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The impact of tax systems on gender equality in Malta

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1. Introduction

1.1. Malta: Background and policy context

Malta's income tax system provides for the individual basis for single persons, including those who cohabitate, and the family based system for married couples (later amended to also include couples living together in a civil union). This means that the ceiling at which tax starts to be charged differs between the two systems, with a higher ceiling applied to couples thereby resulting in a higher amount of disposable income. This system, especially in the past years when the number of women in the labour force was much lower than today, recognised the fact that a married man needs higher disposable income to support a wife who was not directly contributing towards the family income. In fact, the husband, in his role as breadwinner and income provider, was considered to be the main tax payer.

It was only in 1994 that the law was amended and the concept of 'spouse' was introduced in Malta's tax legislation. This amendment gave cognisance to the increasing number of women who were opting to join the labour market, thereby directly contributing towards the family income.

It is nevertheless important to note that this change, while recognising the fact that the traditional model of one main male earner was changing, the tax computation remained, and is still applicable today to a 'union', be it marriage or a civil union. This is an important observation as it means that the concept of family-based tax system is still present in Malta and a couple living together, either as husband and wife or in a civil union, are, for tax purposes, treated as one unit and required to submit only one return and not two individual tax returns.

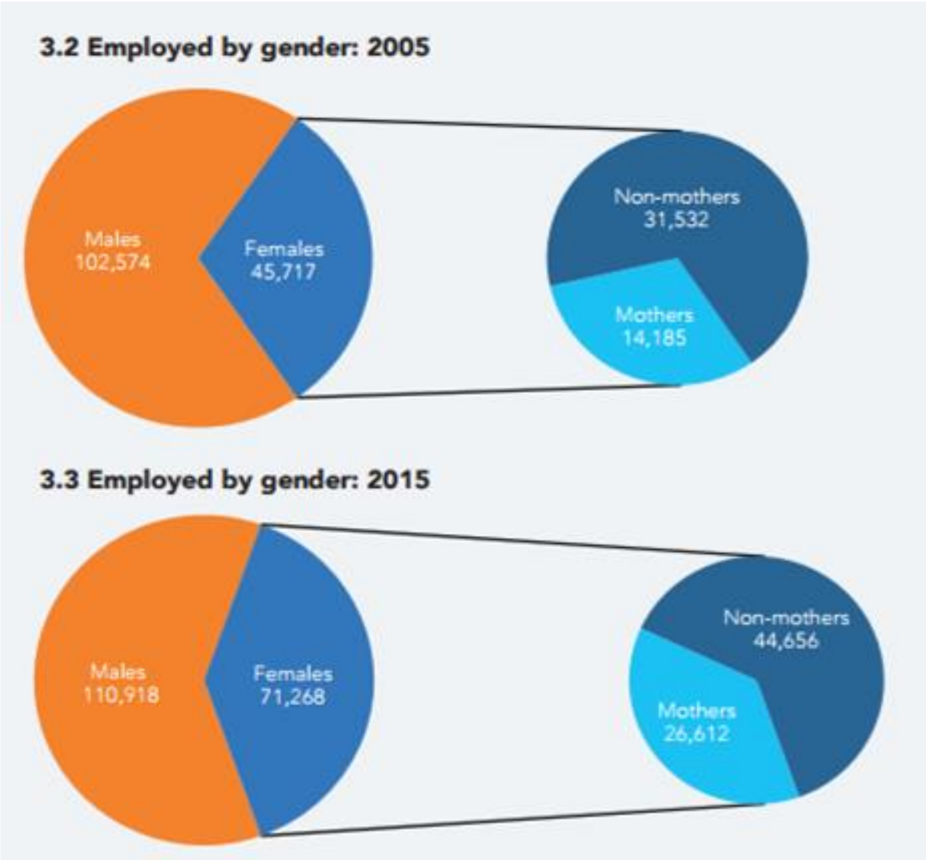
1.2. Female participation in the labour force

Malta's income tax system recognised the husband as the principle income earner and considered him to be the main tax payer. This reflected the fact that the majority of women, especially once they were married and had children, left the work force and stayed at home to bring up their children. Up to the 1960s, some employers, notably the teaching and the nursing professions, required women to resign when they married. Up to the late 1970s a number of companies encouraged women to resign when they married by offering them 'marriage grants'. This would have made it financially enticing for a woman to give up her job when she married, something society at that time would have expected her to do anyway once she had her first child.

