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The impact of various tax systems on gender equality

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Gender equality income policies in the Netherlands

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1. Introduction

Most elements described by Anita Nyberg (2017) about the impact of individual taxation on gender equality play a role in the Netherlands, but the arguments to introduce new tax systems differ completely. Only since 2001 income taxation is supposed to stimulate more gender equality, but its present impact is disturbed by its inconsistencies and is complicated by other income policy measures.

During the twentieth century in all industrialised countries comparable changes have taken place in the labour force participation of women and in the division of caring and breadwinning responsibilities within the family. At the same time, the history of the Dutch welfare state is atypical and unique. Public contributions have been used in, for example, the Scandinavian countries to facilitate women's participation in the labour market. Whereas, tax deductions and family entitlements have been used in the Dutch case to keep married women out of employment. This was the case until nearly the end of the 20th century.

This paper starts with the changes which have occurred in the lives of Dutch women over the twentieth century and a short overview of the government measures. The next section briefly describes the income tax history, the policy debate and the present Dutch situation. The third section focusses on possible transferability issues.

2. The gender gap

2.1. Trends in Dutch female labour in the twentieth century

Domestic chores and work on the farm or in the small-scale family business kept most women fully occupied. Female labour was not an issue on the public agenda. This changed by two important events that took place in 1898: the National Exhibition of Female Labour and the inauguration of the first Queen, Wilhelmina, aged just eighteen. The exhibition suggested that if a woman could become queen, she could also do other kinds of work. For the first time, it was said clear that women could do the same kinds of work as men and that paid labour need not undermine motherly love, the life of the home or the moral reputation of women who engaged in it (Pott-Buter, 1993).

As elsewhere, nearly all women who were registered as being in the labour force belonged to the working class. According to the census of 1899, 17% of all women were in the labour force at that time. This was far less than that of women in surrounding European countries (in Belgium it was 29%, in Denmark 30% in the United Kingdom 26% in Sweden 28 % and in France even 35%, so twice as high). The figures must be approached with caution, but it is unmistakable that female labour force participation was far less in the Netherlands than elsewhere. All western European countries show a similar trend since then. Between 1940 and 1970 female labour force participation rates are relatively low in all of them and all show an increase after 1970. For example, Sweden reached the lowest level in 1940,

Denmark and the Netherlands in 1960, Germany in 1970 and all witnessed the same spectacular increase in female labour force participation after that point. Because of starting from a much lower level the increase in the Netherlands was even more spectacular. In 2015 gross rates reached 76%.

2.2. The long lasting ideal of the bourgeois family

Modern economic growth started in the Low Countries in the seventeenth century, predating industrialisation in England. Ever since then, the relatively great prosperity, high incomes, low female labour force participation and high fertility rates have been enduring characteristics of Dutch society.

The main reason for the low female Dutch participation rate was the low participation rate of married women. Around 1900 the labour force participation of married women was very low: 5% and fertility rates high. As in other European countries poor married women had to supplement the family income, for example by cleaning, sewing or peeling. Work of this kind was generally very poorly paid, both in relation to the effort involved and as compared with male earnings. The combination of paid work and domestic duties was often exhausting. No wonder that married women tended to give up outside work as soon as they possibly could, if they had a husband in regular well-paid work. In poorer families the mother usually stopped work once the eldest child began earning. Children's income was more important than wives' earnings.

It was certainly regarded as ideal that the wife takes care for the children, the household, the sick and the elderly, while the husband earned the family income single-handedly. This was the main household type among the Dutch bourgeoisie. Since the 17th century the bourgeoisie made up a relatively large part of the population and daily life was more dominated by them than by the aristocracy and the clergy. There was also less fragmentation of cultural norms than elsewhere. Bourgeois family life was highly respected. Their division of labour between husbands and wives was seen as ideal. The dominance of this family model was strengthened by high prosperity and high fertility until the 1970s.

By the 1960s, the situation of the male single-earner household with stay-at-home housewife had actually become the reality for most married couples. Almost all married women in the Netherlands could afford to be full-time housewives. Women registered as being in the labour force were either wives working in their husbands' businesses or unmarried women. In 1960, less than 1% of Dutch mothers with small children were in paid employment. They didn't seem to mind or to realise their financial dependence on their husband's income. On the other hand, the disadvantages of the new role pattern were beginning to emerge. There was a growing recognition that a society, which encouraged such a division of labour within marriage, should also take care of widows and children. That eventually happened when the Widows and Orphans Benefits Act was introduced in 1959. But more and more state provision was necessary to preserve this ideal division of labour, and the government rushed to introduce one scheme after another.

