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The impact of the tax system on gender equality in Austria

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1. Relevant country context

Beginning in 1972, Austria, whose tax system belongs to the Christian democratic-continental European family of taxation[2], replaced its joint income tax system by an individual-based income tax system in two steps. The country thus followed the example of several European countries, among them Sweden which had introduced individual-based taxation in 1971. This major tax system reform was implemented under the social democratic government led by Federal Chancellor Bruno Kreisky. Kreisky thus used the window of opportunity opening up in 1970 for his one party SPÖ government, as the Christian democratic Austrian People's Party (ÖVP) with which the SPÖ had built a Grand Coalition between 1945 and 1966 would hardly have agreed to this fundamental income tax system change.

Similar to Sweden, individual-based income taxation in Austria replaced a system of joint income taxation.[3] According to the Austrian personal tax law (*Personalsteuergesetz*), which originated in the Austrian Monarchy and after World War I was again decreed in 1921, the incomes of all family members were attributed to the head of household, i.e. to the husband in couple families, who was responsible for the declaration of this income and liable for taxation. Only incomes earned by the wife or other household members from dependent employment in workplaces not owned by the husband were exempted up to a certain upper limit for overall household income and could be declared individually. With the annexation of Austria into the German Third Reich in 1938, this system, which did not foresee joint taxation in the strict sense, was replaced by the German system of joint income taxation. Under this tax regime, which was maintained after World War II, all incomes accruing to both spouses and other family members were added up and subjected to a progressive income tax schedule, hence resulting in a higher overall income tax liability compared to individual taxation.

In 1953, the right of the wife to individually declare income from dependent employment earned in a firm not owned by the husband to tax authorities was deemed unconstitutional by the Constitutional Court because of its gender discriminatory impact. As a consequence, joint taxation without exceptions was fully established in 1960 and extended to any household communities similar to marriages in economic regard.

Already in 1957 a tax allowance for double earner couples was introduced (and raised in 1960 and again in 1964) to mitigate the "marriage penalty" inherent in joint income taxation under a progressive tax schedule. In 1967 differentiated income tax schedules were implemented. The income tax schedule A applied for sole earner

[1] We are indebted to Asa Gunnarsson, Silvia Rocha-Akis and Ulrike Spangenberg for helpful comments and suggestions; and to Andrea Sutrich for careful research assistance.
[2] Together with Belgium, France, Germany, and the Netherlands (Wagschal 2001).
[3] See for the following historical overview in detail Aigner et al. (2012).

couples and included a sole earner tax credit. The overall income of double earner households was subjected to the income tax schedule B, foreseeing a lower degree of progressivity compared to the income tax schedule A.

In 1972 a fundamental reform of the income tax system was enacted, which in a first step replaced most tax allowances by tax credits (inter alia the child tax allowance which had been introduced in 1967), but maintained the differentiated income tax schedules. These were substituted in 1974 by a full-fledged single individual-based income tax system. The sole earner tax credit was increased considerably and was raised subsequently in several steps until 1983, and it was complemented by a child supplement as of 1986.

Within the income tax reform 1988 the sole earner tax credit was increased once more and made partially refundable so that also lower incomes benefited from it. The earnings limit for a secondary earner was raised, and a higher earnings limit for couples with children was introduced. Also child supplements were increased. Another increase of the sole earner tax credit was implemented with the Family Taxation Law 1992, which raised the earnings limit for secondary earners once more. The “Family Package 2000” made the sole earner tax credit completely refundable. The “Family Package” enacted with the income tax reform 2005 re-introduced the child supplements.

The income tax reform 2009-10 included another “Family Package”, consisting of various tax-related measures labelled as “Austrian version of family tax splitting” by the then Minister of Finance. Deductibility of child care costs for children under ten years of age up to a yearly amount of € 2,300 was implemented to help reconcile work and family life. Grants from employers to employees to cover child care costs for children below 10 years were exempted from income taxation and social security contributions up to a yearly amount of € 1,000. Moreover, a child tax allowance was re-introduced, amounting to € 220 per year. By granting an increased amount of € 132 to each spouse if they share the child tax allowance, it aims at supporting female employment and thus a more equal distribution of paid work within couple families. The income tax reform 2015-16 doubled the basic child tax allowance to € 440; the amount granted when both parents use it was increased to € 300 for each parent.

