

National Tax Measures to Support People with Disabilities in the EU

Public hearing organised by the European Parliament's Subcommittee on Tax Matters

Contribution by Christopher Prinz, Health and Work Lead, OECD

I would first like to thank the organisers of this event for inviting me. I am not an expert on tax measures to support people with disabilities, but I have been leading OECD's work on disability policies for the working-age population for 25 years. Through this work, I have come to conclude that we will likely need a more radical policy change to achieve better labour market inclusion for people with disabilities. In the next few minutes, I will share some of my thoughts and conclusions on this matter with you.

Too many people with disability are not able to access the labour market and, therefore, too many of them live in households with very low income. Most OECD governments made considerable efforts in this policy space during the past two decades, however, disability employment gaps and disability poverty gaps have remained largely unchanged. This suggests that our policies are not good enough and maybe even fundamentally wrong.

Virtually all OECD countries support people with disabilities through special social benefits, often called disability benefits, pensions or allowances, which are paid on the condition and under the assumption that people cannot work or that their capacity to work is reduced to such an extent that they cannot be expected to work, or plausibly find work. This may sound like the right approach but implies that people are likely to seek benefit entitlement rather than work and that employers are likely to encourage them doing so.

Countries provide such benefits in different ways, as part of their pension system, as an unemployment-like social benefit, or as a uniform flat-rate payment irrespective of people's work history. Whatever way, however, these payments are rarely employment friendly. More important than the structure of the system are possibilities to combine work and benefit receipt, or partial benefit receipt, and the rate at which benefits are phase out when starting to work or increasing income from work.

Population survey data across OECD countries show that the majority of people receiving a disability benefit are able to work and, therefore, could potentially respond to better work opportunities and better work incentives. Data also show that in countries where working while receiving a disability benefit is possible, a larger share of these recipients is indeed working to some extent. In other words, system design matters.

Based on these findings, the OECD has long proposed a radical shift away from the provision of special disability benefits that are paid for being out of work. A new benefit structure could instead focus on two critical aspects: first, compensating people for their extra costs of disability, such as costs of care, mobility, or housing; and second, providing better work incentives through a strong focus on in-work payments. On both aspects, tax benefits and tax incentives (the topic of today's discussion) could be a tool to be used.

For the first component, the critical aspect is that a cost-of-disability payment should be paid irrespective of the work status of the person facing extra disability costs. In other words, this payment would not be affected when people move into or out of work.

The second component, the in-work payment, should encourage employment and compensate reduced work capacity. The payment could be proportional to the assessed work capacity; grow with earnings up to the worker's assessed maximum capacity; and be phased-out gradually above that level. This payment would enable employers to pay workers in line with their actual output, thereby boosting these workers' employability.

Lastly, introducing these two types of payments also means that current special disability benefits are no longer necessary as people could instead receive a mainstream out-of-work payment if they are not working: either unemployment benefit (if looking for work) or social assistance (if not able to or not looking for work).

The components proposed here exist in several countries in various forms. The novelty of our approach lies in the way in which we propose bundling these components together. It would be a radical departure from the disability support strategies in place today but should contribute to radically better labour market outcomes and, thereby, higher incomes.

Careful consideration will have to be given to unintended side effects which all in-work benefits and tax incentives can have, such as people adjusting their working hours or more people applying for such a benefit. But there are many other highly desirable and not only monetary effects of having more people with disabilities in employment.

Thank you for your attention.