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# About child benefit

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*Over the last few weeks, there has been media debate about a further increase in the upper means-test threshold for child benefit.<sup>2</sup> The previous 40% increase made in 2018, which received a lot of media attraction, failed to cause an uptick in the expected number of beneficiaries and children receiving the benefit. In anticipation of the new change, likely to come into effect in January 2020, this article explains what child benefit is and how it is calculated, and tries to discover possible reasons for the failure of the 2018 measure. One of them is inadequate information provided to potential beneficiaries, hence one of recommendations would be that all parents and guardians should check their eligibility for child benefit.*

## 1 WHAT IS CHILD BENEFIT?

Raising and caring for children produces numerous costs to parents and guardians. Part of these costs is covered by the *child support*, which helps mitigate differences in living standards between households with and without children. Child benefit (*doplatak za djecu*) is the cash child support paid from the state budget to households with children, which satisfy a means-test. Along with the personal allowance for dependent children under the personal income tax, it forms the backbone of the Croatian child support system. The child benefit beneficiaries include parents, adoptive parents and guardians who maintain and care for children.

One of the key features of child benefit is its being subject to means-testing. If the income of a household with children exceeds a legally prescribed threshold, the household is not entitled to the benefit. Hence, child benefit belongs to the so-called *means-tested benefits*, as opposed to the *non-means-tested benefits*, sometimes also referred to as universal benefits, because they are available to all households with children, regardless of their income or property.<sup>3</sup>

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<sup>1</sup> The authors are members of the working group for drafting a bill to amend the Child Benefit Act. The work of the doctoral student Martina Pezer has been fully supported by the Croatian Science Foundation. The views, recommendations and conclusions expressed are those of the authors and are independent of the positions of the working group and the Croatian Science Foundation.

<sup>2</sup> Raising the means-test threshold to 90% of the "budgetary base" is one of the proposals presented on the portal [ZadarskiList.hr](http://ZadarskiList.hr)

<sup>3</sup> An example of a universal child benefit in the Republic of Croatia is the grant for a newborn child, paid out by the [Croatian Health Insurance Fund](http://CroatianHealthInsuranceFund.hr) (HZZO). Entitled to this assistance are all parents, regardless of their income status.

## 2 HOW IS CHILD BENEFIT CALCULATED?

Is a household eligible for child benefit? What would be its rate? These questions may seem easy to persons familiar with the functioning of the child benefit system, but the answers are far from being simple. The main source of relevant information is the Child Benefit Act<sup>4</sup>, whereas more detailed instructions can be found on the website of the [Croatian Pension Insurance Institute \(HZMO\)](#), which deals with matters related to exercising the right to child benefit. This article presents a simplified formula for the calculation of the child benefit rate. This is done in several stages during which different parameters and rates are to be determined.

### (1) Total number of household members and the number of children in the household

A household is a group of individuals who live together and who earn and spend their jointly earned total income, without necessarily being relatives. Children are all persons up to the age of 15, or older persons who are in full-time secondary education, normally up to the age of 19.<sup>5</sup>

### (2) A household's total net income

The calculation of a household's total net income is the most challenging stage, because the amounts of all incomes subject to means-testing should be determined. At the outset, it should be noted that incomes earned in the previous, and not in the current year are taken into account. The income received can be taxable and non-taxable. The child benefit means-test includes all taxable types of income (e.g., employment earnings, income from contractual work, dividends, savings interest, etc.) in net amounts, i.e., reduced by social insurance contributions and personal income tax and surtax. Also included are various non-taxable types of income, but not all. So, for example, unemployment and maternity benefits are means-tested, but welfare-related benefits (such as guaranteed minimum income and housing benefits) and alimony received are not. All (net) amounts of the means-tested income received by all household members are added together as the household's total net income.

### (3) Net income per household member

The household's total net income is divided by 12 and by the number of household members to get the monthly net income per household member.

### (4) Means-test brackets and child benefit rates per child

At this stage, a household is assigned to one of three means-test brackets in order to determine the monthly child benefit rate per child (table 1).

