



FISCAL AFFAIRS

Tax Policy and Gender Equality

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“The views expressed in this presentation are of the authors and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.”

Introduction

Explicit Bias

- Tax rate or base varies by gender
 - ▶ Increasingly rare
 - ▶ Easy to address (at least conceptually)

Implicit Bias

- Tax system is notionally neutral, but has different effects by gender because of their characteristics
 - ▶ Very common
 - ▶ Often complicated (to analyze and to address)

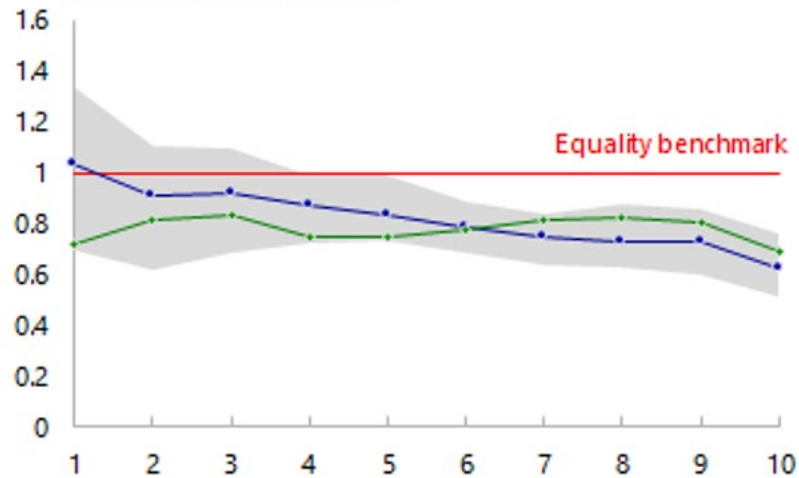
Tax Policy and Gender Equality

- Taxation of Labor Income
- Taxation of Capital Income and Wealth
- Consumption Taxes

Wage and employment gaps are common

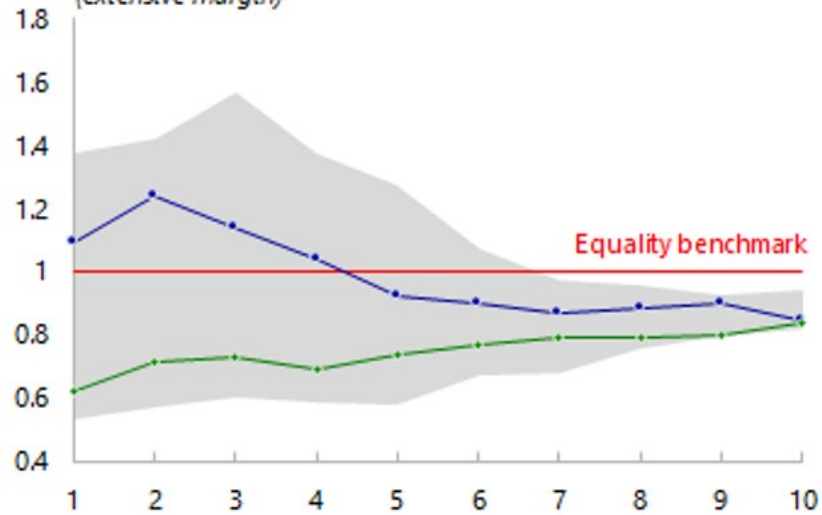
10-90th percentile range AE median EM median

Labor income gender gap

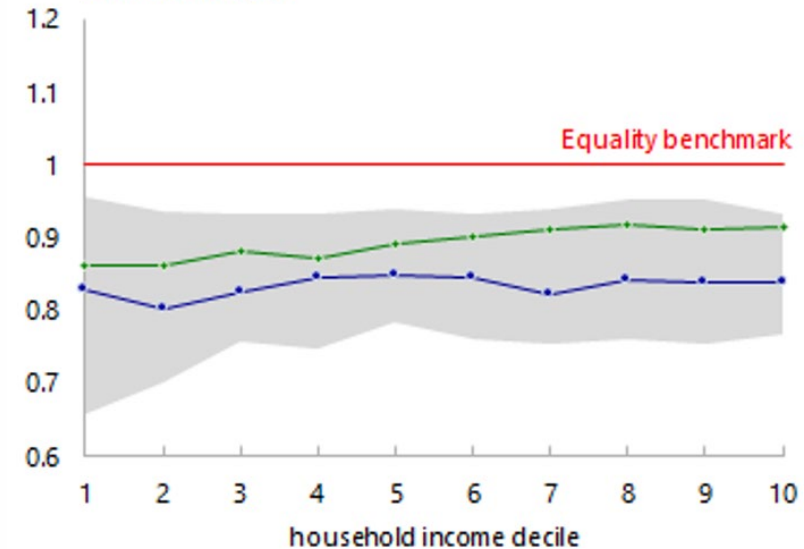


Source: LIS and IMF staff calculations

Labor force participation gender gap (extensive margin)

