



# CONSULTANCY: COMPANY CHILDCARE SUPPORT



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FOR

 **MarketMakers**

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## 1 INTRODUCTION

Demand for various forms of early childhood education and care (ECEC, or “childcare”) services is growing worldwide. On average in EU countries, more than 30% of children under the age of three and almost 90% of children aged 3-5 attend ECEC ([OECD, 2020](#)). However, **parents often do not have access to viable childcare solutions that are aligned with their business commitments, needs, values, income, or working hours**. As a result, women as the most common primary caregivers, do not have a good predisposition to enter the workforce or those who are employed are forced to leave in order to be able to perform unpaid childcare at home. Accordingly, more and more countries are designing and implementing policies that require and / or facilitate companies to support childcare for their employees.

### 1.1 Value and Importance of Childcare

The availability of good quality, accessible and affordable childcare is **one of the basic pillars of family-friendly policies**. It is a win-win solution for all involved:

- improves physical and cognitive abilities for *children*;
- increases employment opportunities, especially for *women*;
- boosts *employee* productivity and job satisfaction, and accordingly the profit for *business*;
- embraces the socio-economic well-being of the *community*.

However, it should be borne in mind that childcare is not just an issue for women. Both men and women need childcare opportunities and options to successfully keep a job, increase their productivity, or find a new job. In this way, benefits are established to have a positive effect on the community, business and the whole economy. According to UNICEF, quality and affordable childcare yields a triple dividend – adequate child development, women’s empowerment and economic development ([UNICEF](#)). The OECD also recognizes that high quality childcare brings many socio-economic benefits, thus contributing to protection from poverty, equality of opportunity, and the positive development and well-being of children. When and where possible, **states should increase investment in childcare options, and carefully and comprehensively design targeted support measures** to reach as many parents as possible who need such support the most. These are primarily disadvantaged families, i.e. those with lower incomes, who should be given the option of additional childcare support.

Together with governments, the private sector must also ‘immerse’ itself in the issue and understand the benefits and value of employer-provided childcare in a more comprehensive approach. Namely, the **private sector should view childcare options as an investment**, not just as mere compliance or through a hoop of corporate social responsibility practices. Therefore, it is necessary to continuously work on educating all parties involved, in order to emphasize the importance and benefits of employer-supported childcare.

## 1.2 Demographic Trends, Female Labour Participation and Work-Life Balance

In order to successfully implement economic policies, it is necessary to monitor and investigate the development and structure of the population and carefully plan. Observing the latest demographic trends, the pronounced process is **aging**, which particularly affects Central and Eastern Europe, the Western Balkans and Russia, but also Western Europe ([Bussolo, Koettl-Brodmann and Sinnott, 2015](#)). As a consequence of the decline in fertility and mortality and the aging of the baby-boom generation, the share of the elderly population in the total number is increasing. With pronounced labour force emigration in some countries, there is a **strong pressure on the health and pension system, i.e. the sustainability of public finances, and the economic development of countries is partially slowed down** ([Bloom, Canning and Sevilla, 2001](#); [Bussolo, Koettl-Brodmann and Sinnott, 2015](#)). While the countries of Western Europe are dealing more successfully with aging, due to the demographic dividend<sup>1</sup>, Eastern Europe is in a more challenging position. Mortality rates remained high in the East, fertility steadily declined, and policies was poorly managed.

Fertility, i.e. the number of children per woman during the fertile period, is one of the most common indicators monitored by demographers, and is closely linked to family policy. The replacement fertility rate (an average of 2.1 children per woman) is no longer present in most developed countries in recent decades, as an expected consequence of the demographic transition ([Bloom, Canning, & Sevilla, 2001](#); [Werding, 2014](#)). In the EU, the total fertility rate has been declining since the 1970s, but is not the same in all countries, and the average for the EU 28 in 2018 was 1.56. However, a fertility rate of 1.5 according to McDonald ([2006](#)) means economic sustainability along with immigration and labour market adjustments. **While in most EU countries fertility has been declining since the 1970s, in Central and Eastern Europe the decline began in the 1990s** ([Basten and Frejka, 2015](#)). Some reasons for the decrease in fertility can be attributed to delayed births, but there are no clear indications whether the delay has indeed had a quantitative effect on the number of children born or only affects the timing of birth ([Letablier et al., 2009](#)).

One of the consequences of lower fertility rates is the declining number of family members. There are few large families with three or four children, while families with one child are dominant in Central, Southern, and Eastern Europe ([Letablier et al., 2009](#)). There are more and more families without children, which is often correlated with women's higher education. In addition, the availability of contraception and (legal) abortions have a certain impact on fertility.

Most of the reasons mentioned for the decline in the fertility rate below the replacement rate are cited in the literature as the second demographic transition, characterized by individualization, more illegitimate children, higher divorce rates, and fewer marriages ([Van](#)

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<sup>1</sup> In the process of demographic transition – the reduction of mortality and fertility, which is not harmonized and leads to population growth as fertility begins to decline after mortality declines – there is a time lag, the so-called demographic dividend. This means the maximum utilization of the baby-boom generation at their working age, allowing the economy to grow as much as possible and more easily withstand the unfavourable ratio of active and inactive population when that generation retires.

[De Kaa, 1987](#)). However, in the new EU member states (including Croatia), factors contributing to low fertility rates include precarious work, atypical working hours and similar economic factors, particularly pronounced during the recent financial crisis ([Akrap, 2005](#); [Basten and Frejka, 2015](#); [Čipin and Međimurec, 2017](#)).

Bonoli ([2008](#)) explored how fertility determinants have changed, i.e. whether the effects of **female employment rates, kindergarten availability, and child benefits** are more important today than previously surveyed urbanization rates, non-agricultural employment rates, and highly educated women rates (so-called old determinants). Although the old determinants, for Switzerland, are still significant, the availability of kindergartens and child benefits are also important.

Family policy has limited effect on fertility and there is no consensus on whether some measures can indeed increase the number of children born or only affect the moment someone will give birth ([Stropnik, 1995](#); [Hoem, Prskawetz and Neyer, 2001](#); [Gauthier, 2007](#); [Adda, Dustmann and Stevens, 2017](#)). **But if there were no family policy measures** such as cash benefits, which help parents cope with the costs of their children and thus act on the gap between the achieved and desired number of children, **fertility might be even lower** ([Stropnik, 1995](#)).

Caring for children, in addition to financial expenses requires parental time. This is a special challenge for all **women who need to balance their role as a mother and an employee**. Given that there is an increasing trend that higher employment of women is accompanied by a higher fertility rate, it is clear how important family policy measures are to support this balance. In achieving this goal, in addition to financial support, the time dimension of maternity and parental leave and the offer of childcare facilities such as kindergartens also play an important role. In this context, **employers' engagements and attitude towards childcare solutions matter, as they can make it easier for parents to take care of their children**. Flexible working hours, working from home, part-time work, childcare leaves, and many other benefits will allow employers to retain and satisfy employees.

Partly because of their biological role, **mothers have higher indirect costs of caring for their children**. Main costs are lost earnings due to changes in their labour supply: interruptions due to maternity leave, part-time work and difficult career advancement due to time spent with children, which leads to loss of work skills. Given the limitations due to childcare, women often choose lower paid occupations such as teachers, nurses, cashiers, etc. This all leads to a **pay gap between women and men**, most pronounced for women aged 27–38. Fertility alone is responsible for a third of the overall gap ([Adda, Dustmann, & Stevens, 2017](#)). Abendroth, Huffman, and Treas ([2014](#)) state that the greatest negative impact on a mother's salary compared to women without children is brought about by the first child and the transition to part-time work. With the increase in birth parity, the penalty per child is somewhat lower, but the career path of mothers does not recover compared to women without children. Such indirect costs of children, with the lower value of a large number of children, to some extent contribute to the declining number of large families with three or more children, at least in Croatia and Austria ([Hoem, Prskawetz and Neyer, 2001](#); [Čipin and Međimurec, 2017](#)).

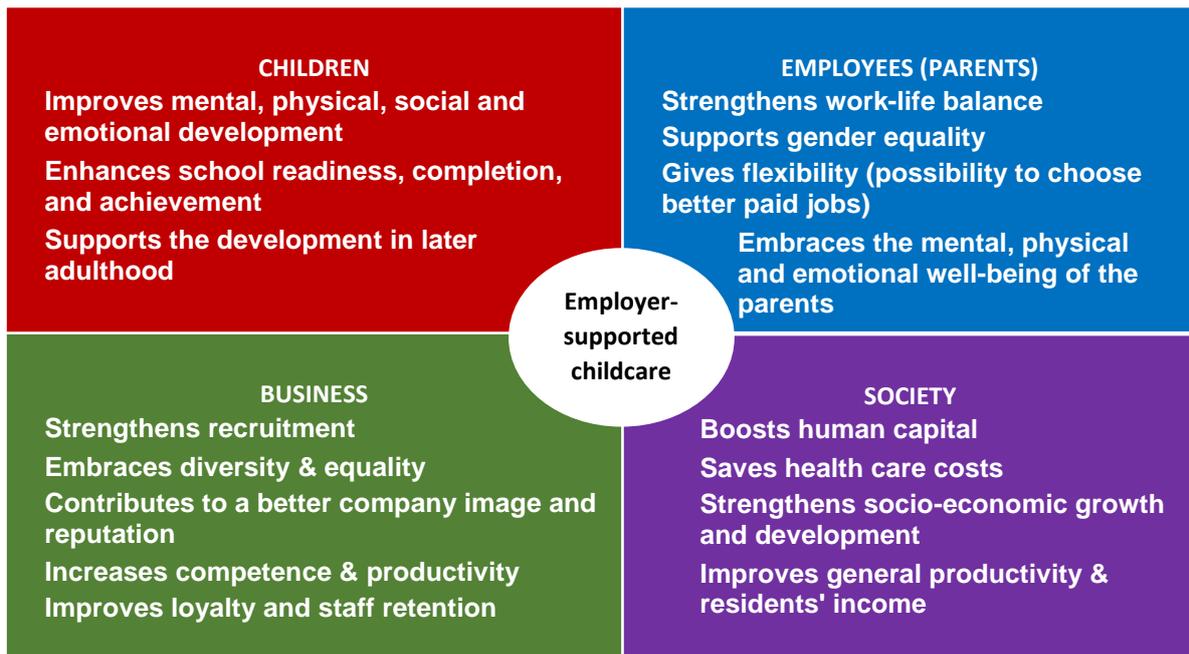
Affordable and quality preschool care is necessary for families, as it has the greatest positive effects on children's development. The importance of such institutions is also reflected in **EU guidelines such as the Barcelona objectives**, which require the inclusion of 33% of children of nursery age and 90% of kindergarten age in early and preschool care institutions ([European Commission, 2018](#)). Although there is no consensus on the age at which children are best placed in ECEC facilities, long-term positive effects on children's cognitive and social development are evident until college age ([Bradshaw et al., 1993](#); [Cameron and Heckman, 1999](#); [Sylva et al., 2004](#)). The availability of such institutions has the effect of increasing the labour supply of parents, which in the long run also means higher tax revenues ([Goux and Maurin, 2008](#)), thus justifying investments in the availability and quality of such institutions. In addition to formal care, informal care is also important to parents, which is usually provided by family members, and can also have a positive effect on parental employment.

