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Research on Fiscal and Tax Policies to Support Fertility under the Background of the "Three-Child Policy"

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Abstract

As China's social and economic development has entered a fast track, accompanied by profound changes in its population structure, the Chinese government has made multiple strategic adjustments and optimizations to its population and fertility policies in a timely and flexible manner. To ensure the long-term balance and sustainable development of the country's population, in the first year of the "14th Five-Year Plan" period, the progressive and open fertility policy has undergone significant adjustments. The Central Committee of the Communist Party of China and the State Council issued the "Decision on Optimizing Fertility Policies to Promote Long-Term Balanced Population Development", proposing that "a couple can have three children", marking a new round of adjustments to the fertility policy. This aims to actively respond to the trend of population aging and promote family harmony and social vitality. However, the current fiscal and tax guarantee system for China's fertility policy still faces many challenges. In response to these challenges, it is necessary to continue to increase fiscal and tax support and explore more diversified forms of financial subsidies and tax preferences.

Keywords

Fertility policies; encourage childbirth; tax incentives; financial subsidies

1. Presentation of the Problem

Since the reform and opening up, the evolution of China's fertility policy has shown distinct phased characteristics. Based on the analysis of population transition theory, this process can be divided into three key stages: The first stage is to implement the "one-child policy" with the aim of strictly controlling population growth; The second stage is to implement a gradual "two-child policy" to address the issues of labor shortage and population aging. The third stage shifted to the "three-child policy" aimed at optimizing the population structure. The trajectory of policy adjustments is fully reflected in documents such as the "Decision of the Central Committee of the

Communist Party of China and The State Council on Strengthening Family Planning Work and Strictly Controlling Population Growth", the "Communique of the Fifth Plenary Session of the 18th Central Committee of the Communist Party of China", and the "Decision of the Central Committee of the Communist Party of China and The State Council on Optimizing Fertility Policies and Promoting Long-Term Balanced Population Development". It is worth noting that the data from the seventh national census shows that the number of newborns in China dropped to 12 million in 2020, a decrease of 18% compared with 2019 and a decline of 33% compared with 2016, setting a new low since the founding of the People's Republic of China. Against this backdrop, how to improve the supporting policy system to ensure the effective implementation of the three-child policy has become an important issue that needs to be urgently addressed at present.

From the perspective of the composition of fertility costs, it can be divided into three main components. The first is the direct expenditure during the reproductive stage, including the costs incurred in pre-pregnancy preparation, prenatal care and delivery care, etc. Specifically, these expenditures cover multiple items such as the processing of birth permits, prenatal check-ups, nutritional supplements for pregnant women, and the purchase of maternity supplies. Secondly, there is continuous investment in the nurturing process, involving expenses in areas such as infant and toddler care and daily living support. Under the dual pressure of continuously rising prices and relatively scarce high-quality public service resources, this part of the cost shows a rigid upward trend. Finally, there is the investment related to education. Influenced by both traditional cultural concepts and modern competitive pressure, the expenditure on family education is not only considerable in amount but also its proportion in the total family expenditure has been increasing year by year. Empirical research shows that the cost of raising children in multi-child families has a significant scale-progressive feature, which poses a considerable economic pressure on the ordinary working class.

There are several prominent problems in the current fiscal and taxation policy system that supports childbirth. From the institutional perspective, most relevant policies exist in the form of local administrative regulations and lack a unified national legal norm as support, resulting in obvious regional differences in policy implementation. In terms of specific measures, the current incentive measures mainly focus on areas such as maternity benefits, medical treatment and extended maternity leave, while support policies in the areas of child-rearing and education are relatively weak. In terms of tax preferential policies, although there are relevant preferential provisions for taxes such as personal income tax and value-added tax, the coverage is limited and the incentive effect is insufficient. It is particularly worth noting that the current policy design fails to fully take into account the special needs of families with multiple children. For instance, the maternity allowance standards have not been raised accordingly with the increase in the number of children, resulting in a deviation between the actual policy effect and the expected goals. Furthermore, under the influence of factors such as inflation, the actual sense of gain from the existing policies has weakened, further reducing their incentive effect.

2. Analysis of Current Fiscal and Tax Policies Supporting Childbirth

The current fertility support policies in our country have formed a relatively complete institutional framework in the fields of finance and taxation. From the perspective of fiscal support, relevant policies can be divided into two forms: explicit support and implicit support. Explicit support is mainly manifested in direct economic subsidies for people of childbearing age, including the legally stipulated maternity insurance benefits and the maternity assistance programs provided by local governments. Implicit support is reflected in the government's financial input into public services such as the maternal and child health care system and childcare facilities. Although these measures are not directly distributed to individuals, they indirectly reduce the burden on families by improving the reproductive environment.

In terms of tax policies, supportive measures also exhibit a combination of direct and indirect characteristics. Tax incentives for individuals are mainly reflected in the special deduction items set up in the individual income tax system, while tax incentives for enterprises guide market entities to increase the supply of services such as infant and toddler care through preferential policies of multiple tax types. Specifically, tax types such as value-added tax and corporate income tax all have tax reduction and exemption provisions for industries related to child-rearing.

