



Lithuania introduces a universal child benefit to tackle child poverty

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In Lithuania, a considerable share of parents were not eligible for personal income tax allowances, due to their low income. To address this issue, the Government decided to replace the child tax allowance, from January 2018, with a universal child benefit. From January 2019, this benefit has been increased from €30 to €50 per month.

Description

Before 2018, Lithuania had no system of universal child benefits. Personal income tax (PIT) allowances were used to fight poverty. A basic tax allowance was granted to each earner and an additional tax allowance for parents. A substantial increase in the PIT allowances in recent years has made it more difficult for low-wage earners to make use of the PIT allowances, as their income was insufficient. Since 2014, the income of minimum wage earners with three or more children has not been taxed; the same has been true, since 2016, for parents with two children, and since 2017, also for parents with one child. This has meant an increase in the number of low-income families unable to make use of PIT allowances.

Therefore, the Government has decided to replace the child tax allowance with a universal child benefit, so-called "child money" (The Baltic Course 2017). This universal child benefit (€30) was introduced in January 2018.

This benefit is paid to all children from birth until the age of 18. Payments may also be made until the child turns 21, provided he/she is following a general education programme; this includes children studying in vocational training institutions that also provide general education.

Children of large or poor families also receive additional payments, which depend on their age. Children aged 0-2 receive €28.5 per month, and children aged 3-18 (and those aged 18-21 in

general education programmes) receive €15.2 per month. Large families are defined as families with 3 or more children, and poor families as families whose net monthly income is less than €183 per family member (exclusive of child benefit) and whose income from work is less than 15%-35% of their total income (depending on the composition of the family).

Since January 2019, the Parliament has increased universal child payments to €50 per month, and large or poor families will receive an additional €20 – i.e. €70 in total.

The Parliament also approved the amendment to the Law on Benefits for Children, whereby all children with disabilities would receive €70 in benefits, and large or poor families would receive an additional €20 for each disabled child.

Outlook & commentary

Due to high income inequality and a scarcity of child and family support schemes, families with children were more vulnerable to poverty than other groups of society for decades in Lithuania. According to 2017 data published by Eurostat, 25.7% of children are at risk of poverty (versus 20.3% for the EU as a whole). Having three or more children or being a single parent are the most important factors of poverty. Between 44% and 48% of large and single-parent families are at risk of poverty. Higher child benefits are therefore very welcome.

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Before the reform, families had an extra €30 of income per child through the PIT allowance, as non-taxable income was €200 per child and the PIT rate was 15% (€200x0.15=€30). The same amount was paid per child, as the child allowance replaced the tax allowance in 2018. Thus, the reform has had no impact on those parents with earnings sufficient to benefit from the full tax allowance.

However, the reform benefited very low-income families, who were not able to use the (full) tax allowance because of their low income, but are now receiving child benefits. "According to estimates, increasing child benefits from €30 to €50 could reduce the risk of poverty within the 0-17 age group by 4.3%; by 4.2% in single-parent

families with one or several children; and by 9.2% in families with three or more children" (Ministry of Social Security and Labour 2018).

The estimations of child poverty reduction may be too optimistic, given the rapid growth in wages (7%-9% annually) and, thus, in the at-risk-of-poverty threshold. The impact of the reform may not be substantial, as the new child benefits are equivalent to only about 5% of the mean disposable income. It is too soon for a reliable assessment of the impact of the reform on income poverty and inequality. Nevertheless, the new cash benefits will boost spending capacity and will at least reduce absolute poverty.

Further reading

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