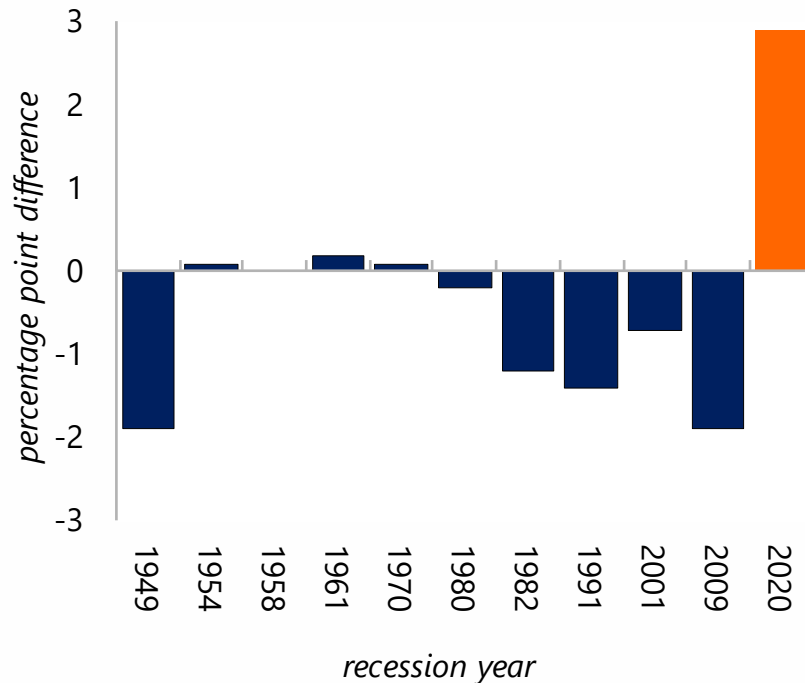


Weekly work hours gender gap (intensive margin)

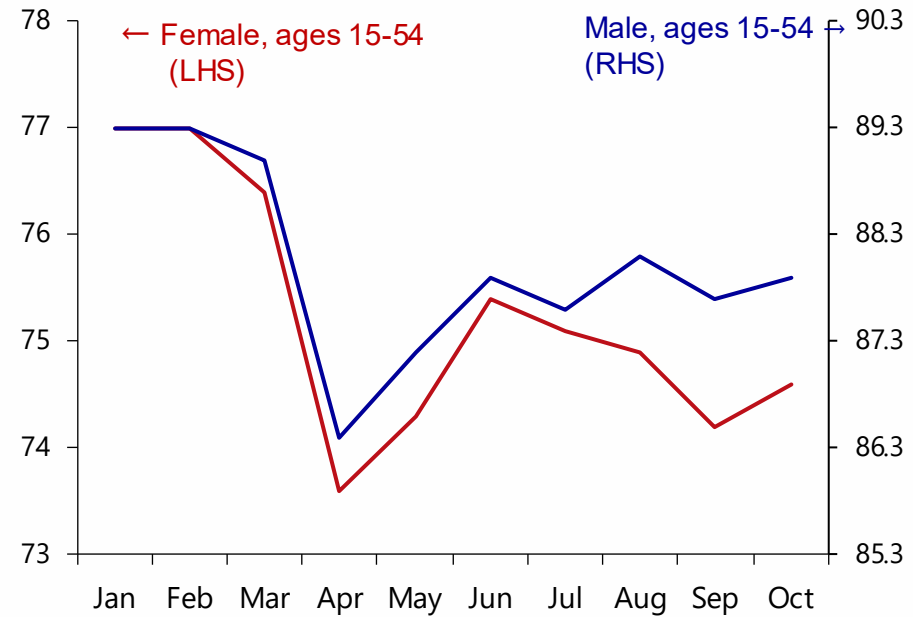


Pandemic has likely increased gender inequalities: US experience

Difference in rise of women's unemployment relative to men's during US Recessions 1/



US women vs. men's labor force participation, 2020
(percent, seasonally adjusted)

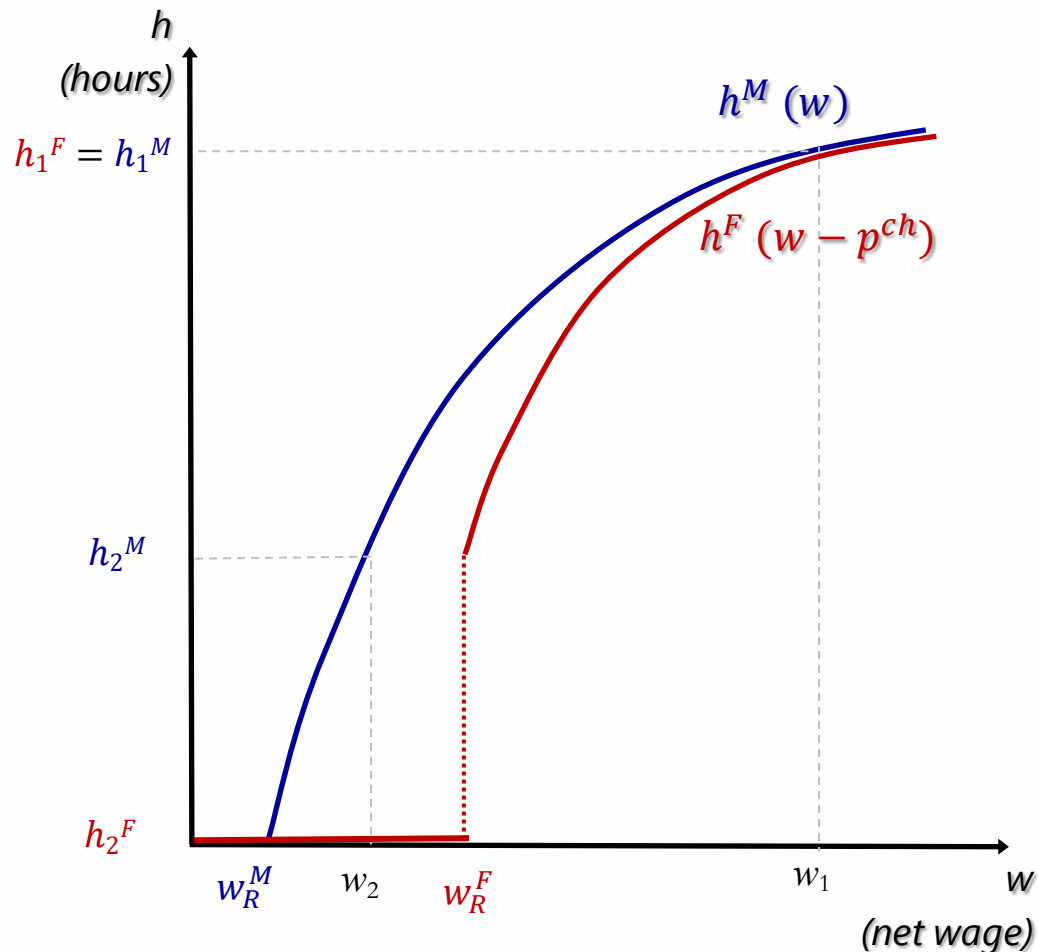


Source: Doepke et al. (2020) and based on data from the Bureau of Labor Statistics. 1/ Each bar is the rise in the women's unemployment rate minus the rise in the men's unemployment rate from the first to the last month of each. For the Covid-19 recession, change in unemployment from February to April 2020 is displayed.

