

No Child Left Without: a Universal Benefit for Children in Brazil

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I. Introduction

Support for children needs little justification. They are the most vulnerable population group, they are the future, and they did not choose the circumstances of their birth. Support can be channelled either through direct provision of goods and services, such as education and health care for children, or can take the form of financial support for families. Transfers to families for children have been in the policy limelight since *Bolsa Família* and other Conditional Cash Transfers (CCTs) appeared on the policy landscape. What is not so well known is that *Bolsa Família* is only one of three Brazilian cash transfers to families for their children. The other two are the *Salário Família* and the deduction for minor dependents in Personal Income Tax. We will show here that this system is fragmented, leaves a third of children without coverage, and transfers higher amounts to wealthier families. We propose the unification of the three benefits into a single universal child benefit, which would be far more transparent and fair, without compromising fiscal responsibility.

II. The Present 'System'

The different monetary benefits for families with children were not created as a single system but rather evolved piecemeal from different initiatives over time. We shall briefly look at the characteristics of each transfer and then compare their coverage before explaining our proposal.

The Deduction for Minor Dependents in Personal Income Tax

The first benefit to be created was the deduction for minor dependents in Personal Income Tax. This deduction was created in 1961 and over time has acquired its present format, which is a fixed deduction for children and youths up to 21 years of age if not in school or 24 if still engaged in formal studies.¹ Table 1 shows real and nominal monthly deductions as dictated by the latest legislation, as well as the maximum marginal tax rate. The maximum monthly benefit is the monthly deduction multiplied by the maximum marginal tax rate. The most important column is the last one, but taxpayers whose marginal tax rate is less than the 27.5 per cent maximum will receive a smaller benefit. An important issue is that while we show the Income Tax benefit as a monthly sum, it is received all at once when taxpayers reconcile the tax they owe.

Table 1
Parameters of the Income Tax Minor Dependent Deduction²

Reference Year	Monthly Deduction		Maximum Marginal Tax Rate (%)	Maximum Monthly Benefit (R\$ 2011)
	Nominal	Real (R\$ 2011)		
2007	132.05	165.65	27.5	45.55
2008	137.99	162.42		44.67
2009	144.20	161.58		44.43
2010	150.69	160.64		44.17
2011	155.78	155.78		42.84

Source: Secretaria da Receita Federal.

Although the maximum value of Personal Income Tax Child Benefit has remained close to R\$44 per month per child, it is difficult to know exactly how much each person receives without access to detailed individual tax returns. In Brazil, individual tax forms are almost unobtainable. What we can do is model the benefits that individuals would receive if: they all: (i) followed the law and (ii) filed their tax returns intelligently and rationally.

The *Salário Família*

The *Salário Família* was created in 1963 as a benefit linked to the minimum wage and paid to children aged 14 years and younger of formal workers. To this day, it remains limited to workers with a labour card (except domestic formal workers) and government workers. In this presentation we will concentrate on workers with a labour card, as the benefits received by government employees are extremely heterogeneous, although they are almost always more generous than those received by private formal workers.

The *Salário Família* is a two-tier benefit in which individuals with lower wages receive higher benefits for their children. Table 2 shows the values of the benefits and the wage brackets to which they apply.

Of the three benefits to families for their children, the *Salário Família* is by far the least transparent and most likely to be riddled with fraud. It is not paid directly by the State but rather by employers who then deduct amounts paid from what they owe in Social Security Tax. There is no registry of beneficiaries: the government merely pays the bill sent by the employers. Employers are required to keep the receipts for 10 years, but to date there has been essentially zero

control on the part of the State. In 2007, for example, employers declared R\$1.89 billion in *Salário Família* expenditures, but we do not know what percentage of this was actually paid out to families.

Finally, in 2009 a schooling conditionality was created, but since we do not even know who its beneficiaries are, there is absolutely no way to enforce this.

The Variable Benefit of *Bolsa Família*

Created in 2003, *Bolsa Família* is the newest of the three benefits. Although it was in good measure a re-organisation of previous benefits, none of them existed before 1995. As of 2011, in addition to a fixed family benefit and a youth variable benefit paid to teenagers aged 16 and 17, which do not interest us, *Bolsa Família* also provides a variable benefit paid for children aged 15 or younger. Eligibility lines are defined as a function of per capita family income.