The introduction of family friendly measures, including tax incentives, saw an increase in female participation in the labour force. World Bank population estimates show that the percentage of women in the labour force increased from 27% in 1990 to 38% in 2016.[1]

While the increase in the participation of women in the labour market was on the low side in the late 1990s and early 2000s, the rate of growth has picked up in the more recent years. The National Statistics Office publication in 2016 on trends in Malta shows that the number of women in employment increased by more than 50% between 2005 and 2015[2].

In 2005 a typical female worker was in her late twenties or early thirties, with a secondary level of education and performed clerical work. Eleven years later, females had a tertiary education level and were engaged in professional occupations. A change in the employment rates for different economic sectors can also be observed during the last decade. The service industry has picked up momentum in terms of the number of persons employed and over the past decade the employment rate in this sector increased by 13.8%. The National Statistics Office attributes most of this increase to the growth in female participation in the labour market. Tax incentives, such as the separate computation for couples, would have had a positive impact in encouraging women to work.



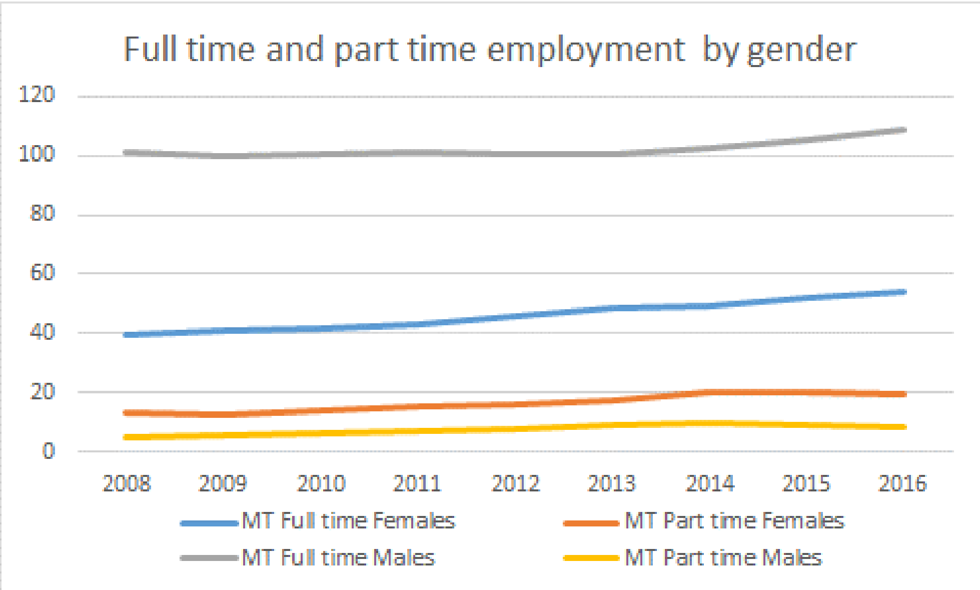
Besides noting the increase in female participation in the labour market, it is also interesting to observe working mothers. In 2005, just over 30% of the females in employment were mothers, compared to 37% in 2015.

