## Writing sample- DECDG Assignment (Aieshwarya Davis)

#### Gendered Taxes: The Interaction of Tax Policy with Gender Equality A note on Explicit Discrimination in Tax plicy

Gender equality in economic opportunities and outcomes is demonstrably critical to inclusive and sustainable economic growth. Though much progress has been made in the last half century, gender gaps remain significant on a global scale, either due to legal restrictions or non-legal barriers to women’s access to education, healthcare, financial services, and the labor force. Promoting gender equality along those margins has been shown to play an important role in boosting economic productivity and growth, enhancing economic resilience, and reducing overall income inequality (Hsieh and others 2019, IMF 2013, IMF 2018). Returns to education are higher for women, who are also more likely to invest their resources in the education and health of their children, bolstering human capital for future economic growth (Schultz 2002, Patrinos and Montenegro 2014). The macroeconomic relevance of gender equality stands as especially acute as we begin to turn the page on a pandemic crisis whose economic consequences have been particularly detrimental for women (IMF 2021b).

Motivated by this context, this note aims to provide an overview of the explicit interactions between tax policy and gender equality. This excerpt is part of a larger working paper, “Gendered Taxes: The Interaction of Tax Policy with Gender Equality”. While the working paper covers both explicit and implicit biases, the scope of this note is limited to the examination of explicit biases for or against women in tax policy. By explicit bias, we mean a tax system that charges a different tax by gender.[[1]](#footnote-1) Explicit bias in the tax code is getting rarer—though it still exists in some countries. Explicit bias is not difficult to define or resolve (at least conceptually—politically it might be difficult). This note examines the evolution of these biases across times through the descriptive study of country’s tax codes and also analyzes how the differentiation of taxes can be transformed into tools in favor women to overcome biases or historical inequities that lie outside the tax system.

### Explicit Differentiation in Tax Codes

As noted, explicit forms of gender differentiation through specific provisions of the law or regulations that identify and treat men and women differently are much rarer than implicit biases. There are, however, many historical examples of such explicit differentiation, and there are also some examples in today’s tax systems.

When explicit gender differentiation exists, it is most commonly found in labor income taxation. As discussed above, tax codes often have elements of family or household-based taxation with the attendant implicit biases. However, biases can be explicit, when there is outright different treatment of husbands/wives, or when there is reference to a “head of household” and that head is determined by some other laws to be the man under most circumstances.

Explicit gender bias in the tax code may take several different forms. It could be found in the allocation of income, provision of exemptions, deductions, allowances, or credits, as well as in the setting of tax rates, thresholds, or the responsibility for filing and paying the tax (Stotsky 1997). The following provides an overview of examples encountered currently or historically. They are drawn from European Commission (1984), Bettio (2009), Williams (2019), Spencer (1986), Grown and Valodia (2010), with current information from mostly from 2021 IBFD tax guides, unless otherwise noted.

Tax free allowances were differentiated by gender, with both examples of higher and lower allowances for women. The Netherlands, for example, used to grant a higher tax-free allowance to a married man than to a married woman until 1984 (European Commission 1984). In India, however, women had higher basic exemptions than men prior to tax year 2012/13, when they were aligned. Similarly, in Pakistan, the basic exemption threshold for working women was higher than for working men until 2010 (Williams 2019).

Some countries provided different specific tax allowances or credits by gender, which may again either favor or disfavor women. Until 1993, the United Kingdom had a “married man’s allowance” (almost 1.6 times a single person’s allowance). This was later replaced by a transferable married couple’s allowance, and then abolished (except for some grandfathering) (Stotsky 1997). Greece also gave the husband an extra allowance whether or not the wife had income of her own (Spencer 1986).

Some of these gender-specific tax allowances remain to this day. In Gibraltar, an additional allowance is available for women taxpayers over 60 while for men the age limit is 65. In Argentina, a directors’ fee has a higher threshold for taxation if the recipient of the fee is a woman (and an even higher one, if the taxpayer is transgender). This measure may also indirectly act as a tax incentive to encourage the appointment of non-male board members. Similarly, in Spain, special additional credits are available for working mothers according to the income tax law.

Even tax rate schedules differed across gender in some countries. For example, until 1995, South Africa levied higher taxes on “married women” than “married persons” (a woman only exceptionally qualified for the married person treatment, for example in case of widowhood), with the former taxed more and the latter less than an unmarried person.[[2]](#footnote-2) The system thus achieved something similar to household taxation, even when married partners were taxed separately, but unlike the typical implicit bias which results from women being more often secondary earners, in this case, it is achieved through a an explicitly higher tax payment imposed on married women.

Some countries provide outright tax exemptions under certain circumstances. In Equatorial Guinea, for instance, single women with more than 3 dependents under the age of 18 are exempt from the individual tax (Article 336 of Equatorial Guinea’s Tax Code). In Mozambique, municipal personal tax is levied on resident individuals between 18 and 60 but, women in domestic service are exempt from it.