### 1.3 Employer Supported Childcare – Benefits for Business, Employees and Society

More and more countries are encouraging companies to support childcare. Given the growing investment in ECEC solutions worldwide, it is necessary to list the employer-supported childcare benefits for all parties involved. The International Finance Corporation (IFC) - a member of the World Bank Group - summarizes this in a simple way, showing the benefits for children, employees, business and society (Figure 1).

As Figure 1 shows, there are numerous benefits to employer-provided childcare. When it comes to **business**, childcare is associated with increased employee loyalty (reduced employee turnover), greater job satisfaction, and reduced absenteeism. The costs of replacing an employee and training a new one can be extremely high, ranging from 90 to 200% of annual salary ([Allen, 2008](#)). Childcare plays an important role in reducing short-term absences. According to one U.S. survey, 30% of employed parents faced childcare arrangement difficulties, which were reflected in their productivity and focus on work, delays, and unplanned absences from work ([Bond, Galinsky, and Swanberg, 1998](#)). On average, absenteeism costs U.S. employers roughly an additional USD 2,660 per shift worker each year ([Circadian, 2014](#)). Accordingly, taking certain steps toward developing better childcare arrangements and generally investing in childcare solutions can lead to significant cost savings for employers ([IFC, 2013](#); [Hein and Cassirer, 2010](#)).

On the other hand, companies that provide childcare options gain a better image and reputation as a family-friendly company, and in that sense are more open to the market, which makes it easier for them to attract competent and talented employees, investors and buyers. Achieving a positive reputation can help firms more easily access new markets that have high corporate social responsibility (CSR) benchmarks ([Burud and Tumolo, 2004](#); [Shellenback, 2004](#)).

**Figure 1** Benefits of employer-supported childcare for children, employees, business and society

Source: [IFC \(2019\)](#)

From an **employee** perspective, childcare brings benefits to both women and men, allowing them to easier find a new job. With childcare solutions available, the representation of women in the total workforce is increasing, allowing them to better sustain their careers. Men have the opportunity to improve their caregiving roles, which contributes to the reduction and redistribution of unpaid work and care among both women and men. In a tone context, women have many more opportunities to engage in paid work, which can have a significant impact on increasing workforce diversity and family income. Because women around the world are less represented than men in leadership positions, quality childcare opportunities can contribute to women's career development, signalling that parenting is not necessarily a barrier to career advancement. Numerous studies have shown that gender diversity, i.e. the absence of underrepresentation, in corporate leadership positions contributes to better financial and team performance of the company, innovation and employee retention ([Hunt, Layton, and Prince, 2015](#); [Diaz-Garcia, Gonzalez-Moreno, and Saez-Martinez, 2013](#); [IFC, 2013](#); [Herring, 2009](#)).

Additionally, on-site childcare seems to be very important to today's working-age adults. Namely, over 60% of millennials and half of respondents over the age of 45 emphasize the importance of the availability of on-site childcare in companies (more in the [EY survey, 2015](#)). Employee benefits are numerous. Adequate childcare arrangements have been shown to increase employee focus, concentration, productivity, and motivation. When there are no quality childcare solutions, employees are concerned about the well-being of their children, which is why their concentration and productivity at work suffer ([IFC, 2017](#)).

Early childhood education and care embraces the proper growth and **children's** mental, physical and emotional development, and better prepares them for adulthood and lifelong learning. Quality childcare creates a key foundation for school success and future

productivity. Neuroscientists have found that the human brain develops most by the age of six, partly genetically and partly through observation and the environment ([Black et al., 2017](#)). Accordingly, the World Health Organization (WHO), the World Bank and the United Nations Children's Fund (UNICEF) have introduced Nurturing Care Framework with five key dimensions to ensure for children: good health, proper nutrition, responsive and compassionate caregiving, safety and reliability, and well-established opportunities for early learning. This is why quality childcare arrangements at an early age of a child's development are extremely important, as a child's brain is highly responsive to the emotional, physical, and social environment. Such quality programs enable the comprehensive development of the individual, which is reflected in later life in a way that the individual realizes his full potential ([Berlinski and Schady, 2016](#); [El-Kogali and Krafft, 2015](#)).

All of these benefits also have an impact on **society** as a whole, developing human capital and equality of opportunity, creating a strong foundation for a strengthened future workforce, thus reducing the costs to taxpayers and governments ([IFC, 2017](#)). Some employers are even joining forces to design the best possible childcare and educational programs, arrangements, opportunities and infrastructure, to ensure a quality workforce they can rely on in the uncertain future ([Stevens, 2017](#); [Watson, Frank, and Krumpal, 2017](#)). Employers who recognize the importance of childcare and start investing in ECEC options on time in the long run contribute significantly to the overall movement and development of the business and entrepreneurial climate ([The Urban Child Institute, 2015](#)). Economists point out that the return on investment in quality childcare solutions can be as high as USD 9 per USD 1 invested ([UNICEF, 2017](#)). Investing in quality childcare solutions also develops better community and public relations by supporting local socio-economic development and creating the company's image as a caring and socially sensitive employer.

The International Center for Research on Women (ICRW) points out that business benefits from employer-provided childcare are reflected in achieving the integrity and stability of the workforce, talent, skills, knowledge and overall productivity. Such benefits strengthen the well-being of the family and their income, which is why childcare solutions are considered a win-win investment for both working men and women ([Gammage, Sultana, and Kes, 2019](#)).

There are many employer-supported childcare options. IFC highlights some of them ([IFC, 2017](#)):

- on-site childcare centers (organized by the employer or others);
- off- or near-site childcare centers (established by one or more companies);
- childcare vouchers, subsidies, stipends, discounts, reserved seats, subscriptions to online care platforms (e.g. [Care.com](#) and [UrbanSitter.com](#));
- back-up, after-hours, and sick child services;
- breastfeeding support, safe transport, and other family- friendly policies.

## PART A

### 2 WHAT LED TO TAX DECLASSIFICATION OF EMPLOYER-PROVIDED CHILDCARE IN CROATIA

#### 2.1 Family Policies and Childcare in Croatia

Croatia is the newest member of the EU and one of the least economically developed members. Due to emigration and constant low fertility rates, among other things, there is a decline in population. Child poverty in Croatia is around the EU average, but female employment rate is among the lowest in the EU. Families have an important role in caring for their members, but the government provides some (relatively low) benefits and there is an insufficient number of ECEC facilities.

Croatia's family policy has changed over time. According to Puljiz ([1994](#)), in the time of Yugoslavia, it was "an industrial model of social policy that was harmonized with the project of socialist transformation of society." This meant that only employees (in the public sector) had benefits. The transition to a market economy brought changes, but also the negative impact of the transition and the homeland war. Today, Croatian child and parental tax-benefit policies are diverse. They include direct cash benefits such as child benefit (with pronatality supplement), tax allowances for dependent children, maternity and parental leaves, and newborn grants. Other tax-benefit policies such as guaranteed minimum benefit (in Croatian: *Zajamčena minimalna naknada*) or housing benefit are not exclusively aimed at children or parents, but their entitlement depends on the presence of children in the household. There are also other cash and in-kind benefits and subsidies provided at the local and regional government level, such as kindergarten and public transport subsidies.

Parents are initially entitled to **parental leave benefits**, which consist of maternity and parental leave. Maternity leave serves as a health measure for the mother and the new-born child, but it is also an income replacement due to absence from work. Maternity leave benefit is equal to the mother's average wage and its duration is six months. Parental leave, which can be split between both parents, enables prolonged care for the child and the amount of the benefit is limited. In addition to leave policies, new-born children and their parents are entitled to lump-sum gifts from the central and local levels of government.

**Child benefit** is a cash benefit compensation for the costs of child-rearing. The benefit eligibility is means-tested and due to the pronatality supplement the amount increases with the number of children. Besides the child benefit, there is also a **tax allowance for dependent children**, which reduces the tax liability of parents. The amount of the tax allowance increases for second and each subsequent child. Since September 2019, employers can provide non-taxable childcare support in the full amount for children of their employees. **Employers** usually provide a short, paid leave for fathers of new-borns and lump-sum gifts for parents of new-borns.