Table 3 shows both benefit levels and eligibility lines. The child benefit has increased in both nominal and real terms, and now it matches the higher benefit paid by the *Salário Família*, but both are still inferior to the maximum Income Tax deduction benefit. This means that, if we regard these three benefits as a 'system', it is one which pays more to children of wealthier families.

It is also worth noting that in May 2012 President Dilma Rousseff announced a new child support programme, *Brasil Carinhoso*, which will cover the poverty gap for all *Bolsa Família* families with children under the age of six that remain in extreme poverty. The government expects to start paying the new benefits by the end of June 2012.

Table 2
Salário Família Parameters³

Period	Wage Brackets		Benefit	
	Nominal	Real (R\$ 2011)	Nominal	Real (R\$ 2011)
02/2009 – 12/2009	<= 500.40	<= 559.77	25.66	28.70
	<= 752.12	<= 841.36	18.08	20.23
01/2010 – 06/2010	<= 531.12	<= 572.02	27.24	29.34
	<= 798.30	<= 859.77	19.19	20.67
07/2010 – 12/2010	<= 539.03	<= 568.80	27.64	29.17
	<= 810.18	<= 854.92	19.48	20.56
01/2011 – 12/2011	<= 573.58	<= 573.58	29.41	29.41
	<= 862.11	<= 862.11	20.73	20.73
01/2012 – present	<= 608.80	<= 588.57	31.22	30.18
	<= 915.05	<= 884.65	22.00	21.27

Source: Ministério da Previdência Social.

Table 3
Bolsa Família Parameters⁴

Period	Eligibility Line		Child Benefit	
	Nominal	Real (R\$ of 2011)	Nominal	Real (R\$ of 2011)
01/2004 – 03/2006	100	141.47	15	21.22
04/2006 – 06/2007	120	156.99	15	19.62
07/2007 – 05/2008	120	149.98	18	22.50
06/2008 – 06/2009	120	141.54	20	23.59
07/2009 – 06/2011	140	148.73	22	23.37
07/2011 – present	140	137.16	32	31.35

Source: Ministério do Desenvolvimento Social e Combate à Fome.

In addition to being smaller, the *Bolsa Família* variable benefit is not an entitlement. This means that a family can be eligible and not receive the benefit because the municipal quota has already been attained (the municipal poverty quotas are designed with considerable slack in mind, but sometimes mayors do hit the budget ceiling). There are no quotas for the *Salário Família* or the Income Tax exemption.

Although they share the same objective and are undertaken by the same federal government, the three existing benefits for families with children have absolutely no communication with each other. The *Bolsa Família* has an excellent and public information system—the name and last name of all its recipients are publicly available; the *Salário Família* is so poorly managed that it cannot communicate even with itself, and no one knows who its recipients are; the Income Tax exemption is also well managed and has an excellent information system, but data on the Personal Income Tax are considered confidential.

III. Coverage and Distributive Impacts

These differences between the three benefits mean that comparing their distribution is not easy and requires

simulations made using household surveys adjusted to administrative data. For more information on how this is done, see Souza and Soares (2011).⁵

Table 4 shows the estimated size of each benefit in 2009. Clearly, although *Bolsa Família* is the largest programme in terms of both budget and number of beneficiaries, the highest average benefit is that associated with the Income Tax deduction.

Table 5, next page, shows how many children live in families that receive each one of the three benefits. Due to a lack of communication among the programmes, about 5 million children receive more than one benefit, with most of this overlap (80 per cent) between *Bolsa Família* and the *Salário Família*. It is also far more worrying that there are about 16 million children whose families receive nothing at all. The smallest benefit, the *Bolsa Família*, is the most relevant to the income of its recipients; the largest, the Income Tax exemption, is the least relevant.

Graph 1, next page, shows that the three benefits have radically different profiles. The two extremes are the Income

Table 4
Child Transfers: How Big is Each Programme?

