



The EU Mutual Learning Programme in Gender Equality

The impact of various
tax systems on
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Gender taxation? Let's start with efficiency.

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1. Relevant country context

Before describing the Polish system of family taxation, let me outline a simple theoretical background (Rosen 2010). Assumptions:

- a) A progressive income tax;
- b) Families with equal income, *ceteris paribus*, paying equal taxes;
- c) Two individuals' tax burden not changed when they marry: i.e. marriage neutrality.

Progressivity of income taxes is not that obvious, especially in Central and Eastern Europe. While one may find solid economic arguments against tax progression, it does continue to have strong political support in most countries (including Poland). Notwithstanding equity considerations, treating taxation of income as an element of a broader system, like we should do¹, gives a strong economic argument in favour of progressivity. The next assumption is in line with a notion of *horizontal* equity. The third one is a little bit problematic. The costs of living together² are lower *per capita*, therefore, in line with an *ability to pay principle*, the tax burden might be higher. But this would imply a marriage penalty, and therefore the tax system might influence the decisions about marriages and divorces. One might also take into consideration the attitudes toward the role of the family in a society – this may imply a marriage bonus. Marriage neutrality might be treated as a golden rule: tax policy should neither favour nor discriminate against marriages. The problem, however, is that there is no tax system which can satisfy these three assumptions simultaneously. In case of differences in spouses' incomes individual taxations meet the assumption c) but not b), whereas family taxation meets the assumption b) but not c). This implies that we should focus on efficiency, as other aspects are ambiguous and refer to value judgments.

The main purpose of taxation is money. Using taxes to achieve other goals is usually costly and hardly effective. One has to take into account the in- and disincentives which taxes create, but should remember about the costs (both compliance and administrative) and that the economic incidence is different from the statutory one.

1.1. Taxation of families - history

Polish tax system was created at the beginning of the 90's, in the second year of transition to a market economy. Taxes did not have any major importance in a planned economy and the tax system indeed did not exist. We started *ab ovo* and decided to implement a mainstream system of taxation: a progressive personal income taxation PIT, linear corporate taxation, a value added tax (to replace a

¹ I fully accept Mirrlees Report's view on this issue (IFS 2011).

² I assume here for the sake of simplicity that married couples live together.

turnover tax). At that time, unearned income (except for the income from property) was mostly untaxed. In PIT, we started with 3 brackets (20%, 30% and 40%) with a low basic allowance (3 times higher than the minimal earnings per month). From the outset taxpayers **could** choose to file jointly (with income splitting) or separately. The bigger the differences between the spouses' incomes, the bigger the marriage bonus turned out to be. Entrepreneurs' income was taxed the same way, although in some cases, taxpayers could use a simple flat-rate revenue tax and a lump-sum tax called the tax card. In 1999 there was a major reform of the pension system: defined benefit formula was replaced with a defined contribution. It had a lot of consequences on the labour market – I will refer to this later. From 2004 the income of self-employed can be taxed with a flat 19% rate without basic allowance, tax credit and the possibility of joint taxation. In 2008 the number of the tax brackets was reduced to two. Starting from 2017 the phase-out basic allowance was considerably increased.

1.2. Taxation of families – present situation

Nowadays (2017) Poland has a moderately progressive income tax with two brackets (18% and 32%) with an **optional** income splitting for families and single mothers with children) accompanied with an **optional** flat 19% tax for self-employed³. Small business can also use flat-rate revenue tax (individual taxation only) and the tax card (individual taxation only). In 2015 37.3% of taxpayers of the progressive tax decided to fill jointly. The preferential taxation for a single parent was chosen by 2.25% taxpayers of the progressive tax (MF 2015). The later tax preference is a strong disincentive for non-married cohabitators to marry.

Even the progressive income tax in Poland is close to linear as ca. 97% of those paying this tax were in the first bracket. Considering social security contribution i.e. analysis of the tax wedge, the Polish system is of very limited progressivity and in case of the self-employed the tax wedge is regressive – this is due to a lump-sum social security contribution.