1 http://data.worldbank.org/indicator/SL.TLF.TOTL.FE.ZS
2 https://nso.gov.mt/en/publicatons/Publications_by_Unit/Documents/D2_Dissemination_Unit/Trends%20in% 20Malta%202016.pdf

The latest update published by the National Statistics Office show that at December 2016 female employment rate stood at 52.9%.[3]

1.3. Working hours and tax on part time employment

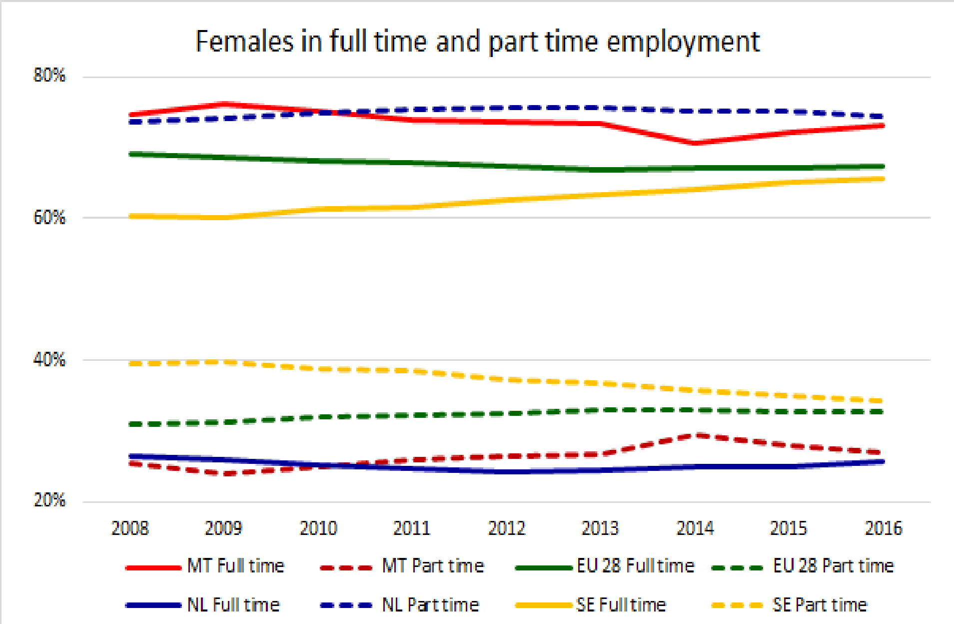
More than one quarter of the women in employment across the EU opt for reduced hours and in 2016 female labour force employed on part time basis amounted to 27%[4]. On the other hand, it is only 7% of men in employment in EU member states who work part time. The higher number of women opting for reduced hours is not totally unexpected especially under a traditional and conservative view where the male is considered to be the principle earner. This may be linked to the role that females are expected to carry out as home makers, carers and mothers.



Malta tax provides for reduced rates on part time employment. While technically this applies to either spouse, it is mostly directed towards women, since as shown above, a substantially higher percentage of women work part time when compared to men. This tax incentive, introduced in the 1990s, enabled women to be able to return to employment and the 'married rates' could be retained for the couple. This means that if the wife chooses to work on a part time basis, her employment income is taxed at the fixed part time rate (currently at 15%) while the husband continues to be taxed at more favourable 'married' rates. This is considered to be an important factor in incentivising women to be part of the work force, even on a part time basis.

An analysis of the working time of women in the EU shows that, on average, one third of the women in employment are on part time employment[5]. This is not the same for all member states and, for example, in the Netherlands the majority of the female labour force works on part time basis. This contrasts with the EU average, Malta and Sweden, as shown by the dotted lines in the following chart.

[3] https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_C2/Labour_Market_Statistics/Documents/2017/ News2017_052.pdf
[4] http://ec.europa.eu/eurostat/statistics-explained/index.php/Gender_statistics#Publications
[5] http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do



1.4. Tax computation

Malta's tax system provides for single rates, married rates and parent rates. The main difference is that under the married rates, chargeable income starts to be taxed at €12,700 which is €3,600 more than the €9,100 threshold under the single rates[6]. Income above the set thresholds, is taxed at progressive rates, the highest income bracket being taxed at 35%.

