



# The EU Mutual Learning Programme in Gender Equality

## The impact of tax systems on gender equality Sweden, 13-14 June 2017

### Summary Report



*The information contained in this publication does not necessarily reflect the position or opinion of the European Commission.*

Justice



*This publication is supported by the European Union Rights, Equality and Citizenship Programme (2014-2020).*

*This programme is implemented by the European Commission and shall contribute to the further development of an area where equality and the rights of persons, as enshrined in the Treaty, the Charter and international human rights conventions, are promoted and protected.*

*For more information see: [http://ec.europa.eu/justice/grants1/programmes-2014-2020/rec/index\\_en.htm](http://ec.europa.eu/justice/grants1/programmes-2014-2020/rec/index_en.htm)*

## Introduction

The mutual learning seminar, held in Stockholm on 13-14 June 2017, focused on the impact of tax systems on gender equality. The Swedish policy of the introduction of individual taxation since 1971 was examined in detail, including the policy considerations and social and economic context that had prompted the reform and its impact on women's employment rates. The seminar was particularly relevant in the light of the recent publication of a new initiative by the European Commission, the Work-Life Balance Package<sup>1</sup>, which combines legal and policy measures to support work-life balance. The package includes a component on removing fiscal disincentives for secondary earners which prevent women from accessing the labour market or working full-time. The seminar was well attended with government representatives and independent experts from Austria, Belgium, Bulgaria, Croatia, Estonia, Finland, France, Greece, Ireland, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Slovenia, Spain and Sweden. Representatives of the European Commission and the European Institute for Gender Equality also attended.

### 1. The good practices of the host country and overall situation in Europe

#### 1.1. Policy considerations and social and economic context of the Swedish individual taxation system

The introduction of individualised taxation took place within the context of changing gender roles during the 1960's and demands for equal treatment of men and women in employment and in the home. Proposals for individual-based taxation originated with educated women from high-income families but the social democrats, the dominant political party at the time, came to support the reforms arguing that the existing joint taxation system for married couples effectively benefitted high-income families. Hence it was possible to justify the reforms on the grounds that they would be both socially redistributive and advance women's equality. Furthermore, it was argued, economic growth required an increase in the labour supply, which in turn meant attracting more women into employment. Other considerations included the increasing need for elderly care and growing demands on the welfare state and pensions, which were best met by increasing women's employment and their tax-paying capacity.

#### 1.2. Main provisions of the 1971 individual taxation reforms

Prior to 1971, there were more favourable tax rates for married persons with a transferable basic tax deduction and income splitting. The 1971 reforms introduced separate taxation and a uniform basic deduction which was no longer transferable between spouses. In order to compensate families with one earner or a secondary earner with very low income, an extra deduction was allowed, known as the "housewife deduction". In 1971 this was a significant sum but kept at its nominal value, it decreased over time and was finally abolished in 1991. However unearned income, from property, capital gains, and in some cases enterprises, was still jointly

---

<sup>1</sup> For more information see: <http://ec.europa.eu/social/main.jsp?catId=1311&langId=en>

taxed until 1988. The last elements of family-based taxation were abolished in 1991. Joint taxation of wealth was in force until such taxation was eliminated altogether in 2007.

### 1.3. Impact of the Individual Taxation Policy in Sweden

Individual taxation significantly reduced marginal tax rates for married women, and particularly benefitted women with low and median incomes and married women with high-earning husbands, who saw their average tax rate cut by 40%. These reforms, while benefitting those already in the labour force, also increased married women's overall labour force participation. The share of married women in the labour force increased from 47% in 1963 to 87% in 1990 and the increase among mothers with young children was even higher from 38% to 87%. At the same time, employment rates of men declined and by 1990, the share of men and married women and mothers in the labour market was roughly equal at 87% - 88 %.

However, the extent that women's increased employment was a consequence of the 1971 tax reform is harder to determine. One study<sup>2</sup> (Selin 2009) found that the female employment rate would have been 10% less without the tax reform. The increase was most likely due to a combination of circumstances, including the tax reforms and a diminishing gender pay gap, so in real terms, work paid more. Another crucial element was the provision of affordable, flexible and good quality child care, which in Sweden is regarded as a social investment and is charged proportional to income. A second element is parental leave which is now 16 months and can be used flexibly. Finally, this period coincided with the expansion of welfare services, increased educational opportunities for women and increased employment possibilities in the public sector.