1.3. Social security system – the main obstacle to women's participation in the labour market

1.3.1. Social security contributions and benefits

In Poland, we have a parallel system of social security contributions: a percentage contribution with a cap for employed and lump-sum contribution for self-employed. This lump sum component of the tax wedge is very regressive and forms a considerable barrier to entry for start-ups.

To obtain a pension, one has to reach the pension age⁴ and pay the contributions to the system. In case of a spouse who did not contribute to the social security system, she or he is not allowed to be on a pension as long their spouse lives. After the death, she or he is allowed to a family benefit equal to 85% of the deceased spouse's pension. To qualify, the survivor must be above 50 or be with dependent children. This creates a strong disincentive for the non-working spouses to

³ In 2015 ca. 2% of all income tax payers paid a flat 19% tax (MF 2016)

⁴ The current government reduced it from 67 for all, which was being gradually introduced by the previous government in 2012, back to 60 (woman) and 65 (men).

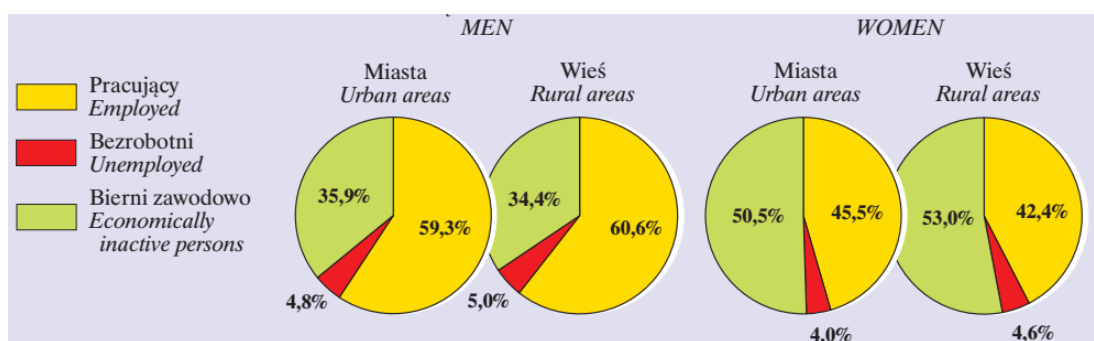
participate in the legal labour market. And on the other hand, there is a strong demand for labour in grey zone in services (child care, housekeeping).

1.3.2. Health insurance

Generally, health care is financed via PIT – part of the tax goes to the National Health Fund. Those not paying income taxes⁵ do not contribute to the health care system. To be eligible for the free health care one has to pay the contributions or be a child, student or **just be** a spouse⁶. All the working spouse has to do is to register their non-working spouse in the health care system. Again, this is a disincentive for legal participation in labour market.

1.4. The impact of tax and social security system on the employment rate in Poland

Figure 1. Structure of the population by economic activity (based on the Labour Force Survey) in 4th quarter of 2014.