However, empirical research shows that although the existing fiscal and tax support policies have alleviated the economic pressure on families to a certain extent, their support is still insufficient in the face of the continuously rising cost of having children. The current policy system has obvious shortcomings in terms of coverage and support intensity, and it is difficult to fundamentally solve the key problem of excessively high fertility costs that restricts the long-term balanced development of the population. Especially in addressing the actual needs of multi-child families, the adaptability and accuracy of the current policies both need to be improved.

2.1. Weak policy support

The current fertility support policies still have room for improvement in both the fiscal and tax dimensions. From the perspective of financial support, the current maternity allowance system mainly compensates for medical expenses, but fails to fully consider other necessary expenditures during pregnancy and childbirth. Studies show that the expenses for nutritional supplementation and postpartum rehabilitation account for more than 35% of the total family expenditure on childbirth, and these expenditures have not yet been covered by policy guarantees. In terms of child-rearing support, the financial subsidy is still insufficient compared with the actual demand, only covering 12-15% of the total family child-rearing expenses, which is difficult to effectively alleviate the economic pressure brought about by childbirth.

In the field of tax policies, with the adjustment of maternity leave policies in various regions, the labor costs of enterprises have increased accordingly. Survey data shows that extending maternity leave leads to a 15-20% increase in per capita labor costs for enterprises, and this burden is mainly borne by employers. This situation objectively exacerbates the gender disparity in the job market. Some enterprises are more inclined to hire male employees, posing greater challenges to women's career development. To balance the burden on enterprises and support for childbirth, it is suggested to optimize the preferential policies for enterprise income tax and establish a more reasonable cost-sharing mechanism through measures such as increasing the reduction and exemption ratio.

2.2. The coverage area is too narrow

The current fertility security system has obvious structural flaws in terms of coverage. From the perspective of the financial support system, non-insured groups find it difficult to obtain effective fertility subsidies. As China's maternity insurance adopts an employer contribution model and does not allow individual participation, unemployed women and flexible employees are excluded from the coverage. Although in some regions, policies stipulate that if a spouse has continuously paid insurance for 12 months, they can enjoy medical expense reimbursement benefits, core benefits such as maternity allowances still cannot be obtained. What is more notable is that non-insured families cannot receive any form of financial support at all. This situation is particularly common among the floating population and those working in new forms of employment.

Tax preferential policies also have blind spots in coverage. Under the current system, tax reductions and exemptions related to childbirth mainly apply to two types of situations: tax exemption for medical expense subsidies and maternity benefits. This institutional design flaw makes it difficult for a considerable proportion of people of childbearing age to obtain the necessary policy support when facing the choice of having children. This not only increases the economic burden on families but also objectively suppresses their willingness to have children. To improve this situation, it is suggested that the scope of beneficiaries of tax incentives be extended to all families with children, not just the insured groups, so as to build a fairer and more inclusive support system.

2.3. There is uniformity in fiscal and taxation policies

The current fertility support policy system in our country has several limitations in terms of policy types and implementation effects. From the perspective of policy composition, the support measures at the central level mainly focus on two traditional areas: social insurance and investment in basic education, lacking innovative institutional designs that are tailored to the characteristics of fertility policies in the new era. At the local level, only a few economically developed provinces have explored and implemented supporting measures such as fertility subsidies, and the coverage is limited. In terms of policy content, the current system fails to reflect the differentiated needs of multi-child families. Families with different numbers of children receive basically the same support, and an effective gradient incentive mechanism has not been formed.

Specifically, there is a significant regional imbalance in local subsidy policies. Although some pilot regions have attempted to establish diversified subsidy standards, due to insufficient preliminary research and inadequate argumentation, the scientificity and sustainability of these policies are questionable. What is more worthy of attention is that there is a clear mismatch between the current policy supply and the actual demand. Take educational investment as an example. Although the fiscal funds for education have been continuously increasing, their allocation structure still leans more towards the school education system. The sharing of family education costs and support for community education services are significantly insufficient, making it difficult to effectively alleviate the actual burden on families. This structural imbalance has, to a certain extent, weakened the expected effect of policy implementation.

3. International References for Fiscal and Tax Policies Supporting Childbirth

International experience shows that developed economies have accumulated rich policy practical experience in addressing the challenge of low fertility rates. As early as the 1970s, some Western countries were already confronted with the predicament of continuously declining fertility rates. After decades of exploration, these countries gradually formed relatively mature fertility support systems. Although there are differences in specific national conditions among countries, their fiscal incentive measures have generally achieved positive results in enhancing the willingness to have children. These successful cases provide important references for the optimization of China's policies.

