



TAXATION

Introduction

This is the first Issues Brief of the United Nations Development Programme (UNDP) Gender Equality and Poverty Reduction series.¹ It explores gender issues in taxation and tax policies, covering issues that are related to the wider discussion on gender-responsive budgeting. It is based on the findings from a research project on gender and taxation led by American University and the University of KwaZulu-Natal, with support from the International Development Research Centre, the Ford Foundation, and UNDP. The project examined how direct and indirect taxation policies affected women and men in

eight countries (Argentina, Ghana, India, Mexico, Morocco, South Africa, Uganda and the United Kingdom).²

This Brief targets UNDP country offices and their national counterparts (e.g., national, regional and local governments and parliaments, academia, civil society and the media). It can be used to stimulate discussions at the country level with a view towards developing nationally and locally-adapted initiatives to integrate gender perspectives into budget reforms and processes, and as an advocacy tool with a view to increasing awareness of potential gender biases in tax systems.

Background

As efforts to achieve the Millennium Development Goals accelerate over the next five years, governments and their partners are paying increased attention to the need for domestic and international development resources. The impacts of the global financial and economic crisis have

added urgency and have made it more challenging to mobilize domestic resources and international aid. Developing strong, equitable and efficient tax systems that are acceptable to the majority of a country's population is critical to ensuring the stable flow of public services.

As countries look for ways to increase revenue, they need to be mindful that tax policies do not place undue burdens on the poor or the marginalized. Since women are particularly vulnerable to poverty (increasing as a result of the global financial and economic crisis), the development community needs to focus attention on the methods countries use to increase domestic revenues and on how these efforts affect poor women. Making tax systems more pro-poor was one of the commitments of the Doha Declaration on Financing for Development (2008).³

Tax policy has evolved over the past 40 years. Reforming their tax systems in line with a standard set of reforms, most countries have taken actions, such as:

- Broadening the base of personal income tax systems and reducing the highest marginal tax rates. This has been done primarily to raise revenue and to simplify tax systems;

- Reducing corporate tax rates in order to boost investment; and
- Increasing indirect taxes to compensate for the elimination or the reduction of import tariffs as part of trade liberalization.

The most widespread indirect tax is the value-added tax (VAT), which has been popular because it is broad-based, easy to collect and difficult to evade. More than 125 countries have some form of VAT, and much of the world relies on it as the mainstay of their revenue system. Low-income countries raise about two-thirds of their tax revenue through indirect taxes such as VAT, raise just over a quarter through income taxes, and raise the remainder through a variety of different taxes. In contrast, high-income countries rely on indirect taxes to raise only one-third of their tax revenue.

BOX 1: DEFINITIONS OF TERMS AS USED IN THE BRIEF: AN EXAMPLE FROM SOUTH AFRICA

Nomsa Ndlovu is a 39-year old South African single parent, with three children under the age of 16. She lives with her 70-year old mother who assists her with childcare. Nomsa works as a sales representative for a large pharmaceutical company, earning a fixed annual salary of R132,000 plus a monthly commission based on her sales. How does the tax system affect her?

South Africa has a **progressive tax system**: the rate of taxation increases with income. As Nomsa's salary increases, she will pay proportionately more taxes. This is seen in Table 1, which shows the applicable 2007–2008 tax rates. The income tax that Nomsa pays is called a **direct tax**: the tax is levied directly on Nomsa.

TABLE 1. PERSONAL INCOME TAX RATES, 2007-2008

Taxable income (R)	Rates of tax (R)	Tax thresholds	Rebates (individuals only)
1–100,000	18 percent of each rand	< 65 years: R43,000	< 65 years: R7,740
100,001–180,000	20,250 + 25% of the amount above 112,500	≥ 65 years: R69,000	≥ 65 years: R12,420
180,001–250,000	37,125 + 30% of the amount above 180,000		
250,001–350,000	58,125 + 35% of the amount above 250,000		
350,001–450,000	93,125 + 38% of the amount above 350,000		
450,001 and above	131,125 + 40% of the amount above 450,000		

Source: National Treasury (2007) Budget Review, Pretoria, p. 197.