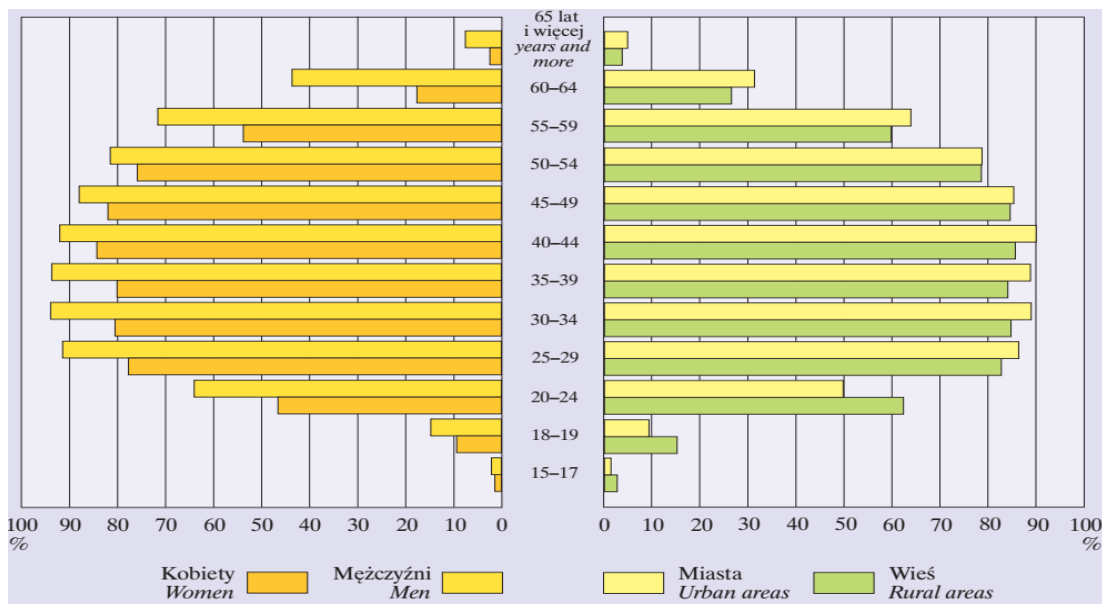
Source: Yearbook of Labour Statistics, 2016, GUS, Warsaw.

Industrialisation, which took place after the WWII, resulted in an increased demand for labour, accompanied by migration to cities from rural areas. The centrally planned economy was inefficient and the initial success was due to the extensive usage of labour - this also meant a higher demand for woman labour: the share of women in total employment increased from 31% in 1950 to almost 49% in 2014 (GUS 2016b). This had nothing to do with the changes in social attitudes – traditional view was that a man should be the breadwinner and a woman a housekeeper, therefore women worked in the labour market (from 7 am till 3 pm) and later at home. Nonetheless, the participation of women in the labour force is still lower than men – figures 1 and 2.

⁵ There is a separate provision for farmers as they do not pay income tax. They pay 1 zloty (ca. 0.24€) a month per one hectare if the farm is bigger than 6 hectares. In case of smaller farms the contribution is paid by the government.

⁶ The list of these eligible for public health care is obviously longer and includes *inter alia* unemployed, soldiers and the like.

Figure 2. Activity rate by age (based on Labour Force Survey) in 4th quarter of 2014.



Source: Yearbook of Labour Statistics, 2016, GUS, Warsaw.

In 2015, the activity rate (percentage share of the economically active in the entire population) is much lower for women (48.6%) than men (65.0%) (GUS 2016b). When we relate the share of economically active to those in working age, then in 2015 the ratio for woman was 70.3% and 78.8% for men (GUS 2016b). In all age groups the share of working men is higher than women. The OECD data for 2014 show that the employment rate for woman was 55.2% whereas for men 68.2%, constituting 13% p.p. gender gap (OECD average: 11.8 pp; and Eurozone average 9,6 pp) (OECD 2016).

Women are also more likely to work part time. Proportion of women working part time in 2015 was 10.7% of all working women and only 4.7% in the case of men. The main reason (42%) for this is the preference for part time work. (GUS 2016b). The OECD data for 2014 show these rates at the level of 10.7% and 4.2% respectively, which is far below the average for OECD (24.9% and 9.1% respectively). (OECD 2016).

In October 2014 the gender gap in average earnings was 17% (similar to the one in 2012) (GUS 2016b). The OECD data shows a drop in the gender gap of median earnings of full time employees from 20.1% in 1991 to 11.1% in 2014 (OECD).

The impact of the joint taxation for women's employment rate is limited due to a relatively low basic allowance, low top PIT rate (32%) and the low difference between the two marginal tax rates (18% and 32%). In Poland, the impact of the eligibility for pension and health care pays a crucial role as a disincentive for the participation in the legal labour market for the non-working spouses. The access to subsidised child care has been improved, mainly in the urbanized area and the costs were significantly reduced.