There are theoretical reasons for greater sensitivity to net wages...

Relation between net wage rate and work hours

PIT reform reduces wage rate $w_1 \rightarrow w_2 = w_1(1 - \tau)$



Labor supply decisions relate to

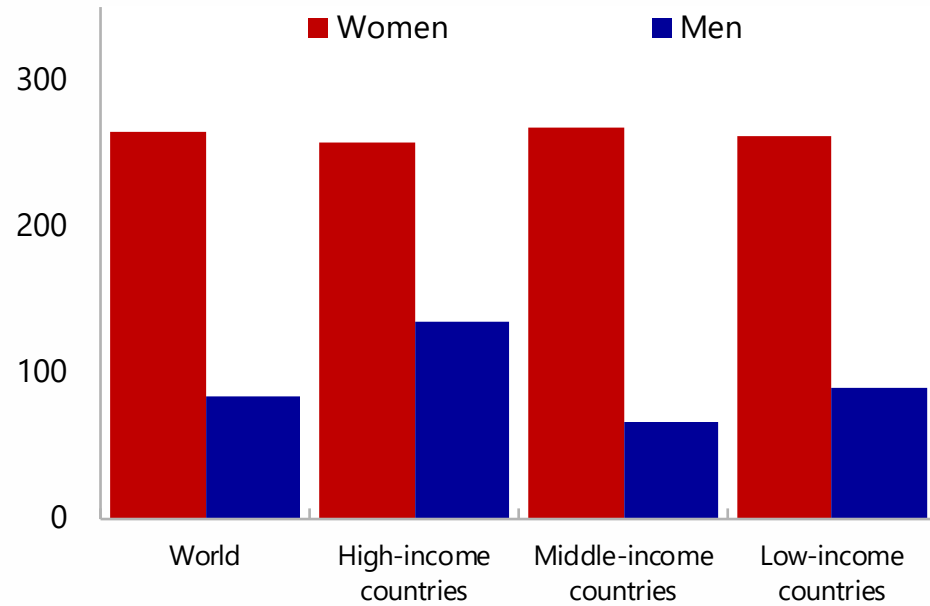
- Extensive margin: whether to work or not (exit labor force)
- Intensive margin: work hours (conditional on being employed)

Responses to tax reform can occur at both margins, depending on:

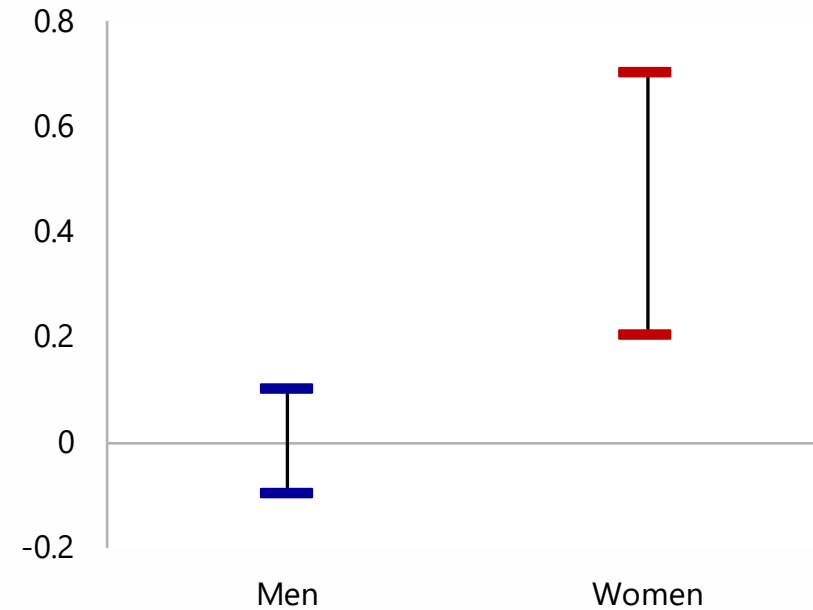
- Wage elasticity: response of work hours to changes in net wage rates
- Fixed costs (childcare), or limited job options (part-time or full-time)

...as well as empirical evidence.

Time spent in unpaid work
(minutes per day)



Wage elasticity estimate ranges of married individuals (intensive margin)