The couple may choose who of the two shall be nominated as the 'responsible spouse' by filling the appropriate form which is available from the department's Taxpayer Service. If taxpayers do not fill in this form, the Inland Revenue department normally assigns the husband as the responsible spouse, again on the basis that in the majority of cases the husband is the higher income earner and in view of the higher percentage of men in employment. One may argue that the system penalises women since they are not being recognised as the 'responsible spouse' unless they specifically apply for this. It is pertinent to note that for a couple, married or in a civil union, the two individuals are treated as one tax payer, irrespective of the amount of income they earn separately as individuals.

The couple's income is declared in a joint return, which is to be signed by both spouses. However a return signed only by the responsible spouse is considered as having been duly signed. It is important to note that for the purpose of this self-assessment the definition of Married Couple includes couples in a Civil Union. In a joint return the emolument and business income of each spouse is shown separately. The income and relative deductions of a dependent child (i.e. a child who is not required to fill in an income tax return in his own right) are included with the income of the responsible spouse.

Spouses living together as a married couple or in a civil union may apply for separate tax computation under the joint return. This is more advantageous if both spouses are employed on a full time basis and earning above the minimum wage.

6 https://ird.gov.mt/downloads/individuals/tax-return-help_2016_en.pdf, pg 40.

Under the separate tax computation, the individual rates are applied to each spouse enabling them to benefit from a higher deduction of income subject to tax. However the 'separate tax computation' may not be applied to all sources of income, but only to income from employment, trade or pension which is received in view of past employment. All other income is chargeable in the hands of the spouse with the higher emolument and business income employment[7]. This means that if spouse A has the lower income from employment and also receives other income which does not arise from trade, employment or pension, this other income is added to the income of the higher earner and the tax charged shall be computed accordingly.

Directors' fees are chargeable in the hands of the responsible spouse whether these are earned by the responsible spouse or by the other spouse. The fact that a couple opts for a separate computation does not mean that two tax returns have to be submitted. Nor does it mean that two tax statements will be issued. The tax statement will be issued in the name of the responsible spouse, but responsibility regarding the payment of tax lies with both spouses jointly and severally.

Parent tax bands, which came into effect on 1st January 2012, as a family friendly measure as they increase the disposal income. These tax bands apply to parents whom maintained under their custody a child, or paid maintenance in respect of their child as determined by:

a) the Courts of Malta or the Courts of another country;

b) a public deed of personal separation under the authority of the Courts of Malta or the Courts of another country, or

c) the Courts of Malta in a divorce judgment or a decree or by the Courts or other authorities of another country.

The Parent Tax Rates, where chargeable income currently starts from €10,500, apply only where such child was not over 18 years of age (or not over 23 years if receiving full-time instruction at a tertiary education establishment) and not gainfully occupied, or if gainfully occupied did not earn income in excess of €2,400.

If one of the spouses works part time, opting for the joint rather than the separate computation may be more advantageous. Under this system the part time income is taxed at the fixed rate (currently at 15%) while the other spouse in full time employment continues to benefit from the more favourable married rates.

1.5. Tax incentives for women returning to employment

Among the various incentives to attract women to the labour force[8], there are also a number of tax related measures. In early 2005, three different schemes were introduced to incentivise women returning to employment (including those in self employment). Those who could benefit from this tax credit are:

a) Women who have children under 16 years of age and who have returned to work after the 1st of January 2014 after being absent from work for 5 years or more; or

[7] Article 50 (1) Income Tax Act; Cap 123 of the Laws of Malta
[8] https://ird.gov.mt/downloads/individuals/tax-return-help_2014_en.pdf

b) Women who had children after 1st January 2007 and continued or had returned back to work in their employment on or after this date.

