

Gender Dimension of Tax-Benefit Systems

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- Introduction
- Microsimulation Analyses
 - Inequality
 - Poverty
 - Work incentives
- Summary & Conclusions

- Tax system impacts distribution of income and wealth
- Important area: personal income tax (PIT)
- Modern tax systems not directly gendered
- But indirect tax bias due to
 - gender-differentiated socio-economic conditions
 - gender-differentiated behavioural patterns
- Crucial determinants of PIT
 - Design of income tax schedule (progressive vs. flat)
 - System of household taxation (joint vs. individual)
 - Design of tax exemptions (tax allowances vs. credit)

- Progressive schedules dominate within EU
- But progressivity of PIT has been generally weakened in the long run by
 - General long-term trend of cutting top income tax rates
 - Dualisation of the income tax systems
- Women typically have lower incomes in general and lower capital income
 - Women benefit from progressivity
 - Men benefit from weaker progressivity
 - Men benefit from dualisation

- Joint income taxation (couples or households as tax units) has become minority model in EU
- Joint income taxation impairs work incentives for women
- Individualisation of income tax systems reduces incentives to share paid and unpaid work unequally between men and women
- In most individualised income tax systems – except SE and FI: some kind of tax relief for one-earner couples re-introducing incentives for a traditional division of labour
- Individual taxation undermined by family support distributed via the tax system and based on household income

- Tax allowance reduces the tax base, provides increasing (absolute and relative to taxable income) tax relief (in case of a progressive income tax schedule)
- (Wastable) tax credit provides uniform tax relief independent from taxable income in absolute terms and decreasing tax relief relative to taxable income
- Downside compared to cash benefits: no tax relief in low-income range with no or only low taxable income
- Non-wastable tax credits (applied e.g. in CZ and AT) avoid this problem
- Women earn less on average: child tax credits generally more favourable from a gender perspective than child tax allowances

- EUROMOD
- Six Selected EU Member States: AT, CZ, DE, ES, SE, UK
- Policy year: 2016
- Multiple scenarios for each country
 - Flat tax vs. progressive tax
 - Joint vs. individual taxation
 - Child cash benefit vs. child related tax credits vs. allowances
 - Each under budget neutrality
- Poverty, inequality, work incentives

Country	AT	CZ	DE
Household taxation	Individual	Individual	Individual or joint
PIT schedule: basic-top rate	P / 25-50%	F / 15%	P / 14-47.5%
(Tax related) child benefits	Cash benefit, tax credit, tax allowance	Non-wasteable tax credit	Cash benefit or tax allowance

Country	ES	SE	UK
Household taxation	Individual or joint	Individual	Individual
PIT schedule: basic-top rate	P / 19-45%	P / 52.1-57.1%	P / 20-45%
(Tax related) child benefits	Tax credit	Cash benefit	Means-tested tax credit

System of household taxation

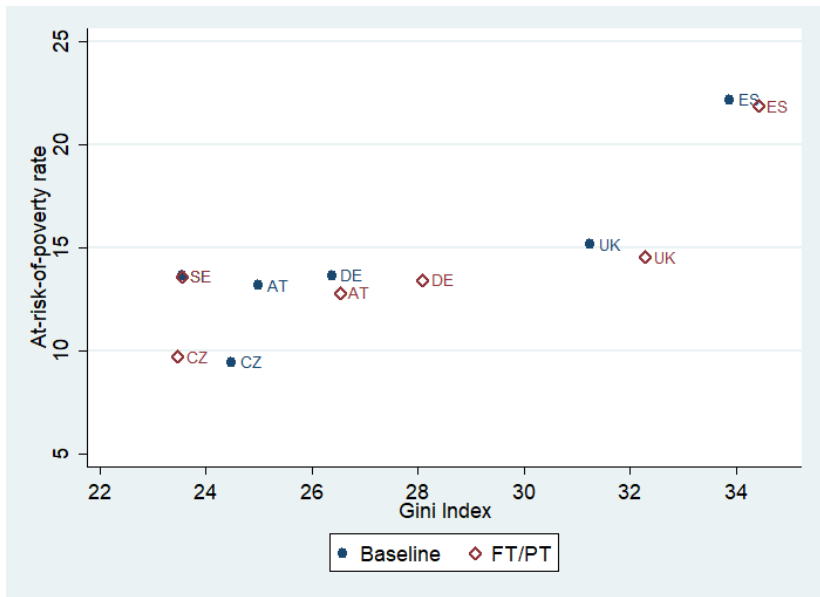
- Individual taxation (and tax relief for sole and principal earner couples, where applicable) replaced by system of income splitting according to the German model (JT)
- CZ: income tax schedule was simultaneously switched from flat to progressive
- DE: replacement of income splitting system by an individual income tax system (IT)
- Budget neutrality: proportional adjustment of all income tax rates

