



# The EU Mutual Learning Programme in Gender Equality

The impact of various  
tax systems on  
gender equality  
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Comments Paper - Spain



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# The impact of the tax system on gender equality in Spain

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## 1. Relevant country context

### 1.1. Personal Income tax in Spain

Under Personal Income Tax in Spain it is the natural person who is taxed, although there are two ways of completing the relevant tax return: individually or jointly, with the latter being voluntary<sup>1</sup>.

The joint declaration is envisaged for families comprising legal marriages – not for unmarried partners – and for single parent families with dependent children. The joint income tax return involves the accumulation of the incomes of all members of the family unit and offers small tax advantages for the second taxpayer and in the case of large families<sup>2</sup>. The same progressive rate scale is applied to the accumulated income of the family unit as with individual returns.

The joint return option is only taken up by family units where only one member is a wage earner or where one of the members earns a very low salary – which in both cases tend to be women – since the rate is the same.

This means that the Income Tax Return in Spain tends to support the family model of the male wage earner and female dependent since the tax encourages the male to be the provider of the greater part of the family income and the female to take care of looking after the home. This situation has worsened in Spain since 2007. Nevertheless, we do appreciate a decline in joint tax returns in 2014 compared to the height of the crisis in 2011.

### 1.2. The impact of the tax system on the employment rate of women in Spain

According to the statistics<sup>3</sup>, **labour participation** of women in Spain in 2015 with respect to the EU is lower than in the two countries whose tax systems are purely individual with no family-based elements, as is indicated in the discussion paper. The female participation for Spain in 2015 was 53.10%, versus 55.60% for Finland and 61.30% in Sweden.

<sup>1</sup> The Spanish Income Law Tax 18/1991 introduced this double option in which the joint option is voluntary. It remains in force today. The change in the law resulted a the Sentence of the Constitutional Court of 20 February 1989, which held that it was unconstitutional that the family unit were the taxable unit in the case of marriage and hence, the obligation to return a family tax declaration was not constitutional (Villota & Ferrari, 2004; Gómez de la Torre del Arco, López López, 2013).

<sup>2</sup> Marriages and single parent families with three or more dependent offspring, Act 40/2003, of 18 November.

<sup>3</sup> [http://www.inwoman.gob.es/WomanCifras/IndicadoresUE\\_NNUU/IndicadoresUEyNNUU.htm](http://www.inwoman.gob.es/WomanCifras/IndicadoresUE_NNUU/IndicadoresUEyNNUU.htm)

In terms of **levels of female employment**<sup>4</sup>, and comparing again with the two abovementioned countries, the figure is 40.60% for Spain versus 50.70% for Finland and 56.60% for Sweden.

### **1.3. The impact of Personal Income Tax on the working hours of women and men in Spain**

The configuration of Personal Income Tax and the optional nature of the joint tax return mean that it is not easy to establish the impact of Personal Income Tax on the working hours of women and men.

Nevertheless, if we look at how women and men in Spain use their time<sup>5</sup>. The time devoted to paid labour according to type of activity<sup>6</sup> by Spanish Women devote 1h 52 min to the main job and men 1h 59 min. It is interesting to compare these data with those of the time devoted to the home and the family according to type of activity and by women and men<sup>7</sup>.

Thus, women in Spain devote 4h 7' to domestic chores and care as compared to men, who devote 1h 54' (2009-2010).

### **1.4. The gender disaggregated data on women and men's individual incomes in Spain**

The Inland Revenue Office has collected gender disaggregated data on Personal Income Tax since 2004<sup>8</sup>. The last year gender disaggregated data were collected was 2014<sup>9</sup>.

While some Personal Income Tax data can be collected, the disaggregation of the information is generic in order to carry out in-depth studies.

## **2. Policy debate – Spanish Personal Income Tax from a gender perspective**

The analysis of Spanish Personal Income Tax leads to the conclusion that there are important gender biases, which are at the centre of today's debate, and which we deal with below.

