

# Research on the Impact of Special Additional Deductions for Personal Income Tax and Related Fee Reductions and Exemptions on Fertility Intention

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## Abstract

According to data from the seventh national census, China's population growth rate continues to slow down, the expected population target has not yet been achieved, and the era of aging and low birthrate is accelerating. In this context, this article mainly studies how the country should use the economic leverage effect of the personal income tax system to guide and motivate the masses to actively have children through economic means, in order to realize the incentive effect of special additional deductions for personal income tax and related fee reductions on childbirth.

## Keywords

Personal Income Tax; Special Additional Deductions; Fertility Rate.

## 1. Introduction

In May 2023, the first meeting of the 20th Central Financial and Economic Committee proposed that efforts should be made to maintain moderate fertility levels and population size, and to support Chinese-style modernization with high-quality development. At present, our country is embarking on a new journey to achieve the second centenary goal, and a population of appropriate size and reasonable structure is an important carrier of production. The strength of residents' desire to have children can be reflected by the birth rate. After 1987, my country's birth rate has generally shown a downward trend. In order to improve the population structure, the country has successively introduced major policies such as comprehensive second-child and third-child policies, which has alleviated the aging situation to a certain extent, but the prospects for increasing the fertility rate are still not optimistic. The key to promoting fertility is, on the one hand, to increase residents' willingness to have children, and on the other hand, to reduce the costs of childbirth, childcare, and education. Providing financial support to families with children in the form of tax incentives and fiscal subsidies is a more effective means of relief. Personal income tax has a direct impact on income distribution and labor supply. Therefore, finding the right direction of fiscal and tax support policies is conducive to increasing my country's fertility rate.

## 2. Research on Factors Affecting Residents' Fertility Intention

As of the end of 2022, my country's total population will reach 1,411.75 million, a decrease of 850,000 from the end of 2021. This is the first time that my country has experienced negative population growth since 1962. The primary reason for my country's population growth rate not to rise but to fall is that the number of births continues to decline. Compared with 2021, the number of women of childbearing age in my country aged 15-49 will decrease by 4 million in 2022. The continued decline in the willingness and total number of women of childbearing age

will lead to a continued decline in the birth rate. In reality, there are many objective factors that hinder population growth in our country. These fertility resistance mainly come from the following aspects.

### **2.1. Economic Factors**

In the past forty years, countless families have been affected by the family planning policy. With the promotion and popularization of family planning, most of our country's family structures have shown a "4+2+1" model, that is, the husband and wife in the family support each other. Four elderly people and raising one child. Most one-child families are often willing to invest more money to ensure that their only child can receive a good education, which at the same time causes the cost of high-quality educational resources on the market to rise.[1] In order to ensure that the quality of life of children is not affected by second and third children, most families cannot afford the financial expenses of raising multiple children. Therefore, most families are more cautious about having second and third children. The time cost in childbearing, parenting, and education is also difficult to ignore. Raising children inevitably takes up most of the parents' time and energy, resulting in a large amount of opportunity costs and a reduction in family income. The decrease in family income and the increase in the cost of raising children have made it difficult for most families to make childbearing decisions.

### **2.2. Family Structural Factors**

In 2022, 6.833 million couples were registered for marriage in our country, a year-on-year decrease of 10.5%, and the proportion of single-parent families is also gradually increasing.[2] For childbearing behavior, a larger family size often means less childbearing pressure. For two-parent or single-parent families, childbearing behavior may mean the need to hire an additional nanny or someone to take care of the children full-time, which will reduce the original cost of the family. income, which in turn affects residents' fertility intentions.

### **2.3. Institutional Factors**

There is an obvious lack of labor protection for women of childbearing age. my country's female labor force participation rate is as high as 60.5%, significantly higher than the world average. At the same time, women spend 2.6 times as much time on housework as men. Women face the dual pressure of employment responsibilities and family burdens at the same time. Considering that women bear childbearing responsibilities, many employers tend to hire men or female workers who have given birth. As a result, most women of childbearing age choose to postpone childbirth or not have children due to work pressure. Fertility.[3] Due to the discriminatory unwritten rules of most enterprises, female employees are under great employment and childbearing pressure. A 2021 National Health Commission survey shows that women's worries about career development are one of the main obstacles restricting fertility. Therefore, only by establishing a labor protection system for women and alleviating the career and fertility anxiety of women of childbearing age can we truly improve women's health. Fertility desire.

