

# EUROMOD NEWS

## The tax-benefit microsimulation model for the European Union

EUROMOD is a tax-benefit microsimulation model for the European Union (EU) that enables researchers and policy analysts to calculate, in a comparable manner, the effects of taxes and benefits on household incomes and work incentives for the population of each country and for the EU as a whole.

As well as calculating the effects of actual policies it is also used to evaluate the effects of tax-benefit policy reforms and other changes on poverty, inequality, incentives and government budgets.

EUROMOD is a unique resource for cross-national research, designed to produce results that are comparable across countries and meaningful when aggregated to the EU level.

EUROMOD is managed, maintained, developed and updated by the **Microsimulation Unit**, a team of researchers in ISER. ● This is done in collaboration with national experts. ●

The current version of EUROMOD represents the accumulation of technical developments and expertise over a number of years and involving a large team of people. For more information on the design and development of EUROMOD [click here](#). ●



## EUROMOD: 27 country version released

**The first-ever all-EU version of the microsimulation model, EUROMOD, has been released to the research community.**

EUROMOD now simulates the tax and benefit policies of all 27 member states using micro-data from the European Union Statistics on Income and Living Conditions. As a multi-country European wide microsimulation model, EUROMOD is designed to produce results that are comparable across countries and meaningful when aggregated to the EU level.

Professor Holly Sutherland, Director of EUROMOD, which is based at the Institute for Social and Economic Research at the University of Essex, said: "This is a major milestone for everyone working with EUROMOD. The new first ever 27 country version of EUROMOD represents the accumulation of technical developments and expertise over many years and involving a large team of people." ●



## Microsimulation workshop in Bucharest

**The next microsimulation workshop is taking place on 11-12 October 2012 in Bucharest, Romania.**

Tax and benefit microsimulation is a tool that can be used in various ways: for evaluating the performance of a social protection programme, simulating policy reforms, looking at the impact of a particular policy change on the income distribution, poverty and inequality figures. EUROMOD is a multi-country European wide microsimulation model, designed to produce results that are comparable across countries and meaningful when aggregated to the EU level. The first workshop was held at ISER in 2010. This second workshop is an opportunity is an opportunity for academics and policy

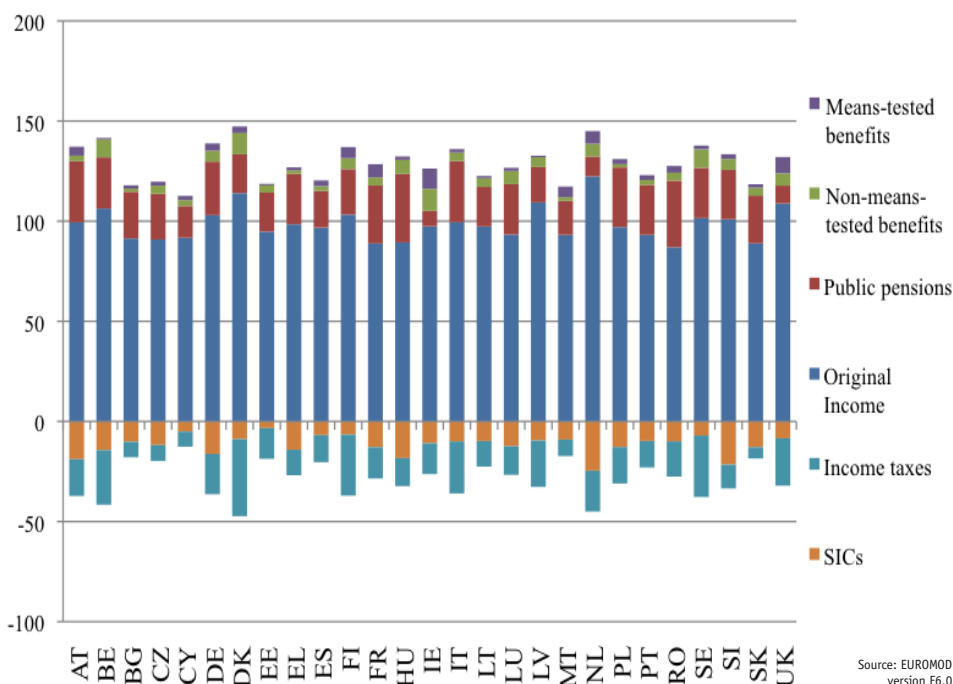
makers interested in cross-national research on taxes and benefits and their effects on income distribution and work incentives to meet and discuss applications of EUROMOD and other microsimulation models. ●

**Key speakers include Olivier Bargain, Professor of Economics at Aix-Marseille School of Economics, and Visiting Research Fellow at IZA, Germany, who will present 'Fiscal Union in Europe: efficiency, equity and the stabilising effects of an EU-wide income tax system'.**

# New statistics from EUROMOD

**EUROMOD statistics on the Distribution and Decomposition of Disposable Income provide estimates of income components (taxes and benefits) by household income decile group as well as inequality and poverty indicators before and after taxes and benefits.**

An example of the use of EUROMOD statistics is provided in Figure 1, which presents the composition of disposable income at the household level. It shows the share that each income component contributes, on average, to the final household disposable income. Taxes and social insurance contributions are shown as negative values, as they lower the final household disposable income. A full set of statistics will be available to download shortly.