2.3. An affluent and consensual past reflected in laws

The "natural" division of labour within households was reflected in all kinds of laws and habits and mirrored in the whole structure of the Dutch society.

Until World War II, the Dutch government did not use any direct financial measures to promote the bourgeois family ideal with a male breadwinner. However, there was a continuous attempt to forbid all employment of married women. Between 1904 and 1924, there were ten legislative proposals to dismiss women on marriage. Formally, the legislative measures remained restricted to the civil service and factories. In practice all employers dismissed women on marriage, convinced that workers with a housewife and a stable family life were more productive.

In 1947 the Government and the social partners agreed that the minimum wage ought to be high enough to support a married man, his wife and two children. Female labour was supposed to be girls or unmarried women's labour, so it was generally accepted that female wages could be 60-80% of a man. In 1953 the net hourly wage of an adult woman in industry was 56% of that of an adult man. In the same year it was explicitly confirmed that firms in the private sector could dismiss women on marriage and pregnancy (except when they needed to earn a living for a disabled husband). These grounds for dismissal were abolished in 1976. The breadwinner criterion was lifted in 1979, when EC directives had to be implemented. The directives also established equal wage principles for equal work. Married women could not legally enter into a contract of employment without her husband's permission until 1957, the same year that married women were granted legal competence. Emancipation of women and economic independence for all adults became on the political agenda after 1984. Full equal rights for husband and wife were introduced in 1992 (Thanks to EU Guidelines.)

3. Income taxes

3.1. Income taxes in the 20th century

Since 1915 the Netherlands has known a general income tax. Before that time some preliminary measures existed. They consisted mainly of excise taxes, taxes on wealth and visible signs of prosperity, such as the number of windows and the number of living-in servants. In 1915 the tax tariffs for unmarried persons and married men (taxed for the joint income of himself and his wife) were the same. In general men received a higher gross wage after marriage than unmarried men. Moreover, a tax deduction for children was introduced (abolished in 1980). Married woman were not allowed to any legal action or to dispose of her own earnings or property. Without going into details, important income tax changes took place in 1941, 1973, 1984/1985, 1990 and 2001.

The German tax system was introduced in 1941 during the German occupation, a (joint) splitting system, imposing higher taxes on unmarried persons than on married men. After World War II the system was not abandoned. The tax burden for single persons was only relieved somewhat after 1960. With the same taxable income an unmarried person paid about 1.8 times more taxes as a married man. In 1962, a tax relief for assisting wives and employed part-time working wives was granted to the husband, a relief that gradually increased during the next years. Ever since labour incomes of married women have been published in separate statistics. The figures have shown a direct increase in the number of assisting wives registered, particularly among farmers, Pott-Buter, 1993). The increase suggests an effect of taxation on the number of married women in the labour force.

For a substantial relief unmarried persons had to wait until 1973, when the Swedish tax system was introduced. This tax system was introduced mainly because it was

difficult in the old 1941 (splitting) system with strong progressive rates, to apply a simple pre-tax on wages or salaries. Sometimes couples had to pay relatively large tax bills years afterwards. It was certainly not the intention to stimulate the labour participation of married women. The labour income of married women became taxed individually but in 1973 the tax exemption rates for married women were much lower than for married men. A purely individualised system would have drastically reduced most couple's after tax income; because married men earned on average much more than married women. The tax system change in 1973 turned out to be slightly more beneficial to dual-earner couples than before.

Under pressure of the implementation of the equal treatment Directives by the European Community and unemployment figures rising, a new tax system was introduced in 1984. The discrimination by sex and marital status was abolished, but a strong dependency between the taxes of partners was introduced. As a result, married women working part-time reduced their market hours to (almost) zero. In 1985 some issues were remedied by introducing the possibility to transfer the basic tax exemption from wife to husband. On average dual-earner couples continued to be taxed higher than before 1985.

The main purpose of the change in 1990 was simplification and integration of national insurance contributions with income taxes. The top marginal tariff rate was reduced from 72 to 60%. In principle all taxpayers got the same basic tax deduction. Husbands with a housewife could also deduct their wife's unused deduction.