### **2.4. Public Service Supply Factors**

Child care is related to the reproduction activities of individuals, families and the entire country. In our country, parents of newborns generally lack parenting experience and time, and newborns also lack specific places for activities, resulting in our country's families being highly dependent on intergenerational care. However, the education of the elderly The method cannot meet the growth needs of children, thus posing a Chinese-style child care dilemma. As of 2021, the number of childcare centers per 1,000 people in our country is 2.03, and the service supply of childcare service institutions is seriously insufficient.[4] In 2019, less than 1% of the national fiscal education expenditures were used for early childhood education. Preschool education has not been taken seriously, and the quality of childcare services is difficult to guarantee. In

addition, children's medical services are lagging behind, and the availability of children's medical services will directly affect residents' fertility wishes (in the context of high-quality population development). Due to the shortage and high price of high-quality medical resources, it is difficult for ordinary families to obtain them through general channels. They are unable to afford medical expenses, and there are often no dedicated maternal and child health care institutions or children's clinics at the township level, causing great inconvenience to family members and patients, and even delaying the best time for treatment. Poor children's health care exposes newborns to health risks, and family medical expenses have also become one of the important factors restricting fertility behavior.

### **3. The Current Special Additional Deduction System for Personal Income Tax is Insufficient**

In 2019, the Personal Income Tax Law was revised and officially implemented. For the first time, a special additional deduction system was added, allowing individuals to deduct their children's education-related expenses when calculating comprehensive income, in order to reduce the childcare burden of the working class through this measure. However, according to statistics from the National Bureau of Statistics, my country's birth rate has not increased significantly due to the introduction of this policy. The main reasons are as follows.

#### **3.1. Unreasonable Fee Deduction Standards**

According to the "2017 China Family Education Consumption White Paper", family education expenditures account for more than 20% of annual household income, making it a part of today's household expenditures that cannot be ignored. According to the special additional deduction standards for personal income tax released and updated on September 1, 2023, a monthly quota of 2,000 yuan per child is stipulated. The original quota of 1,000 yuan cannot effectively solve the current various children's education expenses.[5] And with the increasing competitive pressure in modern society and the orientation of quality education, most parents are not satisfied with basic education for their children. Therefore, in addition to basic education expenses such as books and tuition fees, they also participate in interest classes, summer camps and purchase various kinds of education. Expenditures on educational equipment and other items are obviously and significantly exceed the basic education quota deduction standards. If this part of the expenditure can be included in the scope of special additional deductions and deducted based on the facts, on the one hand, it can increase our country's fertility rate and achieve high-quality population security.

Secondly, there are great differences in economic development in different regions. The differences in education costs in different regions are obvious. According to urban standards, the annual education consumption expenditure in first-tier cities is 16,800 yuan, in second-tier cities is 11,200 yuan, and in third-tier cities is 7,037 yuan. Among them, the education consumption expenditure in third-tier cities is even less than that in first-tier cities 1/2 of the city. It can be seen that the education expenditure in economically developed areas is much higher than that in relatively backward areas. If the special additional deductions for children's education in all areas are the same, this obviously violates the principle of horizontal fairness in taxation.[6]

#### **3.2. The Special Additional Deduction for Children Does Not Take into Account the Family Structure**

According to the 2019 Statistical Bulletin on Civil Affairs Development of the Ministry of Civil Affairs, the number of divorces in my country increased from 1.25 million couples in 2001 to 4.701 million couples in 2019, and the corresponding divorce rate increased significantly. In the judiciary, the younger the child, the greater the probability that the mother will be awarded

child support. After the marriage breaks down, raising children has greater financial pressure. Therefore, women of childbearing age are more willing to have a second or even a third child. cautious. At this stage, my country's special additional deduction policy for personal income tax has not set up preferential care for single-parent families. That is, whether the child support expenses are fully deducted by one party or deducted equally by both parties, it seems unfair.[7] At present, some Western countries have made some specific provisions on the personal tax deduction policy for single-parent families. For example, Germany gives taxpayers of single-parent families a pre-tax deduction amount that is different from that of ordinary families. In 2015, this figure was 1,908 euros per year. Later, An additional 240 euros can be deducted for each additional child, which reflects the preferential care for single-parent families in terms of personal tax deductions.

my country's current personal income tax system adopts individual declaration, which does not take into account factors such as family structure and child support, nor does it consider family income as a whole. Different families have different incomes and different tax affordability. If the family is not calculated as a whole, the tax relief effect will be greatly reduced, which is inconsistent with the fairness of taxation.