### 1.4. Current challenges in Sweden

After the early 1990's economic crisis, labour force participation rates for men, married women and mothers have followed a similar pattern dictated by economic fluctuations. In 2016, the participation rates for mothers of pre-school children and for men (16-64 year old) were the same at 85%. However, there are still marked differences in the number of women working part-time compared to men, with an 18 percentage points difference in working hours in 2015. One of the current challenges in Sweden is also to address involuntary part-time work. Women still account for 74% of the parental leave entitlements and the employment market is still very gender segregated. There are currently discussions about individualising parental leave.

While the gender employment gap is no longer the main issue, the gender gap in working time and the continuing although diminished gender pay gap remain challenges. The gender income gap is now increasingly a consequence of differences in capital accumulation rather than earnings.

### 1.5. Overview of situation of secondary earners in Europe

In Europe, it is only Finland and Sweden that have a completely individualised system of tax. In the early 1970's, most OECD countries applied a family-based

---

<sup>2</sup> Available at: <https://www.bus.umich.edu/otpr/papers/Selin.pdf>

model but today nearly all countries have changed to individual taxation or offer the option of separate taxation. However, many countries retain elements of family-based taxation, either by eligibility requirements based on a dependent spouse or children, or by providing some form of additional support for a dependent spouse or transferable tax credits. In many countries it is still true that secondary earners face higher work disincentives than dual earner families with equal salaries, taking into account the marginal effective tax rate (METR).<sup>3</sup> However, the extent to which this influences women's employment patterns also depends on other factors, in particular availability and cost of child care. In some countries, the fiscal disincentives to increasing working hours of part-time work appear to be dissuasive with a correlation between family-based tax systems and high levels of part-time work. However, once child care costs are included, fiscal disincentives for women to enter employment appear very strong and such costs are the main "implicit tax" affecting women workers<sup>4</sup>.

## 2. The situation in other participating countries<sup>5</sup>

**Austria** introduced individual taxation in 1972, following the example of Sweden and several other European countries and replacing a system of household-based taxation. The reform was introduced under a social democratic government with the declared objective of increasing female employment. However, a number of tax provisions were retained or introduced that have the effect of promoting a household employment model of a main and secondary earner. In the case of households with children, there is a sole earner tax credit combined with a tax free earnings allowance for secondary earners and an income tax exemption for 10 overtime hours per month. The income tax schedule combines a generous basic tax allowance with a comparatively high income tax rate of 25% for the first band. There are other aspects of the social security system which also tend to encourage limited secondary earnings. As a consequence, while Austria has a high rate of women's employment (70.9% in 2016), it also has a very high rate of part-time employment (47.9% in 2016), the second highest in the EU. This rate has increased over the last two decades. The current income tax system is not a major topic of debate, following the introduction of gender budgeting at Federal level in 2013. Federal ministries are now obliged to formulate one gender equality objective and implementation measure out of a total of five objectives in each budget cycle. The Federal Ministry of Finance has set an objective to reduce the negative employment incentives in the tax system to achieve effective equality of women and men. The latest reforms in 2015-16 introduced some elements designed to provide incentives for female employment although a more systematic and comprehensive review would be beneficial.

In **Belgium**, a partial form of individual taxation was introduced in 2001, replacing a family-based model which clearly penalised dual-earner households. The new system ensures that each spouse's tax is calculated separately although there is only one tax return. This in fact means that both spouses are liable for payment. However, the main disincentive for women to work is the marital quotient, which reduces the tax burden on couples where a spouse has no or very low income. The

<sup>3</sup> The METR measures the extent to which increasing taxes and decreasing benefits reduce the financial gain from work.

<sup>4</sup> For more information see the European Commission report "Secondary earners and fiscal policies in Europe", European Union 2015. Available at: [http://ec.europa.eu/justice/gender-equality/files/documents/150511\\_secondary\\_earners\\_en.pdf](http://ec.europa.eu/justice/gender-equality/files/documents/150511_secondary_earners_en.pdf)