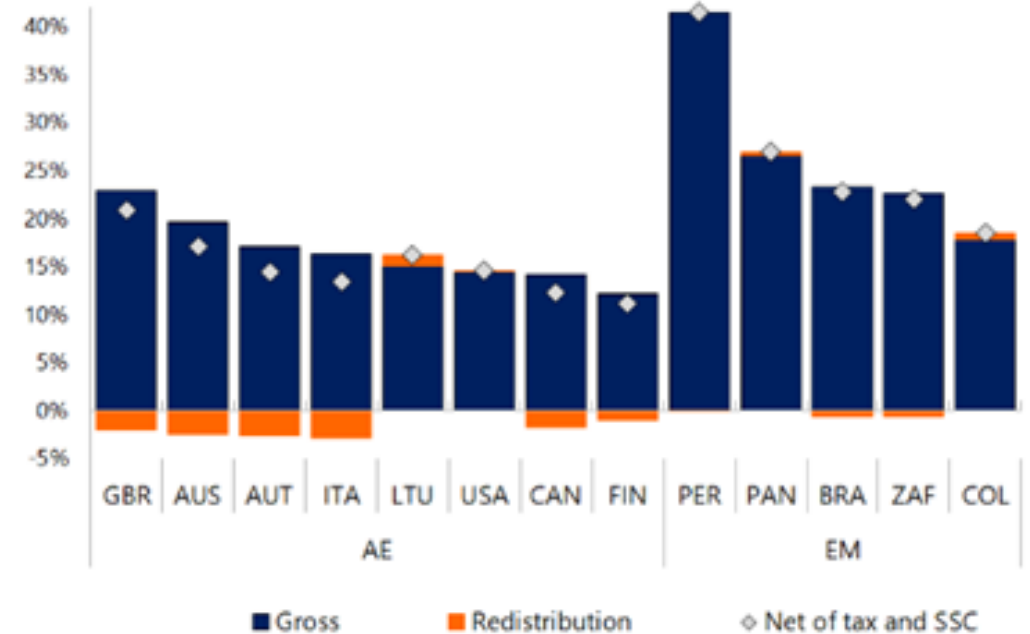
Sources: ILO (2018); European Commission (2011).

Progressive taxation can help...

Progressive tax system

- Average tax rate rises with income
 - ▶ This supports female labor supply at extensive margin...
 - ▶ ...and if implemented through a lower marginal tax rate also at intensive margin
 - ▶ Moreover: directly reduces post-tax wage inequality

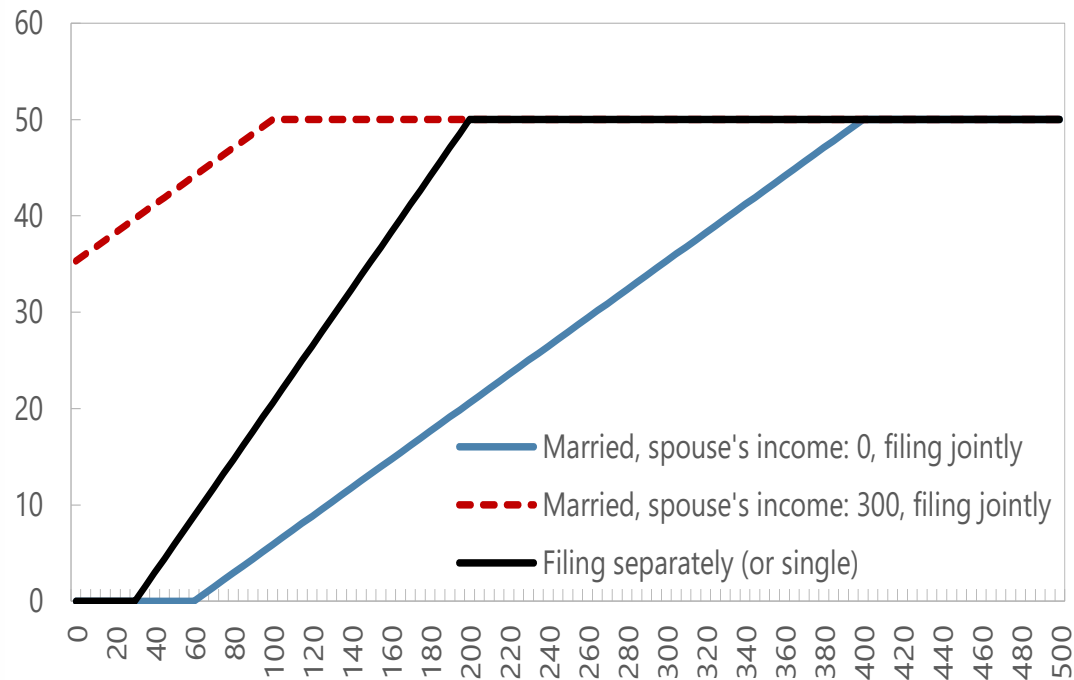
Average shortfall in women's labor income relative to men's