**Table 1**

*Means-test brackets and child benefit rates*

Where the monthly net income per household member (in HRK) is...	...the household is in the means-test bracket...	...and is monthly child benefit per child (in HRK) stands at...
up to 543.14	I	299.34
from 543.15 to 1,119.53	II	249.45
from 1,119.54 to 2,328.20	III	199.56

Source: Authors' calculation according to the Child Benefit Act and instructions provided on the HZMO's official website.

Note: For certain groups of children, the amounts listed in table 1 are increased by a given percentage (e.g., by 15% for children with a single parent). Some groups of children are entitled to child benefit on special terms, e.g., children with severely impaired health receive the amount of HRK 831.50, regardless of the household's income (see Articles 21-22 of the Child Benefit Act).

Where a household's monthly net income per member exceeds HRK 2,328.20, the household is not assigned to any means-test bracket and is not entitled to child benefit.

<sup>4</sup> OG Nos. 94/01, 138/06, 107/07, 37/08, 61/11, 112/12, 82/15 and 58/18.

<sup>5</sup> This is a simplified definition of children. For a more detailed formal definition, please, refer to Articles 10 to 12 of the Child Benefit Act.

### (5) Supplement for a third and fourth child

A household assigned to one of the three means-test brackets listed in table 1 is additionally entitled to a "pro-natalist supplement" in a monthly amount of HRK 500 for a third and fourth child. Consequently, a household with three children is paid an additional HRK 500, whereas a household with four or more children receives a total supplement of HRK 1,000 (HRK 500 for a third and HRK 500 for a fourth child). By contrast, a household with a monthly net income per member exceeding HRK 2,328.20 is not entitled to either the basic benefit rate indicated in table 1 or the "pro-natalist supplement".

The Child Benefit Act (Article 18) does not use the term "pro-natalist supplement", but the term "supplement for a third and fourth child". Nevertheless, the term "pro-natalist supplement" has become commonly accepted and can also be found in official sources.<sup>6</sup> However, there are two reasons why that supplement does not really have pro-natalist effects. First, it is not provided for a fifth, sixth or any subsequent child. Secondly, it is not available to all families, but only households meeting the means-test requirement.

### CALCULATION EXAMPLES

A *household A* consists of four members: the parents Ivan (aged 32) and Marija (aged 33) and two children: Mia and Luka (7 and 5 years of age, respectively). Ivan and Marija are employed; they receive salaries and have no other income. Ivan's monthly net salary amounts to HRK 4,500 and Marija's HRK 4,700. Their net salaries have not changed from last year, so that the household's total annual income averaged HRK 110,400. If this amount is divided by 12 and the number of household members, the net monthly income per household member stands at HRK 2,300 (= HRK 110,400 / 12 / 4). According to table 1, the household in question is in the means-test bracket III and is entitled to a monthly benefit of HRK 199.56 per child. In other words, the household A receives a total child benefit of HRK 399.12 (i.e., 2 x HRK 199.56) per month or HRK 4,789.44 per annum.

A slightly more complex *household B* has six members: the parents Josip (35) and Ana (32), their three children: Sara (8), Lucija (8) and Lovro (10), and Josip's brother Mario (22). Josip is a tradesman deriving income from self-employment. Ana is unemployed and she received unemployment benefit last year, whereas Mario is a student with no income. Last year, Josip's net annual income totalled HRK 111,000, and Ana received HRK 15,000 in unemployment benefit during the year. Hence, the last year's total net income of household B stood at HRK 126,000, and the net monthly income per household member was HRK 1,750 (= HRK 126,000 / 12 / 6). According to table 1, the household falls within the means-test bracket III and receives a monthly child benefit of HRK 199.56 per child, plus an HRK 500 supplement for the third child. Hence, household B is entitled to a child benefit in a monthly amount of HRK 1,098.68 (= HRK 199.56 x 3 + HRK 500), or an annual amount of HRK 13,184.16.

