Towards gender equality in tax and fiscal systems: The case of tax expenditures

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The implicit-explicit bias framework

- It is the one **most commonly used** one to analyse gender inequalities in tax.
- It had several **benefits**: brought focus on gender equality in tax analysis, fostering reforms
  - Helped countries eliminate explicit bias: France, South Africa, Korea, Thailand, the Philippines
  - Contributes to more equitable tax systems that better serve women
- But it is **no longer fit for purpose**: informing decision-makers on how to improve gender equality and tax equity
- We propose a **new approach** (with an application to tax expenditures)

Explicit Bias

Specific provisions that treat women and men differently, e.g.

In systems of joint filing, husbands are responsible to file

Allocation of exemptions to husbands

Implicit Bias

Bias resulting from social arrangements and economic behavior, e.g.

“marriage tax” due to higher marginal rates on secondary income

VAT (reduced rate / exemptions)

Critique of the bias framework

1. The implicit-explicit bias framework can **create conceptual confusion**
    - Not all differential treatment is a bias (e.g. ‘sin’ taxes)
    - Implicit bias particularly hard to identify
    - Tax bias creates the impression that the <u>solution</u> lies in the tax system

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    - Explicit biases often have simple solutions, but they are increasingly rare
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3. It **traps researchers and policy debates into a narrow set of issues**
   - Focus on identifiable and tractable issues, e.g. joint filing
   - Less attention on topics important to tax equity and gender equality: taxing the wealthy or addressing unpaid care work

An alternative approach for gender equality in tax and fiscal systems

- **Improve policy relevance** of research
- **Inform action** to foster tax equity and gender equality

The new approach has three parts..

1. Embedding gender and tax in fiscal policy and politics

- Tax is **one policy tool** to address gender equality, others on the expenditure side
- Tax's **primary role** is to generate revenue to fund spending
- **Alternative process** to formulate policies to improve gender equality:
  - Starting point is the specific policy goal on gender equality
  - Multiple tools are available (tax and non-tax)
  - Evaluation of effectiveness and cost-effectiveness of each

- Tax is part of a **broader debate** about government policy and fiscal space:
  - Technical perspective: trade-offs amongst possible policy tools
  - Political perspective: high-level commitment to gender equality, backed up by coordinated action and policy coherence vs. piecemeal change

Example: Tax expenditures to improve access to MHP

- **Policy goal**: improved access to MHP especially for lower income women
- **Multiple tools**: exemption or zero rating (tampon tax) or direct provision
- Evaluation of **effectiveness** and **cost-effectiveness** of each option:
    - Exemptions are <u>ineffective</u> when informal sectors are large
    - They <u>benefit higher income</u> women more in absolute terms
    - They are <u>expensive</u>: large revenue losses could be used for targeted provision
- <u>Note</u>: exemptions might still be desirable if direct provision isn't possible (weak state capacity), or if exemptions exist for other products, making the tampon tax unfair.

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Tax expenditures aimed to improve progressivity and equity must be considered against **other policy options** to reach the same policy goal, and their **costs** and **effectiveness** should be evaluated carefully.

2. A progressive tax (policy) reform agenda, and broad coalitions for change

- A progressive tax reform agenda **maximizes revenue** in a way that preserves **efficiency** and improves **equity**, including gender equality.
- Its rationale is **fundamentally distributional** and can bring together broad **coalitions**.

Progressive Income Tax	• Improve enforcement of taxes on higher-income self-employed individuals, rental income, and investment (capital gains)
Multinational corporations	• Adoption of minimum taxes at the national level • Measures linked to Inclusive Framework and UN Tax Convention
Consumption taxes	• Broad-based VAT, coupled with target spending measures
Exemptions	• Reduce regressive exemptions and incentives (e.g. tax holidays) • Maintain high exemption thresholds that are revised to account for inflation
Wealth taxes	• Improve enforcement of existing taxes on wealth or transfers of wealth (e.g. inheritance, property), and consider others (e.g. wealth tax)