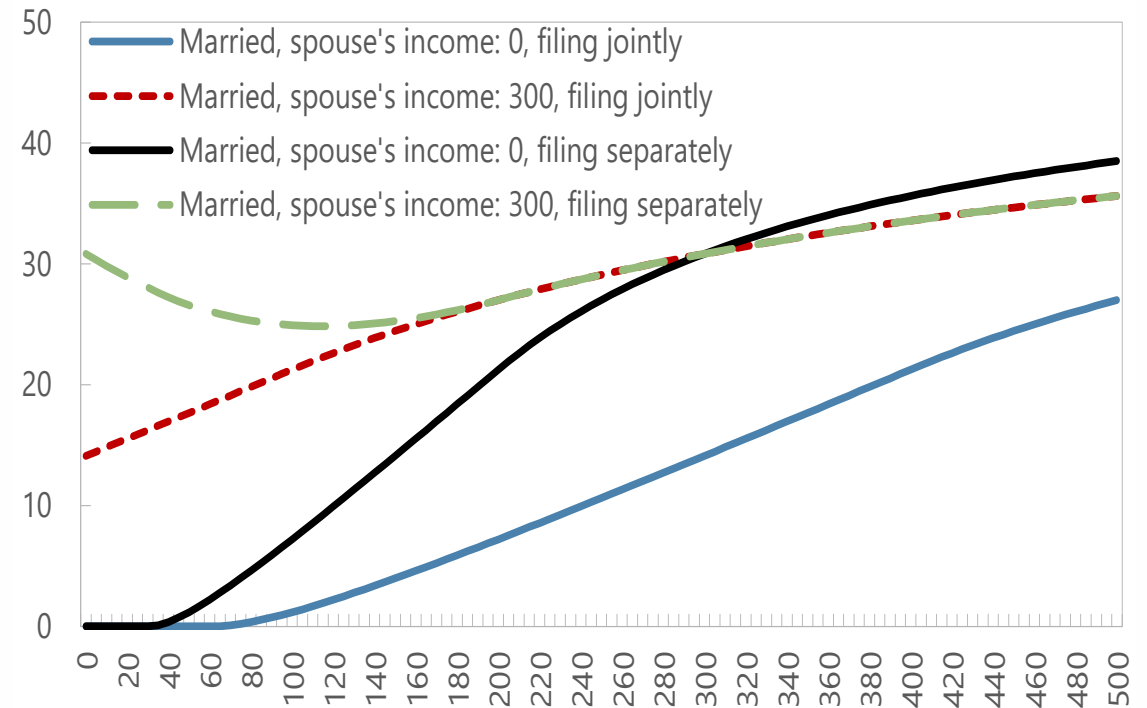
Sources: LIS and IMF staff calculations

...while household taxation discourages labor supply...

Marginal Tax Rates



Average Household Tax Rates



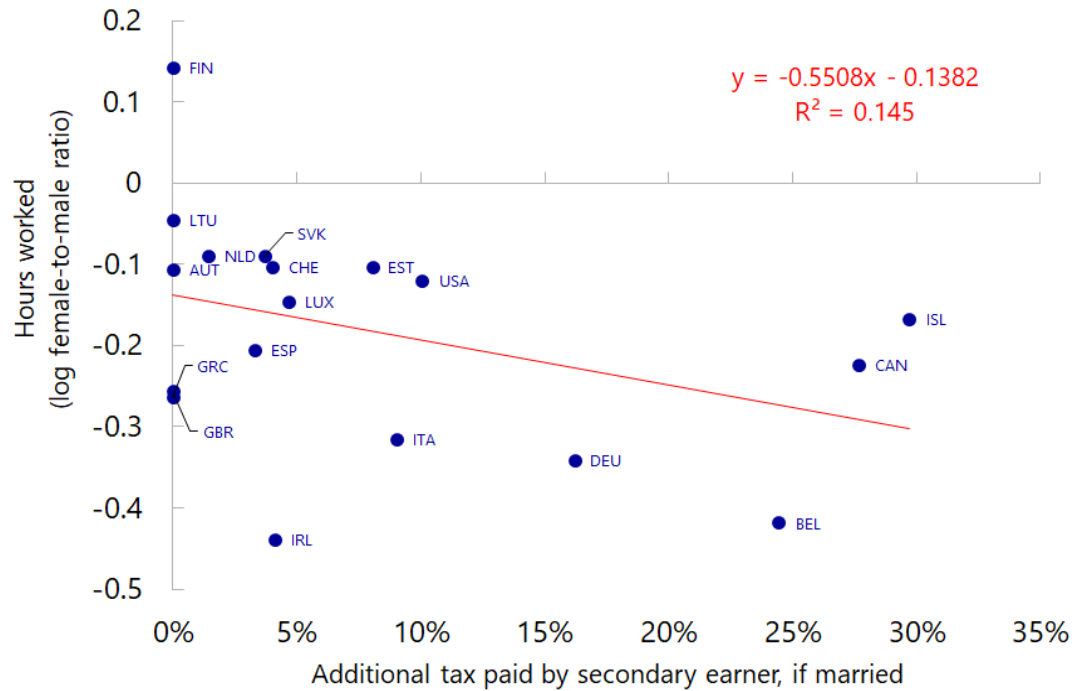
Notes: The tax system has an exemption worth 30 percent of average income, with a marginal tax rate that rises steadily from 0 to 50 percent between 30 and 200 percent of average income and then stays fixed. In case of joint filing, all thresholds are doubled.

Source: Authors' assumptions and calculations.

...as also confirmed by data.

The poor

(25% of average wage earner with partner earning 50% of average wage)



The rich

(175% of average wage earner with partner earning 200% of average wage)



Source: OECD-TaxBen, LIS and IMF staff calculations

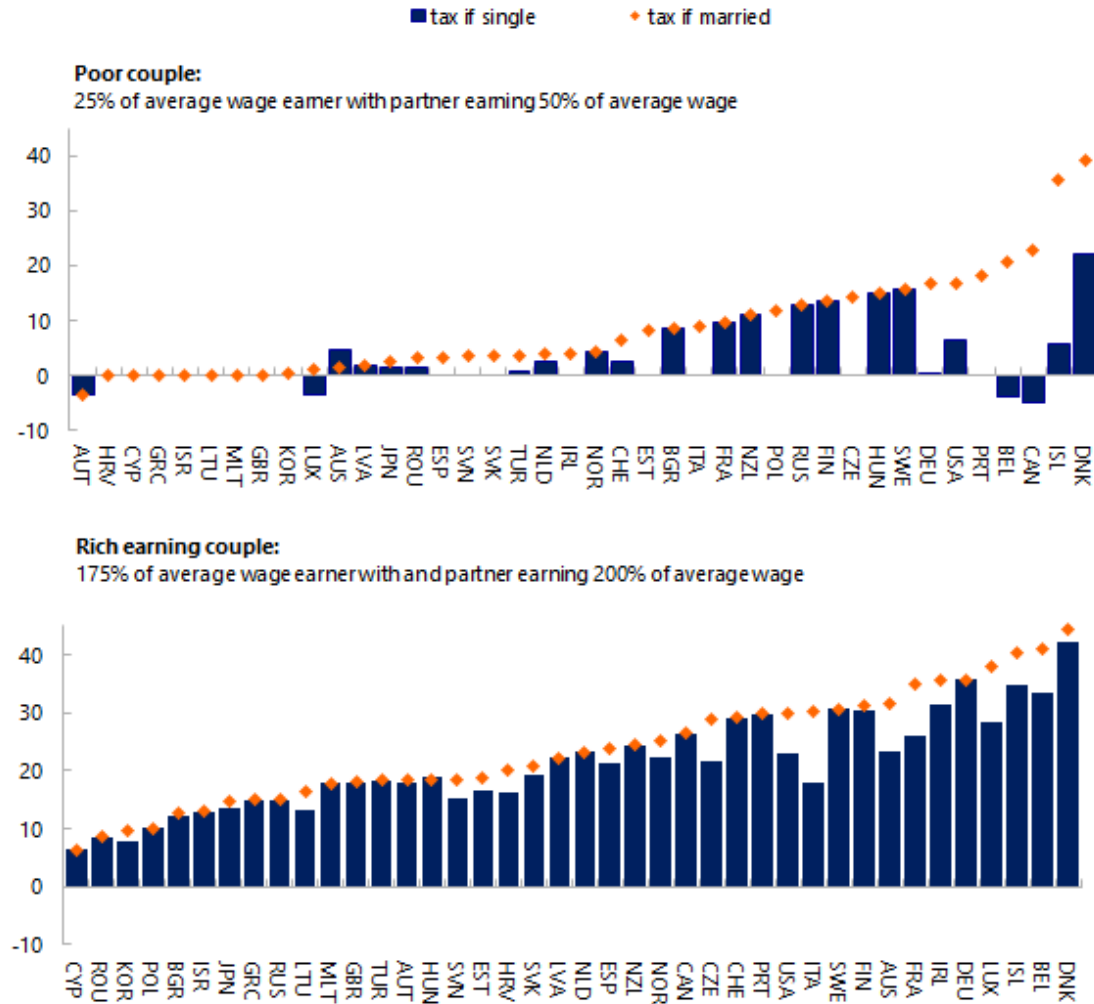
Household-based taxation elements go beyond standard rates and thresholds