Nomsa's fixed salary puts her in the R100,001–R180,000 tax bracket. Persons in this bracket pay taxes of R20,250 plus 25 percent of amounts above R112,500, so Nomsa's tax payment on her salary is R25,125. But Nomsa also earns a commission each month. The **marginal tax rate** on her commission—the tax rate on each additional rand above R112,500—is 25 percent. If her commission is high enough to raise her total annual income above R180,000, she moves into the next tax bracket, where her marginal tax rate will increase to 30 percent.

Nomsa's direct taxes are reduced because the tax laws allow her to deduct certain expenditures from her income. Because she works as a sales representative, some of her transportation costs can be deducted from her earnings before her tax liabilities are calculated. South African tax laws allow other **tax deductions**, such as her pension and medical aid contributions. Some countries provide for a dependant **tax allowance**, which would allow Nomsa to claim a tax deduction for each one of her children.⁴ However, South African tax law does not permit this. Instead, in South Africa a child support grant is paid on the expenditure side of the budget.

Nomsa is also allowed a **rebate** on some of her tax liability. This is because South Africa's **tax threshold** is R43,000—all income below this amount is not taxable. So, she gets a primary rebate of R7,740, which is equivalent to the taxes she would have had to pay if the tax threshold was zero.

Nomsa's mother runs a little grocery store in the household, and earns a small additional income for the household. This income is not declared (i.e., her mother does not complete annual tax returns). In taxation terminology this income is outside the **tax net**. In most developing countries, income earned in the informal economy tends to be outside the tax net. Governments, especially in developing countries, have been trying to bring more and more income into the tax net, thereby increasing the **tax base**.

Each month, Nomsa purchases all of the items she needs to run her household. On most of these purchases she pays a value added tax (VAT) of 14 percent. This is a form of **indirect tax**: an intermediary levies and collects the tax and then pays it to the government. Similarly, Nomsa might pay **excise taxes** on purchases.

Nomsa's payment of VAT is reduced by the fact that certain basic food items are **zero-rated**—a VAT rate of 0 percent is applied to these goods. VAT is a complex tax because the value added at each stage of production is collected. Zero-rating the item has the effect of completely removing the tax on it. Closely related, some items are **exempt from VAT** (e.g., certain education expenses and public road and rail transport fees). Exemptions are similar to zero-rating in that taxes are not charged on outputs but different from zero-rating in that tax paid on inputs cannot be reclaimed by the providers of VAT-exempt goods and services. The difference (in full or in part) is therefore generally reflected in the final consumer price. In practice, this means that while the effective rate of taxation on a zero-rated goods is zero, the effective rate on exempt goods is somewhere between zero and the general VAT rate due to taxes on the inputs that went into the manufacture of the good.

Linking gender and taxation

Distinguishing between explicit and implicit gender biases in taxation has proven useful for assessing the gender implications of tax policies.⁵ **Explicit** gender bias occurs when the tax legislation contains specific provisions that treat women and men differently. In

systems where household members' incomes are taxed separately, explicit bias often occurs when allowances, deductions or property-derived income are allocated to a particular member of the household. For example, by default the Moroccan tax system allocates allowances for

children to men; this reduces men's tax burden relative to women's. Female taxpayers can claim the allowance only if they can prove that their husband and children are financially dependant on them.

In contrast, **implicit** gender bias occurs where tax legislation intersects with gender relations, norms and economic behaviour. For example, because gender norms allocate a greater portion of unpaid care work to women than to men, women tend to use larger portions of their income on basic consumption goods such as food and clothing. Systems that impose a tax on the consumption of basic goods and services may therefore place a heavier tax burden on women.

There are a number of other implicit gender biases in personal income tax systems. These tend to relate to work-related exemptions and deductions that benefit professionals and those in formal employment—exemptions for which men, predominant in that type of employment, are more likely to be eligible. Tax codes can also show implicit bias in the treatment of assets. For example, the tax codes of Argentina, Ghana and South Africa provide exemptions for interest or dividend payments on stocks and equities, assets that men are more likely to own than women.

