Gender & Taxation

Why care about Taxation and Gender Equality?

For quite some time *gender equality* and *taxation* have been key topics in the development policy debate on public finance, financing for development and as well in the debate on the responsibility of the government towards its citizens. It is widely recognized that developing countries must raise adequate revenue from taxes in order to ensure sustainable financing of their poverty reduction and growth strategies. Moreover, relying on taxation for financing government expenditures can have a governance dividend by fostering domestic accountability between government and citizens.

Gender equality and women's empowerment is a development goal in its own right, as articulated e.g. in the third Millennium Development Goal. The importance of *gender equality* and *taxation*, taken individually, has been widely acknowledged. However, they have rarely been discussed together and potential and existing links have largely been ignored in development cooperation. In order to promote sustainable economic growth and poverty reduction, development efforts must ensure that policy interventions in the area of *taxation* do not negatively affect desired outcomes in the area of *gender equality*. For instance, efforts in practice to increase female labour force participation may be thwarted by tax policies that are motivated by objectives entirely unrelated to gender issues. As well may the way a government raises revenues have a different impact on women and men. Mainstreaming a gender equality perspective into general tax policy analysis can significantly improve the quality of public policy.[1]

On the taxation-gender nexus: what are the issues?

Gender biases can be explicit and implicit. Explicit gender biases result from specific provisions of the law, regulations or proceedings that deliberately treat men and women differently – for example, the provision of tax deductions granted to a male taxpayer but not so for a female. Implicit biases are less obvious and related to differences in the way the tax system (or any tax policy measure) affects men's and women's well-being. In countries that allow a joint filing in personal income tax systems with a progressive rate structure, for instance, the low income earner is effectively taxed at a higher marginal tax rate. This often affects women more than men because women's income is usually lower than their husband's income. This income difference is partly due to discrimination against women in the labour market and partly due to former discrimination in education. Even though joint filing results in a financial gain for the household in total – because the combined income is in a lower tax bracket than compared to individual filing – it is not necessarily the case that women have a say in how this financial gain is used. The higher taxation of women's income may influence their labour market participation, child bearing behaviour and their economic welfare in case of a divorce.

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Some tax reforms may be superior to others in terms of gender equality. The design of the tax system in a country may impact both the distribution of income between women and men (distributional effect) as well as the distribution of paid and unpaid work (allocative effect).

1 *This also concerns the government's gender-sensitive expenditure of tax revenue („Gender Responsive Budgeting"). For further information see http://www.gender-budgets.org/.*

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Implicit gender biases in the Ghanaian tax system

Assume Afia and Kwame earn the same income. It is likely that Afia will end up paying higher direct taxes than Kwame as she is more likely to receive her income from employment subject to the "Pay As You Earn" system PAYE, which is the routine deduction of tax at source from any income that is paid. Meanwhile, Kwame is more likely to receive income from non-taxed or under-taxed sources such as the tenancy business or white-collar self-employment.

In 2007, the share of Personal Income Tax (PIT) in total tax revenue was at 13 per cent compared to indirect taxes' share of 43 per cent, thus reflecting a common pattern in tax structure in many developing countries. Indirect taxes in Ghana, however, have a greater impact on women, as they spend a higher percentage of their income on consumer goods. While these observations do not necessarily entail changes in the tax law, they suggest improvements in collection of direct taxes as well as extending the tax net. The German Technical Cooperation (GTZ) is supporting the Government of Ghana in their efforts to strengthen tax administration with a view to more equitable taxation and to establishing a Tax Policy Unit within the Ministry of Finance and Economic Planning.

With respect to the balance between direct and indirect taxes, there is some concern about the role of indirect taxation. The Value Added Tax (VAT) can exert a gender bias because of women's different consumption patterns. Women in developing countries tend to purchase more goods and services that promote health, education and nutrition compared to men. This creates the potential for women to bear a larger VAT burden if the VAT system does not provide for exemptions, reduced rates or zero-rating. The same applies to ensuring a sufficiently high tax-free allowance for small entrepreneurs. More generally, because of women's lower income, a tax policy that solely focuses on increasing indirect taxes such as the VAT instead of also increasing direct taxes (income taxes) can potentially be more burdensome for women.

With respect to direct taxation, eliminating tax exemptions in the corporate and personal income tax may also encourage gender equality in terms of the tax burden because men tend to benefit disproportionately from such exemptions. This is mainly due to the fact that they are more likely to run a business, be a shareholder or be a house-owner who can claim these deductions. Raising direct taxes' contribution to overall tax revenues will not only make current tax systems in developing countries more equitable but indirectly also reduce the relative tax burden on poor women.

The role of German Technical Cooperation

The German Technical Cooperation (GTZ) supports partner countries in their efforts to reform tax policy and tax administration to ensure that tax systems do not impact negatively on women. Areas of reform include:

- → Capacity building in tax policy units within the Ministry of Finance and tax administration as well as of decision makers and women's organizations
- → Gender-sensitive revenue incidence analysis
- → Research to increase knowledge about the link between gender equality and revenue raising/tax policies
- → Strengthening democratic oversight and civil society to ensure accountability and responsiveness of government in case of increased tax revenues.

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Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH
Dag-Hammarskjöld-Weg 1-5
65760 Eschborn/Germany
T: +49 6196 79 - 0
F: +49 6196 79 - 11 15
E: info@gtz.de
I: www.gtz.de

Fur further information please contact:
Christine Brendel
Programme Director 'Promoting Gender Equality and Women's Rights'
T: +49 (0) 61 96 - 79 - 41 21
F: +49 (0) 61 96 - 79 - 80 41 21
E: christine.brendel@gtz.de
I: www.gtz.de/gender

Dr. David Nguyen-Thanh
Tax and Governance Adviser
with GTZ Ghana
E: david.nguyen-thanh@gtz.de

Dr. Matthias Witt
Head of Public Finance Team
E: matthias.witt@gtz.de

www.gtz.de/gender