

# The New Fiscal and Tax Policies Promote the Path of Fertility Level Improvement

## -- Analysis based on Three Dimensions: Economy, Time and Employment

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### Abstract

In view of the current highly complex and uncertain fertility environment, China has adopted a gradual fertility policy adjustment strategy, but China's birth rate still shows a fluctuating downward trend, and there is still a long way to go to improve the relevant supporting measures of fertility support to promote the improvement of fertility level. Starting from the analysis of fertility theory, this paper selects the three dimensions of economy, time and employment, explores the internal mechanism of fiscal policy affecting fertility level, and sorts out the existing fiscal policies related to improving fertility level and their existing problems in China. Combined with the experience of foreign fertility policy implementation and the actual situation in China, it is recommended to improve China's fertility support policy from four aspects: policy targets, financial investment, development of childcare industry, and multiple subjects, so as to realize the new fiscal policy to promote the improvement of fertility level.

### Keywords

Birth Policy; Fertility Theory; Intrinsic Mechanisms; Implementation Path.

### 1. Introduction

In the new journey of comprehensively building a modern socialist country and marching towards the second centennial goal, China is facing a major demographic transformation. Since 2000, China's fertility level has continued to decline, in order to improve the fertility environment, China has made gradual adjustments to the birth policy, "single second child" in 2014, "comprehensive second child" in 2016, and "comprehensive three children" in 2021. However, the population development situation after the implementation of the policy is still not optimistic, the number of newborns in 2021 is 10.62 million, a new low in recent years, down 43.6% compared with 2016, the fertility rate is only 1.3, and China has entered a period of extremely low fertility level. Many research results show that whether families of childbearing age choose to continue to have children is often closely related to their fertility costs, but with the development of the economy, more and more families hope to provide a better environment for children to grow up, which will inevitably lead to an increase in fertility costs. Based on this, under the background of the "comprehensive three-child" policy, this paper analyzes the mechanism and path of reducing fertility costs from the perspective of fiscal and taxation policy reform, and puts forward suggestions for improving fertility support policies based on reality.

## **2. The Internal Mechanism of Fiscal and Taxation Affecting Fertility Level**

### **2.1. Theoretical Analysis of Fiscal and Taxation Policies to Improve Fertility Level**

#### **2.1.1. New Theory of Family Economics**

The new family economics is born out of modern economics and home economics, which regards children as both a kind of "durable consumer goods" and a "production product" for their parents. Based on the view of the new family economics, the main influencing factor of whether to have another child is the marginal cost of childbirth. Marginal costs include the direct costs of food, clothing, housing and transportation for children, income lost when a parent leaves work to raise a child, and loss of investment in human capital after a parent leaves work. [1]

From the perspective of fiscal and taxation policies, giving families a certain amount of birth subsidies can directly reduce the cost of childbirth and parenting. However, if the amount of the birth subsidy is fixed and not calculated according to the elasticity of the family's income level, the birth subsidy has little incentive for more educated families.

#### **2.1.2. Child Cost Utility Theory**

The cost utility theory of children was first proposed by Professor Leibenstein, which means that under rational assumptions, families determine the trade-offs of marginal children by analyzing the cost and utility of children. Professor Leibenstein divided the utility of children into six types, namely, the utility of consumption, the utility of labor, the utility of insurance, the utility of economic risk, the utility of maintaining family status in the long term, and the utility of contributing to the extended family. [2] In addition, from the perspective of society, the new children will also have certain external effects on society, such as the process of childbirth and growth creates new needs, and children will become new labor when they grow up, and children with high education levels may become valuable human resources in society.

### **2.2. Exploration of the Dimension of Fiscal and Taxation Policies on Fertility Level**

#### **2.2.1. Economic Dimensions**

##### **2.2.1.1 Economic Income**

Lin Tianshui, He Xiuling, He Mingshuai and other scholars have found through empirical research that the level of family economic income and fertility intention show a "U-shaped" distribution relationship, and the fertility intention shows a trend of first declining and then rising with the increase of family income. The increase in family economic income means that they have a better ability to bear the cost of childcare, which is conducive to increasing the willingness to have children, but the opportunity cost of childbearing also increases, which in turn inhibits the willingness to have children.