In Argentina the tax system provides a higher rebate for employees (AR\$34,200) than it does for the self-employed (AR\$9,000). An implicit bias exists because men are more likely to be employed in formal jobs and women are more likely to be self-employed in the informal economy. In South Africa, implicit bias also results from tax collection mechanisms. Employers automatically deduct taxes, and adjustments are made after the employee files his or her annual tax return. For those who work less regularly (disproportionately women in seasonal and part-time jobs), these deductions are based on annualized calculations—resulting in deductions that are based on artificially higher marginal tax rates. Because end-of-year tax returns with tax adjustments are not legally required, few actually do this due to lack of capacity either on the part of the employer or the individual taxpayer. This failure to file tax returns results in the overpayment of taxes.

This explicit/implicit framework is limited, however, because it is based on the idea that bias stems from treating women and men differently and that a non-biased system would treat them the same. However, achieving substantive equality often requires treating groups in society differently. Different treatment is not necessarily biased treatment. For example, the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) allows for different treatment when the treatment is aimed at overcoming discrimination. Thus, CEDAW implies that taxation systems should, in addition to treating women as equal and autonomous citizens, also seek to transform traditional gender roles in society.

Tax policies in many countries take equity into consideration. For example, the ability to pay—the principle that those who earn more should pay a larger portion of their income in taxes—has been well established in such tax policies. In addition to concerns regarding income groups and other forms of social stratification, a gender perspective requires careful evaluation of tax policies' distributional impacts. Policy makers need to be aware of the extent to which tax policies, such as the tax treatment of income derived from jointly owned assets, reinforce or break down gender inequalities.

Policy makers also need to consider how taxation policies and reforms affect paid and unpaid work and the interdependence between these realms of economic activity. For example, where tax policies affect labour supply incentives that encourage or discourage shifts into paid work, policy makers should consider the consequences on the unpaid economy and the gender distribution of unpaid care work.⁶ Where tax policies affect unpaid care work (e.g., through a VAT on products used in providing care), policy makers need to be aware of the possible impacts on paid work (e.g., by changing the time that women have to provide labour in the paid economy). Evaluating tax policies on both paid and unpaid work will often involve evaluating both financial and time costs and benefits.

In addition to concerns about the spatial or income profile of households, tax policies' impact on different types of households (e.g., dual earner households, female or male single-earner households) needs to be carefully assessed. For example, policy makers need to be aware of how systems of individual filing of income taxes impact the total taxes paid by different household types. Policy

makers also need to consider the degree to which taxation policy reduces or reinforces gender inequalities within households. For example, not only should policy makers be aware that increasing the VAT on children's clothing may reduce women's disposable income more than men's, but that such action may also reinforce existing intra-household power inequalities.

Gender issues in direct taxation

The unit of taxation in personal income tax systems can be either individual or joint. In individual filing systems, income earners are individually responsible for filing taxes based on their own earnings, independent of marital status or household structure. In joint filing systems, tax liability is assessed on the combined income of the married couple.

Individual filing systems are widely regarded to be more gender-equitable than joint filing systems. **Joint filing systems** evolved from a household model in which men provided the family's income and women were financially dependent spouses. Joint filing systems tend to discourage women's participation in paid labour because combining household income increases the secondary earner's marginal tax rate. Because women tend to earn less than men in the paid labour market, the decision is often for them to withdraw from paid work in response to higher marginal tax rates. This is one factor that leads to women performing a greater portion of unpaid care work.

Individual filing systems avoid these problems. However, they raise other issues, such as how to allocate income earned from jointly owned assets⁷ or how to allocate allowances for joint household activities (e.g., childcare). How these allowances are structured can lead to gender biases. For example, Argentina's filing system has an explicit gender bias because income from jointly owned assets is allocated to the husband and taxed in his name. While the tax liability falls on men, married women's ownership of assets is not recognized in the tax system. In Morocco, as noted earlier, child and dependant allowances for dual-earner households are allocated to the male member by

default, even in households where the woman's income is higher than the man's income.