Those qualifying for either of the above conditions could choose one of the following tax credits:

1. Maximum of €2,000 tax credit If this amount of tax credit is not taken in a single year, the balance may be carried forward to the following year; or

2. Tax credit equivalent to the tax charged on your employment. If the tax due on employment is more than €2,000, the whole amount of tax would be covered by this tax credit. If the qualifying income is derived from self employment, the maximum amount of tax credit is €5,000. If the tax credit is not availed of in one year the remaining balance cannot be carried forward to next year.

If option 2 is taken, a married couple must calculate their tax by using the separate or the parent computation rates. Moreover, women who returned to employment during 2014 after an absence of at least 5 years from any gainful occupation and had previously been in employment for at least 24 consecutive months may benefit from a tax credit of up to €2,000.

Free childcare[9] is now available to all working mothers for children aged 3 months to 3 years. However, even before the introduction of this incentive, tax legislation provided for deductions related to child care fees[10]. Such tax deductions are applicable for childcare fees incurred in respect children up to the age of 12 years who attend a registered childcare centre. Deductions from income are allowed in respect of each child, up to a maximum of €2,000.[11]

2. Policy debate

2.1. Encouraging women to work

The participation of women in the work force has been steadily increasing. This is the result of a number of factors ranging from an increase in the standard of living, higher levels of education being attained by women, increase in property prices as well as a change in mentality, especially among the younger generation, regarding the dual role of earner/carer in a family unit.

A recent incentive which encouraged women to return to the work force was the introduction of free childcare in 2014[12] and 50% of the families with children aged 0-3 years make use of this facility. The female labour force participation rate for women aged between 25 and 39 years is above 80 per cent[13].

The percentage of children in Free Childcare Scheme amounted to 78% per cent of the total number of children attending childcare[14]. The scheme is most popular with

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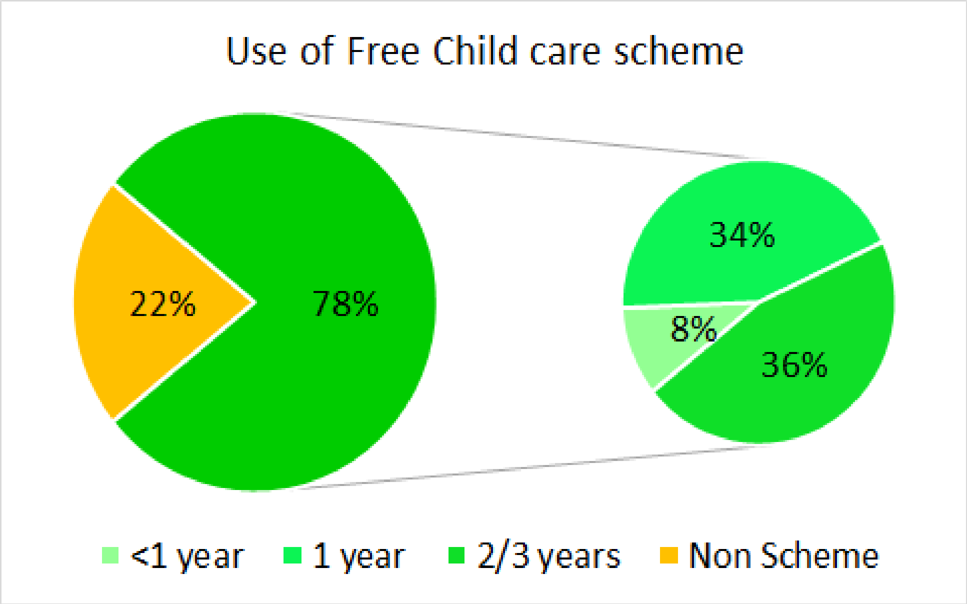
9 https://education.gov.mt/en/Documents/Childcare-Leaflet-2015-EN.pdf
10 Subsidiary Legislation [S.L.123.121] Deduction (CHILDCARE FEES) RULES 1st January, 2010 LEGAL NOTICE 466 of 2010
11 Income Tax Act section 14C; Cap 123 of the Laws of Malta
12 https://gov.mt/en/Government/Press%20Releases/Pages/2014/February/19/pr140284.aspx
13 http://www.independent.com.mt/articles/2017-03-16/local-news/More-than-80-of-women-aged-25-39-actively-participate-in-labour-force-Minister-Cardona-6736171698
14 https://nso.gov.mt/en/News_Releases/View_by_Unit/Unit_02/Regional_and_Geospatial_Statistics/Documents/2016/News2016_150.pdf