In 2001 this system was abolished and replaced by a system of tax credits, inspired by the Austrian system. This system was already proposed by the women's movement, endorsed by 2 million women, in 1984 (Snijders-Borst, 1985). It lowers the financial threshold in the tax system for married women to enter the labour force. The top marginal tariff rate was further reduced, from 60% to 52%. For details about the present Dutch tax system see the EU data base¹.

3.2. Developments in the 21 century and the policy debate

In order to achieve more gender equality, a number of objectives and targets have been formulated for several areas: labour market participation; educational and career choice; combining work and care tasks; economic independence (earning a net individual income equal or above the social minimum); wage differences; representation in senior positions; health and safety. The Dutch Emancipation Monitor which is published every two years contains a large number of recent statistics in these areas and has an English summary.² The purpose of the Monitor is to track the emancipation process and to investigate whether it is developing in the direction envisaged in the government's policy.

Progress is proceeding slower than expected in 2000. Several possible explanations are given. Among others: two economic crises have impeded the growth in female labour participation rate and stereotypical views on the role division between women and men have by no means disappeared. These views have an implicit and often unnoticed impact on the choices made by women and men in everyday situations.

Another reason is that part-time working is still embedded in many institutions in the Netherlands. Among dual-earner couples with young children, the arrangement in

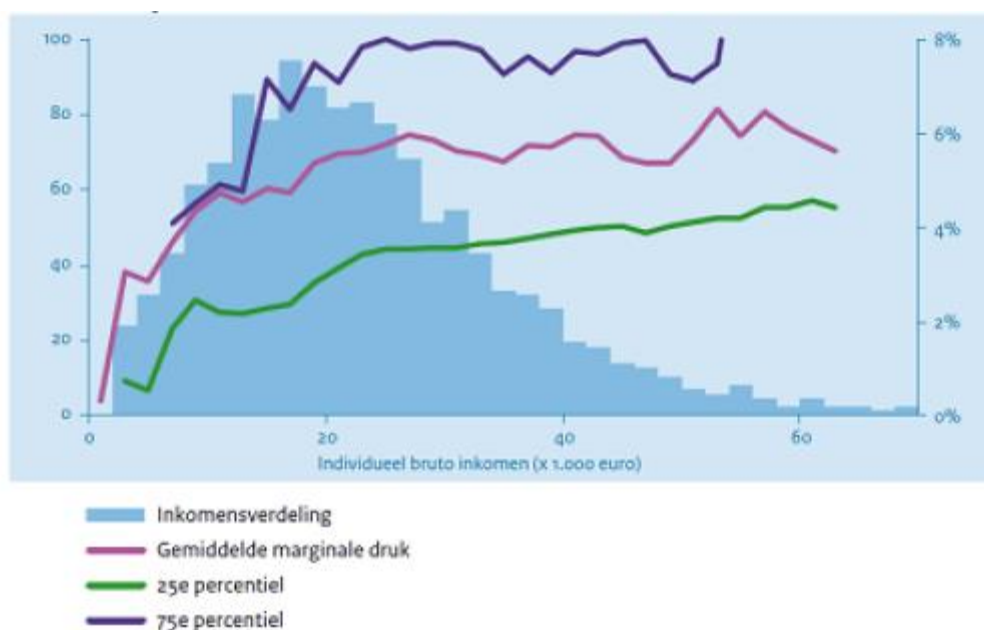
¹ https://ec.europa.eu/taxation_customs/tedb/splSearchForm.html

² https://www.scp.nl/Publicaties/Alle_publicaties/Publicaties_2016/Emancipatiemonitor_2016

which the male partner works full-time and the woman part-time was most common in 2015 (58%). This arrangement has increased steadily over the last ten years, as has the arrangement where both parents work full-time (10%). Over the same period, single earner couples have become less common (18% in 2015). Among childless couples, 35% opt for a full-time/full-time model and 36% for a full-time/part-time model. The average gross annual salary of working women in 2014 was 30,000 euros; the figure for men was 51,000 euros.

Notorious are the high marginal rates in the Netherlands for secondary income earning parents when their taxable income increases between about 10,000 and 30,000 euro, see figure below. The main reasons are the reduction in income dependent allowances, such as the rental allowance, the health care cost allowance and the child related budget allowance. In total more than 6 million households receive these allowances (4,6 million at least one of them). (Stevens & Lejour, 2016).