Example: Tax expenditures to attract investment

- **Revenue implication**: they represent a large revenue loss, concerning particularly in LICs
  - Lower revenue <u>limits fiscal space</u> for policies to enhance gender equality
  - Revenue losses do not seem to be <u>justified</u> by TE's <u>effectiveness</u> to attract investment
- **Distributional implications**: they are regressive, benefit largest firms more
  - <u>Gender dimension</u>: businesswomen are less represented amongst larger firms
- **Gender implications**: underlying norms and inequalities mean women are less represented amongst groups that benefit (e.g. employees, shareholders, managers)

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- **Gender implications**: interactions with underlying norms and inequalities related to economic participation, power (e.g. employees, shareholders, managers)

Tax expenditures aimed to attract investment are often **regressive**, generate large **revenue losses,** and their **effectiveness** has not been confirmed by evidence.

3. Policy implementation and tax administration

- Need **more attention** on implementation and administration, alongside policy.
- Several aspects of **tax equity**, including gender equality, are about administration.
- This is not just about whether women are better taxpayers than men!

Enforcement	• Uneven pressure on lower-income groups (e.g. mass registration campaigns) • **Aggressive** practices, sexual harassment, reputation and social stigma
Facilitation	• **Compliance costs** add to the overall tax burden, and they are regressive • Tax **knowledge** and access to information and support low amongst small taxpayers and women
Tax morale	• Uneven enforcement and weak facilitation affect perceived fairness and trust • Women's **care work** and experience with public services affect tax morale

Example: Transparency of tax expenditures

- Tax expenditures (especially those to attract investment) often **lack transparency**

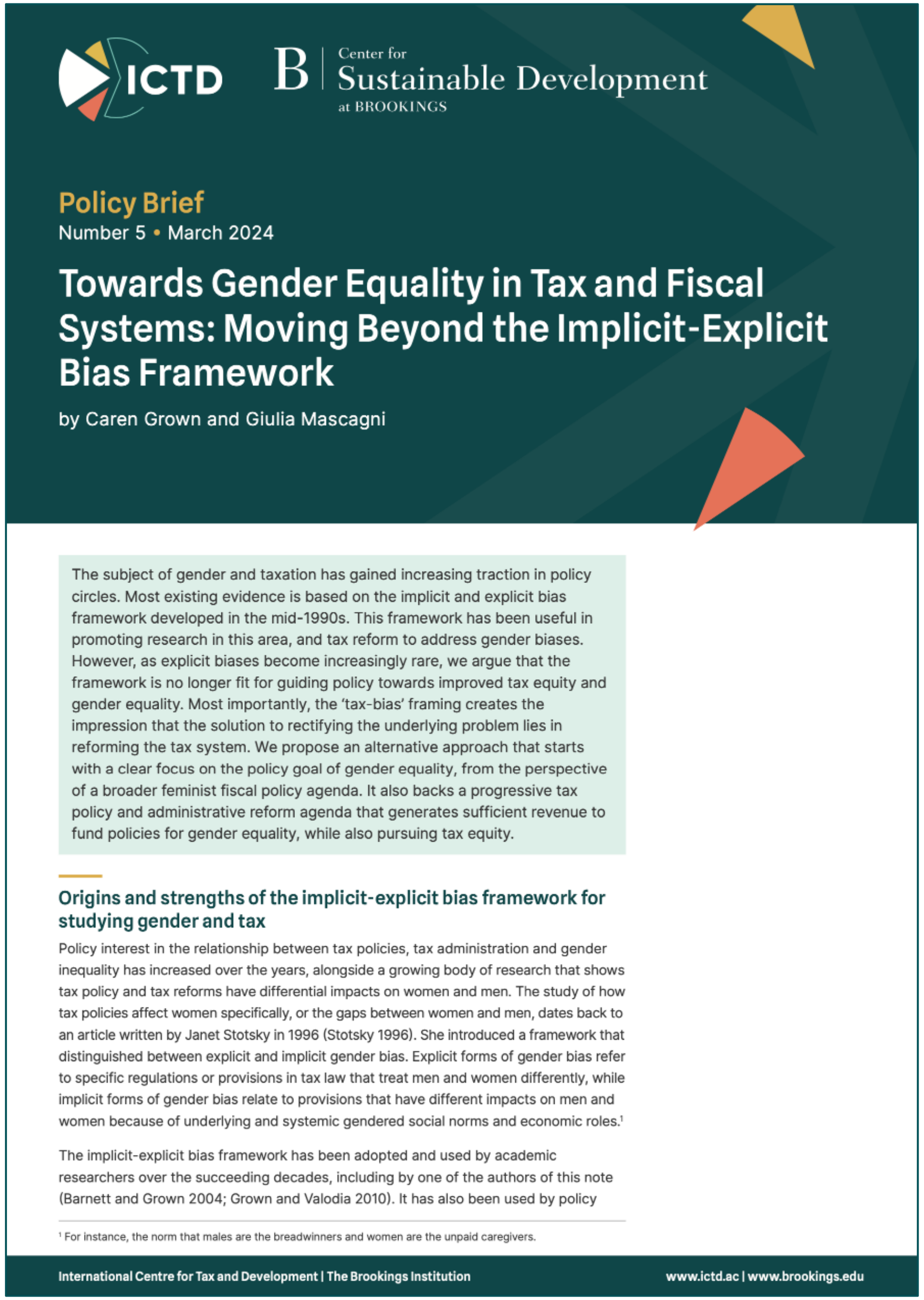
- **Fairness** considerations in TE design: which groups are the intended beneficiaries
    - Gender dimension related to <u>policy influence</u> and politics
    - Recent insights show <u>lower trust</u> in revenue administration amongst women