<sup>5</sup> For more information see the respective country papers at: [http://ec.europa.eu/justice/gender-equality/other-institutions/good-practices/index\\_en.htm](http://ec.europa.eu/justice/gender-equality/other-institutions/good-practices/index_en.htm)

spouse without income is assigned 30% of the other spouse's income so the effective rate of tax for both together is lower. These tax deductions overwhelmingly favour men and are regressive. This tax credit applies independent of the number of children and is not granted to single parents. However, there are tax credits for child care costs but they are only 45% deductible, while other professional costs, such as a car, are fully deductible. The annual special social security contribution also penalises dual earner households as it is a non-individualised measure. Belgium is among the countries with the highest METR on secondary earners. There is currently a policy debate about introducing a fully individualised system, with separate tax returns, including the abolition of the marital quotient which is considered an "unemployment trap". It is recognised that some transitional measures might be required. Belgium has a low female employment rate and a high proportion of women working part-time. If any large-scale reforms are envisaged, it would be crucial to ensure that the gender impact was carefully reviewed, and for that, it is necessary to have access to data per gender and not by fiscal household.

In 2008, **Bulgaria** introduced a 10% flat individual tax rate on personal income replacing the progressive rate based on three income brackets. The non-taxable minimum earnings threshold was abolished, although tax allowances for families with children or care responsibilities and payments for private insurance schemes were retained. The aim was to increase tax collections, decrease the share of the informal economy and stimulate growth. No gender equality goals were included in these reforms, although by tackling undeclared employment, it may have increased women's formal employment. Women's employment rate is relatively high at 65.4% in 2015 and nearly all women work full-time. The gender pay gap is below the EU average. The key issue is low salary levels and the national median gross hourly earnings are the lowest in the EU. The policy debate focuses on the merits of the flat rate income tax system compared to a progressive income tax system and a "family taxation" system, which in Bulgaria refers to the child tax allowance and the need to address negative demographic trends. National Statistical Institute projections indicate that the present tax and social security system places the tax burden on low income earners. Furthermore, indirect taxes such as VAT are very high and disproportionately affect large families.

In **Croatia**, individual personal income tax was introduced relatively recently in 1994. The basic tax deductions are uniform and not transferable. However, there are additional tax deductions for dependent family members, known popularly as the "housewife deduction," for single earner families, with an earning threshold for the dependent family members of €2,000 per annum. This system creates certain disincentives for married women to work. The number of income tax brackets has varied over the last decades. In 2017, the tax exemption allowance was increased, and two tax rates (24% and 36%) were again reintroduced. This reform was designed to reduce the income tax burden, particularly for families. The increased basic tax exemption allowance may motivate women to enter employment. However, there are no clear correlations. Another obstacle for women's employment is that child care facilities are not easily available outside the main cities. In an apparent contradiction, the employment rate of women with one or two children under six years old is higher than the employment rate of women without children. This is because the high costs associated with child-rearing means dual earner families with secure employment are more likely to have children and on the other hand, many women delay starting a family because of the financial implications. It is therefore necessary to finance measures to facilitate the reconciliation of women's professional and family life.

In **Estonia**, women's employment rates are relatively high, exceeding the EU average and the share of part-time workers among women is low, at slightly under 13% in 2016. Dual-earner households have been the norm in Estonia, supported by an extensive network of pre-school facilities and generous maternity leave policies (100% of previous earnings for 18 months). From 1994, Estonia introduced a flat rate tax system, initially at 26% and it has been gradually reduced to the present level of 20%. There is a basic tax exemption allowance, fixed at € 2,160 in 2017, and social and health insurance contributions are a percentage of earnings. Joint declaration of income by married spouses is optional, and in 2015, 13.4% of all income tax declarations were submitted in this way. Joint declarations currently allow a couple to combine individual tax exemptions, in cases typically where one spouse has not worked. A series of reforms are proposed as from 2018, designed to increase revenues while reducing the tax burden on low earners. While joint declarations will remain an option, the basic tax exemption allowance will not be transferable and therefore the main advantage of joint returns will be eliminated. While the flat rate of 20% is retained, the basic tax exemption allowance will be reduced in proportion to annual income so that the higher the income, the lower the tax exemption allowance, thus introducing an element of progressivity. It is difficult to gauge the impact these reforms may have on women's employment rates, given other obstacles to women's participation. There is also considerable criticism that the reforms undermine family values by penalising married couples so they may be reversed in the future. Gender equality concerns have been largely absent from the debate on these tax reform proposals.