Figure 1. The marginal rate of the lowest income partner with children when working an extra day



The income distribution is presented by the blue area. The red line presents the average marginal rate, the green and purple lines those of the 25th and 75th percentile. Each step in the figure represents income dependent policy measures. The figure illustrates clearly that the net income increase can be less than 5%. (For single parents even more than 100%.)

Recently in June 2017, a tool was introduced to calculate the effects of income changes due to other factors influencing labour income^{3v}. Previously it was almost impossible to calculate the net change in income when hours of work were reduced or increased. The lack of transparency for these effects is a serious Dutch problem and does not contribute to efficient and welfare increasing decisions.

³ <https://www.womeninc.nl/werkzorgberekenaar/?gclid=CNeJ37-In9QCFUOZGwodkocFzq>

Partly because of the high percentage of women working part-time, the share of economically independent women is substantially lower than among men: 54% versus 74%. After rising sharply between 2003 and 2008, the percentage of economically independent women has increased only slightly in recent years. The share of economically independent men fell during the crisis. As the Dutch economy is improving again the emancipation process is expected to gather further momentum in the years ahead.

3.3. Public and private pensions

Men and women are legally treated identically in both public pensions and in private pensions. So, retirement age, contribution rate and accrual rate are the same for men and women within the same pension fund. But women build up fewer pension entitlements over their working life.

Holding everything else the same, women benefit on average more from the public pension (AOW), because they live longer than men on average. The same applies to their occupational pension: one year of extra work gives a man or woman the same amount of extra euros as of retirement, so men on average subsidise women in the same pension fund. Similarly when women build up a pension with an insurance company. At the retirement date the capital is transformed into an annuity. Insurance companies are forbidden to base the annuity on gender specific life expectancy.

4. Transferability aspects

The higher the net wage, the more likely women will participate on the labour market. Women weigh paid work, unpaid work and leisure against each other. The elasticities of the substitution and two income-effects are subject of many research projects. Results differ, but the own income supply effects are larger for women with a low income potential and for (married) women with young children. The sensitivity for Dutch women used to be high, but decreases with the years as more women participate (Groot & Pott-Buter, 1993, SEO, 2007, CPB, 2015⁴).

These results should be considered when formulating policy alternatives. The same applies to recommendations of the OECD and the publications of the European Commission (Tax reforms in EU Member States). In the Netherlands every 10 years a consultation commission of experts is asked to evaluate the present tax system and to formulate new long term alternatives. Recently this resulted in recommendations of which some might be of interest to the other EU countries as well⁵. For general EU recommendations, see amongst others: the Work-Life Balance package⁶, the EU reports “Strategic engagement for gender equality” and the EIGE website⁷.

The (Austrian) system of (progressive) individual taxation of labour income with tax credits was chosen in favour of the previous Swedish system with tax deductions. The nominal value of a tax credit is the same for the involved taxpayer whereas a tax exemption (deduction) benefits higher income taxpayers.

⁴ <https://www.cpb.nl/publicatie/de-effectiviteit-van-fiscaal-participatiebeleid>

⁵ <https://www.rijksoverheid.nl/documenten/rapporten/2012/10/16/interimrapport-commissie-inkomstenbelasting-en-toeslagen>

⁶ <http://ec.europa.eu/social/main.jsp?catId=1311&langId=en>

⁷ EIGE.EUROPA.EU

In the Netherlands, since 2001 there are three categories (boxes) of taxable income liable for income tax.

- Box 1 taxable income from work and home.
- Box 2 taxable income from substantial participation.
- Box 3 taxable income from savings and investments.

The rate in box 1 is progressive (max 52%). Only the taxable income from work is individualised. Everyone with a personal income from work is entitled to the General Tax Credit (in 2017 max € 2,254), the Earned Income Tax Credit (max € 3,223), the Tax Credit for Combining Work and Child Care (max € 2,778), and two Tax Credits for people above the retirement age (in total max € 1,730). The income from home (often negative due to mortgage deduction) and other income parts remain jointly based. (If one partner owes insufficient tax, the unsettled tax credit can be settled with the partner.) The rates in the boxes 2 and 3 are proportional.

In Sweden in 2007 taxation on wealth was eliminated and thereby the last remains of family-based tax. (Nybourg, 2017).

5. Conclusion and recommendations

History matters in understanding developments in female labour supply and the complexity of tax and social security systems. However, in all EU countries more than just the individual taxation of personal labour income is necessary to close the existing gender gaps. (See also: EU, 2014.)