Child-related tax relief

- DE, SE: replacement of child cash benefit by child tax credit (ChC) and by a child tax allowance (ChA)
- UK: replacement of means-tested child tax credit by a non-refundable child tax credit and a child tax allowance
- AT: child tax credit (de facto child cash benefit) replaced by a child tax allowance, replacement of child tax allowance by a new child tax credit.
- CZ, ES: child tax credit is replaced by a child tax allowance
- Amount of new instrument set to be budget neutral

Design of income tax schedule

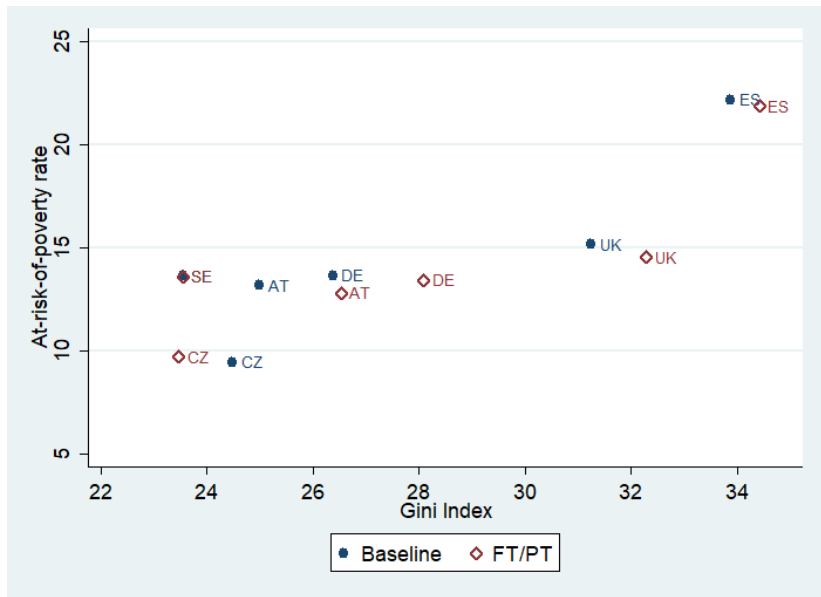
- AT, DE, ES, SE, UK: progressive income tax schedule is replaced by a flat income tax (FT) schedule maintaining existing tax exemptions
- CZ: flat income tax schedule is replaced by a progressive income tax (PT), tax brackets set to pre-flat-system
- Budget neutrality: adjustment of tax rates



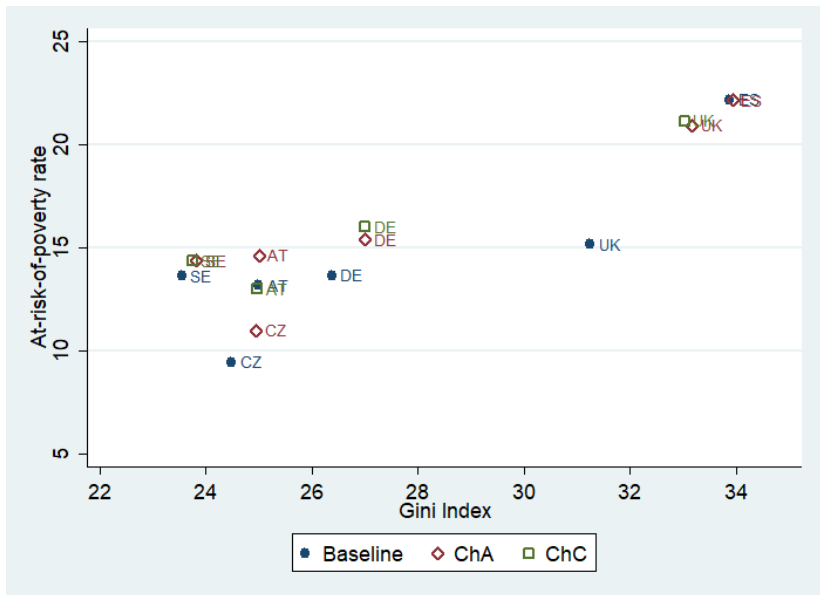
- Overall
 - Negligible effects on poverty
 - Flat tax increases income inequality
- Household types
 - Results not clear cut
 - Tendency: Households with male active income contributor benefit from a flat tax
- Intra-household perspective
 - Flat tax favours main earner (typically men)

Austria

Type	BL in %	FT in %p
(1,0,0)	17.35	0.60
(1F,0,0)	15.99	1.22
(1M,0,0)	18.36	0.14



- Overall
 - Negligible effects on poverty
 - Joint taxation decreases income inequality
- Household types
 - 2 adult households with 1 active earner typically benefit (lower taxes due to income)
 - Single households typically lose (higher tax rates)
- Intra-household perspective
 - Joint taxation favours main earner (typically men)