In terms of the design of the fiscal subsidy system, international practices have shown diverse characteristics. Take European countries as an example. Belgium adopts a decreasing subsidy distribution model, linking the subsidy amount to the postpartum period. France, on the other hand, implements differentiated support based on the number of children. Families with multiple children can enjoy longer-term subsidies. The subsidy system in Nordic countries is more comprehensive. Sweden not only offers newborn subsidies but also provides multiple guarantees such as pregnancy allowances. The UK and the Netherlands, on the other hand, focus on maintaining an income balance before and after childbirth, ensuring that the allowance standards are comparable to the prenatal salary levels.

Some countries have established classified subsidy mechanisms. Germany divides child-rearing support into two parts: parent funds and child subsidies, which respectively compensate for income loss and child-rearing costs. Russia and France encourage multiple births through tiered subsidies, while Japan and South Korea adopt a combination of birth bonuses and education subsidies. Although Singapore's subsidy policy is relatively simplified, it covers the basic needs throughout the entire process of childbirth. Educational support is an important component of international fertility policies. Russia and France directly provide education subsidies, while Germany and Japan reduce the burden on families by making public education free. South Korea pays special attention to supporting higher education, while Singapore focuses on subsidizing childcare services. These measures have effectively alleviated the pressure on family education expenditures and created favorable conditions for enhancing the willingness to have children.

4. Suggestions for Improving Fiscal and Tax Policies to Support Childbirth

To improve the fertility support policy system in our country, it is suggested that a systematic optimization be carried out from three dimensions: fiscal support, tax preferences and policy coverage. In terms of financial support, a subsidy mechanism covering the entire birth cycle should be established. The existing maternity benefits should be extended to the child-rearing stage, and phased and differentiated subsidy policies should be implemented. Specific measures include adding care subsidies for infants and toddlers aged 0-3, implementing tiered child-rearing allowances, and setting up special subsidies for multi-child families. At the same time, it is necessary to improve the fiscal sharing mechanism between the central and local governments to ensure the sustainability of the policies. In addition, it is suggested to establish a full-cycle nurturing support system and improve the financial guarantee measures from infant and toddler care to higher education in stages.

In terms of optimizing tax policies, it is suggested to focus on reforming the individual income tax system, extending the special additional deduction period for children's education to the higher education stage, and implementing differentiated deduction standards. At the same time, the expenses for child care should be included in the deduction scope, and the payment for maternity insurance should be allowed to be deducted before tax. Support policies for the enterprise side include: offering income tax preferences to enterprises that meet the proportion of women of childbearing age employed, reducing the value-added tax rate for baby and maternal products from 13% to 9%, and implementing tax reductions and exemptions on minor taxes such as property tax for childcare institutions. These measures aim to balance the labor costs of enterprises and establish a virtuous interaction mechanism of "enterprise labor costs - tax incentives".

In terms of expanding the coverage of policies, special attention should be paid to the security needs of low-income families and special groups. It is suggested to establish a child tax credit system for low-income families, set a decreasing subsidy standard linked to income levels, and allow the carry-over of unused credit amounts across years. At the same time, special groups such as flexible employees and the floating population should be included in the scope of policy protection, and the policies should be effectively implemented through the coordinated efforts of the central and local governments. These reform proposals are based on China's actual national conditions and draw on international successful experiences. Through a multi-dimensional policy combination, they aim to effectively reduce the costs of childbirth and child-rearing for families and provide institutional guarantees for promoting long-term balanced population development.

5. Conclusion

This study focuses on the construction and improvement of the fiscal and taxation support system during the implementation of the "three-child policy". Under the dual pressure of an intensifying aging population and a continuously declining fertility rate, fiscal and tax tools, as important means to regulate family fertility decisions, their institutional design and implementation effects are worthy of in-depth exploration. This article, from a full life cycle perspective, conducts a comprehensive assessment of the fiscal input mechanism and tax regulatory function of fertility support policies, systematically revealing the limitations of the current system in terms of coverage, support intensity, and implementation effect. Through international comparative studies, it has been found that establishing a multi-level and differentiated fiscal and tax incentive system has a significant effect on enhancing the willingness to have children.

At the policy recommendation level, this study advocates the establishment of a three-in-one policy framework of "economic incentives - service guarantees - social support". Specifically, the structure of fiscal subsidies should be optimized, the regulatory function of taxation strengthened, and at the same time, attention should be paid to the fairness and sustainability of policy implementation. It is particularly important to emphasize that the formulation of any incentive policy should establish a scientific cost-benefit assessment mechanism, ensuring both the policy's effectiveness and preventing the emergence of new social injustices. To this end, it is suggested that a third-party assessment agency be introduced to conduct regular dynamic monitoring and evaluation of the implementation effect of the policy.

As an interdisciplinary research topic, the improvement of population fertility support policies requires the integration of perspectives from multiple disciplines such as economics, sociology, and public administration. Subsequent research will focus on the synergy between fiscal and taxation policies and other social policies, and explore the establishment of more precise and effective policy combinations. At the same time, we also call for strengthening cooperation and exchanges between the academic community and practical departments, jointly promoting the establishment of a population development support system that suits China's national conditions, and creating a favorable population environment for achieving high-quality development.

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