Services for families and children, primarily pre-school care facilities, did not meet the needs of families in the Yugoslav era and informal forms of care were necessary. This problem is

maintained to this day, and **Croatia has one of the lowest rates of children in ECEC in the EU** ([Mills et al., 2014](#); [Dobrotić, Matković and Menger, 2018](#)) and it will be difficult to achieve the Barcelona objectives ([European Commission, 2018](#)).

Researchers in Croatia often emphasize the lack of opportunities for flexible forms of work to reconcile business and family obligations ([Dobrotić and Laklija, 2009](#); [Akrap and Čipin, 2011](#)) and the need to introduce paternity leave ([Dobrotić and Varga, 2018](#)).

## 2.2 Croatian Tax Reform 2016-2020

The Republic of Croatia began the transitional reform of its tax system in 1994, and completed it in 1998 with the introduction of value added tax (VAT). However, since then, on average, significant legal changes occur at least once a year in the basic tax categories (personal income tax, profit tax and VAT). The Croatian tax system is very young and can be compared mostly to the tax systems of the "new" EU member states, which is characterized by predominantly consumer orientation, a small number of tax categories and relative transparency. Due to frequent changes in the basic elements of taxation within tax categories, the **Croatian tax system can be considered extremely unstable, and it is characterized by poor tax morale and a high level of grey economy** ([Kurnoga, Šimurina and Miloš, 2017](#)).

**The most recent reform was introduced in 2016** by the Croatian government. Based on a thorough analysis of the Croatian tax system, several goals have been identified ([Croatian Tax Administration](#)):

- 1 **Reduction of the overall tax burden,**
- 2 Stable, sustainable and simple tax system,
- 3 Equitable tax system,
- 4 Simple and cost-effective tax administration, and
- 5 Greater legal certainty for taxpayers.

In the four rounds of the tax reform (January 2017, January 2018, January 2019 and September 2019/January 2020) many changes in all tax categories were introduced with the aim of reducing the tax burden of entrepreneurs and citizens ([Croatian Government](#)). Some of the high impact changes in the basic tax categories include the following:

- VAT rate was reduced from 25% to 13% or 5% for some essential goods and services (medicines, books, journals, newspapers, diapers, meat, fish, eggs, etc.);
- Profit tax rate was reduced from 20% to 18% and even further to 12% for 93% of taxpayers;
- In the personal income tax category, some of the biggest changes include increase of personal allowance (from HRK 2,600 to HRK 4,000) and tax allowance for dependent children, new tax reliefs, increased income limit for dependent persons, etc. As a special demographic, social and economic measure, personal income tax is reduced by 100% for younger than 25, and 50% for young aged from 26 to 30 years.

In addition to these changes there were some additional alignments with EU Directives.

The general impression in the public, elaborated by Kurnoga, Šimurina and Miloš ([2017](#)) is that the Croatian tax system is characterized by too many reliefs, various exemptions, and

high tax burden compared to neighbouring countries as well as tax instability caused by frequent changes in the tax system. The result is the lack of taxpayers' ability to cope with tax regulations, as well as their insufficient knowledge of the tax system. The high degree of tax uncertainty among entrepreneurs, results in obstacles to the development of entrepreneurship as well as the lack of domestic and foreign investment. Effective tax reform implies simplification in taxation as well as reduction of the tax burden. The ultimate goal of any tax reform is to boost the competitiveness of the economy and the economic growth of the state. The final results of the reform implemented from 2017 to 2020 will only be seen after some time.

In literature, tax reliefs (exemptions, allowances, deductions; 'porezne olakšice') as fiscal instruments are often associated with a non-transparent tax system ([Bratić, 2006](#); [Avram, 2018](#)), because it represents the hidden government spending, compared to clearly visible expenditures on social protection. Bratić and Urban ([2006](#)) state that "various exemptions and tax reliefs complicate the tax system, increase the cost of tax collection and open up opportunities for tax evasion". But, in general, tax reliefs have less impact on work incentives and their take-up is higher compared to social benefits ([Figari et al., 2007](#)). With successful monitoring and regular evaluation, the drawbacks of tax reliefs can be reduced ([Bejaković et al., 2012](#)).

### 2.3 Declassification of Employer-Provided Childcare Support

As part of the 4<sup>th</sup> round of Croatian tax reform 2016-2020, from September 2019, new non-taxable income was introduced. Namely, pursuant to Article 93 of the Personal Income Tax Act of the Republic of Croatia (Official Gazette 115/16 and 106/18), the minister of finance adopted the Ordinance on amendments to the Ordinance on personal income tax with effect from 1 September 2019.

Accordingly, the new Ordinance declassifies employer-provided childcare support as a taxable non-salary benefit. This means that the employer's compensation for the costs of regular care for children of employees in preschool institutions is a non-taxable income. It should be emphasized here that additional programs that are charged separately are not considered regular childcare.

The amount of compensation for the costs of regular care of the children of employees may be covered in part or in full, i.e. up to the amount of actual expenses.

Also, according to the Ordinance, the employee to whom the employer pays compensation for the cost of regular child care is obliged to submit a statement to the employer before payment that no one else already uses the right to compensation for this cost and a copy of the invoice. The employer is obliged to keep a copy of the credentials in its business records.

The employee is required to regularly update the employer in several cases:

- If the employers of each of the child's parents bear part of the incurred cost of regular child care, the employee is obliged to inform the employer about such a situation;

- In the event of a change in the cost of regular care for the employee's children or if the employee no longer incurs the cost on that basis, the employee is obliged to inform the employer.

In short, from September 2019, the employer may reimburse the employee for the tax-free payment of the child's accommodation in a public or private kindergarten. The price of nurseries and kindergartens related to the regular care of a preschool child can be reimbursed, but not the elective programs and activities that parents opt for and pay for separately. Although this non-taxable option was introduced on September 1, the employer was able to reimburse the employee for kindergarten tax-free expenses for the entire 2019.

### ***What is all tax-free?***

A series of tax reliefs introduced in September 2019 can be perceived as an additional incentive for employers to reward their employees. Looking at the overall deductions (including from before September 2019), the employer can now 'pay' to the employee up to HRK 50,000 a year without paying tax ([Lider](#)). During the year, an employer may pay an employee the following without being taxable ([Lider](#)):

- personal deduction increased to HRK 4,000 (from HRK 3,800), which means that no tax is paid on this amount;
- up to HRK 5,000 for meal allowances;
- up to HRK 3,000 for occasional prizes;
- support for a newborn, which is up to 28 days of age, can be up to HRK 10,000;
- HRK 1,750 for a separate life;
- up to HRK 5,000 for jubilee award;
- up to HRK 5,000 reward for work results;
- up to HRK 2,500 in supplementary health insurance premiums;
- payment of voluntary pension savings - up to HRK 6,000, the employer thus reduces the income tax base. Also, from January 1, 2019, the payment of the pension is tax-free;
- up to HRK 12,000 - covering the actual food costs incurred according to credible documentation;
- up to HRK 2,500 - costs of catering, tourist and other services for workers' rest;
- non-taxable amount of per diem for business trips and field work in the country;
- accommodation costs of employees during the employment relationship on the basis of authentic documentation;
- fees to students during dual education up to the prescribed amount;
- the coverage of receipts that are not considered income is expanded - donations (material and financial goods) from legal and natural persons, collected in humanitarian actions and publicly announced actions that have a public benefit in favour of vulnerable groups;

- finally, the price of the kindergarten for the employee's child, but also, by reorganizing the work, the employer can make an effort to meet the needs of the employed parents.

## PART B

### 3 IMPLEMENTATION OF THE DECLASSIFICATION OF EMPLOYER-PROVIDED CHILDCARE SUPPORT IN CROATIA

#### 3.1 First Impacts and Insights

Within the Ministry of Demography, Family, Youth and Social Policy (MDFYSP) of the Republic of Croatia, a **competition "Family friendly employer"** is held every year with the aim of sensitizing employers and the general public to understand the needs of working mothers and fathers, and their children. The Ministry states that most parents often find themselves in a situation where they have to choose between business and private life. For example, a child suffers from childhood illnesses and parents must resort to solutions such as hiring other adults from the family or opening sick leave to take care of the child. Therefore, employee family responsibilities sometimes come into conflict with business responsibilities. The "Family friendly employer" awards selected companies with the highest quality solutions in achieving a friendly atmosphere towards employees and their families. The participation of companies in the project and additional benefits provided by employers to employees raises awareness of the importance of the needs of society and employees, and through quality employee care programs and innovative solutions raises the quality of business.

With the introduction of tax reliefs, and also by observing the wider entrepreneurial climate in Croatia, it can be concluded that the attitude of the employers towards the business and private life of employees, work culture and trends in the workplace are slowly changing. The Minister of DFYSP says that companies in Croatia are slowly realizing that they can only progress if they develop the potential of their employees. The balance of private and business life is a great challenge for employees, and when choosing a job, workers are increasingly looking at the additional benefits they can get from employers ([MDFYSP](#)). For this reason, **successful companies offer more and more benefits to their employees, in order to retain them and motivate.** The Minister stresses that the public praise and media coverage of employers who can serve as an example of good practice, encourages other employers to create and implement solutions, which create a friendly and supportive environment for employees and their families.

Since tax reform is the responsibility of the Ministry of Finance of the Republic of Croatia, the Tax Administration at the Ministry of Finance keeps records on the usability of new tax relief measures. With introduced tax relief, employers now more than ever have the opportunity to show social responsibility and lead by example. Croatian Independent Software Exporters (CISEx), that bring together about 250 companies with more than six thousand employees, point out that until the introduction of tax relief, most employers did not pay kindergartens for employees' children, accommodation and meals because it was taxable as a salary, so it was simply too expensive ([index.hr](#)).