Finally, the first fiscal consolidation package implemented in 2011 in the aftermath of the recent crisis restricted the sole earner tax credit to couples living in households with children. Individuals are eligible for a sole earner tax credit of € 494 for one child and € 669 for two children and to an additional € 220 for all further children. To not completely discourage labour supply by the partner, he/she is allowed to earn up to € 6,000 yearly, above this earnings limit the sole earner tax credit is withdrawn.
To sum up, similar to most other EU and OECD countries having implemented individual-based income tax systems mostly since the beginning of the 1970ies (Gunnarsson 2016; Gunnarsson, Schratzenstaller and Spangenberg 2017), Austria has not completely individualised its income tax system. Meanwhile, however, the income tax system exclusively offers child-related tax provisions to account for the reduced ability to pay of taxpayers with children. In the absence of children, maintenance obligations towards non-employed or only marginally employed spouses are not taken into account for tax purposes any more.

The introduction of an individual-based income tax system in Austria was justified on various grounds. The explanatory memorandum to the bill referred to the sociological change of family structures, calling for the introduction of an individual-based income tax system as the most modern and fair system and explicitly arguing against a family income tax splitting system (Aigner et al. 2012). Another declared objective was to further female employment. Indeed the employment rate of women has been rising in the long term in Austria. At 70.9 percent (2016), it is well above-average in the EU28 (65.3 percent). However, a substantial part of the long-term increase of female employment in Austria has been taking place in the form of part-time employment, often with rather low weekly hours. With a part-time ratio of 47.9 percent (2016) for women, Austria ranks second in the EU, where the average part-time ratio of women amounts to 31.4 percent. It is also remarkable that the female part-time ratio has been increasing considerably over time in Austria: it has risen by 20 percentage points from 27.4 percent in 1995 to its current level of 47.9 percent.

This combination of a high employment ratio with a high part-time ratio and a relatively low number of weekly hours worked by women, resulting in the predominance of a secondary earner model (as a modernised male breadwinner model), is shaped by a whole range of different determinants. These comprise, besides the tax-related factors described above, a variety of other non-tax-related factors: in particular the availability of child care, individual and societal norms, the transfer system, parental leave provisions, rights to work part-time for parents, and reconciliation policies at firm level. With regard to the taxation of labour incomes, the Austrian secondary earner model is supported by several specific features of the Austrian tax system.

While the Austrian income tax system is individual-based and as such tends to promote female employment, the design of the income tax schedule has ambivalent effects[4]. The income tax schedule combines a rather generous basic tax allowance of € 11,000 with a rather high (also in international comparison) basic income tax rate of 25 percent. Exempting up to € 11,000 yearly from income taxes furthers labour market participation of women, while the high basic income tax rate of 25 percent may act as a barrier to expand hours worked and thus taxable income beyond the basic tax allowance.

The Austrian social security system impacts on labour market participation and hours worked by women in a similar fashion. In Austria the social security system is based on a Bismarckian tradition and therefore mainly financed by employers' and employees' contributions on wages. Up to a minor employment threshold (*Geringfügigkeitsgrenze*) of about € 426, monthly gross income wages are contribution-exempt. After exceeding this exemption limit wage incomes are taxable to the full amount. Therefore the transition from minor into regular employment is impeded by a very high marginal tax rate. The design of the negative tax within the wage tax, which compensates for the non-deductibility of social security contributions for incomes below the personal tax allowance by granting a tax refund of up to 50 percent of social security contribution payments (up to an upper limit of € 400 per year), further strengthens incentives for minor employment.

The unequal distribution of paid work between women and men is reinforced by several other tax-related provisions promoting a model with a main breadwinner and minor employment by the secondary earner (Schratzenstaller/Dellinger 2017). The first one is the sole earner tax credit already mentioned. The second one is the income tax exemption of overtime pay for up to 10 overtime hours per month (up to

[4] See for a detailed presentation and discussion Schratzenstaller/Dellinger (2017).

€ 86), which is mainly used by men. The third one is the contribution-free health insurance of non-employed spouses in couples with children.

Overall, as OECD calculations published in their regular "Taxing Wages" publication show, marginal and average tax rates in Austria – comprising income tax as well as social security contributions – are substantial and well above EU and OECD average (Schratzenstaller/Dellinger 2017). This is particularly so in the low and medium income range, where women's decisions on labour market participation as well as on the number of hours worked are particularly responsive to taxation.

2. Policy debate

Currently the individual-based income tax system is not a topical issue in the Austrian political debate about reform needs and options in the field of tax policy. A look into party programmes reveals contrary positions of the four biggest political parties represented in the Austrian Parliament.[5] The Green Party and the Social Democrats clearly support the existing individual-based income tax system. The Freedom Party favours a family splitting model according to the French example. This model in principle is also preferred by the People's Party with the exception of the People's Party's Women Group, which due to potential negative employment incentives of a family splitting system advocates for sticking to the individual-based income tax system. Altogether, there was no strong lobbying for any model of joint income taxation in the last decade.