In many developing countries, the majority of women fall outside the income tax net. This is because most poor women—disproportionately concentrated in the informal sector and among those with low-paying jobs—earn incomes that are well below their countries' income tax threshold. The implication of this is that tax incentives intended to achieve social goals (such as compensating some of the costs of care through dependant allowances) may assist only a small portion of women. In such circumstances, it would be necessary to consider whether budgetary expenditure policies (or a combination of tax and expenditure measures) may be more effective.

An unusual example of a gender bias that favors women is found in India, which established a tax threshold that is higher for women than for men. However, the effectiveness of such an approach is limited, as less than 1 percent of working-age women earn incomes above the tax threshold.⁸ There is also little evidence that the higher tax threshold positively impacts women's lives. It may give eligible women slightly more power within the household insofar as the higher threshold provides an incentive to shift property ownership from men to women in order to exploit the higher tax thresholds. For the vast majority of women, though, supporting publicly financed programmes that improve their access to secure and well-paid employment may be more effective than establishing differential tax thresholds for women and men.

BOX 2: PERSONAL INCOME TAXES AND HOUSEHOLD STRUCTURE IN MOROCCO

In order to determine the incidence or burden of income taxes on women and men, a semi-uniform hypothetical scenario was developed for the eight counties in the research project. In Morocco, households were grouped according to their employment status: single-breadwinner households, households with a single male breadwinner, households with a single female breadwinner, and households with dual earners. All households—except the single-breadwinner households—included a spouse plus two children. Dual earner households were further broken down into households where the two income earners earn the same level of income, those where the male earns more than the female member and those where the female earns more than the male member. Table 2 shows the personal income tax paid in Morocco by each household type at half the median income, the median income and twice the median income. The table illustrates the wide variation in taxes paid by each household type.

The gender bias in the Moroccan income tax system arises because of the way in which the tax laws allocate dependants. Women in dual breadwinner households at the median income and twice the median, who earn the same amount as or more than their spouse, face a higher average effective tax rate because they are not allowed to claim deductions for a spouse or dependent children, unless as noted above, they can prove legally that they are dependent on her income.

TABLE 2. MOROCCO: COMPARISON OF EFFECTIVE AVERAGE INDIVIDUAL TAX RATES

Category of taxpayer	Half median income (%)	Twice median income (%)	Median income (%)
Single breadwinner household	2.1	13.2	23.1
Male-breadwinner household	0.6	12.4	22.7
Female-breadwinner household	0.6	12.4	22.7
Dual-breadwinner (male and female earn approx. equal) M*	0.0	0.6	12.4
Dual-breadwinner (male and female earn approx. equal) F**	0.0	2.1	13.2
Dual-breadwinner (male earns more than female) M*	0.0	4.4	16.4
Dual-breadwinner (male earns more than female) F**	0.0	0.0	8.2
Dual-breadwinner (female earns more than male) M*	0.0	0.0	7.1
Dual-breadwinner (female earns more than male) F**	0.0	5.6	17.1

Source: El Bouazzaoui et.al. (Chapter 7) in Grown and Valodia (eds.) (2010) *Taxation and Gender Equity: A Comparative Analysis of Direct and Indirect Taxes in Developing and Developed Countries*, London: Routledge.

*Effective tax rates for men.

**Effective tax rates for women.

Gender issues in indirect taxes

Indirect taxes are perceived to be less progressive than direct taxes because low-income households spend a larger portion of their income to fulfil basic needs than do high-income households. Nonetheless, indirect taxes have become an increasingly important revenue base for developing countries. Therefore, because women tend to be over-represented in low-income households, it is particularly important to examine the tax incidence of the VAT, excises

and fuel levies from a gender equality perspective.

As a result of gender norms that assign women responsibility for dependants' care, women tend to use larger portions of their income on basic consumption goods such as food and clothing. Therefore, consumption taxes such as a VAT place a heavier burden on women. However, careful design and implementation of VAT, such as zero-rating, can help alleviate this burden.

