

CASE STUDY 1: TAXATION



Men earn more than women and
benefit more when tax is cut



For example, in the UK,

cuts to income tax since 2010 will **cost** the Treasury
£19bn a year by 2020

43% of adults will gain
nothing

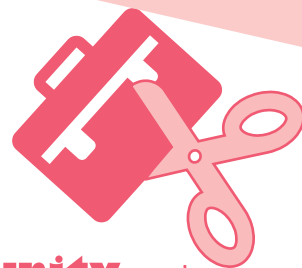


66% of these are
women



Tax provides **revenue**
for **public spending**

If **taxes** are **cut** then this
may **lead to cuts** in
public spending.



Less investment in **social security** and
public services

When
public
services are **cut**

Women increase
their **unpaid work**
to fill the gap



WHAT GENDER BUDGET ANALYSIS CAN SHOW

CASE STUDY 1: TAXATION

Few tax systems are explicitly gender discriminatory (except occasionally in tax allowances). **However, tax remains a gendered issue for three main reasons:**

Forms of taxation have different impacts on women and men; these impacts are not only distributional but may affect behaviour too by giving people and companies a greater or reduced incentive to act in particular ways. For example, to spend less money on alcohol, or to invest profits or give them out as dividends.

Tax policy enables governments to influence the economy in ways that may impact differently on men and women.

Tax provides the revenue that is spent on investing in infrastructure, public services and social security benefits (cash transfers, sometimes called “welfare” benefits). Women, because of their caring roles, often are, or end up, more dependent on such expenditures than men.

Taxes that are equitably collected and raise adequate revenue are therefore important in promoting gender equality.

It is important to hold governments to account for the gender, and other equality, impacts of their taxation policy. There are political choices to be made about levels of taxation and of expenditure, and also about which specific taxes to levy. Even though it is usually quite easy to assess, governments may be unwilling to publish data on gender impact.

A fair tax system is critical to ensuring gender equality and tackling poverty.

It should:

- ↳ reflect people’s ability to pay;
- ↳ allow the government scope for economic and social policy, including raising money to fund good quality public services and social security;
- ↳ encourage desirable and discourage undesirable behaviour by people and companies.

The way in which specific taxes are designed and collected can also have important gender implications, by affecting the incomes that men and women have after paying tax and by influencing their behaviour, for example, by making employment more or less worthwhile.

These considerations form the gender responsive budgeting principles, outlined below, that need to be applied to the main types of taxation: direct taxation of personal and company incomes, and indirect taxation on expenditure. Gender responsive budgeting principles should also be applied to tax allowances that reduce the tax paid in certain circumstances.

DIRECT TAXATION: PERSONAL TAXATION

Personal taxation is based on income (and sometimes wealth). Progressive taxes are those which take a larger proportion of the income/wealth of richer individuals than of poorer individuals. **Since women tend to be poorer and have less wealth than men, more progressive tax systems benefit women.**

An important issue for personal taxation is whether couples are taxed jointly or as individuals. In many countries, people pay income tax on their own income alone, but in others married couples are jointly taxed. **Since women are more likely to be out of the labour market and often earn less when they enter it than their partners, joint taxation tends to penalise women.** This is because a married woman entering the labour market is taxed at the same rate as her husband, which in a progressive tax system will tend to be a higher rate than if she was taxed on her (generally lower) earnings alone. So, under joint taxation she not only pays more tax, she also has a greater disincentive to taking employment. Joint taxation is theoretically gender neutral, and these considerations would apply to a man who was the second earner too, or to the second earner in a married same-sex couple. However, in practice it is women who tend to take on the couple's caring responsibilities so women's employment is more prone to being seen as secondary, even more so if it would entail additional costs of paying for replacement care.

It is often claimed that even if a tax system taxes women's income more heavily, this does not matter if the whole household gains. However, **it cannot be assumed that the benefits of increased income are shared equally within households.** Research has shown that relative earnings and employment status matter greatly to how much individuals benefit from their household's income.¹¹ Therefore it is important that neither the tax system, nor the tax system in combination with the social security system, discourages women from employment.

Women without employment who are financially dependent on their partners are particularly vulnerable to poverty if their relationship breaks down, and especially if they have children. Tax/benefit systems should be designed to discourage such financial dependence.

DIRECT TAXATION: COMPANY TAXATION

Taxation policy can be used to encourage companies to invest more of their profits and give less of them out as dividends. Since the majority of those who own shares and would receive dividends are men, decreased dividends may improve gender inequality in incomes. Forms of increased investment that could reduce gender equalities, such as training women to take skilled jobs, should be encouraged.

As capital (wealth) increasingly moves globally **there is a danger of a race to the bottom as governments compete to have the lowest rates of company taxation, leading to a serious reduction in governments' ability to raise revenue.** Tax havens that allow companies and individuals to pay little or no tax undermine the ability of other governments, particularly in poor countries, to collect company taxes. Curbing government attempts to get into such a race to the bottom and the elimination of tax havens are therefore important in ensuring governments collect adequate levels of revenue from company taxation. Such revenue is vital in promoting gender equality.

Corporate tax avoidance, especially through tax havens, worsens gender equality worldwide. It also makes other necessary legislation, such as on employment, safety regulation and on minimum wages, harder to implement. All these factors especially impact on women, who are often those employed at the lowest wages in export-oriented industries that are free to move to countries with less regulation, lower taxes and less social protection, weakening those workers' bargaining power.