<sup>4</sup> [http://www.inwoman.gob.es/WomanCifras/IndicadoresUE\\_NNUU/IndicadoresUEyNNUU.htm](http://www.inwoman.gob.es/WomanCifras/IndicadoresUE_NNUU/IndicadoresUEyNNUU.htm)

<sup>5</sup> [http://www.ine.es/dyngs/INEbase/es/operacion.htm?c=Estadistica\\_C&cid=1254736176815&menu=resultados&idp=1254735976608](http://www.ine.es/dyngs/INEbase/es/operacion.htm?c=Estadistica_C&cid=1254736176815&menu=resultados&idp=1254735976608)

<sup>6</sup> [http://www.ine.es/dyngs/INEbase/es/operacion.htm?c=Estadistica\\_C&cid=1254736176815&menu=resultados&idp=1254735976608](http://www.ine.es/dyngs/INEbase/es/operacion.htm?c=Estadistica_C&cid=1254736176815&menu=resultados&idp=1254735976608)

<sup>7</sup> [http://www.ine.es/dyngs/INEbase/es/operacion.htm?c=Estadistica\\_C&cid=1254736176815&menu=resultados&idp=1254735976608](http://www.ine.es/dyngs/INEbase/es/operacion.htm?c=Estadistica_C&cid=1254736176815&menu=resultados&idp=1254735976608)

<sup>8</sup> [http://www.agenciatributaria.es/AEAT.internet/datosabiertos/catalogo/hacienda/Estadistica\\_de\\_los\\_declarantes\\_del\\_IRPF.shtml](http://www.agenciatributaria.es/AEAT.internet/datosabiertos/catalogo/hacienda/Estadistica_de_los_declarantes_del_IRPF.shtml)

<sup>9</sup> [http://www.agenciatributaria.es/AEAT/Contenidos\\_Comunes/La\\_Agencia\\_Tributaria/Estadisticas/Publicaciones/sites/irpf/2014/home\\_parcialf36abf2b318550a15a62c7155c59bc246e8633af5.html](http://www.agenciatributaria.es/AEAT/Contenidos_Comunes/La_Agencia_Tributaria/Estadisticas/Publicaciones/sites/irpf/2014/home_parcialf36abf2b318550a15a62c7155c59bc246e8633af5.html)

## 2.1. Joint taxation

Joint taxation is a trap for inequality. It is a tool for tax planning which brings into play the second declarers in the labour market, of which 85.60% are women.

State of Returns	Total			Individual			Single parent familial			Married family		
	Total	Sex (*)		Total	Sex (*)		Total	Sex (*)		Total	Sex (*)	
		Male	Female		Male	Female		Mañe	Female		Male	Female
Number of returns	19.359.020	10.861.981	8.497.039	15.310.050	7.703.902	7.606.148	500.273	120.716	379.557	3.548.697	3.037.363	511.334
Total number of children declared	11.926.453	6.660.084	5.266.369	8.162.859	3.993.409	4.169.450	730.090	174.487	555.603	3.033.504	2.492.188	541.316
Number of returns including children	7.487.662	4.120.511	3.367.151	5.213.185	2.546.030	2.667.155	500.273	120.716	379.557	1.774.204	1.453.765	320.439
Mean number of children per return	1,59	1,62	1,56	1,57	1,57	1,56	1,46	1,45	1,46	1,71	1,71	1,69
Number of declarers	22.907.717	13.899.344	9.008.373	15.310.050	7.703.902	7.606.148	500.273	120.716	379.557	7.097.394	6.074.726	1.022.668
Mean work yield	18.873	21.288	15.772	18.455	21.201	15.711	18.508	20.893	17.751	20.678	21.515	15.138
Mean capital gains on investments	1.295	1.348	1.231	1.336	1.409	1.267	736	802	717	1.185	1.215	996
Mean yields from real estate not linked to business activities	1.403	1.280	1.564	1.506	1.400	1.606	1.046	1.056	1.044	1.097	1.069	1.275
Mean yield generated by economic activities	7.688	8.417	6.345	8.262	8.955	7.176	9.020	10.033	8.580	6.333	7.411	3.038
Net mean balance on yields and imputed income	18.760	21.136	15.686	18.335	20.947	15.678	18.225	20.530	17.478	20.602	21.625	14.502
Mean of personal minimum (1)	5.501	5.540	5.450	5.419	5.373	5.466	5.177	5.182	5.176	5.897	5.977	5.422
Mean of minimum per descendant	2.461	2.603	2.287	1.951	1.888	2.011	2.765	2.368	2.891	3.875	3.876	3.873
Mean of personal and family minima	6.894	7.014	6.740	6.384	6.279	6.490	8.327	7.912	8.459	8.892	8.843	9.187
Meand reduction on the General Taxable Base	2.829	3.112	2.159	1.892	2.130	1.597	2.270	2.371	2.245	3.542	3.569	3.373
Mean deduction on habitual residence	685	690	679	666	665	666	693	660	705	784	773	842
Mean payment into pension scheme	1.769	1.900	1.579	1.793	1.937	1.623	1.275	1.483	1.209	1.728	1.811	1.237