Accordingly, after the introduction of the new measure, the number of companies that ensure the payment of kindergarten costs or offer arranged space for the children of employees

within the company is growing. On 28<sup>th</sup> October 2019 there were 1,071 requests for 1,405 beneficiaries in the total amount of HRK 3,196,196.12 ([Croatian Tax Administration](#)). **By the end of 2019, there were 3,445 requests for 4,528 beneficiaries in the total amount of HRK 20,051,592.33.**<sup>2</sup> The number of employers, self-employed and employees who are benefiting from this measure has increased over time, after the introduction. However, their number is among the lowest compared to other tax reliefs introduced in September 2019. Facing many layoffs and an economic downturn **in the midst of the COVID-19 pandemic in 2020, it is not to be expected that their number will greatly increase in the future** because employers are struggling to cover even the statutory minimum wage.

Although generally satisfied with the introduction of tax reliefs, employers point out their dissatisfaction with the more comprehensive and significant labour tax cuts. Some of their **reactions after the introduction of the measures** include the following ([index.hr](#)):

- CISEx stresses that the cost to employers has not decreased. Moreover, employers are thus given the opportunity to introduce additional costs and pay workers new non-taxable payments. Administration and bureaucracy are increasing, and so are operating costs - each of these tax-free incomes requires documented accounting records. CISEx says that in the absence of significant tax and contribution relief and simplification of the tax system, this measure is encouraging, but will not be enough in the long run.
- The Croatian Professional Accountants' Initiative says that the possibility of additional payment of non-taxable receipts is certainly commendable, but the question is how many employers will eventually be able to pay the same. They point out that self-employed entrepreneurs could make the most of these measures, and some employers who have had such payments so far will only find it much more favourable, while small entrepreneurs could use these measures less often. The Initiative emphasizes that it would be better to relieve the burden on salaries: social insurance contributions and reduce income tax for all from 24% to 18% instead of benefits for young people up to 25 and up to 30 years of age.

**The Croatian Employers' Association (CEA)** has expressed satisfaction that some of their **demands have been met** - a proposal to treat the payment of meal allowances, accommodation, and **kindergarten as a tax-deductible expense**. They claim that many employers have so far paid a good portion of these benefits, which have so far been unnecessarily tax burdened. The CEA supports the continuation of the overall tax relief needed to significantly improve the business climate in the country ([index.hr](#)).

### ***What are examples of good practice?***

Although at this initial stage it is not possible to talk about the direct impact of tax reliefs on changing the behaviour of employers in the direction of introducing various benefits, non-taxation of such solutions certainly contributes to greater possibilities for employers. Also,

<sup>2</sup> Update was requested directly from the Croatian Tax Administration. Total loss of tax revenue due to the new tax relief cannot be easily estimated due to the characteristics of the Croatian personal income tax.

one should not ignore the pressure of the media, and generally the growing public discourse about the various benefits of employers within their corporate social responsibility arrangements. Accordingly, some employers have taken a significant step to prove that they understand the needs of their employees who are parents and who, after a "regular" job, are waiting for another important one, the one at home. Through a series of changes in business practice, they have shown how it is possible to achieve good financial results, a happy and satisfied team and motivated employees who are respected and valued.

These are some of the examples by which companies have helped employee-parents and provided them with the following benefits ([MDFYSP](#)):

- flexible working hours
- work from home;
- they are released from work on weekends and holidays;
- provided space for employees' children;
- financial resources for the birth of a child;
- scholarship for children;
- discount on the services of the company in which they are employed;
- socializing for children and employees;
- summer / winter holidays for employees' children;
- paid sick leave in full, if the parent uses it because of the child;
- help for children with severe developmental disabilities;
- days off for prenatal examination;
- breastfeeding breaks;
- the right of fathers to maternity leave;
- scholarships for the education of children of deceased employees.

In conclusion, company childcare support as a non-taxable salary benefit in Croatia has received an initial positive feedback from public, with an increasing number of employers and self-employed utilising the measure. However, the measure does not succeed to achieve all of the tax reform objectives because it increases the complexity of the tax system and tax administration. Furthermore, employers emphasize the need to decrease the high cost of salaries (mainly social insurance contributions and potential further reductions of personal income tax rates) because childcare support is, by some, viewed as a cheaper alternative for a salary raise. Potential behavioural impacts will be explored in the survey analysis.

### 3.2 A Brief Overview of Government Policies Supporting Family Friendly Employers in European Union and Other Countries

Childcare and employment are difficult to combine if both parents are employed, and even more difficult for single parents. Inflexible working conditions further increase the mismatch between family and employment. In response to this, governments may support parents with institutional childcare and various policies enabling parents to remain employed while taking care of their children. Historically, e.g. after Second World War, according to Leitner ([2003](#)),

families were organized in a way that **women cared for children, the aged and the handicapped at home**. However, women today are participating more and more on the labour market and thus have difficulties in their role as family carers.

Depending on the various policies in different countries, countries (more specific the welfare state type), can be characterised as **familialistic or de-familializing** ([Esping-Andersen, 1999](#)). “A familialistic system, [...], is one in which public policy assumes – indeed insists – that households must carry the principal responsibility for their members’ welfare. A de-familializing regime is one which seeks to unburden the household and diminish individuals’ welfare dependence on kinship.” Leitner ([2003](#)) further refined this paradigm and proposed a new classification: optional familialism, de-familialism, explicit familialism and implicit familialism. She clustered some of the EU countries based on the availability and payment of formal childcare as shown in Table 1. Croatia is usually recognised as an explicit familialistic regime, i.e. Croatia only modestly supports families in taking care of their members, and family has a very important role in taking care of their members.

**Table 1** Classification of countries in the field of childcare

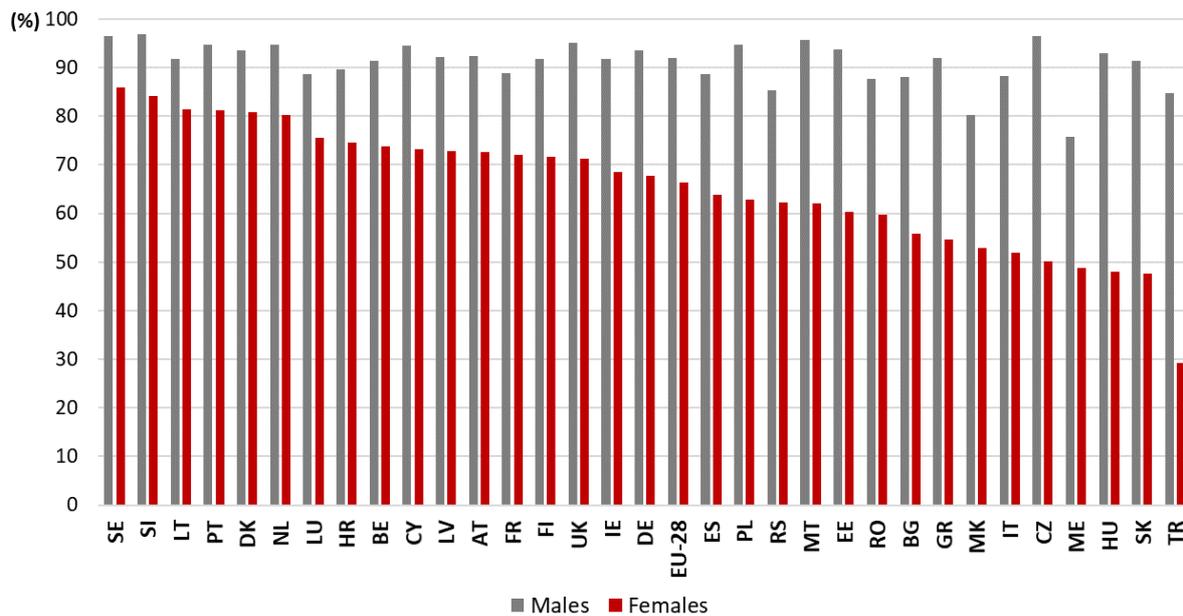
	<i>Formal childcare:</i>	
	<i>Widespread</i>	<i>Poor</i>
<i>Payment for childcare</i>	<b>Optional familialism:</b> Belgium, Denmark, France, Sweden, Finland*	<b>Explicit familialism:</b> Austria, Germany, Italy, Luxembourg, Netherlands
<i>No payment for childcare</i>	<b>De-familialism:</b> Ireland, United Kingdom	<b>Implicit familialism:</b> Greece, Portugal, Spain

Source: [Leitner \(2003\)](#); Note: \*Finland is a borderline case between optional and explicit familialism.

Figure 2 shows the employment rate of parents of two children aged less than 6 years. It is clearly demonstrated that, mothers’ employment rate is lower than fathers’ in every EU-28 country (as well as in EU candidate countries). While the fathers’ employment rate is comparable between countries, ranging between 76% in Montenegro and 97% in Slovenia, mothers’ employment rate greatly varies from as low as 29% in Turkey to 86% in Sweden.

The biggest difference in employment rates between mothers and fathers is noticed in Southern and Eastern European countries (and EU candidate countries). The highest mothers’ employment rate is in Sweden, a country known for its gender equality and generous policies fostering employment of mothers, closely followed by Slovenia. **Slovenia stands out as the most successful former Yugoslav republic (and among the best in EU)** with carefully planned and relatively generous family policies and a good network of public kindergartens. Given the common past and the closer contextual framework to BiH, Slovenian good practice deserves several observations.