The tax system in **Finland** is similar to the Swedish individual based tax system. There is a long tradition of individual-based taxation dating back to 1935 although joint taxation was introduced from the 1940's until 1976, particularly to promote family friendly policies with a view to increasing the birth rate. Individual taxation was reintroduced in 1976 although there are some tax credits transferable between spouses, such as on capital loss, and some social assistance subsidies are dependent on the spouse's income and wealth. While the system can be considered gender neutral, tax items can impact each gender differently. For example, tax items targeting low income individuals can affect women disproportionately. Tax benefits on capital loss are more likely to affect men. Current family policies include a child home care allowance which can last until the child is three years old. In low earnings households, there can be disincentives for women to take up paid work as these allowances and others such as housing allowance, are means tested and taxable. Although the home care allowance can be given to either parent, few fathers participate. There is currently a discussion on whether parental leave should be reformed to encourage more fathers to stay at home and concomitantly women to re-enter the labour market earlier. Another issue is the need to improve the quality of the day care services. It is important for optimal equity and efficiency that family policies are evaluated together with the whole tax system and not considered in isolation.

In **France**, after the Second World War, the tax system was part of an overall package of measures designed to promote marriage and the family and to increase the birth rate. A family-based income tax system is still in place today. The tax system is progressive with rates gradually increasing from 0 to 45%. The family quotient system means that the joint household income is taxed divided on the basis of the number of household units allocated. A couple, including those in a civil partnership, has a tax allocation of 2 units; a couple with one child or dependent person has 2.5 units; and with two children 3 units. Every subsequent child is worth one additional unit. A single or divorced person or widow/widower has a tax



allocation worth 1 unit with an increase in the unit allocation depending on the number of children. From 2018, some reforms will be introduced, so that couples can choose to have the income tax shared proportionally depending on each person's earnings, although the system for calculating the total amount remains the same. Taxation will also be at source. There is considerable debate about the merits of this system, which is viewed as archaic by some commentators. Others view the current system as one element of a much wider family policy which makes it possible for women to successfully reconcile both work and family, which has resulted in a high birth rate as well. They further argue there is insufficient evidence to suggest an individualised tax system would promote women's employment rates, which at 66.5% is already relatively high with part-time work accounting for 18.9% of total women's employment. In the context of France, individual income tax would need to be introduced as part of a wider package of measures to promote gender equality, including within the social security system, such as a universal child benefit.

The **Greek** tax law is consistent with Constitutional guarantees of gender equality and of Greek family law and provides for a system of individual taxation of each spouse's income but the tax return is filed jointly in the case of marriage (mandatory) or civil union (optional). However some elements of family-based taxation remain, including some discriminatory practices. Following a number of legal cases and complaints to the Ombudsman, a set of reforms was introduced in the new Income Tax Code (Act 4172/2013), which sought to eliminate some aspects of gender-based discrimination. For example, prior to the reforms, income from business activity "financially depending" on the other spouse was added to the income of the latter, typically the husband. Tax benefits related to income from minor children were allocated to the father; the wording of tax documents was not gender neutral; the husband was liable for filing a tax return for his wife's income, while the wife had no right to access the tax returns; and a common tax residence was assumed, even if not the case. Under the new code, the husband's liability to file a tax return for his wife remains, and the wording related to the income of minor children is ambiguous. The issue of a common tax residency has been the subject of a judicial ruling allowing for separate residence of husband and wife but it is still open for appeal by the tax authorities. There has been little attention to the potential links between the tax system and women's employment rates. In Greece, women's employment rate is comparatively low at 46.8%, according to Eurostat 2016 data, and men's employment rate is 65.8%. There is a high average gender pay gap at 22% and persistent high unemployment. However, there are no grounds to consider that the recent tax reforms will impact women's employment rates or other gender equality goals.

In **Ireland**, there is a progressive income tax system with tax exemptions for low earners and pronounced increases, both marginal and effective, for higher earners. The system is mainly family-based, with couples (either married or in civil partnership) jointly assessed, although they can opt for individual assessment. Joint assessment is often more favourable as some income tax credits can be combined and the standard rate tax band can be partially transferred. This can result in a higher level of entry into the higher tax rate, including in cases where only one person has taxable income. However, some tax credits and allowances are not transferable within the couple. Furthermore, other social security and income related taxes are individual. In 2000, with the aim of increasing women's labour market participation, there was a plan to phase in individual assessment of income tax for couples but it met with considerable opposition as it was viewed as penalising women who chose to stay at home in a carer's role. The proposal was therefore