- **Facilitation and knowledge**: who is able to access to TE and other benefits
    - Women have weaker <u>access</u> to info and <u>knowledge</u>, incl digital exclusion

Tax expenditures can affect tax equity and gender equality through tax administration too.

- Policy Brief available on www.ICTD.ac along with other resources on gender and tax

- Blog on gender equality and tax expenditures forthcoming on CEP website, in collaboration with ATI



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Towards Gender Equality in Tax and Fiscal Systems: Moving Beyond the Implicit-Explicit Bias Framework

by Caren Grown and Giulia Mascagni

The subject of gender and taxation has gained increasing traction in policy circles. Most existing evidence is based on the implicit and explicit bias framework developed in the mid-1990s. This framework has been useful in promoting research in this area, and tax reform to address gender biases. However, as explicit biases become increasingly rare, we argue that the framework is no longer fit for guiding policy towards improved tax equity and gender equality. Most importantly, the 'tax-bias' framing creates the impression that the solution to rectifying the underlying problem lies in reforming the tax system. We propose an alternative approach that starts with a clear focus on the policy goal of gender equality, from the perspective of a broader feminist fiscal policy agenda. It also backs a progressive tax policy and administrative reform agenda that generates sufficient revenue to fund policies for gender equality, while also pursuing tax equity.

Origins and strengths of the implicit-explicit bias framework for studying gender and tax

Policy interest in the relationship between tax policies, tax administration and gender inequality has increased over the years, alongside a growing body of research that shows tax policy and tax reforms have differential impacts on women and men. The study of how tax policies affect women specifically, or the gaps between women and men, dates back to an article written by Janet Stotsky in 1996 (Stotsky 1996). She introduced a framework that distinguished between explicit and implicit gender bias. Explicit forms of gender bias refer to specific regulations or provisions in tax law that treat men and women differently, while implicit forms of gender bias relate to provisions that have different impacts on men and women because of underlying and systemic gendered social norms and economic roles.[1]

The implicit-explicit bias framework has been adopted and used by academic researchers over the succeeding decades, including by one of the authors of this note (Barnett and Grown 2004; Grown and Valodia 2010). It has also been used by policy

[1] For instance, the norm that males are the breadwinners and women are the unpaid caregivers.

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Thank you!