INDIRECT TAXATION: VALUE ADDED TAX AND EXCISE TAXES

General expenditure taxes such as Value Added Tax (VAT) tend to be regressive because poorer households need to spend more of their income than richer households on household goods. However, the regressive nature of VAT can be reduced if certain goods are exempted or zero-rated, such as basic foods and children's clothing. This reduces the incidence of VAT on households with women members, since they are more likely than men to live with children and be in poorer households.¹²

Many of the goods on which specific excise taxes are levied are those that have harmful effects such as fuel, alcohol or tobacco, where taxation is designed in part to discourage overuse. In most countries men consume more of these goods than women, so pay more of their income in these taxes.¹³ However, where men control household resources, they may be able to pass on the additional costs of excise taxes to women and children in their household by reducing spending on goods and services that are consumed by other household members.¹⁴

TAX ALLOWANCES

Tax allowances are ways of exempting people or companies from paying direct or indirect taxes in certain circumstances. They can be used by governments to incentivise desirable behaviour, achieve social goals or simply to reduce levels of taxation on particular groups of people.

Allowances against income tax tend to be regressive and gender-biased because those with the lowest incomes who do not earn enough to pay income tax are ineligible for them, and higher earners, mostly men, gain more than lower earners from them. For example, **tax allowances designed to increase savings go to those who can afford to save, men more than women, so increase gender gaps in income and wealth.**

It would almost always be fairer and more efficient for the government to pay directly to achieve its social goals. Doing so is also more transparent, which makes its equality impact easier to assess. Tax allowances may also contain inherent male biases in them, that is, give allowances for behaviour or the ownership of assets that are more likely to be associated with men, such as the use of cars. Even if no such bias exists, tax allowances are likely to be of greater use to men since they have higher incomes.

Complex systems of tax allowances, especially for corporations and richer individuals who can afford expensive tax accountants, give scope for tax avoidance and the creation of a tax avoidance industry, with damaging gender and social effects. Such tax practices are a gendered issue because they reduce the amount of tax paid by the wealthy and by large corporations and thus reduce government revenue. Tax allowances are sometimes seen as more politically acceptable than spending on transfer payments. This works strongly against women's interests since women are likely to gain more from direct public spending and men from tax allowances.

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13. *ibid*, UK chapter

14. Elson, D, (2008) *Budgeting For Women's Rights: Monitoring Government Budgets for compliance with CEDAW, UNIFEM*, available online at <http://www.unwomen.org/-/media/headquarters/media/publications/unifem/budgetingforwomensrightssummaryguideen.pdf?vs=1006>

SOME EXAMPLES OF WBG'S APPROACH TO TAXATION

Direct taxation: personal taxation

In 2013 the UK government introduced proposals to 'recognise marriage' in the income tax system, by allowing some couples who are married or in civil partnerships to transfer some of their annual personal allowance of tax-free income between themselves. WBG argued that these transferable tax allowances (TTAs) breach the principles of independent taxation and, like joint taxation, would disincentivise married women from employment. Further, because they would boost the income of the higher earning spouse, 85% of whom are men, TTAs would increase income inequality between spouses and between men and women. WBG also argued that the £700m cost of transferable tax allowances should be spent in more targeted and socially useful ways.¹⁵

Direct taxation: company taxation

Since 2010 the UK's main rate of corporation tax has been reduced from 28% to 20%, with the government aiming to reduce it to 17% by 2019/20. WBG has pointed out that this policy loses significant revenue and contributes to an international race to the bottom in corporation tax that will hit women worldwide. It also increases income inequality between men and women, since men make up the majority of business owners, top managers and shareholders.¹⁶

Indirect taxation: VAT and excise taxes

WBG has defended the UK's zero-rating of food and children's clothing for VAT. It has also argued that reductions in specific duties on alcohol and fuel are populist measures that directly benefit middle income men more than women or poorer men.

For example, cumulative cuts in fuel duties that will have cost the UK exchequer £9bn by 2020 have mostly gone to men, because men are more likely to own cars, own cars with higher fuel consumption and drive longer distances than women.¹⁷

Tax allowances

The WBG has criticised successive rises in the annual personal allowance, the annual income that individuals keep before they pay income tax. Such rises are regressive. The 43% of adults who do not earn enough to pay income tax, 66% of whom are women, do not gain anything, and higher earners, mostly men, gain more than lower earners. Successive increases in the personal tax allowance and higher rate threshold implemented since 2010, will not only exacerbate the gender income gap, they will cost the Treasury £19bn per annum by 2020.¹⁸

Gender impact of tax measures

WBG has also criticised the UK government's gender impact analysis of its tax measures as perfunctory and worthless. Although some comments are made about the gender impact of specific tax measures, the UK government performs no overall impact assessment of its tax measures, nor any cumulative impact assessment over time.

In many countries, direct taxes are said to be hard to collect and regressive indirect taxation is relied on more for consequently limited revenue collection. It is important to question such arguments since they may just be reflecting the interests of richer men and companies who would pay more under direct taxation, and do not see themselves as benefitting as much from public services. At the same time, it is important to argue for forms of indirect taxation that are fair to poor women and for the forms of public expenditure that benefit them most.

An additional source of revenue creation are fees for the use of public services. These tend to be particularly regressive and impact badly on women. Poor families, who need the services most, may not be able to afford to access them. Families that value the education of boys more highly than the education of girls may be less willing to pay fees for girls' education.¹⁹

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16. wbg, (2017), The Gender Impact of Taxation, available online at https://wbg.org.uk/wp-content/uploads/2017/03/WBG_briefing_Taxation_pre_Budget-2017_03_07.pdf

17. *ibid*

18. *ibid*

19. Diane Elson, Budgeting For Women's Rights: Monitoring Government Budgets for compliance with CEDAW, UNIFEM 2008, pp 5/6. Available at: <https://www.poline.org/node/180258>