stalled and instead the hybrid system as described remains in place. While women's employment rates are comparatively low in Ireland, at 64.2% in 2015, the income tax system is relatively accommodating of secondary earners according to OECD data. However, the costs of child care can prove a major disincentive and to a lesser extent, in the case of women on low pay, the combined effects of income tax and loss of social welfare entitlements. Labour market supply issues will make it likely that the move to introduce an individual tax system will resurface. However, such reforms are best phased in gradually and considered in the context of broader reforms, including addressing the gender pay gap, the provision of childcare and the removal of barriers to employment within the tax and social welfare system. Access to disaggregated data is also needed for a better understanding of the gender impact of tax reforms, which could form part of an annual gender budgeting process.

In **Lithuania**, there is an individual-based tax system with some elements of family taxation, for example in the case of family farms and tax benefits for families with children. There are two tax bands with the majority paying 15% tax. In addition, social security contributions are levied on earnings. In Lithuania, the dual-earner family model is common, due to relatively low salary levels. In 2015, women's employment rate was 66.5% and the gender employment rate gap was only 1.5 percentage points. Part-time work is not common with 10.5% of all working women working part-time. The tax authorities do not provide gender disaggregated data. However, it appears that lower rates of women's employment in low paid sectors may be due to the relatively high tax burden they face. The government's declared objective is to reduce socio-economic inequalities and new measures to decrease the gender pay gap include private companies publishing average salary levels. However, and despite the predominance of the dual-earner model, traditional gender roles and unequal sharing of domestic responsibilities still prevail. Improved gender-disaggregated data and further research into the potential negative effects of the current tax system on women's economic situation are recommended.

In **Luxembourg**, there is a family-based progressive income tax system, whereby the taxable income of a couple (married or in civil partnership), is combined and divided by two to determine the tax rate and amount due, and this figure is then multiplied by two. There is a tax free allowance, known as the "marriage premium" for dual-earner couples. From 2018, taxpayers in couples will be able to opt for individual taxation (either full individual taxation or individual taxation with reallocation of income). However, within the couple, it will still be possible to transfer income in order to benefit from tax credits or lower tax rates and the marriage premium will be split equally. The couple's total tax bill should be identical whether they opt for joint taxation or individual taxation with reallocation of income. Taxpayers, either by choosing the full individual taxation or the individual taxation with reallocation of income, will only be responsible for paying taxes due on their own earned income. Only 40% of married women work full-time and a further 29% work part-time. A recent study suggested that a switch to an individual-based system would result in an average loss of 4% of disposable income in a joint household and that the labour supply of married women would increase by at least 1%, mainly by increasing the numbers of women in part-time work. The government is committed to increasing women's labour force participation and individual taxation is viewed as one avenue among others, including more flexible and later retirement, tax credits for employing domestic help, improved child care, and decreased progressivity of the tax-benefit system.

In **Malta**, there is a joint family-based tax system for couples (married or in civil partnership). For couples, there is a higher level of tax exemption, resulting in a higher level of disposable income. In the 1990's, a tax reform was introduced so that when one member of a couple works part-time, this income is taxed at a fixed rate (currently 15%) while the couple continues to benefit from the family rate tax exemption allowance. A couple can apply to file individual tax returns, which is more advantageous if both are employed full-time and earning above the minimum wage. However, even when a couple files individually, sources of other income are automatically assigned to the higher earner and there is still only one tax return and statement, with joint and several liability for payment. Over the last decades there has been a substantial increase in female employment, which reached 52.9% in 2016 and 80% for younger women between 25-39 years. There are different tax credit incentives for women returning to work and child care costs are tax deductible. The recent introduction of free child care for all working mothers for children aged 3 months to 3 years, as well as tax incentives for employers' capital costs related to child care facilities may also increase women's employment rates. However, many barriers for women to work or work longer hours still exist, including school hours, elderly care responsibilities and lower skills level of older women.