The HZMO's *e-Citizens (e-Građani)* platform offers a simple child benefit calculator. According to the accompanying instructions, the calculator cannot be used for claiming child benefit, because it uses personally (and not officially) entered data. Therefore, it is intended for information only. The following information is required for the calculation: the year for which the benefit is calculated, total income of the household received in the previous year, total number of household members and the number of eligible children. The HZMO warns of limitations in the calculation, such as the accuracy (which depends on the correctness of input data) and the fact that only basic benefit rates, indicated in table 1, are programmed. The calculator would be more precise and practical if it would require more detailed information on household members, i.e., their income, age and health status, as well as economic and educational standings.

<sup>6</sup> Please, refer to the HZMO and table 29 in the HZMO's *Statistical Information, No. 8/2019*.

### 3 A BRIEF HISTORY OF CHILD BENEFIT

Child benefit dates back to the time of the former state when it existed as a benefit funded from employees' contributions. Hence, only the employed persons' children were entitled to the benefit and it was subject to means-testing.

The "modern" child benefit system, where the benefit is not dependent on the claimant's contribution history, was introduced in 1999.<sup>7</sup> From 1999 to 2001, the means-test and child benefit rates depended on the average net salary in Croatia for the previous year. The rate was set for two means-test brackets, and was higher for each subsequent child (up to five children). Child benefit could be also claimed by the parents of full-time undergraduate students.

Under the current Child Benefit Act which has been in force since January 2002, child benefit depends on the "budgetary base".<sup>8</sup> The two mean-test brackets have been retained, and the upper means-test threshold is set at 40% of the budgetary base (HRK 1,330.40). Student benefit has been abolished and the child benefit rates for a first and any subsequent child have been equalized.

In January 2007, the upper means-test threshold was raised from 40% to 50% of the budgetary base (HRK 1,663.00), and the so-called "pro-natalist supplement" was introduced. An additional, third means-test bracket was introduced, and the child benefit was determined for each bracket at the rates of 9%, 7.5% and 6% of the budgetary base, respectively. The period January 2007 – July 2018 saw no changes in the means-test brackets or benefit rates. However, in July 2018, the upper means-test threshold was raised from 50% to 70% of the budgetary base (i.e., HRK 2,328.20), which meant a major extension of the means-test bracket III.

What motivated the economic policy decision-makers to introduce the above-mentioned changes? On the back of economic upturn and tax disburdening, net income has grown over the years. Concurrently, the budgetary base, on which the boundaries of the means-test brackets depend, was frozen. This led to a continuous decline in the numbers of child benefit beneficiaries and children recipients.

These trends are observable in graph 1, showing the moving of average net salary, total number of children (persons under 20 years of age) and the number of children receiving child benefit in the period 2002-2018. Owing to a natural population decline and migrations, the total number of children dwindled, dropping by 18% in 2018 compared to 2002. In the same period, the number of children recipients decreased at a much faster pace, i.e., by over 40%. As already mentioned, this was due to changes in economic movements, namely the 68% increase in average net salary during the said period, which resulted in the removal of a certain number of beneficiaries from the system each year, because their income exceeded the prescribed threshold. The number of children receiving the benefit would have been even smaller had the government not adjusted the upper means-test threshold in 2007 and 2018.

The number of children receiving child benefit dropped from about 500 thousand at end-2002 to a low of 300 thousand at end-2018. This meant a huge number of households with children that were deprived of government support for child-rearing costs.<sup>9</sup>