For the Netherlands, drastic measures are necessary to increase the labour force participation of all adults, corresponding to their talents and education, so that economic independence for all of them can be reached. The following policies are recommended:

- **Retain the (Austrian) individual taxation of labour.** Simplify the tax and national insurance contributions system drastically. Despite all the good intentions the total outcome of this system, together with the system of allowances, with its many income dependent measures is too complex and contains strong disincentives to increase working hours.
- **Reduce the number of tax rates to two.** It is proposed (see footnote 4) to reduce the number of tax rates to one of 37% and one of 49% and to increase the taxable income of the first band from circa 20.000 euro to 60.000. This way nearly 12 million taxpayers instead of the present 6 million will pay this rate and the remaining one million taxpayers the second band rate. Increasing the first rate slightly higher than 37%, by increasing the present Income Related Health Care Insurance Contribution rate, would make it possible to abolish the income dependent Health Care Allowance. It may sound paradoxical to increase the present lowest band, but it would allow tax credits to be more effectively targeted, it reduces non-use and it simplifies the system. It also reduces the different tax payments between different types of households. There is an increasing heterogeneity of relationships with all its possible income combinations. Diverse combinations of living apart or together can exist.

- **Retain in principle the tax credits.** Apply the General Tax Credit, the Earned Income Tax Credit and the Combining Work and Child Care Tax credit for the lowest income partner, but only to the first band. Abolish the income dependency of these present (2017) tax credits, so apply the same nominal tax credits to the whole new first band.
- **Abolish the child related budget allowance.** Increase the since 1980 existing (income independent) General Child Allowance to at least 0,5 of the minimum costs of raising a child. (At the moment the allowance covers only about 1/3 of the costs). The main advantages of this allowance are, beside that it is not dependent on the income of one of the (foster) parents, that entitlements are easy to establish, that control costs are low and that no afterwards corrections are necessary, sometimes years later. Of course high income earners don't need this allowance, but that applies to many other allowances and subsidies (e.g. sports, arts) and many other things in life. General allowances were already recommended by the British economist Beveridge (1942) and can be seen as a basic income for those who cannot work or do not have to work. In the Netherlands this recommendation is still applied to the elderly (who do not have to work anymore, in the AOW, the public pension fund for elderly).
- **Parental and other leave arrangements have to be equal for women and men.** As long as (young) women have potential longer leave arrangements than men, statistical discrimination will take place. Give men instead of pregnancy- and maternity leave the same entitlements to leave over, for example, the first four to six years after the birth of a child. (Or other parents).
- **Stimulate equal sharing of unpaid work at home.** Although unpaid work can be very productive, satisfying and useful, it does not contribute to economic independency in the present and certainly not in the (pension) future. (Awareness campaigns, showing examples of couples who do so and reducing the price of outsourcing might help). The tremendous productivity increase in household work over the last decades and the more recent tremendous increase in productivity by internet (banking, services and shopping can be done at home) make equal sharing easier.
- **Outsourcing of unpaid work should be facilitated and stimulated.** It is obvious that child care facilities in the Netherlands can be improved. Public finance of child care for all children should gradually be introduced all over the country. Starting with one or two days a week and by raising the quality and availability of child care additional jobs are created. The same applies to the care of the sick and other dependent persons at home. Professional help at home is in principle available, but for other (at present mainly informal) care and cleaning activities insufficient. The informal jobs should to a certain extent be turned into regular jobs with social security coverage, by making it tax deductible or with an entitlement to a tax credit.
- **The ministries of SZW, Finance and OC&W are crucial actors to reduce the gender gap.** These ministries should all raise awareness programs. (In Sweden all ministries have to). Equal education opportunities for girls and boys are realized, but continuous learning programs can be improved.

Financial measures can only achieve the intended gender gap equality if income from paid work compensates more than the loss of the unpaid work, the cost of child care, the care of the sick and elderly at home, the cost of household support and the loss of household-income related benefits such as the rent rebate and the health care insurance allowance. Fewer household-income related benefits mean a higher

marginal benefit from additional income, while at the same time guaranteeing a basic level of support. It also prevents unexpected fiscal payments afterwards. Especially in a more flexible and also more uncertain labour market this will become important.

Last but not least, true gender equality will only succeed if there is enough access to paid work in a non-segregated labour market, with the option to outsource unpaid work. Therefore, affordable high quality care for children, elderly and invalids by professionals needs to be available as well.

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