##### **2.2.1.2 Childcare Costs**

The new family economics theory proposed by foreign scholars Schultz and Becker believes that under the condition of a certain family income, the birth decision is a function of the cost of children and personal preferences, and the cost of childcare plays a negative role in the willingness to have children. [3] The cost of childcare here refers to the direct cost, which is the economic investment of raising children. At present, families pay more and more attention to the problem of "affordability and good upbringing" of children, but the improvement of the quality of child parenting is often accompanied by an increase in the cost of childcare, which in turn leads to an increase in family consumption expenditure, and excessive childcare costs have become the main factor restricting childbirth.

## 2.2.2. Time Dimension

### 2.2.2.1 Maternity Leave

The maternity leave system currently implemented in China means that women can retain their original job leave during the period before and after pregnancy, and can receive normal economic income, their rights are protected by law, and they can apply for legal remedies when they are violated. However, China's maternity leave policy increases the cost of employment by enterprises, on the one hand, it needs to bear the salary of female employees who are not in the post, on the other hand, the original work needs to be arranged separately, resulting in invisible discrimination against female employees, affecting women's career development and income level and even family status.

### 2.2.2.2 Childcare Services

In recent years, the number of childcare service institutions has been increasing, and infant and child care services have gradually developed from welfare to socialization and marketization. More families are aware of the importance of early care and are willing to give time and money to it. However, most young parents are unable to balance work and childcare, and the demand for childcare services is increasing. However, due to the high intensity of childcare work, the difficulty of talent supply in the industry, and the serious lack of social capital investment, the enthusiasm of childcare service practitioners is low, the development of the industry is relatively slow, and the quantity and quality of product supply cannot be guaranteed.

## 2.2.3. Employment Dimension

### 2.2.3.1 Employment Options

In China's traditional family model, mothers usually play the main force of child-rearing, women face the contradiction between child-rearing and career development, and employment choices will be directly or indirectly restricted. With the further development of education level, the number of women with higher education is increasing, and they are more inclined to pursue personal career development. When faced with narrowing their career choices due to childbearing, women are more inclined to delay marriage and childbearing.

### 2.2.3.2 Employment Development

When women return to the workplace after experiencing one or more childbirths, both in the labor market and in the future job promotion and transfer will be at a disadvantage, and even cause a certain depreciation of women's human resource value and gender discrimination, resulting in women facing employment dilemmas.

## 3. Sprng Out and Analysis of Fiscal and Taxation Policles Related to Fertility Level

**Table 1.** Extended maternity leave for women in some regions

region	Extended number of days of maternity leave	Total number of days of maternity leave
Beijing	30-120 days	128-210 days
Shanghai, Jiangsu, Zhejiang	30 days	128 days
Anhui, Sichuan, Guizhou, Shandong, Inner Mongolia, Qinghai	60 days	158 days
Guangdong	80 days	178 days
Henan	trimester	188 days
Hebei	Extended 60 days for one child and two children Extended for 3 children and above: 90 days	158 days for one child and two children 3 children and above 188 days

Fiscal policy mainly affects fertility levels by adjusting social security such as maternity insurance, medical care, and subsidies.

The tax policy mainly mobilizes the willingness to have children through individual tax deductions.

**Table 2.** Local birth subsidy policies

Individual tax deduction	Children's education deduction standards	Expenses for children over the age of 3 to receive preschool education and academic education are allowed to be deducted at the rate of 1,000 yuan per month for each child when calculating the parents' personal income tax. That is, if the conditions for children's education are met, the special additional item for the only child can be deducted 1,000 yuan per month, the two-child family can deduct 2,000 yuan per month, and now the three-child family can deduct 3,000 yuan per month.	
		Pre-school education	The month when the child reaches the age of 3 and one month before entering primary school. Regardless of whether you go to kindergarten or not, as long as you reach the age of 3, you can enjoy a special additional deduction of 1,000 yuan per month for each child.
		Academic education stage	The month in which the child enrolls in full-time academic education is the month in which the full-time academic education ends. From the first grade of primary school, children receive academic education, and if the child works after undergraduate studies, the parent's children's education is deducted as of the month of the child's undergraduate graduation. If the child continues to study for a full-time master's degree, the parents can continue to enjoy the corresponding special additional deduction.
		Continuing education stage	Continuing education with academic qualifications (degrees) is from the month of admission to continuing education for academic qualifications (degrees) in China to the month of the end of continuing education for academic qualifications (degrees), and the deduction period for continuing education with the same academic qualifications (degrees) shall not exceed 48 months. You can enjoy a special additional deduction of 400 yuan per month for continuing education. Continuing education of vocational qualifications for skilled personnel and continuing education for professional and technical personnel vocational qualifications shall be deducted by 3,600 yuan in one lump sum for the year in which the relevant certificates are obtained.