In the **Netherlands**, from the 1960's onwards, there has been a steady increase in women's employment rates, reaching 76% in 2015. However, the proportion of part-time women workers is high. In 1973, an individual-based tax system was introduced, replacing an earlier system of family-based taxation. Under this system, married women, while taxed separately, were given lower tax exemption rates than married men. A new system was introduced in 1984 to end this discriminatory practice. The basic tax exemption allowance could be transferred to the other partner in a single earner household. Further reforms were introduced in 2001, in order to remove tax barriers to married women's labour force participation by introducing a system of tax credits, based on the Austrian model. Hence at the moment there is a system of individual taxation on earnings together with a joint/splitting system applied to other forms of income and a system of tax credits, including for child care responsibilities. The high METR particularly affect low earners, who risk loss of social welfare benefits. The system is complex and makes decision-making difficult. There is tripartite consultation with the social partners and an expert commission meets every 10 years to evaluate the tax system. Recent proposals include simplifying the current system by reducing the tax bands to two so as to improve the effective use of tax credits and to reduce the list of allowances with a view to providing incentives for increasing working hours, particularly of women.

In **Poland**, the personal income tax system is relatively recent and dates from the early 1990's. There is a family-based progressive personal income tax, with a basic tax exemption allowance. Couples and single parents with children can choose to file a joint tax return with income splitting or opt to file an individual return. In 2015, 37.3% of taxpayers filed joint returns and only 2.25% chose the single parent preferential rate option. However, the impact of the joint taxation system is limited because of the relatively low tax exemption allowance and because, in practice, the system is similar to a flat rate as almost 97% of tax payers are in the first tax band. The social security system acts as a strong disincentive for spouses to enter the formal labour market as a non-working spouse is entitled to free health care and a survivor's pension equivalent to 85% of the deceased person's pension. Self-employed income is taxed with a flat 19% rate and no basic tax allowance. They must also pay lump sum social security contributions, which is highly regressive and penalises new start-ups. The participation of women in the labour force is much

lower than men with an employment rate for women in 2014 of 55.2% and a gender employment gap of 13 percentage points. The proportion of women in part-time work was 10.7%, relatively low compared to other EU countries. The crucial issue now is decreasing population, caused by mass emigration after joining the EU. The current government has adopted pro-family policies, including the introduction of child benefit allowances in 2016 which may reduce women's employment further. Support for a traditional family tax model remains strong and there is little policy space to discuss tax or social security reforms to reduce disincentives for women to work. However, economic efficiency arguments as a result of the need to increase the labour supply, combined with women's own increasing desire for financial independence, may create new opportunities to review the system.

From 1989, **Portugal** introduced a progressive family-based joint taxation system using a family quotient system. In 2015, the system was reformed and individual taxation was introduced as an option. However, in practice, 94.6% of eligible couples opted for joint taxation in 2015, as it is more favourable. In 2016, the family quotient system was replaced by a fixed deduction per child or other dependent. There is a lack of gender disaggregated and comparable data although steps are being taken to improve the situation. It is therefore difficult to evaluate the impact of the tax system on gender equality. Government policy objectives are to increase the disposable income of families, by strengthening fiscal progressivity and lowering taxation on households with dependents. Women's labour force participation has increased with the expansion of the public sector. However, there remains a large gender wage gap with women earning 83.3% of men's average earnings, with 16% of women working part-time, compared to 11% of men. The government's focus is on tackling the gender pay gap, increasing women's participation in managerial positions and increasing father's uptake of parental leave. Tax reforms are generally not part of the debate on gender equality policies.

In **Slovenia**, a progressive individual-based income tax was introduced in 1990, replacing a former flat rate system. Spouses are taxed individually but there are family allowances for dependent children or other dependent family members, including spouses or parents. Parents can decide how to split the entitlement to child allowances between them, but typically the parent with the higher income will claim the child allowances. If the parents' incomes are similar, it is more advantageous for both parents to claim the allowances for a proportion of the year. Failing an agreement between the parents, the tax authorities will split the family allowance for each child and allocate it to each parent. Tax allowances for dependent spouses are very low and do not impact the employment decisions of women. However, social benefits, including child benefit and child care subsidies are means-tested, depending on net family income and are very progressive. Hence tax incentives would not be an effective means of increasing female employment because of the potential loss of social benefits. Women have traditionally had high employment rates and there is a relatively small gender wage gap in Slovenia, hence individual-based taxation was seen as a natural choice when first introduced. Further tax reforms are not considered relevant to the promotion of gender equality. Instead, attention should be given to increasing part-time or flexible work options, tackling gender segregated employment and the increasing gender pay gap and the worrying increase in the numbers of young women entering precarious employment.