Benefit	# Children (million)	Annual Expenditure (R\$ 2009 billion)	Annual Expenditure as % of 2009 GDP	Average Monthly Expenditure (R\$ 2009) per child
Income Tax Deduction	7.87	2.55	0.08	27.03
Salário Família	9.41	1.92	0.06	16.99
Bolsa Família Variable Benefit	22.24	4.50	0.14	16.86
Total	34.55	8.97	0.28	21.64

Source: Calculation using the 2008–2009 POF Consumption Survey and adjusted using administrative records of each transfer.

Note: The total number of children is less than the sum due to overlap between programmes.

Table 5
Impact of Child Transfer Programmes on Family Income

Situation	# Children (million)	% of all Children	R\$ 2009 per child	Per Capita Family Income (R\$ 2009)		
				With Benefit	Without Benefit	Δ (%)
Uncovered	16.58	32.4	0.00	357	357	-
Bolsa Família Variable Benefit	17.92	35.0	16.92	135	144	6.5
Income Tax Deduction	6.86	13.4	27.52	1436	1448	0.8
Salário Família	4.85	9.5	17.74	351	358	2.0
Bolsa Família + Salário Família	3.91	7.7	33.09	186	203	8.8
Income Tax + Salário Família	0.60	1.2	40.12	1090	1107	1.5
Income Tax + Bolsa Família	0.37	0.7	38.26	804	822	2.2
All Three	0.04	0.1	47.52	669	693	3.5
Total	51.13	100	14.62	423	429	1.6

Source: Calculation using the 2008–2009 POF Consumption Survey and adjusted using administrative records of each transfer.

Tax deduction and the *Bolsa Família*. The former is a transfer to the rich, and almost all of it lies above the 75th per capita income percentile, while the latter is almost its mirror image, with almost all of it below the 25th percentile. The *Salário Família* lies in between, although it is clearly still pro-poor: it lies mostly in the bottom half of the income distribution.

The 16 million children living in families with no coverage can hardly be considered rich. While they lie mostly in the middle of the income distribution, many of them are in its lower tail.

In sum, our child support system is fragmented, with no communication between benefits, leaves a third of

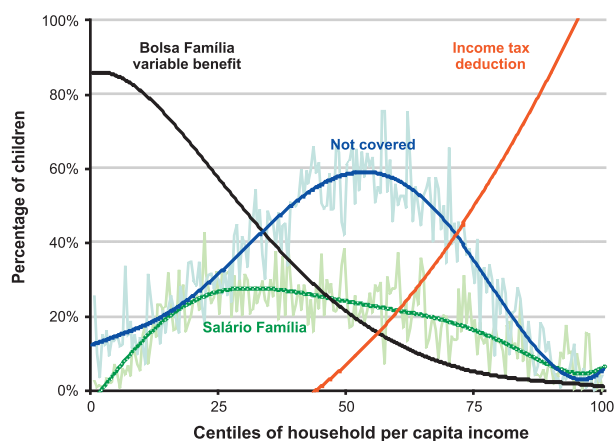
children—many of them in the lower half of the income distribution—without coverage, and transfers higher amounts to wealthier families.

IV. How to Improve the System

The most rational way to improve this system is to unify the three transfers into a single universal child support benefit. The Income Tax deduction for dependent minors, the *Salário Família*, and the *Bolsa Família* variable benefit would all be eliminated and replaced by an entitlement of equal value for all children in Brazil, to be paid to their families.

The three child support transfers cost the federal treasury an estimated R\$8.97 billion in 2009. Table 5 shows that in 2009

Graph 1
Distribution of Transfers by Per Capita Income Centiles



Source: Calculation using the 2008–2009 POF Consumption Survey and adjusted using administrative records of each transfer.

there were 51.13 million children aged 15 or under in Brazil. This means that there is room to create a universal benefit of R\$14.62 per child per month without additional expenses. This is lower than the lowest of the three transfers, which is no surprise since we would be covering an additional 16 million children.

To get to R\$20 per child per month—which is close to the average transfer under the current system (see Table 4)—would cost Brazil 1/1000 of its Gross Domestic Product (GDP). To get to R\$40 per month—which is close to the value transferred by the Income Tax deduction—would cost us slightly less than ½ of one per cent of GDP.