**3.1. Problems in China's Fiscal and Taxation Policies Related to Fertility Level**

**3.1.1. Insufficient Financial Investment in Women's Employment Security**

The balance of women's fertility and employment is an important reason for affecting fertility levels, although China has set up a maternity insurance system to ensure female childbirth, but the insurance money is fully borne by the company, so many enterprises have a certain gender preference when recruiting and promoting talents.

**3.1.2. The IIT System is not Perfect**

At present, China's preferential tax policies for childbirth only take individuals as tax objects, and do not consider paying through specific conditions such as family structure and overall economic situation. Moreover, the deduction standard for personal income tax expenses is

relatively single, although there are six special additional deductions, but the cost of childbirth such as children's basic living expenses, children's medical expenses, etc. are not included in the scope of deduction.

### **3.1.3. Supply of Infant Care Products**

Since the issuance of the Guiding Opinions of the General Office of the State Council on Promoting the Development of Infant Care Services for Children Under the Age of 3 in 2019, China's childcare market has been vigorously developed, but compared with the huge market demand, there is still a large gap in the supply of infant care services. At the same time, the development of China's infant service system is not mature enough, and the childcare service products provided by the industry are relatively single, which is difficult to meet diversified market demand.

## **4. Foreign Fertility Support Policies and Implementation Effects**

In Australia, in order to encourage childbirth, the government implements up to 18 weeks of paid maternity leave at a time, and will give a weekly incentive of 500 Australian dollars for 18 consecutive weeks, as well as childbirth grant, child sponsorship, early education allowance, tertiary education allowance, etc. There is a new baby boom in Australia in 2022, and the fertility rate has rebounded from record lows.

In Finland, mothers from pregnancy to childbirth are all funded by the government, there is a daily subsidy of 20 euros, and a 70% subsidy during maternity leave, from the birth of the child to the age of 18, the child will receive a monthly allowance of 95.75 euros, increasing according to the number of children, and the medical education of children aged 0-17 is free. Finland's fertility rate stopped falling in 2020, and the effect of its fertility policy has already been seen.

## **5. An Effective Implementation Path for Fiscal and Taxation to Promote the Improvement of Fertility Level**

### **5.1. Differentiation of Policy Targets**

There is a "U-shaped" distribution between economic income and fertility intention. [4] For low-income people, the main factor affecting their fertility intention is economic income, and financial subsidies should be increased to reduce the fertility burden of this group. The quality of life of middle- and high-income people has been better guaranteed, more attention is paid to time and opportunity costs, and more support should be provided for education, medical care and career development in the follow-up of childbirth.

### **5.2. Increase Fiscal Investment and Tax Incentives**

The larger the proportion of household welfare expenditure, the higher the fertility rate. [5] The government should set up a special financial subsidy program for care service products, and give certain tax exemptions and financial subsidies to enterprises producing infant care service products, and encourage them to provide more low-cost and high-quality service products.

### **5.3. Promote the Development of the Childcare Service Industry**

Make full use of the resources of social public places, accelerate the construction of childcare service infrastructure, establish and improve talent training mechanisms and welfare guarantee mechanisms for childcare service practitioners, improve the social status of the industry, and encourage more talents to join the childcare service industry.

#### 5.4. Implement Multi-subject Fertility Support Policies

China regards the family as the main force of fertility, but it is difficult to maximize the benefits of resources by relying on family units alone, and it is necessary to promote the transformation of families with fertility support into multiple subjects to jointly support, make full use of time, market and system resources, and realize the collaborative optimization of fertility costs by families, society and enterprises.

### 6. Conclusion

Starting from China's current fertility policy and fertility level, this paper analyzes the influence mechanism of fiscal and taxation policies on fertility intention in combination with theory, sorts out China's current fertility support policies and problems, and puts forward a way to improve fertility level suitable for China in combination with the fertility policy of countries with high fertility level abroad. First of all, the policy targets should be clarified, and the policy targets should be divided according to the economic level, reflecting the differentiation of the support targets; Secondly, it is necessary to increase tax incentives and financial subsidies for the childcare service industry to increase the supply of high-quality childcare products; It is also necessary to improve the construction of childcare service infrastructure, improve the industry talent training mechanism, and optimize the fertility environment; Finally, we should make full use of various resources to achieve multi-subject synergy to optimize fertility costs.

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