In **Spain**, both individual and joint income tax declarations exist. Joint declarations are possible for married couples and for single parent families with dependent children. The joint declaration offers some advantages for secondary earners with a low income and for large families and to that extent the Spanish system has a

negative gender impact and supports a traditional family model. Under the joint tax system, married women's earnings are added to that of their spouse and because of the progressive rates, the result is that women are effectively paying higher rates of tax. Other disincentives for women to work are the possibility of tax deductions on private pension schemes. There are also considerable tax deductions for dependants living in the same household which are further incentives for women not to work outside the home. Women's employment rates are lower in Spain than in countries with individual tax systems and they devote more time than men to unpaid carer and domestic work. However tax reforms to make individual tax returns mandatory would be insufficient in themselves to increase women's labour force participation. Other measures are also required: universal child care, improved services; and equality in paternity and parental leave entitlements and uptake.

### 3. Key issues discussed during the seminar

There was a fruitful exchange on the advantages and disadvantages of different tax systems and accompanying measures to create an enabling environment for women and men to reach their full potential in the employment market. It was recognised that no tax system is neutral and no matter how designed, it will create incentives for some and disincentives for others. Apart from their revenue-raising functions, discussion focused on the redistributive role of tax systems and the extent to which they can be used to incentivise behavioural change, particularly in relation to women's employment rates. For some participants, the gender impact of tax policy was a relatively new, albeit interesting, topic as policy priorities tended to focus on economic growth. Others raised the extent to which expenditure rather than taxation was the most suitable instrument to achieve social policy aims.

The trend in Europe to introduce **individualised tax systems** was explored, although many systems were "hybrid" and retained elements of joint taxation. There was discussion about how to frame the political arguments in favour of individualisation, whether through a gender equality lens or as a social equality/efficiency issue. In some countries, reform of the joint tax system was not widely discussed or would meet with opposition; individualised tax was sometimes viewed as tantamount to labour conscription or undermining the well-entrenched concept of family solidarity. Furthermore, in countries facing high unemployment levels, policy reforms designed to eliminate tax deductions for dependent family members and encourage their entry into the labour market would not be considered a priority.

Countries are facing different challenges in relation to **women's employment participation rates**. Discussions focused on the extent to which women's employment rates, and part-time employment were culturally determined or linked to labour market demand, or indeed the consequence of disincentives in the tax and benefits systems, combined with limited access to child care. It was recognised that joint tax systems, whether based on income splitting or the family quotient, were generally a contributing factor among other disincentives to women's employment, or women's full-time employment.

On the other hand, in many post-transition countries, the dual-earner model is well-entrenched and women generally work full-time and have access to public child care. In such contexts, income tax policies are less relevant to women's employment rates but progressive tax systems could be introduced to address socio-economic inequalities. However, women's economic independence is only

relative as salary levels remain low and a dual-earner household is an economic necessity. Women may delay having a family because of the associated costs. In such contexts, it is important to address work/life balance issues, including the sharing of domestic roles.

Many participants commented it was necessary to consider the disincentives to women's employment in the broader context of **marginal effective tax rates**, which can be particularly high in the case of women with low earnings or single parents. The potential conflict of supporting low-income households and seeking to foster women's increased employment rates was noted; many social welfare benefits were means-tested on the joint household income, creating an employment trap whereby there were substantive disincentives for women to work, or work more than part-time. The merits of providing in-work benefits or tax credits as opposed to tax deductions were explored. In some countries, means-tested tax credits are a disincentive to work full-time. Elsewhere, in-work benefits can be an incentive but are also conditional on other issues, such as school attendance of children. Furthermore, in some countries, spouses of the self-employed can register in the **social insurance systems** free of charge so there are strong disincentives for women to enter formal employment.

Another issue of considerable discussion related to **child care costs** as an "implicit tax" disincentive to women's employment. It was noted that there is data on tax and benefits but less information regarding comparative child care costs across Europe. In some countries, although an individualised tax system exists, the lack of public child care services has acted as a major barrier to women's employment. The Swedish universal child care system which is subsidised and not means-tested was considered a good practice. It is now available to all women regardless of their employment status. In some post-transition countries, there is a good child care system, including in rural areas, which is subsidised and means-tested. In other countries, there have been recent significant reforms to introduce free child care for working women and women in full-time education. Many commented on the importance of providing state-funded quality affordable child care, arguing that in the long run the investment brings fiscal returns by creating new jobs and reducing unemployment rates and hence social subsidies. Studies on the costs and benefits of child care over a decade point to positive fiscal returns which has to be taken into account before saying child care is costly!