- Household based credits/allowances
 - ▶ Allowance for nonworking spouse
 - ▶ Child tax credits
 - ▶ Earned income tax credits
- Social security contribution coverage through spouses
- Social security benefits
- Social welfare

The issue is relevant mostly for low-paying jobs

Average tax rate faced by marginal earner in household with no children

(percent)



Source: OECD-TaxBen and IMF staff calculations

Additionally, the definition of the tax base is important

Marginal earner will assess labor income

- After tax (which could be high in case of household taxation)
- After costs
 - ▶ Childcare costs (other costs have less obvious gender impact)
 - ◆ Could be made deductible (difficulty: household cost)

Childcare costs can also be reduced through other means

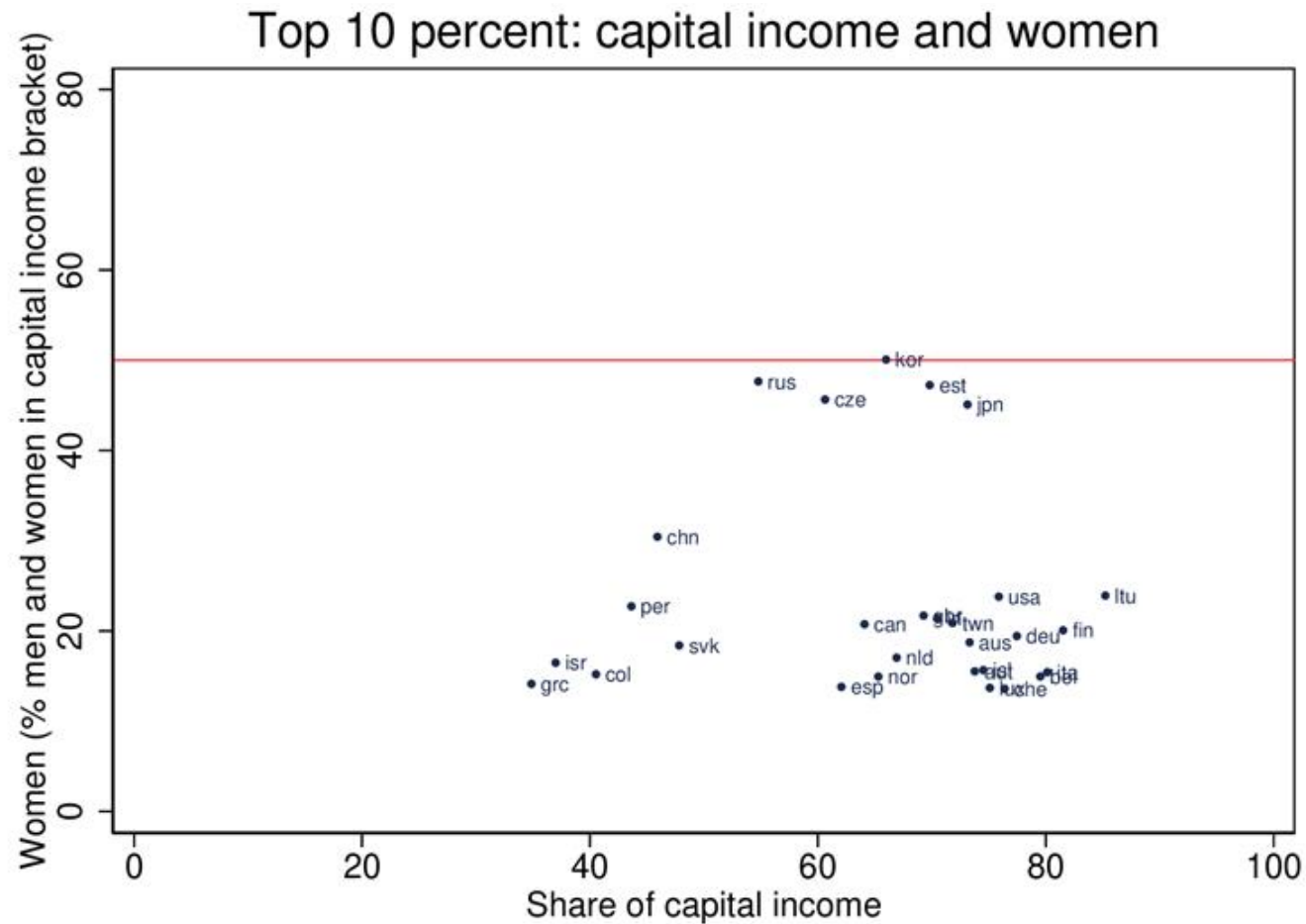
- Lower taxation of childcare providers
- Nontax measures (e.g., subsidized/public provision)

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Capital income likely even less equally distributed than labor income...