The reason lies in the so called tax discrimination index toward the second annuitant (De Villota & Ferrari, 2004; 2016), which means that married women in Spain have to bear higher effective tax rates due to their earnings being added on to those of their spouse<sup>10</sup>. Given the huge elasticity of the women's labour supply in Spain, these tax rates serve to discourage their possible incorporation into the labour market (Medialdea & Pazos, 2011), and this is higher the higher the spouse's salary and the lower the woman's earnings, as occurs with part time contracts, which is a frequent occurrence when women seek to return to the world of work after a period out.

These high tax rates are the result of the interaction between two phenomena: the accumulation of incomes and the progressive rate. When there is just a single annuitant, the joint tax return is the most beneficial since it allows for the application of a family minimum exempt amount and for small benefits with no negative counterpart. When both spouses have similar earnings and they opt for joint tax return, they continue to benefit from family minimum exempt amount but their earnings accumulate. Because of the tax's progressiveness, the outstanding amount will be subject to higher rates than if they had made individual returns. So it can be considered that a woman's salary is treated as if it were an increase on the husband's salary (Medialdea & Pazos, 2011).

Individual tax return will be of greater benefit when the income of the second taxpayer is sufficiently high as to compensate the loss of the family minimum exempt amount.

<sup>10</sup> Current Personal Income Tax brackets are 19%, 24%, 30% 37 and 45%.

## 2.2. The possibility of applying allowances in the taxable base for payments into private pension schemes under the name of a dependent wife in the joint declaration

Husbands will be able to deduct from the taxable base monies paid into private pension schemes in their own name and that of their spouse, with a joint cap of € 8.000 for each taxable period<sup>11</sup>.

The aim of these pension allowances in the taxable base of the husband's return is to generate a private pension scheme for married women as a means of saving for their retirement. This deduction is another tax planning tool and an added incentive for women to stay at home and take care of the house and dependent persons, since it could be seen or take as a substitute for the state retirement pension they would have received if they had been employed on the labour market.

Together with the above it is important to underline that it is a deduction of the taxable base and hence affects marginal income tax rates and, given the nature of this measure, only women whose husbands are high earners will benefit. Nevertheless, the data disaggregated by gender do not allow us to quantify the beneficiaries<sup>12</sup>.

## 2.3. Tax treatment of single parent families, of which the heads in Spain (2016) are 80.92% women<sup>13</sup>

The first Spanish Personal Income Tax Law 44/78 made no distinction between different types of family. Law 40/1998 incorporated the discriminatory treatment of single parent families against two-parent families, which still holds today.

Under the current Personal Income Tax system, two-parent families have the right to a reduction of a family minimum of € 3400 on the taxable base, while single parent families have the right to a reduction of € 2150 for the same concept.

The argument behind this is that two-parent families comprise two progenitors and that the minimum must cover the basic needs of both spouses (Alarcón-García, 2015). In contrast, single parent families are made up of just one adult, whose basic needs are therefore inferior. The reality in Spain is that the joint return, and therefore the application of the family exempt minimum, is only made by two-parent families where there is only one breadwinner, or by those where the second earner has a very low income. This assumes that one of the spouses, the one not employed, attends to the family care and household needs and duties, which implies that these do not have to be contracted to a third party and paid for. In contrast, in single parent families, and since, as has been stated, a high percentage are working women, household work is either contracted out (at a high economic cost) or are carried out by the women themselves, which supposes a high personal cost in health terms.

<sup>11</sup> Art. 51, Personal Income Tax Law 35/06.