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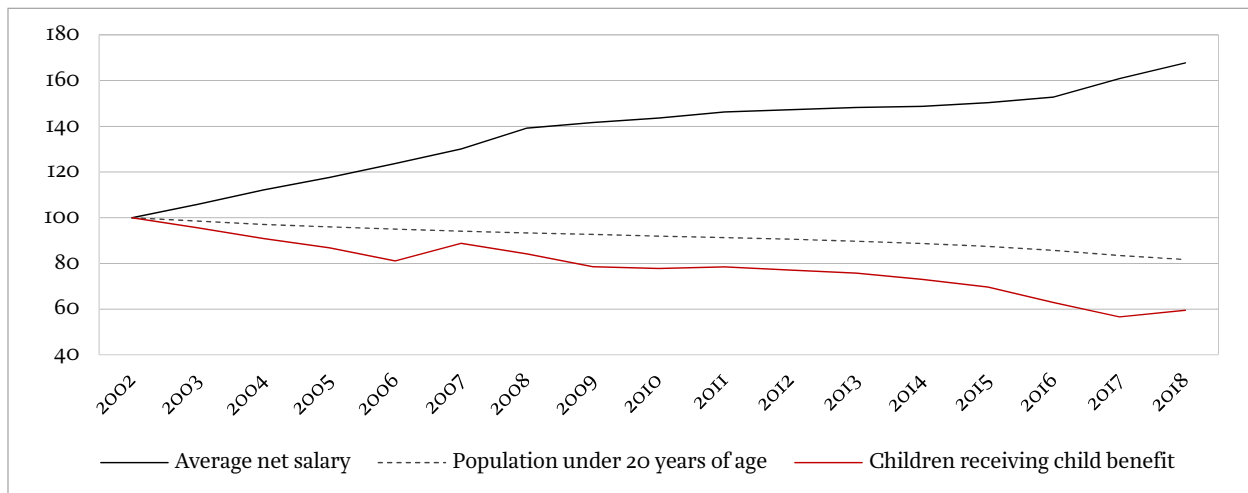
<sup>7</sup> For an analysis of the child benefit reform in 1999, see [Puljiz \(1999\)](#).

<sup>8</sup> Budgetary base (*proračunska osnovica*) is determined each year under the Act on the Execution of the Republic of Croatia's State Budget. In 2002, it stood at HRK 3,326 and it was set at the same amount each subsequent year thereafter.

<sup>9</sup> See table 25 in [the HZMO's Statistical Information, No. 8/2019](#).

## Graph 1

Indexes of average net salary, population under 20 years of age and the number of children receiving child benefit (in 2002 = 100)



Source: Authors' calculation based on CBS data.

### 4 NO TRACE OF NEW CHILD BENEFIT BENEFICIARIES

In early 2018, the Ministry for Demography, Family, Youth and Social Policy (MDFYSP) announced an increase in the upper means-test threshold from HRK 1,663 to HRK 2,328.20. This announcement was welcomed by the public, given expectations of an increase in the number of child benefit recipients by 150 thousand.<sup>10</sup> An appropriate amendment to the Child Benefit Act became effective on 1 July 2018. After some time, however, it became apparent that the expectations were far from fulfilled, as the number of both beneficiaries and children rose only slightly.<sup>11</sup> This caused disappointment of the public and prompted inquiries about the possible reasons for the failure of the measure.<sup>12</sup>

The increase in income threshold from HRK 1,663 to HRK 2,328.20 was substantial. If we take the example of a four-member household, in order to be eligible for child benefit before 1 July 2018, the household's total net monthly income should not have exceeded HRK 6,652. After the change introduced on 1 July 2018, the threshold was raised by 40%, i.e., to HRK 9,312.80. Accordingly, all four-member households with net monthly incomes between HRK 6,652 and HRK 9,312.80 became eligible for child benefit. And the number of such households was presumably large.

Graph 2 shows the estimated number of children in 2018 by income groups which roughly correspond to child benefit means-test brackets. The estimate was made using the microsimulation model, EUROMOD, which uses data from the 2016 Income and Living Conditions Survey.<sup>13</sup> Households with net monthly income per member below HRK 1,663 include about 280 thousand children, which roughly corresponds to the number of child benefit recipients in the first half of 2018. By contrast, the income bracket between HRK 1,663 and HRK 2,328 includes 137 thousand children. It follows that the amendments to the Child Benefit Act could (or should) have led to an almost 50% increase in the number of children covered by the system, which never happened. Where "have all those children gone" and why do they not receive child benefit?

<sup>10</sup> The news has been published by numerous web portals; see, for example [JutarnjiList.hr](http://JutarnjiList.hr) and [Telegram.hr](http://Telegram.hr).