Figure 2. Share of individuals in the top 10 percent of capital income by gender, LIS



...and often subject to lower tax rates.

Capital income often taxed at lower rates than labor income

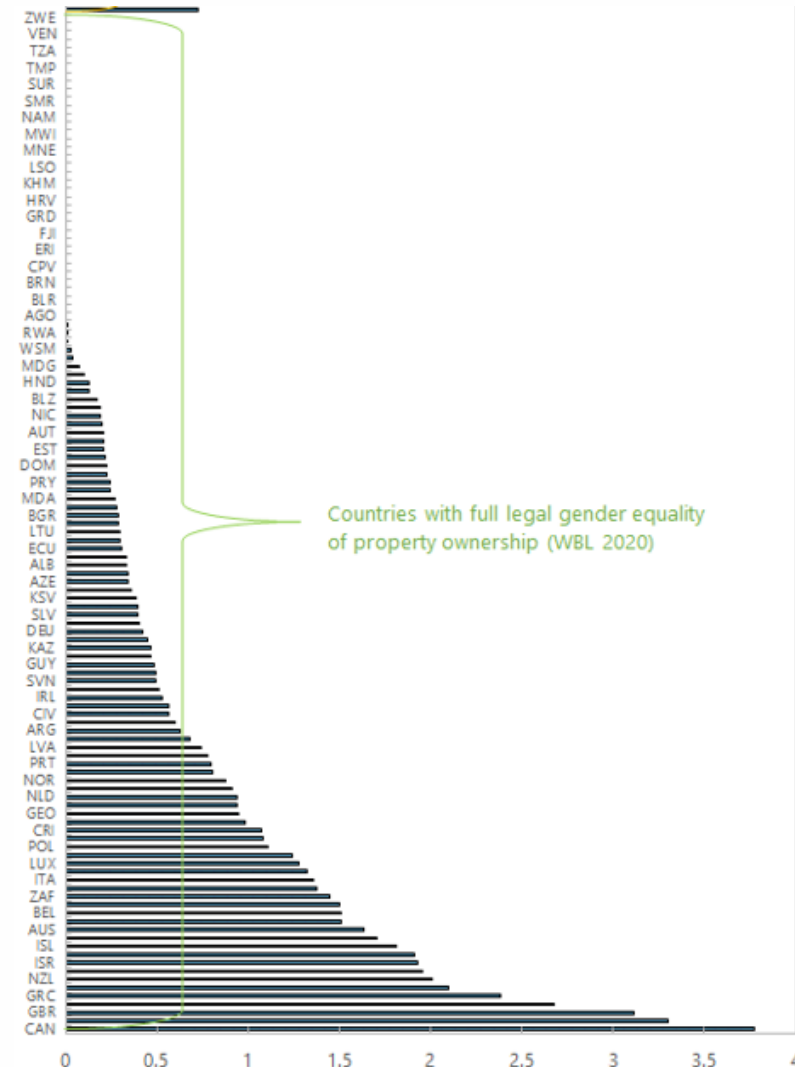
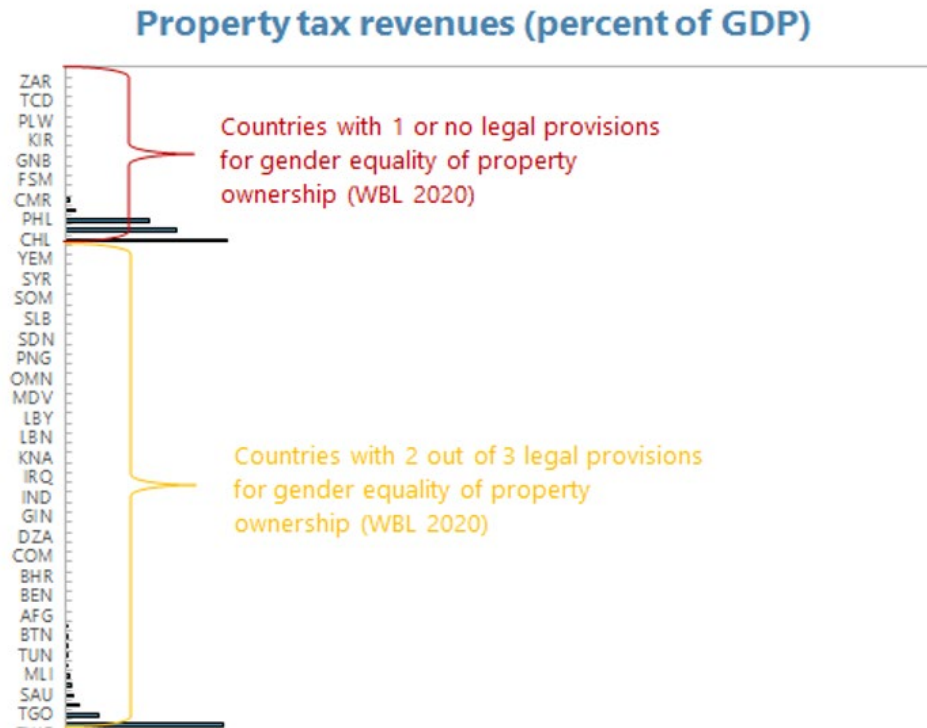
- General debate about distortions of savings
 - ▶ Consumption tax versus comprehensive income tax or any hybrids

- Additional gender angle
 - ▶ Lower taxation of a capital income versus labor income increase post-tax inequality when capital income more unequally distributed than labor income across genders

Many nontax obstacles better addressed directly than through tax system...

