



The EU Mutual Learning Programme in Gender Equality

The impact of various
tax systems on
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The impact of individual taxation on gender equality in Slovenia

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1. Description of the main elements of the policy

1.1. Introduction

1.1.1. Gender equality in Slovenia

Slovenia has undergone vast political, economic and social changes in the 1990s. The transition to a full-fledged market economy resulted in large changes on the labour market. Though changes in the 1990s did not affect men and women in Slovenia to the same degree, low gender gaps in employment, unemployment and wages were nevertheless preserved in the 1990s (Stanovnik et.al., 2006). Due to relatively high employment rates among women and relatively low employment rates¹ among men, the gender gap in employment rates was considerably below EU average. Thus, for Slovenian women, the long tradition of engagement outside the home was not disrupted by the large societal changes in the 1990s. The socialist regime supported their work ideology by equating emancipation with employment (Fultz et.al., 2003).

In 2000s the employment rate of Slovenian women was higher than EU average, but the difference between female employment in Slovenia and EU average has narrowed after 2010. The difference between the male and female employment rate in Slovenia was around 8 percentage points in 2000. The economic crisis resulted in decreased labour force participation rates and employment rates in the period from 2008 to 2013 for both men and women. However, women still do not participate in the labour market to the same degree as men; the difference in employment rates for men and women stood at around 6 pp in 2016 which is much less than EU 28 average (10.4 pp in 2016).

The unemployment rate in Slovenia is lower compared to the EU average. In 2016 the EU-28 average unemployment rate was 8.9% for women and 8.5% for men. Similarly, in Slovenia female unemployment is still higher than male unemployment.² However, it should be noted that the gender gap in unemployment in Slovenia was constantly below EU average up to the year 2005. On the contrary, it has been higher than EU average since 2011.

Only 13% of Slovenia's female employees worked part-time compared to EU-28 average of 32% in 2016. The low part-time rate shows that women in Slovenia tend to work full-time or not at all. One reason for high full time employment of women is a rather encompassing system of childcare facilities in Slovenia. Very important in this respect is the fact that meals are provided for children in childcare and also in

¹ All labour market indicators refer to the age group 15-64 years.

² The exceptions were years 2009 and 2010.

schools. Besides, childcare is provided for children in primary school until the child's fifth grade which enables full time employment of mothers.

A fairly satisfactory position of Slovenian women on the labour market regarding participation rate and shares in employment at various professional levels is also manifested in a rather small gender wage gap. In Slovenia the average female employee earned 8.1% less than the average male employee in 2015. This unadjusted gender pay gap is significantly smaller than the EU-28 average (16.3% in 2015). However, the gender pay gap has shown a clearly increasing tendency towards less equality throughout since 2010, when it was almost negligible. Increased gender pay gap might be caused by austerity measures which disproportionately affected women. A study (Humer and Roksandić, 2013) indicates that the austerity measures introduced disproportionately affected women. Pay cuts in the public sector have a more profound impact on the situation of women, since they represent a significant share of employees in this sector, particularly in the fields of education, health and social work.

1.1.2. Data on wages and working hours by sex

Data on hourly wages broken down by gender are collected every four years through Structure of Earnings Survey. The last available data are from the 2014 survey. The survey results showed that hourly gross earnings for women were, on average, 96.5% of men's. The Statistical Office of the Republic of Slovenia concluded that this difference should be attributed to different number of women and men by activities, by occupations, their education and age, as well as some other factors (SORS, 2016).

The statistical Office of the Republic of Slovenia (SORS) does not report average wages by sex on a regular basis as the latest wages by sex were reported for year 2014. Data on the number of paid hours are also not publicly available separately for males and females. However, data about sex are collected by SORS and more detailed data by sex are available at SORS upon request.

1.2. Slovenian tax system

1.2.1. Brief description of individual-based Slovenian tax system

Personal income tax as a progressive annual income tax of individuals was introduced by the tax reform adopted at the end of 1990. In the context of that reform the legislation governing other taxes was adopted as well. The Personal Income Tax Act introduced the biggest change into the Slovenian tax system as prior renewed legislation schedular taxation of individual income types had been in force. Obviously, schedular taxation prior 1990 did not allow joint taxation of spouses by its nature, but also the newly introduced Personal Income Tax Act foresees a pure individual tax system, with spouses being assessed independently. The biggest change was progressive taxation of annual incomes.

The income tax system in Slovenia is an individual system, with the spouses being assessed independently. Even pure individual-based taxation in Slovenia contains family allowances (allowances for dependent children and dependent other family members – spouse or parents). In case of family allowances spouses, or more precisely parents of children, can jointly decide how to split entitlement to child allowances among them. If the parents' goal is to maximise tax savings for the family they have to follow few rules. If there is a significant difference between

parents' incomes, the parent with higher incomes and higher marginal tax rate should claim allowance for all children. If the parents' incomes are similar, they both should claim allowance for all children for a certain proportion of the year. A general rule in such case is that both parents claim allowance for all children as allowances are progressive (the allowance is higher for each subsequent child). On line calculators to get optimal division of children between parents exist. If parents cannot agree how to split family allowances, the tax authority will take into account half of tax allowance of each child for each parent.