**Figure 2** Employment rate of parents of two children aged less than 6 years in EU-28 and candidate countries (Turkey, Serbia, Montenegro and North Macedonia), (2019)



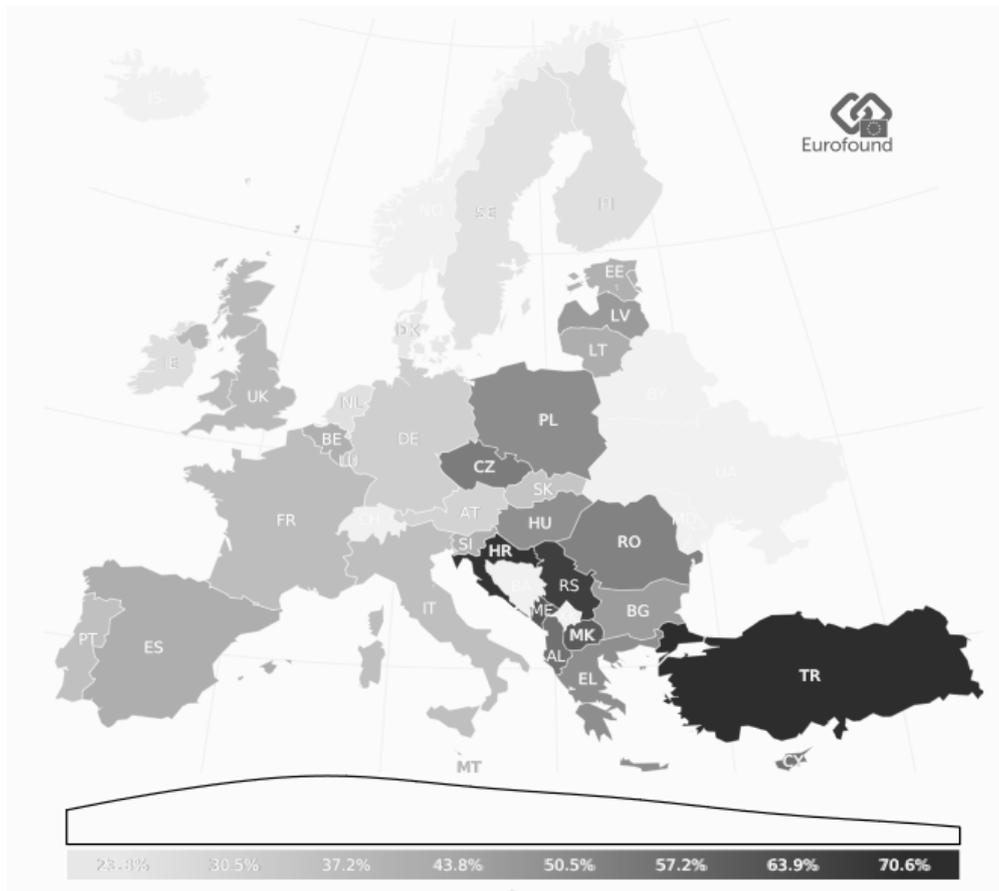
Source: authors, based on data from [Eurostat](#) (lfst\_hheredch)

Namely, unlike other ex-Yugoslav countries, Slovenian success can be largely attributed to their advanced policy planning. For decades, Slovenian family policies have been based on carefully planned reforms, from design to implementation and monitoring. [Stropnik \(2020\)](#) emphasizes that during the transition to a capitalist economic and political system, Slovenia, unlike the majority of former socialist countries, did not cling to the necessity of changing all family policies. Instead, they simply **upgraded existing (socialist) policies**. Their strategic documents in the field of family policies date as early as 1993 (“[Resolucija o temeljih oblikovanja družinske politike u Republici Sloveniji](#)”) with continuous strategic updates and minor policy reforms (e.g. free kindergarten for second and third child enrolled, increase of benefits, large family supplement, paternity leave). When it comes to **enrolling children in kindergartens, Slovenia stands out again, even achieving Barcelona objectives**. The country has a widely available and affordable network of kindergartens and crèches (childcare centers) due to intensive construction of ECEC facilities during 1970s and 1980s ([Stropnik, 2020](#)). Furthermore, as emphasised by Stropnik, the law guarantees the right to ECEC on a full-time basis (9 hours a day) from the end of parental leave, which means that there is no time lag between these two rights.

While Croatian family policies share similarities with the Slovenian system (e.g. combination of child benefit and tax allowance for dependent children, large family supplements, etc.), one of the key differences is the Croatian **lag of implementation** of such policies and strategic documents, most evident in practice. Unfortunately, one of the main culprits for this lag and constant catching up is the long war period in ex-Yugoslav countries which left tragic marks in Croatia, and especially in Bosnia and Herzegovina, marginalising family policies and consuming the lion share of government funds.

As depicted in Figure 3, employed parents in Southern and, especially in Eastern Europe have the most difficulties in combining their professional and family life.

**Figure 3** *European quality of life survey*: Share of respondents who answered it has been difficult to fulfil family responsibilities because of time spent on job at least several times a month (2016).



Source: [Eurofound](#)

It can be concluded that most OECD countries offer some kind of benefits, tax-concessions or some other discounts, and fee reductions for ECEC. However, they **vary greatly by region within countries and are administered at different levels of government** ([OECD, 2019](#)). Although there are many differences, some similarities between countries can be highlighted, such as providing additional discounts and rebates for a 2<sup>nd</sup> (and subsequent) child enrolled in kindergarten (in Slovenia, Croatia, BiH, and Denmark) or providing discounts and significant fee reductions for lower income families (in Austria, Belgium, Bulgaria, Croatia and Estonia).

A relatively similar instrument to the Croatian tax declassification of company childcare support are United Kingdom's childcare vouchers. However, with the introduction of tax-free childcare in 2018<sup>3</sup>, new applications for voucher schemes are no longer being considered. Vouchers function in a way that part of, or the entire cost, of employer provided childcare

<sup>3</sup> Government's support for tax-free childcare amounts 20% of total childcare costs. It is important to note that parents who use tax-free childcare support lose eligibility for other child-related support. Applicants can calculate for themselves which childcare support combination suits them best. More information about UK's tax-free childcare is available at [UK Government](#).

support is exempt from income tax and national insurance contribution (more at [UK Government](#)). The employer's childcare benefit is fully exempt from income tax and national insurance contribution in the case of on-site company childcare support. However, UK's employer provided childcare is usually provided through so-called salary sacrifice, i.e. "an employee gives up part of their salary in return for a non-cash benefit" ([UK Government](#)). Voucher scheme was not widely used (e.g. only 5% of employers and 450,000 families in 2013; [Paull, 2014](#)), but in combination with other government subsidies there are estimates that it made some impact on the maternal employment, increased childcare enrolment and quality. It also affected prices ([Paull, 2014](#)), raising the question of the worth of cost.

There are also various additional work-related and non-legislative policies that support childcare ([European Commission, 2018](#)). Some EU countries provide **family-friendly workplace accreditation schemes** for employers providing flexible working hours (as in Germany) or in general family-friendly workplace practices (as in Slovenia, Finland, Belgium, Estonia and Croatia).

E.g., 'Family Friendly Company' certificate is awarded to companies in Slovenia, since 2007, that adopt at least three measures from a catalogue of work-family reconciliation measures, such as flexible working times, company childcare services, job sharing, adoption leave, part-time work and the assistance to care for a disabled family member ([European Commission](#)). While at first these family friendly policies may seem to represent modest measures, they have greatly improved the position of employed parents, especially fathers. Prior to such policies, employers considered parental benefits as bonuses, not as a legal right, and fathers did not use the entire paternal leave in fear of losing their job. Since the introduction of the Family Friendly Company certificate award, fathers (68%) and mothers (8%) are more satisfied with their work-life balance and are much more inclined to use all the parental benefits due to support from their colleagues and employers ([Stropnik, 2020](#)).

Besides accreditations, **governments can directly fund and support projects** for creating family-friendly workplaces, as in Austria, Hungary or Germany ([European Commission, 2018](#)). Hungarian employers may receive up to EUR 9,500 per workplace to implement family-friendly practices such as breastfeeding rooms or playing corners for children. A total of approximately EUR 159,000 was allocated in 2015 for that purpose ([EIGE](#)).

In Estonia, the Estonian Smart Work Association promotes smart working practices that help reconcile work and family commitments. Lithuania is an example how **EU funds** can be used for similar purposes. Lithuania's Success Project (2009–2012) provided childcare services for people struggling to combine work and family commitments and training to employers and employees on how to implement flexible work organisation.

Among other measures, two initiatives exist in Germany, which aim to balance work and family life. *Betriebliche Kinderbetreuung* ('Onsite childcare') programme incentivises employers to create daycare slots internally by paying EUR 400 for each newly created full-time slot. *Familienbewusste Arbeitszeiten* ('Family-conscious working hours') initiative provides employers with guidance on how to make it easier for employees to reconcile their work and family lives.

Using a large German panel dataset, Lauber and Storck ([2016](#)) proved welfare enhancing effects of company childcare support, as it strongly increases both childcare satisfaction and job satisfaction. In comparison, flexible work schedules, another family-friendly policy, only affects job satisfaction. As a result of company childcare support, mothers increased their labour supply – mainly those working reduced hours before the measure and “career-driven” mothers. In terms of childcare support design, availability of childcare makes a stronger impact than financial support for childcare. On the other side, paternal well-being and behaviour are not affected by the workplace policy.