Table 6
Simulations of the Cost of a Universal Child Benefit

Benefit Value	Annual Values (R\$ 2009 billion)		% 2009 GDP	% Additional 2009 GDP
	Total Cost	Additional Cost		
14.62	8.97	0.00	0.28	0.00
20	12.27	3.30	0.39	0.10
25	15.34	6.37	0.48	0.20
30	18.41	9.44	0.58	0.30
35	21.50	12.50	0.67	0.39
40	24.54	15.57	0.77	0.49
45	27.61	18.64	0.87	0.59
50	30.68	21.71	0.96	0.68

Source: Tables 4 and 5.

Table 7
Simulations of Impacts on Child Poverty and Inequality

Transfer Value	No. of Children in Extreme Poverty	Child Poverty FGT Indicators			Gini	
		P0	P1	P2	Index	Variation
Present situation	4,329,901	0.085	0.03	0.57	0.57	
14.62	4,281,352	0.084	0.03	0.569	0.569	-0.1
20	3,912,173	0.077	0.025	0.568	0.568	-0.4
25	3,626,852	0.071	0.022	0.566	0.566	-0.7
30	3,314,430	0.065	0.019	0.564	0.564	-0.9
35	3,014,280	0.059	0.016	0.563	0.563	-1.2
40	2,708,506	0.053	0.013	0.561	0.561	-1.5
45	2,381,256	0.047	0.011	0.56	0.56	-1.7
50	2,047,870	0.04	0.009	0.558	0.558	-2

Source: Calculation using the 2008–2009 POF Consumption Survey and adjusted using administrative records of each transfer.

It is about the total amount spent today on all of *Bolsa Família* and thus not a trivial amount.

Although reducing them *is not* the objective of this proposal, we can also estimate the impacts of the changes we propose on inequality and child poverty. The impacts are not insignificant.

Our biggest surprise with regards to child poverty is that even the R\$14.62 transfer, which costs no additional money, would reduce it compared to the present situation. This happens because some very poor uncovered children would be covered by a universal benefit. It is nonetheless a very modest fall.

If we give R\$40 to every child—close to the Income Tax exemption maximum—we are looking at lifting 1.4 million children out of extreme poverty, cutting the extreme child poverty rate by a third, and reducing the Gini Coefficient by almost 1 Gini Point (x100). Even the children that remain poor would be much better off, as the dramatic reduction in the poverty gap shows.

Even an expensive and generous R\$50 benefit still leaves more than 2 million children in poverty. Their problem is that they live in families which are absolutely incapable of generating any significant income, which shows that a universal child benefit does not substitute policies aimed at fighting extreme poverty.

In any case, these reductions are quite impressive, given that we are talking about an untargeted benefit that would a) not cost the taxpayer very much; b) correct glaring inequities in the present system; and c) contribute to making the Brazilian social protection system more rational, coherent and transparent.

Politically, conditions seem to be ripe for such unification. On the one hand, public opinion has no qualms about social benefits directed to children, as shown by the recent announcement of the *Brasil Carinhoso*; on the other hand, efforts at making policies more sensible and less susceptible to fraud are usually applauded.

Administratively, there are no insurmountable obstacles either. Although the administration of a monthly benefit paid to 51 million children surely looks daunting, Brazil has amassed a great deal of experience in that area: every month, more than 25 million Social Security benefits are issued, and *Bolsa Família* reaches another 13 million families.

Once approved, such a convergence could be conducted either gradually or instantaneously. Politically, the former would probably be preferable, but bureaucratic hurdles might make this unfeasible. This is not a problem as long as the final result is a universal child benefit that eliminates current distortions. ■

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1. The law also allows deduction for other 'incapable' individuals such as those with mental or physical deficiencies and elderly people with no other income sources.
 2. Real values deflated by the average inflation as measured by INPC.
 3. Real values deflated by the average inflation as measured by INPC.
 4. Real values deflated by the average inflation as measured by INPC.
 5. Souza, P. H. G. F and Soares, S. (2011). 'O Benefício Infantil Universal: Uma Proposta de Unificação do Apoio Monetário à Infância', *Texto para Discussão No. 1636*. Brasília, IPEA.

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