2. Policy debate

Poland for many years had a very good demographic structure. Despite lower than in other countries activity rate, the dependency ratio was favourable. However, starting from 2013 the supply of labour has started to decrease and this process is likely to speed up. This process has been accompanied by a huge emigration (ca 2 million of Poles have left the country) after Poland joining of the EU. The shortage of labour force is very soon likely to be an important barrier to growth. Problem can be mitigated partially by immigration, but the issue of immigrants is more political than economic.⁷

Unfortunately, the political debate is rather ideological, and therefore not rational. It focuses not on increasing the labour force, but on increasing fertility rate. The government stresses the importance of pro-family economic policy, which in the long run should solve all the problems on the labour market and in social security system. An essential element of this policy was an introduction of the '500+' programme in 2016, where each child in the family (except for the first one) is given monthly a 500 pln benefit⁸. This had some negative, (though, as of yet, difficult to assess), impact on the labour supply as some women decided to stay at home with children or moved to the grey zone. The situation on the labour market will deteriorate further as the reduction of the pension age will come in force at the end of this year. This will increase the tensions on the labour market and might create an opportunity window for the changes aimed and increasing women activity in the labour market. The need for a change will be supported by the supply side. Despite the conservative ideology, which is still dominant, more and more women want to be financially independent. This is also due to a skyrocketing divorce rate (in urban area it is more than 40%).

The current government promotes traditional model of the family. This is supported by the catholic church in Poland and, to a certain degree, by the educational system. Being a conservative government, it does not use the word "gender" in a public discussion – it is a taboo word. But the abovementioned tensions in the labour market will create an economic pressure to increase the employment rate for both women and men. However, since this rate is much lower for women, the potential gains are bigger in this case. Moreover, I am afraid that the system of income splitting will not be changed – also mainly for ideological reasons: the government perceives it as pro-family. I can hardly imagine radical changes in the pension system which would reduce the benefits for non-working spouses (who don't pay contributions).

What I hope for is a political debate which sooner or late will focus on efficiency. This might create the room for discussion. If we start the discussion in a gender context, it will be blocked by the government. A good example of such an economic discussion⁹ might be the report published by Deloitte promoting women participation in the labour market. One of its conclusion was that if the women participation rate was equal to the European average, then in 10 years this would increase the GDP by 0.94% a year on average. (Deloitte 2016)

⁷ Poland refused to accept emigrants coming to the EU, but on the other hand we have more than one million of Ukrainians working here.

⁸ This is in general a non-means tested benefit. The benefit can be granted also for a first child if the income of the family meets the criteria. In 2017, it is equal to ¼ of the minimal earnings in Poland.

⁹ In this 80-page-long interesting paper the word "gender" is used only in references. This shows that also non-governmental institutions try not to "spoil" the discussion using this taboo word.

3. Transferability aspects

Currently I can hardly see any chances for introducing separate taxation or reducing disincentives in social security contributions and benefits. These issues are difficult to explain to the electorate and, therefore, come at a high political cost. And the government which reduces the retirement age and gives a huge unconditional bonus to children cannot introduce changes which have been introduced in Sweden. This is pure politics, perhaps even an outright populism. I am afraid that myopic political objectives will win against economic rationality. Hotelling-Down's model prevails: myopic political gains are always more appealing than economically sound, politically costly policies with a longer payback time. There is a second layer of the issue: ideology. Poland is now closer to Trump's America than to Europe.¹⁰

4. Conclusions and recommendations

Poland has a traditional family-based system of taxation combined with a social security system, where the benefits are, in the case of non-working spouses, generally not linked to contributions being paid. This (mainly the pension system) creates a strong disincentive for increasing women employment rate. At the same time, there is a growing shortage of labour and this problem will get bigger soon. This create some room for the discussion how to increase the employment rate.

Current government supports the traditional model of the family and does not promote gender equality. Thus, equality might only be a by-product of the economic discussion focused on efficiency of labour utilization in a country which faces growing demographic problems and a shrinking labour supply.

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¹⁰ Some members of this government as well as the Catholic Church use the word "gender" as an offence. But they also discredit environmental protection.