## PART C

### 4 EMPIRICAL ANALYSIS OF COMPANY CHILDCARE SUPPORT IN CROATIA

This section presents the output of empirical analysis conducted on a representative sample of the Croatian population. The survey was conducted on the total of 427 individuals, representing employers, self-employed and employees. Two questionnaires were used, one designed for employers / self-employed (later referred to as employers) and the other for employees (available in the Appendix). Employer questionnaire was designed in such a way to collect the data on the willingness and provision of childcare support to employees. On the other side, employee questionnaire addressed the impact of the employer-provided childcare support on employees (especially mothers). Both questionnaires have had a space for general comments, as well as the possibility to enumerate the advantages and disadvantages of the government's tax declassification of company childcare support.

#### 4.1 Methods and Limitations

The main research method was to conduct a survey questionnaire. In order to make it easier to access the respondents and get as clear and precise answers as possible, the survey was conducted in Croatian, and its setup via the [LimeSurvey](#) online tool.<sup>4</sup> To ensure a representative sample and quick responses during the holiday season, responses were gathered through an [on-line panel of Ipsos](#), a market research agency. The response quotas accounted for a representative sample of both sexes, all age groups (mainly active population 18-64), and all Croatian counties. Three groups of questions were formulated in the questionnaire: 1) introduction and demographic questions, 2) acceptance of the tax declassification of company childcare support, and 3) opinions and attitudes of the tax declassification of company childcare support. In order to make the questions as clear as possible and the answers as precise as possible, different types of questions were used according to the nature of the questions. The types of questions used in the survey were: open-ended questions, closed-ended questions, multiple choice questions and a Likert scale question. Gathered data were analysed in Microsoft Excel.

Some limitations of this research should be noted. The survey does not include those respondents who do not have internet access. Also, there is a slight underrepresentation of middle and large sized enterprises, and unemployed population. Due to the short period since the introduction of tax declassification of employer-provided childcare support in Croatia and lack of comparable data, more advanced research remains for some future endeavours. Future research could include a longitudinal analysis which could possibly offer more comprehensive insights into the impacts of the introduced measure.

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<sup>4</sup> [LimeSurvey](#) is freely available to Croatian researchers through the University of Zagreb Computing Network ([Srce](#)).

## 4.2 Descriptive Statistics

Table 2 summarises the **basic characteristics of the surveyed sample**. In terms of sample size, the representation of employees is twice as employers. Gender representation is balanced in both sub-samples, as well as the age groups of respondents which reflects the national structure. All 21 Croatian counties are represented in the sample in the same ratio for both sub-samples: 17% of surveyed individuals are from the City of Zagreb, 10% from Split-Dalmatia County, 8% Primorje-Gorski Kotar County, etc., respectively according to the number of inhabitants in these counties, which corresponds to a representative sample.

Among employers there is a vast majority of representatives of micro enterprises (less than 10 employees). Approximately 30% of all surveyed employers come from the trade and services industry. On the other side, employees are distributed among all sizes of enterprises, where 64% of all employee respondents refers to medium and large-sized enterprises. When it comes to industry affiliation, unlike employers, the highest share of employee respondents (27%) come from the public sector or education industry.

**Table 2** Descriptive summary of main survey elements

		<b>Employers and Self-employed</b>	<b>Employees</b>
<b>Sample size</b>		136	291
<b>Employment status (%)</b>	Self-employed	46.76	-
	Employed	53.24	-
<b>Gender (%)</b>	Female	51.47	49.48
	Male	47.79	48.80
<b>Education (%)</b>	Secondary education	31.62	39.18
	Tertiary education	67.65	59.79
<b>Age group (%)</b>	0-19	2.94	0.69
	20-29	19.12	17.53
	30-39	29.41	29.90
	40-49	27.21	26.80
	50-59	13.24	16.49
	60-69	7.35	8.59
<b>Enterprise size (%)</b>	Micro (<10 employees)	72.79	12.03
	Small (<50 employees)	12.50	24.40
	Medium (<250 employees)	5.88	26.80
	Large (≥250 employees)	5.88	36.77
<b>Parents of kindergarten age children (%)</b>		41.18	29.21
<b>Awareness of the childcare support tax declassification (%)</b>		47.79	35.40
<b>Provision of company childcare support in legal entities (%) / Parents receiving support (%)</b>		17.65	9.41

Source: authors' calculation

## 4.3 Behavioural Impacts of Childcare Support

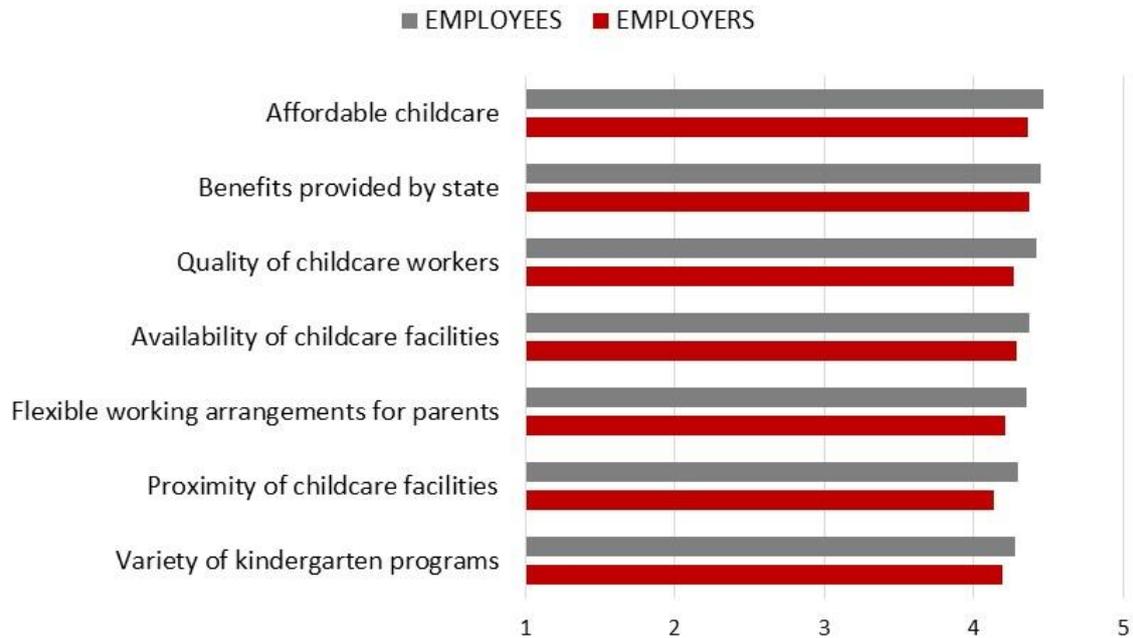
The results of the survey reveal that employers are more familiar with the introduction of the new tax declassification than employees (48 vs. 35%). While at first it may seem that very few employers offer employer-provided childcare support, it should be borne in mind that this

measure is newly introduced and, as indicated, many employers and employees are still not even aware of the existence of such a childcare option. Despite the low flow of information, there is a **visible increase in the number of employers offering company provided childcare support** since the beginning of the introduction of the measure (from 4 to 18%). In addition, it should be noted that some employer respondents pointed out that they do not have any eligible employees to use the measure, and that they are not even in a position to consider introducing such a measure. On the other hand, just over 9% of parents employees respondents stated that they receive childcare support from the employer, but still, this is an **increase of 4 p.p. since the introduction of the measure**. When it comes to industry affiliation, there is no rule, so both employers and employees from various industries provide / receive company childcare support. Although awareness about the new measure is not highly satisfactory, informed respondents cited various sources through which they learned about the possibility of providing / receiving childcare support. Employees were almost exclusively informed from the **media**, while employers are regularly updated from their accounting services, professional journals, media, and the Official Gazette. Vast majority of surveyed employers (82%) consider this tax exemption **in accordance with the Croatian entrepreneurial environment**. Attitudes of employees are similar, as many as 87% of them support such measure and consider it relevant for increasing the total household's budget.

When it comes to employers' attitudes towards the costs of this measure, they generally agree that providing company childcare support does not entail large costs. Half of the employers also pointed out their willingness to provide some form of childcare support in the future. In addition to monetary benefit, a few employers have stated that they provide their employees with some other form of childcare support, such as reserved place in a nearby kindergarten or organization of an extended stay for children.

Some behavioural aspects of the provision of company childcare support were also addressed in the survey. Figure 4 depicts how important are certain factors for **increasing female labour supply, work-life balance of parents and well-being of children**. Unsurprisingly, all offered determinants were rated high in the survey, with negligible differences between the attitudes of employers and employees. However, two factors should be highlighted that were rated the highest by both employers and employees. These are affordable childcare and benefits provided by the state (e.g. child benefit, kindergarten subsidies and similar). Certainly, both factors are complementary and demonstrate **the need for state to implement policies that will enable or facilitate the provision of affordable childcare and help parents in childrearing**. However, in order to implement employer-provided childcare support policies, it is first necessary to provide a sufficient number of childcare facilities in each municipality / city, so that all residents have available and accessible childcare options. It is also important that kindergarten workers are educated, with an adequate approach in line with up-to-date knowledge in the field of preschool education. Finally, both employees and employers stressed the importance of having flexible working arrangements for parents, and the need for variety in kindergarten programs. This indicates the importance of flexible solutions on both sides, but also raises the question of the potential benefits of corporate childcare arrangements.

**Figure 4** Average rating of factors influencing female labour supply, work-life balance of parents and well-being of children.



Source: authors' calculation

Notes: Benefits provided by state refer to child benefit, kindergarten subsidies and similar; Quality of childcare workers refers to highly educated workers and sufficient number of employees; Availability of childcare facilities refers to sufficient number of facilities to accommodate all children and flexibility of enrolment; Flexible working arrangements for parents include work from home, flexible and/or reduced working hours, etc.; Proximity of childcare facilities refers to proximity to home; and Variety of kindergarten programs refers to options such as prolonged day care, working in shifts and similar.

