

3. There is also vertical income redistribution in that families that make above \$9,000 a year lose in terms of cost-benefits (the cost of the allowance is greater than the benefit of the allowances), and families with incomes of less than \$9,000 gain in terms of cost-benefits.

4. The progressivity of the Canadian income tax is reduced by the family allowance for the reason that it is exempt from taxation.²

THE FAMILY ALLOWANCE IN DENMARK

The family allowance in Denmark is different from allowances paid in the four other countries because it is based to a certain extent on need. Families with incomes below a prescribed standard receive an additional allowance, called a general allowance. The family allowance is paid to all Danish families and is not subject to the Danish income tax.

The family allowance was introduced in 1949 and has been revised on a number of occasions. The Danes regard it as a device which is partial compensation for the levying of a series of indirect taxes which culminated with the adoption of the value added tax in 1967. In 1960 tax exemptions of 600 to 800 kroner per child were abolished for income tax purposes, and the family allowance was used as a replacement.³

The current family allowance arrangement entails the payment of 780 kroner per child per year for the first four children in a family, and payment of 830 kroner per child for the fifth and subsequent children. There is an additional allowance of 350 kroner per child for families in which there is a single mother or father. In terms of U.S. currency the family allowance amounts to approximately \$110 a year per child.

Payment of the family allowance can be illustrated as follows:

	<i>Kroner</i>
Families with 1 child.....	780
Families with 2 children.....	1,560
Families with 3 children.....	2,340
Families with 4 children.....	3,120
Families with 5 children.....	¹ 3,120

¹ Plus 830 kroner for the 5th, 6th, 7th child, etc.

The average gross income in Denmark is around 30,000 kroner a year, and the average net taxable income is 23,000 kroner. An average Danish family consists of three persons. In terms of ratios, the family allowance would constitute about 3 percent of average gross income and about 4 percent of average net taxable income.

For families or single persons with low incomes, there is an addition to the allowance, which is tied on the level of income. If net taxable income is less than 8,200 kroner (\$1,100) a year, a general allowance of 350 kroner a year is paid. If net taxable income is between 8,200 and 8,800 kroner a year, the general allowance is 200 kroner, and if net taxable income is between 8,800 kroner and 9,600 kroner, the general allowance is 100 kroner a year. For single persons with net taxable income of less than 8,500 kroner a year, compensation amounting to 200 kroner is paid.

A measure of the importance of the family allowance in Denmark is provided by a comparison of allowances to income tax revenues against which they are offset in the Danish national budget. In the fiscal year, 1950-51, personal income tax revenues amounted to 727 million kroner and family allowances 89 million kroner. The allowance amounted to 12.5 percent of the gross income tax revenue against which it was offset. For the current fiscal year, 1967-68, the ratio had increased to 17 percent.

² For studies of the redistribution effects of the family allowance see Joseph W. Willard, "Some Aspects of Family Allowances and Income Redistribution in Canada," *Public Policy*, Vol. V, 1954, and Antal Deutsch, "Income Redistribution Through Canadian Federal Family Allowances and Old-Age Benefits," *Canadian Tax Foundation*, 1968.

³ The Danish currency unit is the krone. One krone is worth \$0.145.