There are also wide varieties in **treatment in tax systems of dependent children, dependent adults, child benefit allowances, home care allowances, child care and elderly care costs and domestic services**. In many countries, child benefits are means-tested on household income. Some questioned whether there is a case for taxing child benefits progressively instead of means-testing allowances. Sweden introduced a tax reduction for domestic services in 2007. However, it was noted that tax deductions for domestic services do not benefit pensioners who might be most in need of such support as they are often on low incomes exempt from taxation.

The merits of introducing the **individualisation of parental leave** were also debated. Swedish proposals to introduce a non-transferable and fully paid entitlement, which is presently under consideration with a government inquiry on the issue, were viewed with interest. Some countries with long parental leave periods noted that as this leave was overwhelmingly taken by women, it potentially increased gender inequalities in employment. Hence measures to encourage more men to take up leave entitlements could potentially decrease labour market discrimination.



There was also a discussion on the inter-relation between taxation, labour legislation and the role of the social partners, particularly in relation to negotiations concerning **working time**. Generally, it was noted that union policy positions supported the right to work full-time with the possibility of options to work part-time. In some countries, labour regulations provided a right to work part-time when children were young.

The impact of part-time work on **women's pension entitlements** and the need to raise awareness and encourage women to increase working hours was another area of concern. The extent to which pensions should become individualised rights was also raised, linked to a broader discussion on the merits of a rights-based approach providing for personal as opposed to derived rights.

A final area of reflection concerned increasing income inequalities and the **gendered implications of capital tax**. It was noted that the largest share of income on capital is earned by men who comprise the great majority of the highest income groups in each country. However, in many countries income on capital is taxed at a flat rate not progressively so there could be measures taken to address gender inequalities in this area.

## 4. Conclusions and recommendations

- Participants agreed strong political leadership was essential to advance gender equality and that the Swedish government's cross-Ministry commitments in this regard were truly inspirational.
- Based on a premise of a dual earner, dual carer household, the Swedish model of a fully individualised progressive tax system was viewed as an aspirational goal. From a human rights perspective, it advances principles of gender equality and economic citizenship. By removing some barriers to women's employment, it therefore also addresses the interrelated issues of the gender wage and earnings gap and the gender pension gap. There are broader societal benefits of individualised tax systems and the dual-earner dual-carer model. Women's increased economic independence can in turn reduce risks of victimisation and violence and the increased role of fathers in child care can improve well-being and family stability.
- However tax systems have evolved over time and reflect cultural norms, in relation to the role of the family and child care, and past and present economic circumstances, in particular the relative importance of women's labour market participation to boost economic growth or demographic concerns to increase the birth rate. While there is a clear trend to introduce individualised tax systems, particularly by providing optional measures, most systems retain elements of joint taxation. Cultural differences play an important role, for example, the age at which it is acceptable to place infants in child care. It was therefore considered that any reforms would best be introduced in conjunction with a compensation system for one earner households which could be gradually phased out.



- While there were no clear conclusions on the issue - given the myriad variations - it was evident that the implications of different allowances, such as child benefits, other forms of social assistance, child care and carers' allowances, tax deductions or credits for domestic services or carers' costs need to be carefully analysed and to the extent possible disincentives to women's labour market participation removed.
- For individualised taxation to have a maximum impact on women's employment rates, it needs to be accompanied by a full package of social measures to assist women to combine family and professional life. A strong case was made for the provision of high quality, affordable, available and flexible child care; as well as individualised and non-transferable parental leave of the same length for each parent.
- Measures to raise the status of employment in child and elderly care to ensure good quality jobs were viewed favourably. If informal jobs in domestic work, child care and elderly care were transformed into formal work, it would strengthen the social security and tax revenue base and improve women's pensions.
- It was agreed that tax systems are too complex and it is difficult for households to make informed choices. Systems need to be simplified and better communicated and in all cases ensure that women have access to their own tax returns and relevant information.
- Research on child care costs across Member States could usefully complement other European Commission studies on fiscal disincentives to women's employment.
- Access to disaggregated data by gender and not fiscal household is also needed for a better understanding of the gender impact of tax reforms. An annual gender budgeting process taking into account both the revenue and expenditure side could also be a useful government tool in this regard.