<sup>12</sup> A.4. contributions to national insurance: number of beneficiaries: 2,748,850; Cost (millions of euro) 783.24, which is equivalent to 10.1% of the total number of tax beneficiaries under the State Budget for 2017, Source [http://www.sepg.pap.minhfp.gob.es/Presup/PGE2017Proyecto/MaestroTomos/PGE-ROM/doc/L\\_17\\_A\\_A2.PDF](http://www.sepg.pap.minhfp.gob.es/Presup/PGE2017Proyecto/MaestroTomos/PGE-ROM/doc/L_17_A_A2.PDF)

<sup>13</sup> <http://www.inwoman.gob.es/WomanCifras/FamiliaHogares/FamiliasMonoparentales.htm>

Added to all the above, the last reform of the Personal Income Tax law, Law 26/2014, envisages three new deductions on the rate which are applicable solely to large families or when families have a dependent disabled person. Hence, these deductions cannot be applied to single parent families that are not large<sup>14</sup>.

This lower exemption for minimum family living wage generates gender inequality.

## 2.4. The tax cost of joint returns

The tax cost of joint returns stood at € 1.151 mill<sup>15</sup> in 2017, and this does not include the part corresponding to the Autonomous Communities, which represents 14.80% of the total tax benefits envisaged for the State Budget 2017. Thus, the tax cost generated by the joint return is not justified and should be employed in other expenses or investments that foster the incorporation of women in the labour market and gender equality, such as establishing equal non-transferable leaves for births and adoptions for both parents, universalisation of nursery education from 0 to 3 years and of the services and centres of attention for dependent adults and dysfunctional persons.

## 2.5. Reductions on the taxable base for ascendants and ascendants with disabilities living with the taxpayer

Article 59 of Personal Income Tax Law 35/2006, establishes a minimum living for ascendants who live with the taxpayer<sup>16</sup> and whose annual income does not exceed € 8000. The reduction is € 1.150 and € 1.400 for those over 75.

In addition to the above, when the ascendant is disabled a further reduction<sup>17</sup> is applicable, of € 3000 or € 9000 when disability exceeds 65%. This can be increased by € 3000 to cover costs of attendance.

Besides these two possible reductions, a deduction of € 1200 is established for each ascendant with disability<sup>18</sup> with the right to apply the minimum for ascendants.

These tax measures are an invitation and a conditioning factor for ascendants to be looked after by the family and to be cared for by women.

## 2.6. Deductions in the amounts paid in relation to families and care in the Autonomous Communities

Act 3/2009 opened up the possibility for the Autonomous Communities to establish regional deductions and allowances in Personal Income Tax. This has led to each

<sup>14</sup> Single parent large families with 3 or more children.

<sup>15</sup> In 2011 these benefits were quantified as € 1610 million, so there is a decrease in the joint return that could be interpreted as an increase presence of women in the labor market, together with a lower percentage of women as second annuitants in joint returns.

<sup>16</sup> Art. 59,1, paragraph.2, Law 35/2006 states that "Among other issues it will be considered that taxpayers' dependent ascendants with disabilities living with the taxpayer may be committed to a specialized center."

<sup>17</sup> Artículo 60, 2 Ley 35/2006, IRPF.

<sup>18</sup> 81 bis Ley 35/2006, IRPF.

Autonomous Community incorporating its own deductions, and even when they are, the amounts and conditions for the right to use these have differed.

Noteworthy are the Autonomous Community deductions for Personal Income Tax regarding family taxation and care related tasks. In many cases, these are only envisaged for joint returns, so heightening gender inequalities in this type of return.

### 3. Transferability aspects

The data shown point to the disappearance of the joint tax return, as is the case outlined in the discussion paper, and would spell the end of Personal Income Tax as a tool that sustains gender inequalities and the lower presence of women in the Spanish labour market, and hence in posts and with salaries that correspond to their qualifications.

### 4. Conclusions and recommendations

The main conclusion to be drawn is the need to individualize tax returns, since the continued existence of the joint tax return, which is characterised as a progressive tax, along with the fact that it is voluntary in Spain, hinders a clear and direct perception of its gender impacts and its repercussions for the incorporation of women into the job market.

The recommendation is to foster commitment by the Member States to establish the individual tax return as the sole option when making Personal Income Tax declarations in all EU countries, and at the same time encourage and drive research into the gender impact of all Member States tax systems.

However, for Spanish women to be fully incorporated into paid work, the suppression of the joint tax return needs to be accompanied by universal education from 0 to 3 years, infrastructure and services to attend to dependency – elderly and dependent people – and the establishment of equal, non-transferable, fully paid maternal and parental leaves.

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