The responsibility for filing taxes was often explicitly the husband’s. Until 2018, Greece required that even if spouses were taxed separately on the basis of their respective incomes, they nevertheless had to file a joint tax return. Despite there being individual level taxation, the husband was responsible for submitting the tax return and was the recipient of any refund or any claim for outstanding tax balances. Thus, if the wife was entitled to a refund, she had to claim it from the husband (Bettio 2009, PwC 2021). France placed the responsibility of signing the joint tax return for the couple on the husband, akin to Malaysia in the 1980s (European Commission 1984, Spencer 1986). Similarly, Ireland’s tax code required that the man file and sign the joint tax return even if the wife earned the sole income in the household (Bettio 2009).

Responsibility of filing taxes remains tied to gender in some countries. In Guernsey, the husband is responsible for filing the joint return of a household and paying the tax. In Kenya and in the Democratic Republic of Congo, the income of a married woman living with her husband is deemed to be the income of the husband’s and the tax is assessed on the husband.

There are also examples of tax biases beyond labor taxes. In Argentina, for example, income deriving from joint property is to be considered in the husband’s tax filing (Grown and Valodia 2010, Table 1.1). In India, property tax rebates are available for women in municipal corporations in states when the property is registered in the women’s name.

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| Figure 12. Comparison of Explicit Differentiation in Countries’ Tax Codes Over Time      Source: IMF staff compilation using European Commission (1984), IBFD (2021), PwC (2021), Bettio (2009), Williams (2019), Spencer (1986), Grown and Valodia, (2010), and websites from national authorities. Note: This data is not an exhaustive list of all countries that have historically and today had explicit biases in the tax code but is meant to portray trends from those countries discussed in this section. The data represented in the charts start from 1984. |

While explicit tax bias against women still exists, the number of such provisions has been declining, and tax provisions favoring women have proportionally risen. While there is no exhaustive database of tax laws with explicit gender biases throughout history, the examples collected are shown in a treemap both for tax biases that existed in the past and for existing differentiation (Figure 12). As this figure reveals, while in the past most discriminatory provisions created disadvantages for women, more recently explicit differentiation against and in favor is equally common globally (though there is no balance within countries). Most remaining explicit biases against women today are found in the responsibility of filing taxes and signing them and on whom the taxes are assessed. Apart from a handful instances, most explicit biases in terms of allowances, credits, thresholds, are in favor of women. These might reflect intentions to improve female labor force participation or reduce gender income inequality—a point discussed in the following section.

### Explicit Differentiation to Address Gender Inequities

Some economists have made the case for outright gender differentiation in taxation, relying on key principles of public finance theory. Two strands of *optimal taxation* literature have been used to study gender issues. One focuses on tax systems that raise revenue, minimize distortions, and redistribute (*Ramsey or Mirrlees motive*),[[3]](#footnote-3) and the other focuses on taxes that correct externalities associated with market failures (*Pigou motive*).[[4]](#footnote-4) In both cases, arguments have been developed for an explicit differentiation in the taxation of men and women, or so-called *gender-based taxation*.

Differences in labor supply behavior across men and women, provide a potential reason for gender-based taxes on both efficiency and (horizontal) equity grounds. Ramsey (1927) argues that optimal taxes should be inversely proportional to the labor supply elasticity of taxpayers. It follows that, since the labor supply of women (especially married ones) is more elastic than men’s (Pencavel, 1986; Evers and others, 2008), tax rates for women should be lower. This type of gender-based taxation addresses distortions in the intra-family bargaining process that favor the husband and induce women to pursue home duties relative to men, thus reducing horizontal gender inequality (Alesina and others, 2011 and Apps and Rees, 2011).

A gender-based tax system can mitigate the adverse effects of market failures that, implicitly or explicitly, discriminate against women. Absent radical labor market and childcare reforms that would achieve a first-best outcome, a gender-based tax system can help address gender inequities. As shown by Alesina and others (2011), if women face lower marginal tax rates than men, they will have stronger incentives to work and invest in skills, and they will likely be supported or encouraged to do so by their *male* spouse (or family members). In addition, there may be a case for introducing a gender-based tax system to correct employment and gender wage differentials arising from the market failures described below.

