redistribution [E=-C*D]	% of total redistribution [F]
Child-related	-0.80431	0.32838	-1.13269	0.001614	0.001828	32.16619
Non-child-related	-0.46566		-0.79404	0.002553	0.002027	35.6712
Refundable tax credits	-0.03755		-0.36593	0.004141	0.001515	26.67065
Non-refundable tax credits	0.206713		-0.12167	0.006758	0.000822	14.47108
Re-ranking					-0.00051	-8.97884
Total effect					0.005682	100
2020	Concentration of component [A]	Gini coefficient of initial income [B]	Progressivity (Kakwani index) [C=A-B]	Level [D]	Redistribution [E=-C*D]	% of total redistribution [F]
Child-related	-0.72438	0.321275	-1.04566	0.000924	0.000966	14.42649
Non-child-related	-0.65704		-0.97832	0.004097	0.004008	59.83278
Refundable tax credits	-0.04107		-0.36235	0.004096	0.001484	22.15392
Non-refundable tax credits	0.201874		-0.1194	0.006582	0.000786	11.73119
Re-ranking					-0.00055	-8.14442
Total effect					0.006699	100

Source: own calculations using EUROMOD.

Column A shows the concentration indices corresponding to the concentration curves in the first row of Figure 5, and are equivalent to one minus double the area below each curve. Negative (positive) values correspond to curves that lie above (below) the main diagonal, thus indicating a progressive (regressive) effect in absolute terms. As seen above, for all years non-refundable tax credits are regressive, refundable tax credits are mostly neutral, and benefits are clearly progressive in absolute terms, child-related being more progressive than non-child-related.

Column C, which is computed by subtracting column B from column A, shows the relative progressivity effect. As seen above, all components are progressive in relative terms, although the ranking is by definition the same as for the absolute measure. Column D shows the level effect, which depends directly on the total amount of each component, being consistent with the second row of Figure 5.

The combination (product) of progressivity and level gives us the relative redistributive effect of each component, which is shown in column E, and in column F as a share of total relative redistribution. For all years non-child-related benefits show the highest effect, followed by either child-related benefits or refundable tax credits, non-refundable tax credits being the least redistributive.

Focusing on the impact of child-related benefits, we see an increase from 2018 to 2019 (due to the increase in the amounts of the main child benefit), but a large decrease in 2020. This latter effect is due to the partial shift to the new nation-wide minimum income scheme, which can be also seen in the large increase of non-child-related benefits from 2019 to 2020 (from 35.7% to 59.8% of the total redistributive impact). The impact of tax credits is more constant across years, although decreasing in time.

4.2.3. Poverty results

Finally, we look at the poverty-reducing effect of income support to children. Table 4 shows the child at-risk-of-poverty rates and gaps between 2018 and 2020, before and after receiving income support to children. The first indicator measures poverty incidence (i.e. the share of children below the poverty line), whereas the second helps to understand the intensity of poverty (i.e. the mean shortfall in income from the poverty line, in percentage of the latter¹⁵). To assess the impact of each income component in reducing poverty, we decompose the child at-risk-of-poverty rates and gaps by adding separately to initial income (i.e. before all income support to children) each type of income of income support. This provides an intuition on the effectiveness of each income component in reducing poverty, assuming that the remaining income components are not received.

Over the analysed three-year period, the income support to children reduces the child at-risk-of-poverty rate between 2.9 and 3.3 p.p. In relative terms, this is a reduction of around 11 to 12.5% with respect to the initial poverty rate. Overall, child related benefits have a very limited effect on the reduction of child poverty rates (between 0.11 and 0.13 p.p.), as expected given the low adequacy of these benefits. In contrast, non-child-related benefits show a larger poverty reduction effect, of around 1.2 to 1.35 p.p., followed closely by tax reliefs. In this regard, the impact of non-refundable tax credits is similar or higher than refundable tax credits, even if the poorest households do not receive the former. However, even if non-refundable tax credits may allow

¹⁵ People above the poverty line count as having a zero shortfall.

certain households with children to go beyond the poverty line, they may fall short in reducing poverty intensity.

Table 4. Child at-risk-of-poverty rates “FGT(0)” and child at-risk-of-poverty gaps “FGT(1)”, effects by income component, 2018-2020

	2018			2019			2020		
	FGT(0)	Diff. w.r.t. initial income (p.p)		FGT(0)	Diff. w.r.t. initial income (p.p)		FGT(0)	Diff. w.r.t. initial income (p.p)	
Initial income	29.67	Value	95% C.I.	29.45	Value	95% C.I.	29.47	Value	95% C.I.
+ child-related benefits	29.54	-0.13	(-0.13 ; -0.13)	29.31	-0.13	(-0.13 ; -0.14)	29.36	-0.11	(-0.11 ; -0.11)
+ non-child-related benefits	28.49	-1.18	(-1.17 ; -1.20)	28.16	-1.29	(-1.27 ; -1.31)	28.12	-1.35	(-1.33 ; -1.37)
+ refundable tax credits	28.84	-0.83	(-0.82 ; -0.84)	28.70	-0.75	(-0.74 ; -0.76)	28.72	-0.75	(-0.74 ; -0.76)
+ non-refundable tax credits	28.27	-1.40	(-1.38 ; -1.42)	28.69	-0.75	(-0.74 ; -0.76)	28.61	-0.86	(-0.85 ; -0.86)
Final income	26.36	-3.31	(-3.26 ; -3.35)	26.53	-2.91	(-2.87 ; -2.95)	26.49	-2.98	(-2.94 ; -3.02)