children aged 1 - 2 years. Only a handful of children aged 3 make use of the scheme and this is due to the fact that state kindergarten, church and independent schools take in children of this age.



Various incentives, included tax related, have been introduced, especially over the past few years. The introduction of the separate computation reduced substantially the financial disincentive for married women to work. The availability of part time rates provides an added flexibility without having a negative impact on the family's disposable income.

2.2. Incentives for employers

Incentives introduced in 2011 focused on employers facilitating the return of mothers to employment by providing child care facilities for such employees.
If an employer incurs expenditure to provide childcare services for the children of his employees, that employer is entitled to a tax deduction equivalent to the expense up to a maximum of €20,000[15]. Where the deduction cannot be fully set off against the income in the year of entitlement, it may be carried forward to subsequent years.
To qualify for this deduction, which is to be included in the Profit and Loss account, the expenditure must be of a capital nature and consist of:

a) the construction or conversion of a childcare facility

b) the acquisition of childcare equipment for use in a childcare facility at the workplace.

[15] Subsidiary Legislation [S.L.123.118] Deduction (CHILDCARE FACILITIESAT THE WORKPLACE) RULES 1st January, 2011 LEGAL NOTICE 430 of 2010.

3. Transferability aspects

3.1. Adopting the individual tax system

While the benefits of an individual tax system cannot be disputed, adopting this system in full would require a change to the setup of the local tax authorities since a couple, currently treated as one taxable unit, would have to be set up separately in the system to be treated separately. The impact of this change would have to be assessed in terms of the loss of tax revenue, the cost to maintain a higher number of tax payers and the economic added value if more women are incentivised to work or increase their working hours.

The current system adopted in Malta, whereby couples can opt to be taxed separately on their employment, trade or pension income but in one joint computation is seen to disadvantage couples only in respect of their other non-core income. It is pertinent to note that in Malta interest income on bank deposits and listed securities is subject to a 15% Final Withholding Tax (at the option of the investor). This implies that changing the current family based system to one based fully on the individual may not have the desired material increase in disposable income to entice longer working hours.

4. Conclusions and recommendations

4.1. Overcoming challenges

Malta is currently facing economic growth and has the challenge to ensure that the local workforce has the skills needed for the job opportunities, which are becoming increasingly specialised. While the various incentives introduced over a number of years are yielding results and the number of women working is increasing there is still much more that needs to be addressed in order to try to meet the EU target of 75% employment for all men and women by 2020. The main challenge to reach this target is mainly related to the decreasing female employment rate from 35 years onwards, as well as the low employment rate of the older female workers.

While tax related incentives may be augmented in order to attract more women to work and to work for longer hours, focusing simply on tax incentives may not be sufficient. Other factors, such as school hours, school holidays, extra curriculum activities and caring for elderly parents to mention a few, which may be seen as barriers for a woman to work or to work longer hours. Introducing tax incentives to deal with these obstacles combined with other family friendly measures in the various areas would help attain the above target.

4.2. Concluding remark

Malta has experienced a change in the patterns of socio-economic behaviour. This is evidenced by the increasing number of women in the work force, the higher levels of women graduates as well as more women occupying a larger number of professional roles. Various organisations are focused on addressed gender equality, including the participation of women at board room levels. Tax related supported by other incentives have aided and should continue to support this transformation.