Discussions about lowering social security contributions for households with two or more children in the Czech Republic

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Robert Jahoda – European Social Policy Network May 2017

On 5 April, the government approved a draft bill that extends support for households with children by reducing their social insurance premiums. The measure targets households with two or more children and is unprecedented in the EU countries. On 18 April, the finalised bill was moved to the Parliament of the Czech Republic for discussion.

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Description

The proposed measure aims to reduce social insurance premiums for one of the parents, while leaving the choice of the beneficiary parent entirely to the parents themselves. The employee contribution rate to pension insurance and employment policy is now 6.5% (the 29.2% rate applicable to self-employed people is the sum of the employee and employer rates). The approved measure leaves unaffected the contribution rates applicable to people with no dependent children and to households with one dependent child. The proposal sees the rate reduced by 1.5 pp in the case of households with two children, by 4.0 pp in the case of households with three children and by 6.5 pp in the case of households with more than three children. At the same time, reducing social contributions will not affect individual's pension entitlement or the level of the pension. A household with two children (or three and four children, respectively) where one of the parents earns an average monthly wage of CZK 29,320 (about €1100) will have their insurance contributions reduced by CZK 440 (€16.5 a month) (or CZK 1,170 [€44] and CZK 1,900 [€71.5], respectively).

The measure is expected to reduce the social contributions of households with two or more children by CZK 3.8 billion a year (about €146 million). The government's aim is to improve the economic situation of large families and also, in the medium term, to influence the birth rate in order to enhance future fiscal sustainability of the pension system.

Financial transfers to households with children are currently made particularly through the child allowance (CZK 2.8 billion [about €104 million] in 2016) and a non-wastable child tax credit on income tax (CZK 30 billion [about €1,111 million] in 2016). While the child allowance is an income-tested benefit (approximately 21% children were eligible in 2014), the child tax credit is granted to those households with children that have income from economic activity (the parents of approximately 91% children were eligible in 2014).

Differentiated support to large families is not a novelty in the Czech Republic. The present government, established in 2014, decided to increase the child tax credit (CZK 13,404 – about €516 yearly) for the 2nd and any subsequent child with effect from 2015. This differentiation was even strengthened in 2016 and 2017. The yearly tax credit is CZK 19,404 (about €746) for the second child and CZK 24,204 (about €931) for each additional child in the family in 2017. The differentiation of the tax credit thus already brings households with two or more children an additional CZK 5.4 billion (about €209 million).

Outlook & commentary

The differentiation of insurance contribution rates was first proposed by the Expert Committee on Pension Reform in 2015. The proposal assumed that the change in insurance rates would concern both parents, and that fiscal neutrality would be achieved by raising, at the same time, the insurance rate (+1.0 pp) for all payers who do not care for a dependent child.

The proposal met with criticism from various parties (for reasons, see Jahoda 2015). It was not supported by the Expert Committee for Family Policy, which pointed out its negative impact on work incentives for women, and introduced an alternative proposal in February 2016. This proposal did not increase the insurance contribution rate for people without children and assumed a financially limited support for only one parent in the household – that parent who returns to the labour market after parental leave.

The proposal by the Expert Committee for Family Policy was not adopted and further elaborated by the Ministry of Labour and Social Affairs (MLSA), but some of its principles appeared in the version approved by the government. The government continues to receive criticism from some ministries and social partners (see MLSA 2017) over ad hoc planning, piecemeal approach, rising direct and indirect (associated) administrative costs and budgetary demands. Since the insurance premiums relief will only be granted to one of the parents (the one of the parents' own choice), the 22% gender wage gap gives reason to assume that, in two-parent households, the beneficiary will typically be the man. Some experts thus argue that the measure will further deepen the gap in the tax wedge on labour of men and women and reinforce the traditional model with a male breadwinner and female child carer.

The bill was introduced to the Parliament on 18th of April 2017 (see Parliament 2017). The "first reading" (first discussion out of three) is planned for the second week of June 2017. In view of the upcoming parliamentary elections (end of October 2017), the MLSA officials themselves admit that there is a risk that the current Parliament will not have enough time to discuss the bill.

Further reading

Jahoda, R. 2015. Proposals of the Czech Expert Committee on pension reform: balancing fairness, attractiveness and sustainability. ESPN Flash Report. September 2015. Online http://ec.europa.eu/social/BlobServlet?docId=14695&langId=en

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Parliament 2017. Sněmovní tisk 1096/0. Novela zákona o pojistném na sociální zabezpečení. [Parliamentary document No 1096. Amendment to the social security insurance premiums Act]. Only in Czech. Online http://www.psp.cz/sqw/text/tiskt.sqw?O=7&CT=1096&CT1=0

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