BOX 3: GENDER INCIDENCE ANALYSIS OF INDIRECT TAXES

Tax incidence analyses often rely on income and expenditure surveys, which provide the information needed to calculate the amount of taxes paid. Usually, the analysis shows the taxes paid by different income or expenditure groups (for example, high-income compared to low-income households, or high-expenditure versus low-expenditure households). A gender-based tax incidence analysis needs data on individual income or expenditures in order to calculate the incidence of taxes on different members of the household. However, data is typically collected at the household level, so individual-level information is not readily available. One way around this problem is to identify households as being **either female- or male-headed**. In most countries, however, 'household headship' is an imprecise concept that reveals little about the realities of power relations or decision-making between women and men. More practically, statistical agencies define headship in different and country-specific ways, thus limiting the scope of multi-country analysis.⁹

The gender and taxation research project developed two simple yet powerful proxies to use in a gender incidence analysis. First, households can be classified by their **sex composition**: households are classified according to those with a greater number of adult females, those with a greater number of adult males, and those with an equal number of male and female adults. This serves as a proxy for gender norms that underlie observable expenditure patterns.

Second, households can be classified by the **adults' employment status**, which is based on the idea that income from employment enhances individual bargaining power. This assumes that employment (and the income it yields) allows women to exert greater control over household expenditures. This leads to a distinction between female-breadwinner households (with no employed males), male-breadwinner households (with no employed females), dual-earner households, and households with no employed adults.

The household types can be further broken down between those with and without children.

Using the employment-based definition of households described in Box 3, the eight country studies show that total indirect tax incidence falls most heavily on the richest male-breadwinner or dual-earner households in Argentina, Morocco and Uganda, while it falls on middle quintile dual-earner households in South Africa (see Table 3).

The incidence of excise taxes generally falls on male-breadwinner or dual-earner households in the middle quintiles in

most countries. The pattern of VAT incidence by household type and quintile is not uniform. It is borne by the richest male-breadwinner and dual-earner households in Morocco and Uganda, middle-quintile dual-earner households in South Africa, and the poorest male-breadwinner and dual-earner households in Argentina. Thus, one can conclude that these findings are positive for most countries because they show that indirect taxes are both progressive and may help to promote gender equality.

TABLE 3. INCIDENCE OF INDIRECT TAXES BY HOUSEHOLD TYPE

By headship (comparing male-headed and female headed households)				
Incidence falls most heavily on:	Total indirect taxes	VAT	Excises	Fuel tax
Male-headed households	Argentina, Ghana, Mexico, Morocco, South Africa, Uganda, United Kingdom	Argentina, Ghana, Mexico, South Africa, Uganda, United Kingdom	Argentina, Ghana, India, Mexico, Morocco, South Africa, Uganda, United Kingdom*	Argentina, Ghana, India, Morocco, South Africa, Uganda, United Kingdom
Female-headed households	India	India, Morocco	United Kingdom*	Mexico
By employment status (comparing male-breadwinner, female-breadwinner, dual-earner and no-employed households)				
Male-breadwinner households	Argentina, [†] Ghana, Mexico, South Africa, Uganda	Argentina, [†] Ghana, Mexico, South Africa, Uganda	Argentina, Ghana, Mexico, Morocco, [†] South Africa, Uganda	Ghana, [†] Morocco, [†] Uganda
Female-breadwinner households				Mexico
Dual-earner households	Argentina, [†] Morocco	Argentina, [†] Mexico, Morocco, United Kingdom	Morocco [†]	Argentina, Ghana, [†] Morocco, [†] South Africa, United Kingdom
None-employed households	United Kingdom		United Kingdom	
By sex composition (comparing female-majority, male-majority and equal-number households)				
Male-majority households	Argentina, Ghana, India, Mexico, Morocco, South Africa, Uganda, United Kingdom	Argentina, Ghana, India, Mexico, [‡] South Africa, Uganda	Argentina, Ghana, India, Mexico, Morocco, South Africa, Uganda	Argentina, Ghana, [‡] India, Uganda, United Kingdom

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