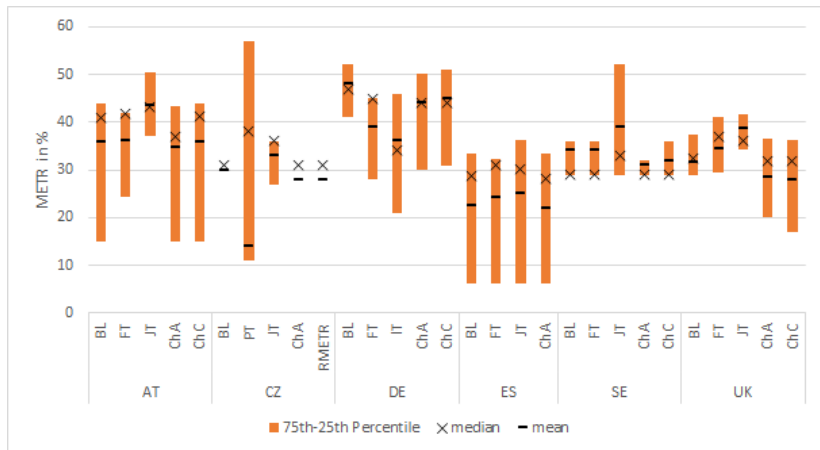
- Replacing cash child benefit with tax related child benefit increases poverty and income inequality
- The poverty and inequality increasing effect is larger for tax allowances than tax credits
- Negligible effects for switches between credits and allowances
- Gender differentiated effects not clear cut

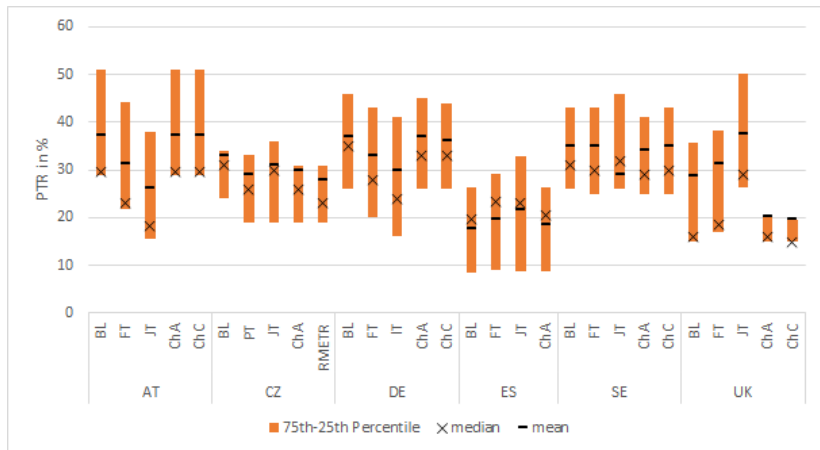
- What is the effect of a change in labour supply, i.e. in gross earnings, on disposable household income?
- How much of the additional income is “taxed” away?
- Marginal effective tax rate

$$METR = 1 - \frac{\Delta Y_h}{\Delta E_i} = 1 - \frac{Y_h^1 - Y_h^0}{E_i^1 - E_i^0}$$

- Participation tax rate: $E_i^0 = 0$

- Marginal effective tax rate
 - Female second earners
 - Earnings increased by 10%
- Participation tax rate
 - Inactive women in 2 adults household
 - Earnings set to $2/3$ of the national mean active income
- Both indicators are sensitive to the assumed increase in earnings





- Extent of gender differences varies across countries
- Design of income tax schedule
 - Poverty \sim , Inequality $+$, work incentive pronounced
- System of household taxation
 - Poverty \sim , Inequality $-$, work incentive pronounced
- Design of (tax related) child benefits
 - Poverty $+$, Inequality $+$, work incentive less pronounced

Thank You

(Selected) Results

- Fink et al., 2019. "(Gender-differentiated) Effects of Changes in Personal Income Taxation," *Intereconomics: Review of European Economic Policy*, vol. 54(3), pages 146-154.
- More detailed working paper:
<https://www.wifo.ac.at/wwa/pubid/61725>

Revisiting the 'Fiscal EU': Fair, Sustainable, and Coordinated Tax and Social Policies

- Cross-disciplinary four-year research project (2015-2019, 10 partners)
- Recommendations on how fair and sustainable taxation and social policy reforms can increase the economic stability of EU Member States
- European Union's Horizon 2020 research and innovation programme 2014-2018
- <https://www.umu.se/en/fairtax/>

BL	Baseline
FT	Switch from progressive to flat tax
PT	Switch from flat to progressive tax
JT	Switch from individual to joint taxation
IT	Switch from joint to individual taxation
RMETR	Sole earner tax credit abolished (budget neutrality via child tax credit)

- AT Child tax credit (de facto cash benefit) replaced by child tax allowance
- CZ Child tax credit replaced by child tax allowance
- DE Child benefit replaced by child tax allowance
- ES Family tax credit for children replaced by child tax allowance
- SE Child benefit replaced by child tax allowance
- UK Child tax credit (means-tested benefit) replaced by child tax allowance

- AT Child tax allowances replaced by new child tax credit
- CZ -
- DE Child benefit replaced by child tax credit
- ES -
- SE Child benefit replaced by child tax credit
- UK Child tax credit (means-tested benefit) replaced by child tax credit