	2018			2019			2020		
	FGT(1)	Diff. w.r.t. initial income (p.p)		FGT(1)	Diff. w.r.t. initial income (p.p)		FGT(1)	Diff. w.r.t. initial income (p.p)	
Initial income	10.89	Value	95% C.I.	10.95	Value	95% C.I.	9.97	Value	95% C.I.
+ child-related benefits	10.36	-0.53	(-0.50 ; -0.57)	10.20	-0.74	(-0.69 ; -0.80)	9.60	-0.37	(-0.35 ; -0.38)
+ non-child-related benefits	10.26	-0.63	(-0.61 ; -0.65)	10.38	-0.56	(-0.55 ; -0.58)	8.58	-1.39	(-1.31 ; -1.48)
+ refundable tax credits	10.32	-0.57	(-0.55 ; -0.59)	10.38	-0.56	(-0.54 ; -0.59)	9.41	-0.56	(-0.54 ; -0.59)
+ non-refundable tax credits	10.62	-0.27	(-0.27 ; -0.27)	10.71	-0.24	(-0.24 ; -0.24)	9.73	-0.24	(-0.24 ; -0.24)
Final income	8.95	-1.94	(-1.87 ; -2.01)	8.90	-2.05	(-1.96 ; -2.13)	7.46	-2.50	(-2.37 ; -2.64)

Note: the poverty line is anchored to the “final income” scenario (i.e. including income support to children) and it uses the threshold of 60% of median equivalised annual disposable income.

Source: own calculations using EUROMOD.

In this regard, child at-risk-of-poverty gaps help to measure how the distance of poor children with respect to the poverty line is being reduced after income support to children. The second row of Table 4 shows that, over the analysed period, the reduction of child poverty gaps due to child support increases from 1.9 to 2.5 p.p. Similarly to the impact on poverty rates, child-related benefits have a very limited effect on reducing the poverty gap (between 0.37 to 0.53 p.p.), although the smallest impact arises now from non-refundable tax credits, which only reduce child poverty intensity between 0.24 to 0.27 p.p.

Table 4 also allows a view of the changes in the relative importance of each income component in reducing poverty between 2018 and 2020. Importantly, changes are barely noticeable when looking at poverty incidence, although they influence poverty intensity up to some extent. Focusing on the latter, the poverty reducing effect of child-related benefits increased in 2019, from 0.53 to 0.74 p.p., as result of the increase in the adequacy of the main child benefit in that year. However, in 2020 the impact of child-related benefits shifts towards non-child-related benefits, given the introduction of the new nation-wide minimum income. Assuming full take-up of the new scheme, the poverty reduction effect of non-child-related benefits is certainly enhanced (from 0.56 to 1.39

p.p. between 2019 and 2020), although at the cost of a significant reduction in the poverty effect of child-related benefits (decreasing from 0.74 to 0.37 p.p.).

5. Conclusions

Tax-benefit systems providing an adequate income support to children have proven to be successful in many aspects. Among the positive outcomes, the redistributive and poverty-reduction effectiveness stand out as clear findings of the literature. In this context, Spain faces one of the highest child poverty rates in the EU, delivering one of the lowest levels of income support to children.

In this paper we provide an in-depth assessment of income support to children in Spain. Using the potential of a tax-benefit microsimulation model, we comprehensively measure all means by which families with children receive income support from the tax-benefit system. This allows not only to capture the extent of benefits labelled as child-related, but also to measure the support received via complements in other benefits due to having children (non-child-related benefits) and tax reliefs.

One of our main findings is that the level of income support to children in Spain is strongly concentrated on tax reliefs, whereas benefits play a weaker role. This clearly contrasts with the pattern observed across other EU countries where child-related benefits are generally the main instrument to provide income support to children. To understand the consequences of this singularity, we provide a detailed distributional assessment using a relative and an absolute inequality criterion. In particular, we find that in Spain child-related and non-child-related benefits are progressive in absolute terms, whereas tax reliefs, mainly determined by the extent of non-refundable tax credits, are regressive in absolute terms. In relative terms, however, the total income support to children is progressive and the final redistributive effect is mainly driven by the extent of non-child-related benefits, such as complements in unemployment or social assistance benefits due to having children.