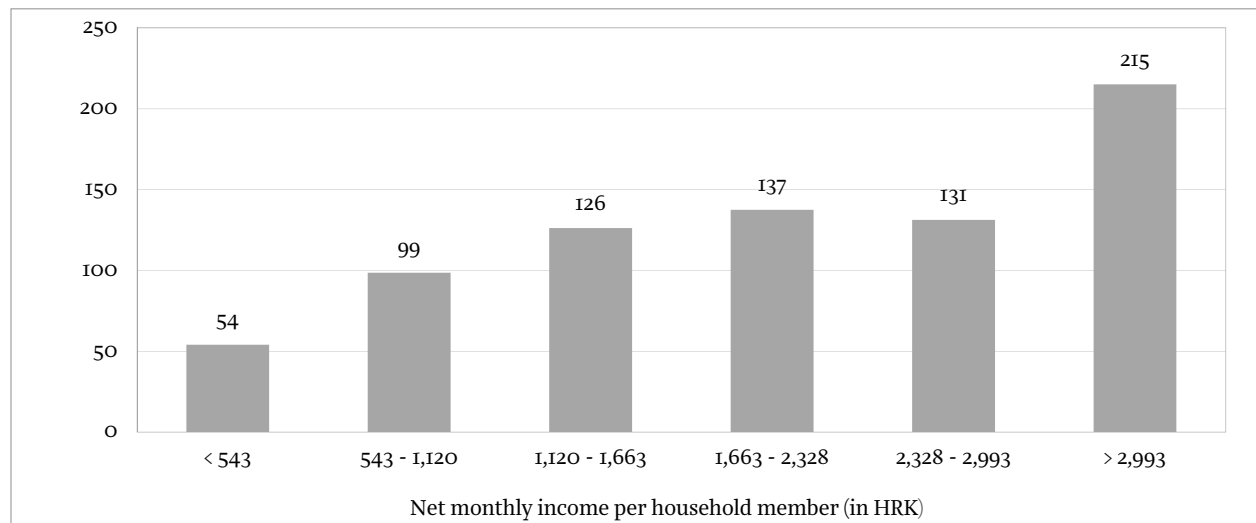
<sup>11</sup> In December 2018, there were 305 thousand children receiving child benefit, barely 15 thousand more than in December 2017. Source: Table 25c in [the HZMO's Statistical Information, No. 8/2019](#).

<sup>12</sup> See the article published by the portal [Jutarnji.hr](http://Jutarnji.hr).

<sup>13</sup> EUROMOD is a tax-benefit microsimulation model for the entire EU, and the Institute of Public Finance maintains the Croatian module. For more information on EUROMOD, please, refer to [Newsletter No. 104](#) and [EUROMOD Country Report Croatia](#).

## Graph 2

The numbers of children by income groups in 2018 (in thousand)



Source: Authors' calculation using EUROMOD.

Note: The definition of children is taken from the Child Benefit Act.

The figures presented in graph 2 probably overestimate the number of children in the bracket between HRK 1,663 and HRK 2,328 because the calculations are based on income data for 2016 and apply to the year 2018. Despite being short (only 2 years), this period was marked by numerous and substantial changes in the levels of net salaries and other income, as well as employment and unemployment figures. Moreover, leaving the country for work abroad by many citizens accelerated the population decline trend, especially as concerns youth population. Also, a portion of children living in Croatia receive child benefit from other EU Member States where their parents are employed. EUROMOD adjusts the data to income growth and changes in the tax-benefit system, but it does not take account of changes in employment status, migrations and population decline.

The number of potential new beneficiaries in 2018 could have been less than 137 thousand, but it probably far exceeded 15 thousand (i.e., the increase in the number of beneficiaries between December 2017 and December 2018). These differences can be explained by two assumptions:

### I. Part of potential beneficiaries are not aware of the possibility to get child benefit.

The benefit calculation rules are relatively complex, so that they can be inadequately understood or misinterpreted.

