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The gender impact of the tax system in Ireland

Micheál L. Collins
School of Social Policy, Social Work and Social Justice,
University College Dublin

This report examines the gender impact of the taxation system in Ireland. Specifically, it is focused on examining the impact of the taxation of income. The paper first describes the Irish income taxation system and considers its impact on gender equality. Section 2 reviews the policy debate by highlighting a number of current issues and examining recent and forthcoming developments that are likely to impact on gender equality. Section 3 considers the transferability of Sweden's experience of moving from family-based to individual-based taxation, before Section 4 sets out some recommendations for national policy in this area.

1. Country context

1.1. The Irish income taxation system

In European terms Ireland is a low-taxation state, collecting a lower proportion of national income in overall taxation than is the case for most EU economies. Within this context, income taxes are the main source of state revenue and play important direct and indirect roles in a number of social policy areas including gender equality.

Currently, individuals contribute income related taxation revenue to the state by means of three distinct taxation payments:

(i) income tax,

(ii) the Universal Social Charge (USC); and

(iii) Pay Related Social Insurance (PRSI).

Each of these collection mechanisms comes with its own tax base – each with different inclusions and exclusions of income sources. In recent years, driven by incremental policy reforms, the latter two bases have become much closer and are more comprehensive than the income tax base which continues to accommodate a myriad of credits, allowances, exemptions and tax expenditures (Revenue Commissioners, 2017 and Commission on Taxation, 2009). Inevitably, the resulting tax system is challenging for most income earners to understand (Collins, 2016).

The outcome of this system is a progressive income taxation system; progressive both among income earners (OECD, 2016) and across the income distribution (Collins, 2014). This progressivity is principally driven by exemptions to income taxation among low earners and a consequent pronounced increase in income taxation rates (marginal and effective) as income increase beyond these levels.

1.2. Family and individual approaches

For the purposes of income tax (item i above) the Irish system is predominantly family-based. Income taxes are levied from the first euro earned and are taxed at two rates (currently 20 % and 40 %). Income taxation liabilities can be offset by the combine value of various tax credits which are available for individuals, couples (valued at twice the individual amount), employees on the pay-as-you-earn (PAYE) tax system and individuals with non-PAYE earned income.

While single individuals are assessed individually, couples (either married or in a civil partnership) can choose between being assessed as individuals or 'jointly assessed' as a couple. The latter is automatically given to couples by the tax office (Revenue Commissioners) when they are advised of a marriage or civil partnership and is usually the most favourable basis of assessment for such households. However, individuals within a couple may elect to be assessed individually.

Under joint assessment most income tax credits are combined and can be allocated among a couple to suit their own circumstances. Jointly assessed couples may also avail of a higher entry point (up to twice the individual level) to the higher income tax rate.

Where only one spouse/civil partner has taxable income, all tax credits and the higher entry point to the top income tax rate is allocated to the spouse/civil partner with the income. Where both members of a couple have taxable income, they may decide who is the 'assessable spouse' or 'nominated civil partner' and this person is the contact point for the taxation authorities. In the absence of a nomination the persons with the highest income in the latest year is considered the assessable spouse.

However, while these features reflect the traditional characteristics of a family-based taxation system there are some simultaneous features which reflect the structures of individualised systems. Within the income tax structure there are some tax credits and allowances which are not transferrable (PAYE tax credit, earned income tax credit, flat-rate allowance for employment expenses and the ability to avail of the full-value of the standard rate cut-off). Furthermore, the two other bases upon which income is taxed are assessed individually. The USC is levied at increasing rates on all income once individual income surpasses 13,000 EUR (2017 tax year). PRSI is collected once income exceeds 352 EUR per week and is levied at a rate of 4 % on all income.[1]

Table 1 summarises the Irish system of income related taxes and their family/individual approaches. As income taxation is the largest of these tax sources, for the state and for most individuals and couples, it is the dominant influence on the shape of Ireland's taxation approach.

[1] A tapered PRSI credit is available for workers earning between 352 EUR and 424 EUR per week. This is structured to decrease any disincentive effects associated with marginal changes in income within this income range (around the full-time value of the statutory minimum wage).

Table 1: Summary of Ireland's system of Income Related Taxes

Taxation Charge / Tax Base	Categorisation
Income Tax	mainly family-based
Universal Social Charge (USC)	individual-based
Pay Related Social Insurance (PRSI)	individual-based

1.3. Attempted individualisation of income taxation

As part of the 2000 Budget and Finance Bill the Irish Government attempted to move the income tax system from being (mainly) family-based to being individualised. This reform was proposed in the context of a tight labour market, where there was full-employment and the unemployment rate was less than 4 %. The reform was intended to incentive potential workers outside the labour market, principally women working in the home, to return to the labour market. The plan as proposed intended to phase in over two years a system where each individual earner, whether single or in a couple, would be given their own standard-rate band (a band where they paid income tax at the standard rate). This would have ended the ability of couples to share tax bands.