Based on respondents' ratings presented in Figure 4, it can be concluded that the attitudes of both employers and employees are consistent, i.e. both parties are aware of the benefits of company childcare solutions. Accordingly, the expected effects of tax declassification of company childcare support in Croatia are positive. Among all surveyed individuals, there is a consensus (80% or more) that tax declassification of **company childcare support could attract more parents (primarily mothers) to work-force and / or increase their labour supply**. Additionally, 86% of employees expect that the introduction of such a measure **should affect the increase of enrolment in kindergartens**. Such increase in labour supply could also be attributed to increased **job satisfaction, productivity and efficiency** due to the provision of company childcare solutions, as considered by 86% of surveyed employers.

Childcare support, supported by government or a company is vital for labour supply of parents, and especially mothers who are the primary caregiver. Survey results highlight the importance of considering different childcare solutions and support options by government and companies, to ensure appropriate support for employees, especially mothers. In this sense, tax exemption of company childcare support, whether carried out alone or in combination with other childcare measures, represents an important step forward in achieving the goal of higher female labour supply, adequate work-life balance of parents and well-being of children.

#### 4.4 Advantages and Disadvantages

The survey allowed respondents to list, based on their practice of using this measure or general views on the measure, all the advantages and disadvantages of tax declassification of company-provided childcare support. By analysing the survey responses of all respondents (including both employers and employees), the list can be summarized as follows.

##### **Advantages:**

- Attraction and retention of employees in general, but especially parents
- Recognition and award for employees
- Increased job satisfaction and efficiency
- Monetary support improving parents' budget
- Less worries for parents
- Potential pronatalist effects
- Positive atmosphere due to measures supporting parenthood
- Increased kindergarten enrolment
- Easier family planning and career decisions for mothers: support for dual earning couples

##### **Disadvantages:**

- Small real impacts (low amount, questionable behavioural effects)
- Administrative issues for implementation of the measure
- Additional financial burden for employers
- Insufficient discussion with employers about different childcare support options
- Potential abuse:
  - No real effect for employees if “creative” employers replace part of taxable income with childcare support, which will reduce employee’s social insurance contributions and government’s budget
  - Fairness concerns: only selected employees receiving support (e.g. company owner, relatives, and friends)
- Due to lack of childcare facilities in some cities / municipalities, full potential of this support cannot be realised
- Discrimination of employees without (kindergarten) children
- Low transparency (awareness) of the existence of this measure

Some respondents stressed the importance of a more comprehensive approach to implementing reforms, which would include other possible child and family support options. According to them, such options would have a greater positive impact than the introduced measure of tax-declassification of company-provided childcare support. In that sense, they strongly advocate for equal treatment of women and men in the workplace. Some of the listed measures include the promotion of use of leave quotas for fathers, in order to in some way influence the reduction of the stigmatization of mothers that they contribute to higher costs to the employer than fathers. In addition, respondents also stressed the importance of

considering increasing the minimum wage, as women are more vulnerable in this context because they are more likely to have lower paid jobs than men. Some other proposed measures include shorter working hours (partially compensated by government), flexible work arrangements, and additional government benefits.

Other respondents stressed the government's need to address policies that would include more comprehensive and complete measures to influence overall economic progress, such as reduction of various taxes, clearer regulation of working hours, reduction of precarious jobs, and promotion of secure and sustainable employment. They believe that such measures could also indirectly improve the well-being and position of parents, increase the labour supply of women, and potentially the number and well-being of children.

#### 4.5 Corporate Kindergartens in Croatia

Almost all survey respondents stressed the importance of the **availability of a childcare facility close to the parents' home or workplace**. Also, 60% of all respondents pointed out that the existence of corporate kindergartens would make their everyday life much easier.

In this context, it should be noted that in Croatia some employers (mainly subsidiaries of foreign corporations) already provide the possibility of on-site kindergartens. Among others, perhaps the three most prominent Croatian companies that provide childcare solutions in their own arrangement are [A1](#) (previously VIP, telecom company) – first corporate kindergarten in Croatia, then [Ericsson Nikola Tesla](#) (telecommunications equipment manufacturer), and [PBZ](#) (bank). And since February 2020, first public institution in Zagreb provides on-site childcare: [Rebro Hospital](#). While domestic companies did not at any time have legal obstacles to providing childcare support, foreign legal entities could not provide company childcare support before October 2007. Since October 2007, the amendment to the Act on Preschool Education ([Zakon o predškolskom odgoju i obrazovanju](#)) has enabled foreign legal entities to establish a kindergarten and provide a childcare facility ([Poslovni.hr, 2008](#)). Such a legislative change has, as expected, sparked great interest from large corporations to consider options for providing on-site childcare support, thus emphasizing their Corporate Social Responsibility (CSR). Some employers do not provide on-site childcare support, but cover a kindergarten fee, partially or fully. Additionally, many cities and municipalities also provide generous subsidies to parents for private kindergartens' fees; e.g. Zagreb's subsidy amounts up to HRK 1,750 monthly since 2012 ([City of Zagreb](#)).

Employees are highly satisfied with such on-site services and point out that, in addition to the content available to children, the working hours of the kindergarten are adjusted to the needs of employees, thus making it easier for them to organize their business and private obligations. Also, parents reduce their commute and can spend more quality time with their children ([Večernji list, 2019; 2012](#)). On the other hand, employers greatly benefit from increased employee satisfaction and productivity. With these benefits, employers can now more easily attract and retain quality employees, creating key human capital.

Based on the results of our survey questionnaire, corporate kindergartens are of highest value for those working in hospitals, especially for those who work in shifts, and other working time arrangements that do not fall into the standard nine-to-five category. However, survey

respondents emphasised some potential drawbacks of corporate kindergartens, such as frequent urge of parents to visit their children during working hours or frequent concentration of thoughts on children, reducing focus on work. Nevertheless, the advantages highly outweigh the disadvantages.

Some employers may not offer kindergarten support, but they do provide a variety of other benefits for working parents, such as generous lump-sum benefits for new-borns, flexible working hours and other arrangements, on-site children's corner, additional vacation days, special parking lots for pregnant women, etc. ([Lider, 2019](#)).

## PART D

### 5 RECOMMENDATIONS FOR AN ADVOCACY CAMPAIGN IN BiH

#### **Context**

After the war conflicts of the 1990s, Bosnia and Herzegovina had the greatest damage to maternity leave rights of all post-socialist countries ([Dobrotić and Stropnik, 2020](#)). Such a crisis has even affected the abolition of maternity benefits in some parts of the country. In general, the quality of social policy making has been further shaken by the establishment of a post-1990s complex system of multi-level governance. In such a system, it is difficult to achieve a cohesive social policy at the state level, as the main roles are taken over by the two entities. The Republika Srpska (RS) entity is centralized with Banja Luka as the largest city and administrative center. The entity of the Federation of Bosnia and Herzegovina (FBiH) is decentralized to 10 autonomous cantons with their own governments. In addition, the Brčko District (DB) was established as a condominium of the two entities, but in reality, it actually functions as a self-government unit (like other municipalities in the country), with the seat of the district being the city of Brčko. Accordingly, there are no social policy functions at the state level, which contributes to inequalities in the design, regulation and implementation of social rights ([Stubbs and Zrinščak 2019](#)).

As noted by [Stubbs and Zrinščak \(2019\)](#), social and political scholars in Southeast Europe focus mainly on regional stability and ethnic issues, neglecting other public policy issues, such as childcare policy. The research focus is mainly on traditional social policy issues such as health, pensions and the labour market, while gender issues are often neglected ([Deacon and Stubbs 2007](#); [Stambolieva 2016](#)). However, the exception is Croatia where childcare policy has become part of the public agenda, particularly as part of pronatal policies and within the established 'demographic renewal' concept. In Bosnia and Herzegovina, there is still no adequate monitoring system for child and family benefits ([Dobrotić & Obradović, 2020](#)). The post-1990 reforms and the establishment of the current territorial organization have led to numerous inconsistencies and territorial inequalities in the regulation and implementation of child benefits. Due to its high fragmentation, child and family policy is not coherent with respect to different entity jurisdictions, which makes it very difficult to plan, manage, coordinate and implement such policies.

In the RS, maternity benefits are regulated by the entity's law on child protection ([Zakon o dječjoj zaštiti](#)). On the other hand, in the FBiH there is a law on social protection ([Zakon o osnovama socijalne zaštite, zaštite civilnih žrtava rata i zaštite porodice sa djecom](#)) which lists only basic rights and standards such as child benefits and family types, but not more detailed determinants such as the scope and amount of benefits. Accordingly, the FBiH government fails to ensure the implementation of maternity benefits, including child benefits, at the cantonal level. Therefore, each canton has its own special implementation regimes, so in BiH

there are a total of 12 different childcare policy schemes - in RS, Brčko District and 10 FBiH cantons.

Conditions for achieving maternity benefits for employed mothers have become stricter, and many mothers employed in the private sector remain without maternity benefits (in the context of a high rate of undeclared work and the grey economy) ([Dobrotić & Obradović, 2020](#)).

In the last three decades, there have been no innovative solutions in BiH in the development of childcare policy, as shown by developed countries, but also in the region. E.g. Croatia and Slovenia have introduced father's leave entitlements, and Slovenia even a compulsory ECEC guarantee from a very early age ([Janna van Belle, 2016](#); [Dobrotić & Stropnik, 2020](#)). On the other hand, in BiH, father's entitlements are rarely a topic of public discourse, discussed only in the context of the "second carer", as a substitute for the inability of the mother to perform that function. According to the amendments to the labour law, fathers became recognized as beneficiaries of maternity leave in RS in 2002, and in FBiH in 2016 ([Dobrotić & Obradović, 2020](#)). In FBiH and RS (not in DB), the mother can transfer maternity leave to the father after 42nd (FBiH), or 60th (RS) day after the birth of the child, provided that both parents are employed and the mother returns to work. Given the low employment rate of women (35.8% compared to 59.5% of men aged 20 to 64, Agency for Statistics BiH 2018), such practices only contribute to further gender differences in defining the social roles of men and women.