### II. Part of potential beneficiaries are not interested in claiming the benefit.

(a) Child benefit can be claimed by submitting an application form together with the copies of required documents and certificates of incomes received. In order to continue receiving the benefit, the application form should be resubmitted each year, along with evidence of possible changes in employment status, household members, etc.<sup>14</sup> Beneficiaries are required to notify the HZMO without delay of any changes *during the year* which could affect the amount of or entitlement to child benefit (e.g., an increase in income).<sup>15</sup> It is assumable that some potential beneficiaries are reluctant to go through such procedures.

(b) Some potential beneficiaries believe that "it does not pay" to apply for child benefit, given its relatively modest monthly amounts. For example, a beneficiary with one child, who falls into the top means-test bracket would receive "as little as" HRK 200 per month. However, taken cumulatively, the amount rises

<sup>14</sup> For more details about applying for child benefit, see the [HZMO's official website](#).

<sup>15</sup> A beneficiary can be fined between HRK 1,000 and HRK 5,000 for failing to report, within the prescribed time limits, any change that can result in the loss of entitlement to, or a decrease in the amount of child benefit (Article 35 of the Child Benefit Act).

to HRK 2,400 annually, which is a considerable boost to each family's budget for covering all kinds of costs, e.g., buying a baby car seat or financing a school leaver's excursion.

(c) It may be that child benefit (unjustifiably) carries the stigma of a social welfare assistance, which discourages potential beneficiaries with "decent" incomes from claiming the benefit that is legally due to them. The fact is, however, that many beneficiaries come from very low-income households and the benefit helps them alleviate poverty. Nevertheless, child benefit should be primarily considered as a family and child benefit. That was exactly the idea behind the recent increase in the upper means-test threshold, aimed at expanding the system to as many as possible children, including those from households that are well above the poverty line.

## 5 IN ANTICIPATION OF NEW CHANGES

In recent years, there has been a lot of discussion about the future of child benefit in Croatia, resulting in various plans and proposals. Some of the plans were aimed at more rigorous means-testing<sup>16</sup>, whereas others entailed introducing a universal child benefit<sup>17</sup>, as known in numerous other EU Member States.<sup>18</sup>

The MDFYSP has decided to keep the current child benefit system for the time being, but to expand it to a larger number of recipients. The implementation of the 2018 measure stopped the negative trends, but the expected growth in beneficiaries failed to materialize. Therefore, additional changes in the same direction are expected, specifically, a further increase in the upper means-test threshold.

If the budgetary base should be continuously adjusted, for example, to the cost-of-living growth, the means-test bracket thresholds and the child benefit amounts would go up automatically, thus preventing a fall in the number of beneficiaries and a continuous deterioration of the real value of the benefit. However, the budgetary base influences a great variety of other benefits (for example, various types of compensation under the Act on Maternity and Parental Benefits, and the Act on Croatian Homeland War Veterans and Their Family Members). There is no analysis to show how an increase in the budgetary base, e.g., by 1%, would affect the number of beneficiaries and budget expenditures. This may be one of the reasons why the budgetary base amount has been frozen for as long as seventeen years.

To conclude, all parents should be informed about their rights, whereas the competent institutions are expected to:

- provide clear instructions and information, for example, through online forums in which participants could pose specific questions about claiming child benefit<sup>19</sup>;
- continuously monitor and analyse the numbers of beneficiaries and recipients of child benefit and other forms of child support;
- consolidate all official data on citizens, families and households in a single database, which would enable a more thorough analysis of the tax and social benefits systems and the planning of their reforms; and
- strive for the simplification of the Child Benefit Act, as well as the child support system as a whole.

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<sup>16</sup> In the first half of 2016, there were debates about introducing **assets-based means-testing**. However, this idea had been considered back in 2013.

<sup>17</sup> The former Ombudsman for Children, Ms. Ivana Milas Klarić, advocated the introduction of a **universal child** benefit. Such proposal has also been considered by the current **Government of the Republic of Croatia**.

<sup>18</sup> The EU Member States applying a universal child benefit include: Austria, Belgium, Finland, Hungary, the Netherlands, Germany, Slovakia and Sweden.

<sup>19</sup> One such private forum with plenty of useful information was opened on Facebook under the title „**Porodiljni, dječji doplatak & socijalna pomoć**” (*Maternity, child benefit & social assistance*).