The reform, although announced in the annual Budget, met with considerable hostility. Initially this appeared in the media and subsequently filtered through to the political system. In particular, there were objections to the impact this would have on one-earner families and the policy was portrayed as penalising families who chose to have one member of a couple working in a caring role in the home. In that sense, it was portrayed as an anti-women measure.[2]

As a consequence, a new Home Carer tax credit was introduced for married couples/civil partners where one individual remains at home to care for dependents. Notwithstanding this new credit the reform was stalled and a 'hybrid' system (as outlined in the previous sub-section) was introduced.

Subsequently, there have been limited policy considerations around revisiting and altering this issue. The Commission on Taxation, established in 2008 to review the tax system, examined possible reforms and recommended that the hybrid system should remain in place (2009: 96-100).

1.4. Impact on Women

The nature of the current structures, alongside some recent research reports, offer some insight into the gendered impact of these policy structures; particularly their impact on women. These include:

- On average the earnings of males exceed those of females in Ireland. While there is limited detailed administrative gender disaggregated data on women and men's income, earnings surveys point towards a sustained gender earnings divide (CSO, 2017 and Collins, 2017). As such, males are more likely to be the main earners in households and are more likely to be the 'assessable spouse' within couples. Therefore, many of the changes to income taxes announced in annual Budgets are experienced by male incomes; although one could assume

[2] For more detail see Callan et al (2009).

that these changes pass on to the household. In recent years in Ireland, such changes have seen post-tax income decline (during the 2008-2013 period of austerity) and increase.

- Labour force participation rates for women in Ireland are lower than they are for males, and are low relative to rate for females elsewhere in the EU. Table 2 compares these outcomes for Ireland with those in a number of other EU Member States. These include Sweden, three other small Member States (Belgium, Denmark and Netherlands) and three large Member States (France, Spain and the UK). The latter is also of interest given the historical closeness of the structures and inter-country migration flows of the Irish and UK labour markets. However, it is difficult to specifically pin-point the income taxation system as being at fault for this. OECD data on Ireland's taxation system shows that it is very accommodative of secondary earners, often women returning to work after caring responsibilities. For these workers, there are limited impediments in the system and, relative to other countries, it is attractive and rewarding for women to take up work (see Table 3).[3]

Table 2: Labour Force Participation Rates by Gender, 2015 selected EU states

	Males	Females	Gender difference
Ireland	76.5	64.2	-12.3
Belgium	72.3	63.0	-9.3
Denmark	80.7	74.0	-6.7
Netherlands	82.6	71.6	-11.0
France	73.8	66.3	-7.5
Spain	69.6	58.1	-11.5
UK	83.1	72.1	-11.0
Sweden	83.0	79.2	-3.8
EU-28	**76.9**	**65.3**	**-11.6**

Source: Eurostat online database lfsi_emp_a

Table 3: Net Personal Average Tax Rates faced by Second Earners, 2014 selected EU states

Country	Tax %	Country	Tax %
Ireland	20.9	France	35.2
Belgium	49.1	Spain	24.3
Denmark	39.6	UK	19.6
Netherlands	29.2	Sweden	21.8

Source: OECD Taxing Wages 2016
Note: For second earner at 67 % of average wage while primary earner is at the average wage. No children assumed.

[3] See http://www.oecd-ilibrary.org/taxation/taxing-wages-2016_tax_wages-2016-en

- Studies have also highlighted that there are issues beyond the taxation system which negatively impact on female participation choices, in particular the cost of childcare. A study by Rastrigina and Verashchagina (2015), focused on the financial gains for families where women return to work. It calculates the 'participation tax rate' (PTR) faced by these earners, which summarises the combined effect of gains in earned gross income, payments of income tax and social insurance contributions alongside any losses of welfare entitlements. A participation tax rate of 50 % implies that half of the gains in earnings from commencing work are lost through changes to taxes and benefits. For women in Ireland returning as second earners, they found that participation tax rates were low. However, in situations where couples have to pay for childcare, the participation tax rate including childcare costs for women with two children was 94 % - the second highest in the EU.

  Such disincentive effects are likely to prevent many women, even those who are skilled and likely to be higher earners, from choosing to return to work. They may also impede the choices women have (work responsibilities, promotion, additional hours) and thus undermine their potential.

2. Policy debate

There are a number of current policy issues, related to the aforementioned material, which are likely to impact on gender equality and the taxation system. These include:

- ***The Individualisation debate***: The issue of returning to the 2000 plan to introduce individualisation occasionally surfaces in policy discussion; although it receives limited detailed empirical and policy design attention. As the Irish labour market recovers, following a protracted recession (2008-2013), issues of labour market shortages, and the need to incentivise more second earners, in particular women, to join the labour force seems inevitable. This is likely to focus renewed attention on the individualisation issue.