### **3.3. The Setting of Special Additional Deductions for Children is Not Scientific Enough**

According to the relevant provisions of the "Interim Measures", the special additional deduction items for children's education under personal income tax include preschool education after the age of 3 and the academic education stage, but it does not include the cost of infant care between 0-3 years old, that is, preschool education. At this stage, although children do not need to go to kindergarten, the cost of various infant and toddler daily necessities they need is even higher. Therefore, how to balance the relationship between family and work has become one of the difficult problems for most families of childbearing age when choosing to have children. Currently, most young people choose early childhood education institutions or hire nannies to assist in taking care of the family, which to a certain extent increases the financial burden on the family. In addition, my country's current special additional deduction system for personal income tax only includes education expenditures after the age of 3. However, in fact, the expenditures for raising children not only include education expenditures, but also include food expenses, medical care expenses, and other expenses. Nursing expenses and other items. We cannot and cannot ignore the basic expenses in the healthy growth of children. If the basic expenses of raising children can be included in the scope of special additional deductions for personal income tax, it will greatly reduce the financial pressure on couples of childbearing age to raise children and will increase the willingness to have children. generate positive meaning.

### **3.4. Lack of Fertility Incentive System**

Women bear the main responsibility for giving birth and raising children. Cost-utility theory can well explain the reasons for women's lack of desire to have children. The way to increase women's desire to have children is to make women feel that the utility brought by children is greater than the cost. However, in the face of greater social pressure, most women are not optimistic about the prospects of raising children. The personal income tax deduction item does not take into account the rights and interests of stay-at-home mothers. Most women do not need to work, but they have to give up and sacrifice their jobs in order to take care of their children. Before giving birth, these women can enjoy a pre-tax deduction of 5,000 yuan [8]. However, once they stop working due to childbirth, they lose the right to deduct basic living expenses, which to a certain extent increases the family's childbirth costs.

## 4. References from Foreign Personal Income Tax Experiences to Encourage Childbearing

### 4.1. Learning from German Experience

Germany's personal income tax policy is very flexible and user-friendly. It adjusts accordingly according to the income of different taxpayers and the size of their individual contributions. This fertility policy is very effective and has greatly alleviated the pressure of childbirth. Germany's special deductions include child tax exemptions and single parent exemptions. The basic children's tax exemption means that the expenses necessary for a child's life should be deducted before tax and adjusted accordingly according to the annual economic development. German personal income tax is implemented according to the "spouses filing jointly" system, which can reduce the burden on taxpayers. In addition, the German government has also implemented a tax reduction policy for single mothers and single fathers. Starting from 2015, the amount of this reduction is 1,908 pounds. If you are raising children alone, then this reduction will be an additional 240 euros. Germany has a wide variety of special expense deduction items, including limited deductions for child care expenses, limited deductions for children's private school tuition fees, etc. 2/3 of childcare costs can be deducted before tax, with an annual limit of £4,000, which specifically includes child care fees and child care costs.

### 4.2. Learning from French Experience

France, a country known for its freedom, has more marriages and divorces in a person's life, and the family structure is also more complex. In this context, France's personal income tax deductions deduct the family's support and education expenses for minor children as a key component to protect the rights and interests of minors and avoid the family's negligence in raising children due to changes in marriage. The French personal income tax system implements a tax declaration model based on the family unit, and uses a combination of actual deductions and fixed deductions to deduct children's expenses before tax, and the deduction amount changes according to the age and education stage of the children. For example, for children aged 0-7, the actual deduction method is adopted, and 50% of the childcare expenses are deducted before tax. The childcare unit covers a wide range of expenses, including not only child care expenses, education expenses and even maternal and midwifery expenses; for children aged 7 years old, The above-mentioned children in school are subject to fixed deductions, and different deduction standards are used for deductions according to the different stages of schooling.

France adopts a very typical personal income tax taxation model that is linked to family structure. The "family coefficient method" it adopts fully takes into account the different tax payment abilities arising from different family structures. Thanks to this model, France's fertility rate has always been at the forefront among EU countries. The family coefficient method refers to setting different coefficients for each adult and dependent in the family. When calculating taxable income, the total income of the taxpayer or family is divided by the family coefficient to match the corresponding value. The tax rate has reduced the tax burden of taxpayers raising children, especially those with multiple children, to a certain extent, and has a clear policy effect of encouraging childbirth.

