Hearing on the draft legislative decree concerning the establishment of the universal dependent child allowance

Summary

Alberto Zanardi, member of the Board of the Parliamentary Budget Office (PBO), testified today at a hearing of the Social Affairs Committee of the Chamber of Deputies as part of the examination of the draft legislative decree concerning the establishment of the universal dependent child allowance (Government Act no. 333).

After a brief description of the main characteristics of the structure of the new allowance – the introduction of which represents a key step in the rationalisation and simplification of existing tools to support families with children – Zanardi then offered an exposition of the effects of the transition from existing programmes (family allowances and tax credits for dependent children under the age of 21) to the new instrument for a number of typical households (which do not necessarily reflect the composition of the actual population). More specifically, his remarks focused on a family unit with a payroll employee as head of household (and therefore a beneficiary of both current programmes) and described the theoretical effects in the presence of different categories of children, a second income earner and asset holdings of relevance in determining the equivalent economic status indicator (ISEE).

The analysis shows that the universal allowance is generally more generous than the existing measures, including for higher income families since the amount of the benefit does not fall to zero for medium-high incomes (as is the case for current programmes). The benefit is particularly significant for minor children with disabilities, while the gain is smaller in the presence of adult children. All other things being equal, moving from a single income earner household to a two income earner household under the new system is generally more favourable than under the existing programmes due to the specific increase granted for that change. The advantage is smaller for higher income levels, at which the specific increase falls to zero. The presence of assets of relevance for determining the ISEE (i.e., amounts exceeding the basic thresholds) makes a family richer for the purposes of the indicator, assuming no change in family income, and this reduces the size of the universal allowance, leaving households either with no additional benefits or losing benefits in the transition from the old to the new system. The greater the assets held, the greater the situations in which a loss is incurred.

Second, the PBO's tax-benefit microsimulation model was used to apply the universal allowance to the actual population (i.e., using a representative sample of the real population rather than idealised households) to quantify the overall cost and distributive effects. In particular, a simulation was conducted for 2023, the year in which the legislative decree provides for the application of a partial safeguard clause for families (only those with an ISEE not exceeding €25,000) who will experience a reduction in benefits compared with the existing programmes (replacement of two-thirds of the loss they incur).

The PBO found that the total cost of introducing the universal allowance comes to just over €18 billion, with about €6 billion in additional resources compared with current mechanisms, in line with the indications in the Technical Report accompanying the legislation. The measure will involve almost 7.3 million families and 10.8 million children, with an average benefit per family of just over €1,000 (almost €700 per child). Of the total eligible population, 92 per cent of families will benefit or experience no change compared with the current system, reflecting the universal character of the allowance and, above all, the use of additional resources.

The analysis provides a breakdown of the distribution of potential beneficiary households with respect to a series of characteristics: level of household income and the ISEE, the prevalent type of household income, the number of children, the macro-area of residence, and whether or not they are recipients of one of the current forms of child support (personal income tax credits and/or family allowances). Among the various results of the simulation, the large share of advantaged families and the significant value of the benefits among those who are currently not eligible for any support measure deserve attention, as it confirms the universal nature of the allowance. Furthermore, benefits are relatively generous for larger families (with more than three children). Conversely, households with assets exceeding the relevant thresholds for ISEE are penalised in relative terms.

In light of the findings, two general considerations emerge. First, it might be appropriate to consider a possible reduction in the weight of real estate assets in the definition of the ISEE for the purposes of determining the universal allowance. With the same family income, the mere presence of an owner-occupied residence with a value exceeding the ISEE thresholds can significantly reduce the universal allowance compared with those who do not own such property. This consideration is all the more significant if we consider the current state of the land registry and the sharp territorial disparities in cadastral values, which would produce different values for the universal allowance depending on where the beneficiaries live, including within individual municipalities, with no change in other conditions. Second, and in light of the above remarks, considering the small number of households that would be disadvantaged by the introduction of the universal allowance (about 8 per cent of the total in the presence of the two-thirds safeguard clause) and the small size of the average loss (about €300 per year), it might also be advisable to consider prolonging and extending the full-replacement safeguard clause envisaged for 2022 beyond the €25,000 ISEE level. The annual costs would amount to a few hundred million euros.

Finally, the introduction of the universal allowance will require addressing two issues that create problems of consistency in the tax-benefit system. On the one hand, maintaining the CUAF family allowance contribution paid by payroll employees appears inconsistent with a universal allowance and therefore leaves us the option of eliminating it and transferring its function to general taxation or extending it to all categories of taxpayer who benefit from the universal allowance. At the same time, the retention of the current system for dependent children older than 21 (personal income tax credits) creates a discontinuity in treatment between younger children and those over 21 that could be eliminated by extending the universal allowance to the latter as well (up to a certain age), with the amount decreasing as the age of the dependent child increases.