**Figure 1: Composition of household disposable income: all households (2010 policies)**

Source: EUROMOD version F6.0

## Working papers

**Evaluating the performance of means-tested benefits in Bulgaria EUROMOD Working Paper Series: EM8/12**

**Author** ● Iva Valentinova Tasseva

**Abstract** Little is known about the effectiveness of means-tested benefits in Bulgaria. Using individual and household level data, I analyse the performance of two social assistance and two means-tested child benefits. I find that the programmes reach a very small proportion of the households with incomes below a relative poverty line. Furthermore, the transfers are characterised with very high non-take up and inclusion of non-entitled or non-poor recipients. Poverty rates decrease by a small degree among benefit clients and yet, the impact is insufficient to affect overall poverty, or for the benefits to achieve their ultimate goals.

**Publication date** September 2012

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**Constructing the tax-benefit micro simulation model for Russia – RUSMOD Working Paper Series: EM7/12**

**Author** ● Daria Popova

**Abstract** The Russian tax-benefit system consists of numerous types of support

available to a large circle of beneficiaries; they are regulated by a number of legislative acts that focus on certain types of assistance rather than on vulnerable groups. In addition, the decentralisation reform of social protection carried out in 2005 motivated many regional governments to implement their own social programs that differ in terms of design and generosity. So far, however, little is known about the impact of the tax-benefit policies on income distribution and poverty in Russia. This paper describes the construction of a tax-benefit microsimulation model for Russia (RUSMOD) which is based upon the EUROMOD platform. RUSMOD simulates the eligibility and receipt of most of the existing monetary policies at the federal and regional levels and assesses their potential redistributive effect. This paper aims to provide necessary background material on the construction of the model to anyone wishing to work with RUSMOD.

**Publication date** September 2012

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**Fiscal Union in Europe? Redistributive and Stabilising Effects of an EU Tax-Benefit System EUROMOD Working Paper Series: EM6/12**

**Authors** ● Olivier Bargain  
● Mathias Dolls  
● Clemens Fuest  
● Dirk Neumann

● Andreas Peichl  
● Nico Pestel  
● Sebastian Sieglösch

**Abstract** The current debt crisis has given rise to a debate about deeper fiscal integration in Europe. The view is widespread that moving towards a ‘fiscal union’ would have a stabilising effect in the event of macroeconomic shocks. In this paper we study the economic effects of introducing two elements of a fiscal union: Firstly, an EU-wide tax and transfer system and secondly, an EU-wide system of fiscal equalisation. Using the European tax-benefit calculator EUROMOD, we exploit representative household microdata from 11 Eurozone countries to simulate these policy reforms and to study their effects on the distribution of income as well as their impact on automatic fiscal stabilisers.

We find that replacing one third of the national tax and transfer systems by a European system would lead to significant redistributive effects both within and across countries. These effects depend on income levels and the structures of the existing national tax and transfer systems.

The EU system would improve fiscal stabilisation especially in credit constrained countries. It would absorb between 10 and 15 per cent of a macroeconomic income shock. Introducing a fiscal equalisation system based on taxing capacity would redistribute revenues from high to low income countries.

The stabilisation properties of this system, however, are ambiguous. This suggests that not all forms of fiscal integration will improve macroeconomic stability in the Eurozone.

**Publication date** October 2012

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### Equilibrium policy simulation with random utility models of labor supply EUROMOD Working Paper Series: EM5/12

**Author** ● Ugo Colombino

**Abstract** Many microeconomic models of discrete labor supply include alternative-specific constants meant to account for (possibly besides other factors) the density or accessibility of particular types of jobs (e.g. part-time jobs vs. full-time jobs). The most common use of these models is the simulation of tax-transfer reforms. The simulation is usually interpreted as a comparative static exercise, i.e. the comparison of different equilibria induced by different policy regimes. The simulation procedure, however, typically keeps fixed the estimated alternative-specific constants. In this note we argue that this procedure is not consistent with the comparative statics

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### Taxing home ownership: distributional effects of including net imputed rent in taxable income EUROMOD Working Paper Series: EM4/12