* *(Perceived) higher costs of hiring female workers*. Employers may expect women employees to be more costly than men, because they are more likely to interrupt their career for full- or part-time childcare after becoming mothers. This type of implicit bias tends to occur in sectors with high-paid jobs in which permanence in the labor force is highly valued, but it can also spread to other sectors, leading to pervasive employment and gender wage gaps. Moreover, due to *asymmetric information* about workers’ intentions to become parents, women who chose not to bear children are also discriminated against. Blau and Kahn (2017) and Cremer and Roeder (2019), show that while explicit gender bias appears to be declining, wage differences across genders cannot be explained by schooling, experience, and job-type differentials alone. Waldfogel (1997) and Kleven and others (2018) show that women who have interrupted their career for childcare suffer from a wage penalty that lingers over the long-term. As shown by Cremer and Roeder (2019), unwarranted gender wage gaps can be addressed through a gender-based tax system, with lower marginal taxes for women.
* *Incomplete job markets* resulting from non-linearities introduced by family-based features of the tax and social security system. These non-linearities make part-time employment unattractive for both employers and employees, thereby thinning the part-time job market. For employers, part-time jobs tend to be more costly, as fringe benefits generally don’t depend on hours worked. On the employee-side, part-time jobs may not be feasible when after-tax earnings are not enough to cover the fixed costs of entering employment, such as childcare. A collective action problem may also arise, because even if some families individually recognize the benefits of having one or both parents work part-time, their individual decision does not help create a market. The absence of part-time opportunities encourages the formation of one-earner households, which tend to favor male over female labor force participation, given women’s higher level of readiness to engage in housework. While a gender-based tax system cannot help complete markets, lower marginal tax rates for women compared to men may encourage the formation of one-earner households with stay-at-home husbands and working wives. An increase in the number of such households would reduce aggregate gender gaps in employment and wages.
* *Myopic expectations.* Economic agents may fail to internalize the impact of their choices in a distant future, including through the perpetuation of gender biases across generations. For example, anticipating the possibility of exiting or re-entering the labor force into a low-paid job after motherhood, young women may think that becoming stay-at-home wives is the best option, which in extreme cases, may even discourage investing in education. By making choices which, in one way or another, contribute to the formation of a single-earner family, women may fail to internalize that such decisions do not serve their own interest, notably in the case of widowhood or divorce. That is, (married) women inefficiently discount too much the possibility of widowhood and divorce, and they fail to maximize their own utility. By encouraging female-labor participation, a gender-based tax system, could help offset the work disincentives to women created by myopic expectations.

There are conceptual and practical difficulties in the implementation of gender-based tax systems, however. The influential work by Alesina et. al (2011) advocating for a gender-based tax system with lower marginal rates for women, focuses on a representative husband and wife. In such a setup, the transfers system between rich and poor is irrelevant. Bastani (2013) shows that when individuals differ in their productivities and marital status, optimal taxation must weigh the effects of redistribution across households against the effects of redistribution within households, yielding outcomes in which it is not optimal to tax women less than men. Any gender-based system may be difficult to implement, because it may be perceived as unfair by homosexual couples, and difficult to apply in the case of nonbinary genders. Moreover, a system in which women face lower marginal tax rates creates avenues for tax avoidance, as families could shift income towards the spouse paying the lower rate (Stotsky, 1997 and Grown and Valodia, 2010).

Against this backdrop, while the case for gender-based taxation can be made, it seems less controversial to begin with more neutral reforms that create a more efficient and equitable tax system for women, such as reforms toward individualized and progressive tax systems. Moving from joint to individual taxation powerfully reduces marginal tax rate for women and is in line with the Ramsey taxation principle (Boskin and Sheshinski, 1983; Apps and Rees, 1999; Meier and Wrede, 2013). Individualization also eliminates the non-linearities of the tax and social security systems that make job markets incomplete. To address the market failures associated with the (perceived) higher cost of hiring female employees, the cost of paying salaries during parental leave could be made tax (or social security) financed[[5]](#footnote-5)—although this would still not cover any administrative costs (such as from finding and training workers for coverage during absences). A more marginal reform could at least reduce payroll taxes during parental leave.

### Conclusion

The aim of this note was to provide an overview of the interactions between tax policy and gender equality, with specific focus on explicit discrimination. It is apparent from this note that while the world has come a long way in terms of addressing explicit biases against women since the 1980s, there are still instances (although, rare) of gender-based discrimination in the tax code even today. However, it must also be noted that there has been a significant leap in the number of explicit biases in favor women in tax codes across countries. Given this backdrop, a case was made for the adoption of gender-based taxation as a tool to promote gender equality (and in turn income equality), since it was clear that such can mitigate the adverse effects of market failures that, implicitly or explicitly, discriminate against women. Specific policy recommendations on individualized and progressive tax systems by moving from joint to individual taxation powerfully reduces marginal tax rate for women and are neutral reforms that create a more efficient and equitable tax system for women.

While it is—as always—true that more research is needed, there are plenty of options for well-justified policy reforms that would contribute to gender equality. Tax policy may not always be the first-best tool to address each source of gender inequality, but as illustrated in this paper, even explicitly neutral tax policy can have first-order effects on important dimensions of inequality. Therefore, it is imperative that gender impact analysis be incorporated in optimal policy design.

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1. Stotsky (1997, p. 1) defines explicit bias as “specific provisions of the law or regulations that identify and treat men and women differently.” The line between explicit and implicit differentiation is not always clear cut, though. For example, charging a tax only consumed by one gender comes quite close to explicit bias and could be included in broader definitions. [↑](#footnote-ref-1)
2. The system was highly complex, for details see Smith (2001) [↑](#footnote-ref-2)
3. This strand of the literature builds on the seminal work by Ramsey (1927), which was generalized to incorporate heterogenous agents and non-linear income taxation by Mirrlees (1971). [↑](#footnote-ref-3)
4. Corrective taxation literature builds on the work of Pigou (1920). [↑](#footnote-ref-4)
5. According to Rossin-Slater (2017), in 47 out of 185 countries such costs are borne by employers, in the remainder it is the tax or social security system. [↑](#footnote-ref-5)