We also find that total income support to children in Spain reduces the incidence and intensity of poverty, although not to a large extent. Once again, child-related benefits have a limited effect in poverty reduction, whereas non-child-related benefits have a larger impact. The low adequacy of the income support provided to children is not large enough to allow families with children to rise above the poverty line, although it helps to reduce the distance with respect to this income threshold.

Finally, our analysis also reveals a few insights about the impact of the latest tax-benefit reforms towards supporting families with children. In particular, the introduction of the new nation-wide minimum income in 2020 increases the progressivity and poverty-reduction effect of the whole system, although shifting the relative importance of child-related benefits to non-child-related benefits. We believe that this tendency to concentrate income support to children through unemployment or social assistance schemes clearly deserves more attention in light of potential labour market changes and offers a natural follow-up for our analysis.

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Appendix

Table A.1. Categorization of the income support to families with children in Spain, 2020

Type of income support	Specific benefit/tax component	Main parameters					
		Eligibility	Dependent children definition	Means-tested/Non-means-tested	Benefit/tax relief for children	Others	
Child-related benefits	Main national-wide child benefit	Families with dependent children	Aged below 18 whose income < minimum wage	Means-tested	341 EUR per child/year (588 EUR per child/year for poorest households)	It includes a phase-out	
	Main national-wide child benefit (in case of disability)	Families with children with disabilities	Any age	Non-means-tested	1,000 EUR per child/year (up to 7,120 EUR if degree of disability > 75%)	It includes a phase-out	
	Child birth-related benefit for large families, single-parents and mothers with disabilities	Single parents, large families and mothers with disabilities giving birth	Newborns	Means-tested	1,000 EUR	One-off benefit. It includes a phase-out	
	Multiple child birth-related benefit	Families giving multiple birth	Newborns	Non-means-tested	3,800 EUR (twins); 7,600 EUR (triplets); 11,400 (quadruplets)	One-off benefit	
	Regional child benefits	Main parameters vary widely across regions					
Non-child-related benefits	Unemployment-related	Unemployment insurance benefit	Individuals meeting the minimum contribution period	Aged below 26 (older in case of disability) whose income < minimum wage	Non-means-tested	Benefit floors (501 EUR/month) & ceilings (1,098 EUR/month) are higher in case of having children (671 EUR/month & 1,255 EUR/month, respectively).	If there are two or more children within the family unit, the benefit ceiling rises to 1,412 EUR.
		Unemployment assistance benefit	Having exhausted or not entitled to insurance benefit	Aged below 26 (older in case of disability) whose income < minimum wage	Means-tested	Entitlement arises in case of having dependants	
	Social assistance-related	National-wide minimum income	Families with income below GMI	Any cohabiting children	Means-tested	The basic GMI (462 EUR/per month) increases by 22% for each additional member in the family	Single parents are complemented by an additional amount of 22% of the basic amount
		Regional minimum incomes	Families with income below each regional GMI	It varies widely across regions	Means-tested	Each regional GMI increases in case of having children (adequacy varies across regions)	

Type of income support	Specific benefit/tax component	Main parameters				
		Eligibility	Dependent children definition	Means-tested/Non-means-tested	Benefit/tax relief for children	Others
Tax reliefs	Non-refundable				Tax allowances: 2,400 EUR 1 st child 2,700 EUR 2 nd child 4,000 EUR 3 rd child 4,500 EUR 4 th and subsequent children 2,800 EUR additionally per child aged < 3 Between 3,000 and 12,00 EUR additionally per child with disabilities Regions can modify these	These tax allowances are added to personal allowances and allowances for dependent upper relatives, and then the progressive schedule is applied to the sum. The result is deducted from the gross tax liability, acting as a tax credit. This tax credit is not refundable, i.e. cannot make the final tax liability negative
	National and regional tax allowances for dependent children	Taxpayers with dependent children	Aged below 25 (no age criterion if disability > 33%) with gross incomes below 8,000 EUR/year			
	Allowance for single-parent families in "joint" taxation	Single-parent	Children below 18	Non-means-tested	2,150 EUR / year to be deducted from the tax base	The tax base cannot turn negative as a result of the deduction
	In-work tax credit for working mothers	Mothers working as employees or self-employed and paying SIC	Children aged < 3	Non-means-tested	1,200 EUR/year, with the limit of SIC paid	
Refundable	Tax credit for families with dependent children with disabilities	Parents either (1) working as employees or self-employed and paying SIC or (2) receiving unemployment benefits or pensions	Children with disabilities eligible for the child tax allowance	Non-means-tested	1,200 EUR/year, with the limit of SIC paid for case (1)	
	Tax credit for large families and single-parents with two children	Parents either (1) working as employees or self-employed and paying SIC or (2) receiving unemployment benefits or pensions	Children that are part of an officially-recognised large family or belonging to a single-parent family with at least two children	Non-means-tested	1,200 EUR/year for two-parent families with 3 or more children and single-parent families with 2 or more children, with the limit of SIC paid for case (1) This amount is multiplied by two for families with 5 or more children	

Source: own elaboration

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