### 4.3. Learning from Canadian Experience

Personal income tax is Canada's largest tax source, accounting for more than half of Canada's tax revenue, which is at a relatively high level among developed countries in the world. Canada's personal income tax system is standardized. Pre-tax deductions and credits coexist, with the latter being the mainstay. Canada's preferential personal income tax policies focus on the social group of minors, which mainly include basic support expenses, education expenses,

medical expenses and other basic expenses. For the expenses incurred in raising children, there are two types of preferential treatment: pre-tax deduction and tax credit. Policy: The pre-tax deduction items related to child-rearing expenses are mainly child-care expense deductions. The deduction amount changes with the age of the child. The specific deduction amount is based on 2/3 of the taxpayer's labor income and the true expenditure on child care services. The lower of the three figures: the total number and the total annual childcare expenses will be determined. Tax credit policies related to raising children mainly include dependent credits, credits for caring for children with disabilities under 18 years old, and education credits. Education credits are generally deducted at 15% of the expenses incurred, and are generally provided by students. If the tax payable is not enough for the credit, it can be transferred to the spouse, parents, and grandparents for credit. These regulations show that Canada has relatively strong incentives for education expenditures.

## **5. Optimization Design of Special Additional Deduction System for Personal Income Tax**

### **5.1. Optimize Special Additional Deduction Items**

The deductions related to raising children in my country's current special additional deduction items for personal income tax only include expenses for infants and young children under 3 years old and education expenses for children over 3 years old. However, in the process of raising children, education expenses are only a part of it. Therefore, from the perspective of encouraging childbirth, the deduction items for children's expenses should be enriched. In addition to the above two deduction items, basic child support expenses, medical expenses and 3-year-old expenses should also be added. Special deductions for the above child care expenses and other special deductions. Further expand the scope of child expense deduction items by enriching deduction items to include childbearing, education, and parenting costs, further reducing the economic pressure caused by raising children and promoting the effect of encouraging childbearing [9].

### **5.2. Set Differentiated Expense Deduction Standards**

First of all, the personal income tax deduction standard for children's expenses should be linked to the actual cost of raising children by the family, and the deduction standard for children's expenses should be appropriately increased. Since families in different regions and with different income levels have large differences in their children's education expenditure levels, the children's deduction standard Standards should take these factors into consideration. We can learn from the relevant experience of Germany, France and other countries, and set differentiated expense deduction standards according to the children's education stages. According to the children's growth process, it can be divided into infant stage, preschool stage, compulsory education and higher education stages. According to different stages and different regional economies, Different deduction standards are set for each level.

Raising children with disabilities in society requires more childbearing and parenting costs than raising healthy children, and such families also face higher economic pressure. Therefore, it is very necessary to formulate preferential tax policies for children with disabilities. We can refer to the relevant experience of Canada and set different standard deduction amounts according to the degree of disability of the children in the child expense deduction items to reduce the financial pressure on families with disabled children.

### 5.3. Incorporate Family Structure into Considerations for Personal Income Tax Deductions

In order to achieve fair tax rates and ensure that the tax burden capacity of taxpayers is commensurate, taxation should be based on the specific financial capabilities of the family, especially the specific level of payment that the family can afford in terms of childbearing. The tax burden on families with many children should be reduced as much as possible to adjust income distribution. With the help of the third distribution method, the tax rate can be optimized and adjusted to reduce the burden and worries of families in raising children, which will help encourage families to have more children. Research results show that the divorce rate in my country is rising rapidly in general. The high divorce rate has caused a sharp increase in the number of single parents, and the pressure on single parents to support them has also been greater. If the parents are divorced, certain additional personal income tax deductions can be made to the parent raising the children. For families that are reorganized after divorce, corresponding deductions can be made based on the number of children after the combination.

### 5.4. The Tax Payer Changes from Individuals to Families

The family is the most basic unit of society and the foundation for a stable society. Currently, personal income tax is levied on individuals, which ignores to a certain extent the specific connection between family and personal circumstances. Therefore, the special deduction for personal income tax should be based on the family perspective. For example, an appropriate increase in the tax deduction for families with multiple children will provide help for social equity adjustment. It should be set based on the family situation, with family expenditure as the basic element, and the family as a Taxing objects [10] can not only achieve the purpose of saving collection costs, but also further adjust the fairness of social income.

## 6. Summary and Outlook

The great rejuvenation of the Chinese nation cannot be separated from the high-quality development of the population structure, and the reform of the fertility policy is related to the people's living and working in peace and contentment. In order to actively respond to the risk of continued decline in fertility willingness, the party and the state have made a series of major decisions and arrangements to coordinate and resolve population development issues. Although the "universal two-child" policy has achieved certain results, the total number of births in our country has still declined, and the fertility problem has not been fundamentally solved. As the "universal two-child" policy has not yet formed a strong fertility incentive effect, it is not yet known whether the introduction of three children will achieve good results. Therefore, optimizing the personal income tax policy and realizing the organic combination of personal income tax and fertility wishes can effectively stimulate residents' fertility wishes to better welcome the arrival of the three-child era. In the long run, it will be conducive to building a fertility-friendly society and realizing social transformation.

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