When it comes to ECEC services in BiH, several data and characteristics should be highlighted ([Dobrotić & Obradović, 2020](#)):

- 4.7% of nursery-aged and 16.4% of kindergarten-aged children are included in ECEC (estimate for 2017/18);
- although the interest in ECEC services is increasing from year to year, many children do not have the opportunity to attend due to lack of public capacity;
- the increase in ECEC attendance is mainly due to the increase in the number of private ECEC content ([Agency for Statistics of BiH](#));
- ECEC availability, price and quality vary considerably by region, creating great inequality which is a major problem for families of lower socioeconomic status.

In fact, ECEC policy topics are generally neglected, and highlighted mainly through various projects in cooperation with international organizations. The consequence of the absence of childcare policy public agenda debates is that BiH is the only post-socialist country without uniform statutory maternity benefit ([Dobrotić & Stropnik, 2020](#)). Therefore, childcare policy reforms in BiH are necessary. In this regard, it is vital to improve the ECEC system, which could have a significant effect on the development and education of children, and in general on the establishment of care and employment practices that enable gender equality ([Ciccia & Verloo 2012](#); [Dobrotić & Blum 2019](#)). Therefore, the tax declassification of employer-provided

childcare is a good step towards establishing a uniform childcare policy regime, which would be implemented equally in both entities.

### ***Recommendations for an advocacy campaign in BiH***

This section will highlight some key recommendations for better and more grounded positioning of NGOs, unions, and other advocates in finding space and ways to put pressure on the BiH government to introduce a tax declassification of employer-provided childcare in BiH. In this sense, taking into account the above contextual framework of BiH and its noncohesive child and family policy at the national level, advocacy activities can be designed within three basic dimensions:

- 1) continuous **promotion of the value and importance of childcare, and benefits of employer provided childcare** for business, employees and society;
- 2) presentation and **dissemination of the most important data on the impact of tax declassification** of employer-provided childcare, based on the Croatian example;
- 3) advocates should take into account the context of BiH and the underdeveloped child and family policy solutions, but at the same time seize the **unique opportunity to advocate for a uniform approach in child policy options at the national level.**

When it comes to the **first dimension** of advocacy narratives, advocates need to find a way and path through which topics on the benefits of introducing childcare solutions will be promoted in the socio-political life of the country. Some of the effective ways can be informing and educating citizens (and politicians) through local, regional and national media, and holding professional meetings, workshops and / or conferences with the participation of domestic and foreign experts in the field of child and family policy, but also representatives of the Ministry of Finance and Treasury of BiH, Tax Administration of RS and FBiH, etc. Given the contextual dimension of BiH, the additional possibility of advocacy lies in external pressures, so domestic advocates could seek additional support from external organizations and international cooperation networks in this area.

Regarding the thematic advocacy frameworks in this first step, it is necessary to continuously and comprehensively work on educating the population about the importance of the availability of quality, accessible and affordable childcare options within the framework of family-friendly policies. As already mentioned in the introductory chapter, quality and affordable childcare options are seen as win-win solutions for all parties involved. Early childhood education and care thus improve the physical and cognitive abilities of children, and increases employment opportunities, especially for women as the most common primary caregivers. Also, it provides more time to parents and caregivers, so they show greater job satisfaction and in addition higher productivity, which boosts the company's profitability. Finally, adequate childcare solutions affect society as a whole, developing human capital (through the development and progress of children and employees) and ensuring equality of opportunity. This creates a strong foundation for a strengthened future workforce, thus

reducing costs to taxpayers and governments ([IFC, 2017](#)). UNICEF summarizes the impact of the availability of quality childcare, highlighting three fundamental benefits: adequate child development, women's empowerment and economic development ([UNICEF](#)).

This report explains the main benefits of quality childcare options, based on existing relevant and up-to-date literature, which can serve as a handbook for advocacy expert groups for a possible more comprehensive research, but also as a handbook for all citizens, including politicians and MPs in order to facilitate the introduction of the issue and the implementation of this first advocacy step.

The **second dimension** refers to the promotion of childcare reforms based on this report's empirical research on the effects of tax declassification of employer-provided childcare solutions in the Republic of Croatia. Given the common past and similar institutional development, the Croatian context, as the newest EU member state, can greatly contribute to advocacy activities in BiH, as similar scenarios on the road to the EU await BiH.

Namely, after the introduction of the new measure in Croatia, the number of companies that ensure the payment of kindergarten costs or offer arranged space for the children of employees within the company is growing. By the end of 2019, there were 3,445 employer requests for 4,528 beneficiaries (employees) in the total amount of HRK 20,051,592.33 ([Croatian Tax Administration](#)).

Advocates in BiH can use the results of this survey (having a representative sample of the Croatian population) with other insights, and promote key data on the impact of the tax declassification of employer-provided childcare. This section summarizes some key survey results that speak about the merits of the implementation of this measure, and can significantly contribute to better formulation and implementation of the argumentative advocacy campaign in BiH. Particular attention should be paid to the following:

- The legislative change made employers aware, and they recognized the overall benefits of the measure. Following the introduction of the legal change, the number of employers providing childcare support to their employees has increased significantly, from 4 to 18%;
- With the introduction of tax declassification, the number of employees receiving employer-provided childcare support increased by 4 percentage points;
- The importance of being informed about the new measure is emphasized, and consequently the important role of media reporting. The main source of information on the possibility of employer-provided childcare support for employees are the media, while employers are mostly informed by their accounting services, or have informed themselves through professional journals, the media and the official gazette;

- As many as 87% of surveyed employees support such a measure and consider it relevant for increasing the household's budget;
- Employers believe that the introduction of such a measure does not bring excessive costs for the company. On the contrary, many employers have seen the benefits for business. Namely, as many as half of the employers surveyed intend to provide some form of childcare support in the future;
- Both employers and employees agree on one thing – a tax declassification of company childcare support could attract more parents (especially mothers who are the primary caregiver) to work-force and / or increase their labour supply. Accordingly, job satisfaction increases for employees, and more than 85% of surveyed employers believe that this also affects efficiency gains;
- The lack of childcare facilities in certain areas is emphasized, and accordingly the importance of increasing the number of kindergartens. Employees agree that it is very important to have available (but also affordable) childcare facility close to their home or workplace. As many as 60% of respondents believe that the existence of corporate kindergartens would make it much easier for them.

Based on the survey responses, this report offers a more detailed insight into the advantages and disadvantages of introducing a tax declassification of company-provided childcare support. BiH advocates should carefully consider these insights of Croatian respondents for better design and implementation of advocacy activities in BiH, and be conscious of the lack of transparency of tax declassification as a fiscal instrument. Furthermore, there is much to be learned from the Slovenian family policy practices in general, especially referring to the upgrade practices. In particular, one should not fall under the influence of political discourse and reject existing useful policies. For example, some child and family policies that are useful at the level of one entity can be copied to another entity, while at the same time efforts should be focused on the upgrade of existing laws towards more uniform policies at the state level.

The **third dimension** relates to advocacy activities in which it is necessary to take into account the context of BiH, primarily the high fragmentation of child and family policy issues. Advocates should consider not immediately adhering to different entity jurisdictions, but rather leading the discourse toward a single measure of tax declassification of employer-provided childcare support. Given the different entity laws on maternity benefits and income tax legislations, the tax declassification measure should be included in both entity laws on income tax. Croatian experience shows that employer-provided childcare tax declassification is only one of the measures that governments and companies can provide to employees. Also, the implementation of such a measure in Croatia was part of a package of government tax reform measures. Therefore, it is important for the BiH context to look at the bigger picture from the very beginning and through various channels (such as media, gatherings, conferences); together with experts, entrepreneurs, and insiders from the government to get

involved in government reform programs and thus advocate and further promote the benefits of tax declassification of employer-provided childcare.

Designing and advocating for the implementation of such a measure represents a unique opportunity for a uniform childcare policy solution at the BiH level, although it can be implemented at the entity levels. It can also be a kind of precedent against more uniform policies at the level of the entire state, regardless of the level of implementation.

Within the recommendations for the advocacy campaign in BiH, it is necessary to take into account all three mentioned dimensions, which are intertwined. It is very important that all reasoned data is presented in a clear, simplified, understandable way, in order to ensure transparency of the procedure and to rule out possible unnecessary entanglements. Advocates should continuously monitor legal changes, especially entity income tax legislations, and be prepared to present their proposals for inclusion in the amendments at any time. Throughout the process, it is necessary to work on improved constructive communication with representatives of employers and trade unions, and to involve them in time and acquaint them with the proposals for tax declassification, thus creating greater demand-side pressures on governments.

*According to research, various company and government childcare support can indeed make an impact, potentially leading to moderate increase of maternal employment, childcare quality and enrolment, and job satisfaction ([Lauber and Storck, 2016](#); [Paull, 2014](#)). Based on Croatian example, and childcare support practices in other countries, tax declassification of company childcare support can be seen as a desirable policy, being aware of all drawbacks of tax reliefs (hidden government expenditure). One should not expect immediate and significant impact of such a measure. With this in mind, tax declassification should be considered within a broader package of family policies, taking into account long-term demographic trends, and various socio-economic factors.*