- Unequal property rights
- Unequally split inheritances
 - ▶ by law (law can be addressed directly)
 - ▶ by custom (tax may help)

...which in turn may lead to higher taxation.



Sources: GFS 2019; OECD Global Revenues Database 2017; World Bank Women, Business and Law, 2020.

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Reducing VAT rates is visible but normally not the most efficient approach

Reduced VAT rates

- Costly: benefit also the rich (in absolute terms even more)
- Not effective:
 - ▶ poor people who struggle to afford products need more than a reduction by a few percentage points
 - ▶ Passthrough unclear
- Better: avoid the general tax expenditure and provide subsidized products or general income support

VAT on sanitary products

- Charge same rate as for other products
 - ▶ Rate for essential goods, where it exists

Excises can entail gender bias, unless they fully reflect externalities...

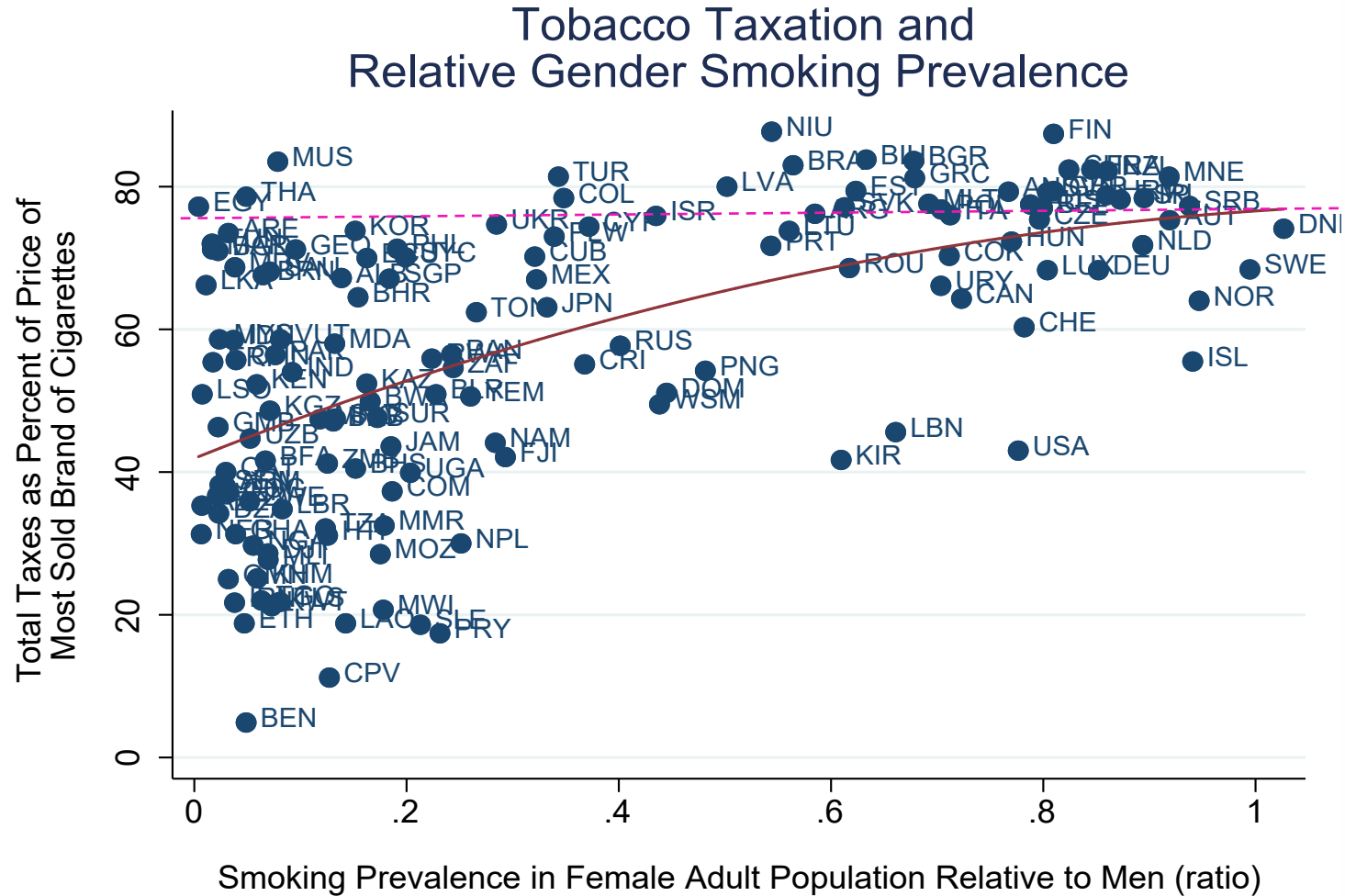
1. Products with no major externalities

- Excises on goods that are consumed differently across genders create inequalities

2. Products with externalities

- Excise = externality: no issue. Even if consumption differs across genders, everyone bears the true costs of consumption
- Excise > externality: see point 1
- Excise < externality: equivalent to a subsidy

...and implied subsidies are higher where there is less gender balance in consumption.



Conclusions

- To improve gender balance in labor markets, important factors are
 - ▶ Progressive income taxes
 - ▶ Individual taxation
 - ▶ Cost of childcare
- Capital income is distributed more unequally than labor income
 - ▶ In net terms this is exacerbated by lower capital income taxes
- Consumption taxes are broadly neutral
 - ▶ Excises have gender impact (unless matching externalities)
 - ▶ VAT reductions not the most effective instrument
- General: More equal gender balance associated with higher revenue mobilization