- ***Working Family Payment***: The current Programme for Government contains a commitment to develop a 'Working Family Payment' designed to address issues that arise with the interaction of the tax and social welfare system for low income households taking up some or additional work. The programme commits that "every parent working at least 15 hours per week will be guaranteed that every extra hour they work will result in more take-home pay" (2016: 39). These reforms are particularly important for women given their participation rates, the greater share of caring responsibilities women carry, and the greater exposure of women to low paid employment.

- ***National Strategy for Women and Girls 2017-2020:*** A new national strategy was published in April 2017. The strategy includes a series of commitments intended to address and monitor the gender pay gap, enhance female apprenticeships, and address other barriers to achieving greater gender equality in Ireland. It also proposes a series of reforms intended on embedding gender equality perspectives into policy formation. However, the strategy contains only one commitment on taxation reform, addressing taxation issues associated with joint-ownership of agricultural assets. Where 'actions' within the strategy are identified as being the responsibility of the Department of Finance they are concerned with pension reforms and the *ex post* and *ex ante* evaluation of the gendered impact of budget policy.

- ***Simplification of the income taxation system***: The Irish income taxation system is complex with three tax bases and different inclusions and exclusions of income sources in each. Plans to simplify the system are recurring and if achieved offer the potential for earners, irrespective of their gender, to more easily assess the changes in net-income associated with decisions to increase or decrease employment.

- ***Childcare***: Significant deficits in the provision of affordable childcare continues to receive policy attention. Recent initiatives have seen the expansion (from one to two years) of a pre-school Early Childhood Care and Education (ECCE) initiative alongside the introduction of a 'Single Affordable Childcare Scheme' (from September 2017) which will provide a targeted subsidy, based on parental income, for children aged between 6 months and 15 years and a universal subsidy, for all families, for children aged between 6 months and 3 years. Although this initiative is small, in overall cost terms and in terms of the scale of support available (1,000 EUR per annum), it marks a first step towards a more comprehensive system of state-supported childcare. Policy issues and choices will arise as this scheme is expanded, to provide larger subsidies and to more earners. Reforms to such services have the potential to positively impact on female participation rates (both employment rates and working hours).

3. Transferability

The experience of Sweden's transition from family-based to individual-based taxation offers some useful insights to Ireland. These include:

- The relevance of the labour market, and in particular the availability of labour supply, to driving income taxation reforms. The need to incentivise more women to join the labour force was the catalyst for reforms in Sweden in the 1960s and in Ireland's attempt at reform in 2000.

- Transitional challenges for one-income couple households cannot be overlooked. The shift to an individualised system means a reduction in the post-tax income of most of these households. Consequently, transitional arrangements are needed (such as "the housewife reduction" in Sweden).

- Large structural reforms to the income taxation system take time – Sweden's transition from a family-based to individual-based taxation system took twenty years (1971-1991).

- Sweden's experience highlights the importance of their being a broad societal appreciation that: (i) high quality affordable childcare is good for all children; and (ii) that it is ideal for most women to return to work outside the home after the initial period of child rearing. These cultural acceptances served as key contexts for justifying Sweden's tax reforms and for the broader public acceptance of their merit.

- Sweden's experience also highlights the importance leadership, within the political system and more broadly within civil society, played in initiating and driving these policy changes.

- Reforming income taxation can only serve as one element of a policy package intended to achieve greater gender equality. The Swedish experience illustrates the need for other simultaneous and complementary reforms.

4. Conclusions and Recommendations

- Labour market supply issues are likely to trigger future policy considerations around moves to an individualised system. This makes it inevitable that Ireland will revisit this issue in the years to come.

- Structural reforms of this type are gradual and are best situated in a medium-term tax reform plan.

- A pure individualised income taxation system is uncommon in the EU – only two states, Sweden and Finland, have such systems. Similarly, a pure family-based system is also uncommon – only four countries have such systems: Estonia, France, Luxembourg and Portugal. Most state have some hybrid arrangement generally comprising joint taxation with opt-outs and various structures to accommodate single income couples.

- The greater availability of gender disaggregated data on women and men's individual income would assist in better assessing the possibility and feasibility of policy reform in this area. In Ireland, this data exists within the administrative system (within the tax authority) but is not available to researchers or policy makers. Making this data available would better inform tax reform choices and assist in a better understanding of gender equality challenges and policy options.

- Reforming Ireland's approach to the income taxation of couples should be considered in the context of broader policy reforms intended to achieve greater gender equality. These include initiatives to address the gender pay-gap, enhance information on the gender pay structures within firms, reform the provision of childcare, and remove barriers to employment from within the tax and social welfare system.

- The gender impact of taxation reforms, alongside other policy reforms, should be monitored as part of a gender budgeting process to accompany annual Budgets. This could be achieved by including an annex to the annual Budget document detailing these effects – similar to the approach taken in Sweden. A choice would need to be made regarding whether the production of such an analysis is internalised within the Department of Finance or allocated to a stand-alone office specially dedicated to this issue.

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