Tax allowances for dependent spouses are relatively low – they are equal to the tax allowance for the first child in the family. Tax savings for dependent spouse (spouse without own income) are small and do not affect the employment decisions of women.

Also other taxes as property tax and taxes on capital incomes are pure individual taxes.

1.2.2. Main changes of Slovenian tax system

The Personal Income tax Act (PIT) has changed a lot since 1990 when it was enforced for the first time. Main changes are the following (Stanovnik and Verbič, 2014):

- A first big change occurred in 1994, when the new PIT legislation entered into force. This PIT legislation introduced significant changes in the tax brackets and tax rates. However, of particular importance was the introduction of a personal allowance, amounting to 11 per cent of the average national annual wage. Thus, the tax burden of low-income groups decreased, whereas the burden for higher income groups increased.
- Up to 2004, the tax brackets were annually adjusted according to the growth of the average wage. In 2004 the indexation rule changed, so that tax brackets were uprated according to the consumer price index. In 2005 new PIT legislation (ZDoh-1) entered into force and introduced a sizeable increase in the personal allowance.
- In 2007, a new PIT Act (ZDoh-2) simplified the system by reducing the number of tax brackets from five to three and reduced the top marginal rate from 50 to 41 per cent. Legislative changes continued, and in the beginning of 2008 a differentiated personal allowance was introduced; the higher the income, the lower the personal allowance.
- In 2010 tax allowance for the lowest income groups were increased which led to further lower tax burden of the low-income groups. In 2013 one extra tax bracket was introduced with tax rate of 50%.
- In 2017 the income threshold for personal tax allowance has been increased and one extra tax bracket was added to lower tax burden of mid-income groups.

Toward the end of 2005 schedular taxation of most forms of income from capital was introduced. Interest income, dividends and capital gains were henceforth taxed with a final withholding tax amounting to 20 per cent, and since 2006, these incomes are not included in the PIT tax. Since 2013, the tax rate for incomes from capital has increased to 25%.

1.2.3. Impact of tax system on the employment rate of women

Tax system in Slovenia seems to be gender neutral and at first glance it does not affect female employment. But very progressive personal income taxation in Slovenia influences net incomes and acts as (Stanovnik and Verbič, 2014, p.461): "... an effective brake, preventing the increases in inequality of gross incomes to be transmitted to increases in inequality of net incomes." Besides, social benefits (including child benefit and subsidies for childcare costs) which are mostly means tested and very progressive in Slovenia, depend on net family incomes. This implies that any possible introduction of tax incentives to increase female employment would have much less effect when taken into account also lower social benefits due to increased net income.

Tax schedule in Slovenia is very progressive with relatively narrow tax brackets. The lower income bound for penultimate income bracket with 41% tax rate is only slightly above the average wage (only 7.2% higher than average wage in 2017), while the lower income bound for the last income bracket amounts to almost four times the average wage. Consequently marginal tax rate increases fast, which lowers the gain from each additional earned euro due to longer working hours. The very steep tax schedule affects mostly educated middle-income groups.

2. Policy debate

Family-based taxation has never been an issue in Slovenia. In 1990 when Personal Income Tax Act was enacted progressive taxation of annual incomes was a very big change in comparison to schedular taxation of individual income types before. High employment rates of women and small wage gap naturally led to individual-based taxation.

Described changes in PIT (chapter 1.2.2.) show that the debate mostly revolved around lowering/increasing the tax burden for mostly low-income groups, but also for middle- and high-income groups through the changes of tax allowances and tax schedule.

In 2006 several envisaged tax reform scenarios emerged, including the flat personal income tax proposal which raised a lot of interest. However the proposal was publicly criticized due to lack of progressivity and not adopted. In the last years there was often a debate around possible wage cap on social security contributions as Slovenia is one of the countries where total wages are taxed with social security contributions. The basic goal of this proposal was to lower the tax burden for highly educated employees and their employers as well. There was no public support for this idea for the reasons such as the reduction of solidarity and the loss of tax revenues.

3. Transferability aspects, conclusions and recommendations

The Slovenian tax system is purely individual-based where spouses are seen as two autonomous individual economic subjects since the PIT legislation was enacted for the very first time. In the context of traditionally high female employment rates and low gender pay gaps individual-based taxation was a “natural” choice. Besides, the nature of all other personal taxes is individual-based as well. The transferability of some elements from Swedish to Slovenian tax system is not relevant when the impact of taxation on gender equality is assessed.

However, there are areas (not directly connected to the relationship between taxation and employment) where some improvements should be reached:

- The low part-time rate exhibits a great potential for Slovenian companies to gain better access to the female talent pool. More part-time options or flexible work arrangements should be offered in order to allow a larger number of women to enter the labour market.
- Attention should be paid to the increasing share of precarious forms of employment for young women.
- The labour market in Slovenia is characterised by horizontal and vertical gender segregation which should be reduced.
- Special attention should be paid to the increasing gender pay gap.

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