Negative employment incentives for women and obstacles for a more equal distribution of paid and unpaid work between women and men imminent in the tax system have been subject to academic as well as public debate for quite some time in Austria.[6] This debate was intensified by the introduction of gender budgeting/ gender impact assessment on the federal level as an integral element of performance-oriented budgeting, which was implemented within a major budgetary reform in 2013.[7] Since then all ministries are required to consider gender equality in the planning, implementation and evaluation of budgetary measures. Gender budgeting/ gender impact assessment in Austria is based on two pillars (Schratzenstaller 2014). Within the regular budget cycle, the federal ministries are obliged to formulate at least one gender equality objective and one measure for its implementation, as one out of a maximum of altogether five objectives and respective measures. These are to be included in the budget documents and are legally binding. In addition, the obligatory ex-ante impact assessment of laws, directives and major programmes proposed on the federal level has to explicitly consider the potential effects on effective gender equality.

Accordingly also the Federal Ministry of Finance is obliged to define one gender equality objective and one related measure for its implementation. Since the introduction of gender budgeting/ impact assessment in 2013, the gender equality objective of the Federal Ministry of Finance has been addressing the influence of the tax system on the distribution of paid and unpaid work between men and women. The gender equality objective included in the most recent medium-term budgetary framework, adopted in April 2016 for the period 2017 to 2020, states: "A more equal distribution of paid and unpaid work between women and men is supported by the

[5] See for the following brief presentation of the respective positions of the political parties represented in the Austrian Parliament Dujmovits (2011).
[6] See, e.g., Dearing et al. (2007), Schratzenstaller (2012), Gönenç et al. (2015).
[7] See Gössinger/Schratzenstaller (2013) for the legal provisions of gender budgeting in Austria.

tax system." As in the preceding years, the following measure to realise this gender equality objective is defined: "The reduction of negative employment incentives in the tax system to achieve effective equality of women and men." The more disaggregated yearly budget plans for the years 2014 to 2017 contain various concrete measures to this purpose; essentially aiming at screening the income tax law for gender pay gap-relevant provisions and their elimination, and at reinforcing positive employment incentives.

In the latest income tax reform 2015-16 these objectives and measures were only partially taken into account. A systematic and comprehensive review of the income tax system with respect to gender pay gap-relevant provisions was not undertaken. However, several elements of the recent income tax reform 2015-16 aim at improving the incentives for female employment (Rocha-Akis 2015; Schratzenstaller 2015): the reduction of the basic income tax rate from 36.5 percent to 25 percent; the considerable increase of the negative tax from € 100 to € 400 per year reduce tax barriers to labour market participation, while the increase of the individual amounts granted to parents from € 132 to € 300 each when both use the child allowance provides an (albeit small) incentive for women to extend hours worked (Schratzenstaller/Dellinger 2017).

3. Transferability aspects

As briefly described above, the Austrian income tax system has been individualised to a great extent already. The individualisation of the Austrian income tax system was deepened further in 2011, when the sole earner tax credit was restricted to sole earner couples living in households with children, while sole earner couples living in childless households cannot claim it any more. Thus the sole earner tax credit causes a minor deviation only from a fully individual-based income tax system, as it exists in Sweden.

On the one hand, its rather limited amount should facilitate the complete elimination of the sole earner tax credit. On the other hand, however, the sole earner tax credit is the only remaining provision in the Austrian income tax system compensating for the reduced ability to pay of sole earners with children. While the sole earner tax credit surely adds to the manifold negative incentives for a more equal distribution of paid and unpaid work inherent in the Austrian tax system, it is by far not the most important one in quantitative terms. Therefore the elimination of other tax-related negative incentives for female employment and for a more equal distribution of paid and unpaid work as well as improvements in other policy areas (e.g. child care facilities) present themselves as more pressing.

4. Conclusions and recommendations

To further female employment and a more equal distribution of paid and unpaid work between women and men, as also envisaged by the gender equality objective defined by the Austrian Ministry of Finance, the following measures appear adequate:

- Systematic and comprehensive review of the Austrian tax system to identify and eliminate exemptions that are likely to support an unequal distribution of paid work (e.g. tax exemption for overtime pay, contribution-free health insurance).

- Reduction of the overall tax burden for low incomes particularly by decreasing social security contributions and the basic income tax rate.
- Embedding tax-related measures in a comprehensive policy mix including
  - further improvement of both the quality and quantity of child care, especially with regard to child care facilities for children under 3 years of age and to day care for younger school children;
  - introduction of legal entitlement to child care for children over 1 year;
  - further reforms of parental leave provisions, particularly an increase of fathers' quotas and a reduction of the duration of parental leave entitlements.

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