**Authors** ● Francesco Figari  
● Alari Paulus  
● Holly Sutherland  
● Panos Tsakloglou  
● Gerlinde Verbist  
● Francesca Zantomio

**Abstract** Imputed rental income of homeowners is tax exempt in most countries, despite the long-standing arguments recommending its inclusion in the tax base, on both equity and efficiency grounds. The current fiscal crisis revived interest towards this form of taxation. The paper investigates the fiscal and distributional consequences of including homeowners' imputed rent, net of mortgage interest and maintenance costs, in taxable income as any cash income source that extends consumption opportunities. Three scenarios are analysed in six European

countries: in the first imputed rent is included in the taxable income of homeowners, while at the same time existing mortgage interest tax relief schemes and taxation of cadastral incomes are abolished. In two further revenue-neutral scenarios, the additional tax revenue raised through the taxation of imputed rent is redistributed to taxpayers, either through a proportional rebate or a lump-sum tax credit. Results show how including net imputed rent in the tax base might affect inequality in each of the countries considered. Housing taxation appears to be a promising avenue for raising additional revenues, or lightening taxation of labour, with no inequality-increasing side-effects.

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### Welfare compensation for unemployment in the Great Recession EUROMOD Working Paper Series: EM3/12

**Authors** ● Mariña Fernandez Salgado  
● Francesco Figari  
● Holly Sutherland  
● Alberto Tumino

**Abstract** This paper analyses the extent to which tax-benefit systems provide an automatic stabilisation of income for those who became unemployed at the onset of the Great Recession. The focus of the analysis is on the compensation for earnings lost due to unemployment which is channelled through the welfare systems to this group of people who are clearly vulnerable to the recession's adverse effects. In order to assess the impact of unemployment on household income, counterfactual scenarios are simulated by using EUROMOD, the EU-wide microsimulation model, integrated with information from the EU-LFS data. This paper provides evidence on the differing degrees of relative and absolute resilience of the household incomes of the new unemployed. These arise from the variations in the protection offered by the national tax-benefit systems, depending on entitlement or not to Unemployment Benefits, and from the personal and household circumstances of those most recently at risk of unemployment in the countries considered.

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### Going regional. The effectiveness of different tax-benefit policies in combating

### child poverty in Spain EUROMOD Working Paper Series: EM2/12

**Authors** ● Olga Canto  
● Marta Adiego  
● Luis Ayala  
● Horacio Levy  
● Milagros Paniagua

**Abstract** In recent years, child-related policies in Spain have experienced relevant changes at different government levels. The central government implemented a new universal child benefit at birth and reformed some of the most relevant policies for children living in low income households. Also, many regional governments (Comunidades Autónomas) have implemented their own policies to support families with children with different schemes in terms of design and generosity. All these policies have increased social protection expenditure aimed at families and children in Spain as a whole along the last decade (one of the lowest in the EU). So far, however, little is known about their impact on child poverty in Spain.

Making use of the tax-benefit microsimulation model for the European Union – EUROMOD – this paper simulates the eligibility and receipt of most of the existing monetary child-related policies at all government levels and assesses their real (for central government policies) or potential (for regional policies) effect on the reduction of child poverty in Spain. Our results underline that, even after the introduction of a universal lump-sum benefit for newborns at the central government level in 2007, in aggregate terms, central government tax credits are the main child-related policy in Spain. Results also underline that central government policies have a considerably larger role in reducing poverty risk even if policies in some regions perform best than others. In general, our simulations suggest that regional benefits and tax credits reinforce and complement the focus of central government policies on younger children, who, on the other hand, seem to be less vulnerable to poverty than older children in Spain.

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### Baseline results from EUROMOD: 2006-2009 policies EUROMOD Working Paper Series: EM1/12

**Authors** ● Silvia Avram  
● Holly Sutherland

**Abstract** The aim of the paper is to provide a description of the latest public release of EUROMOD (version F5.0), a microsimulation model of taxes and benefits in the EU. After giving a brief account of the process of constructing EUROMOD, we present headline indicators for income inequality and risk of poverty using EUROMOD and discuss explanations for differences between these and EU- SILC based indicators. We then compare EUROMOD indicators across countries and as policies evolve across time between 2006 and 2009. Throughout we highlight both the potential of EUROMOD as a tool for policy analysis and the caveats that should be borne in mind when using it and interpreting results.

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University of Essex  
Wivenhoe Park  
Colchester CO4 3SQ  
United Kingdom

Phone: +44 (0) 1206 872957  
Fax: +44 (0) 1206 873151  
Email: [iser@essex.ac.uk](mailto:iser@essex.ac.uk)  
[www.iser.essex.ac.uk](http://www.iser.essex.ac.uk)