Gender impact of taxation

*Briefing from the **UK Women's Budget Group** on the impact of changes in taxation policy on women and on the funding of public services and investment*

Key points

- *Income tax cuts benefit men disproportionately more than women because women earn less than men and rely more on public services that tax revenues fund.*
- ***Successive increases in the personal tax allowance and higher rate threshold** (implemented since 2010 and planned ahead till 2020) will **cost** the Treasury **£19bn per annum by 2020.***
- *The Women's Budget Group welcomes the Chancellor' promise in AFS 2016 to consult on ways to **ensure that the taxation of different ways of working is fair between different individuals** while sustaining the tax base as the economy undergoes rapid change.*
- *The Women's Budget Group calls on the Chancellor to **abolish salary sacrifice schemes** and other forms of income tax allowances to incentivise behaviour, which are unfair to those earning below the tax threshold, and instead use the revenue to invest in relevant public services.*
- ***Inheritance tax** should be used more forcefully to reduce wealth inequalities and therefore **taxing receipts progressively within the income tax system** should be pursued, rather than taxing bequests separately.*
- ***Successive cuts to fuel and alcohol duties and corporation tax rates also benefit men disproportionately and together cost a total of £22bn per annum by 2020;** these are short-termist and populist cuts whose foregone revenue could instead be invested in long-term social infrastructure. Social care, for example, would need £14bn per annum by 2025 to be provided free to older people with critical or substantial needs in England.*
- ***Cuts to central government funding of Local Authorities should be reversed** as unfair and ineffective in delivering adequate public services, given that **poorer LAs can raise less money but need to fund greater use of vital services**. Women stand to lose most from this inequality as they often live on lower incomes and are more reliant on those services (as employees or users).*

The Women's Budget Group views taxation as the necessary contribution that individuals and companies make in order to have a well-functioning society. In general, everyone gains from public spending, and to finance that spending contributions to state revenues from taxation are necessary. Women, having on average lower incomes than men and being more likely to take up caring roles (that public services often make more compatible with earning opportunities), are particularly helped by state spending both on social security payments and on public services. Men having higher incomes make a larger contribution to state revenues through taxation.

Cuts to taxation can therefore have deleterious effects for women and, being hard to reverse, these effects can be long-term. While cuts to taxes that affect particular groups unfairly are to be welcomed, the effects of cuts to general taxation, and even more so those that just reduce the contribution of the better off, need to be weighed carefully against what else could be done with those foregone revenues.

Income Tax and National Insurance

The personal allowance and the higher rate threshold

In the 2016 Autumn Financial Statement, the Chancellor reaffirmed the government's plan to continue raising the personal allowance, so that it reaches £12,500/year (and the higher rate threshold £50,000) by the end of the Parliament (2020). One change to this commitment was announced: that once the personal allowance reaches £12,500, it will automatically rise in line with CPI, instead of with the National Minimum Wage, as the previous Chancellor had announced. The Chancellor also, however, stated that "It will be for the Chancellor to decide from year to year whether more [uprating] is affordable",[1] thereby reserving some room to court popularity by raising the threshold further in the future.

These apparently popular measures are highly undesirable, costing a great deal but failing to benefit the worst off in society.[2] This is because more than 43% of adults do not earn above the current personal allowance and so fail to benefit at all.[3] Of those who will benefit not at all from any rises in the personal tax allowance in this parliament, 66% are women and 41% have dependent children.[4]

Further, the majority of those "taken out of tax" altogether by any rise in the personal allowance are likely to be women, and most of these gain less than other taxpayers, because their income is too low to make full use of the personal allowance. Also, as Universal Credit gradually replaces many working-age means-tested benefits and tax credits, in households that receive it taxpayers will gain less than the full amount because some of their gain will be clawed back in reduced benefit payments (since UC is means-tested on net income, and not gross income as is the case for current tax credits). Women are more likely to live in such households, which tend to cluster at the lower end of the income distribution.

The deleterious gender effects of this measure will be compounded by those of simultaneously raising the higher rate threshold to £50,000/year. Women accounted for just over one quarter (27%) of all higher rate taxpayers in each of the last five financial years.[5] In other words, because there has been no progress in closing the gender gap in earnings at this level, 73% of those who can expect to gain from raising the higher rate threshold are men. The Treasury admitted that men made up 68% of those who were "taken out of higher rate tax" the last time the threshold was raised, a proportion that will rise higher still as the threshold is raised further.

Both these measures worsen gender inequalities in two ways. They raise the disposable income of the better-off gender (men) more than that of the poorer gender (women). And second, they seriously erode the tax base on which the government can hope to raise revenue both now and in the future to fund benefits and public services, on both of which women depend even more than men do. By 2020, the lost revenue due to the changes to personal income tax thresholds since the June 2010 budget will be around £19bn per annum, of which £4bn are still to come from changes in 2017-18 and pledges to 2020-21.[6] This compares to the £4bn saved up to 2020 by the freeze to working-age benefits, or to the £3.5bn annual savings from the cut to the work allowance and reduced income disregard in UC, both of which disproportionately affect women.[7]

The National Insurance system also needs reform to remove the upper earnings limit (NICs are 2% of the earnings above this threshold instead of 12%), so that high earners pay towards NI at least proportionately to their income. The revenue lost because of the upper earnings limit could be used to make all women's state pension up to the new state pension level, thus recognizing the legacy of gender inequality in access to full state pensions for those reaching state pension age before the new flat-rate state pension was introduced in 2016.

[1] HM Treasury; Autumn Statement 2016: Philip Hammond's speech: http://bit.ly/2glyWJu
[2] http://bit.ly/2kTKby3
[3] Institute for Fiscal Studies (2015) Taxes and benefits: the parties' plans http://bit.ly/2lgxWYH
[4] Hansard, 23rd March, 2015: Lord Deighton: Answer to written parliamentary question asked by Baroness Lister. http://bit.ly/2lzjX2R

[5] http://bit.ly/2aX4KBw using HMRC data
[6] See Mark Whittaker, 'Changing Tax', Resolution Foundation, November 2016 (http://bit.ly/2meRwJ1)
[7] See OBR Policy measures database, updated Nov 2016 (http://bit.ly/2l70HWH)

Transferable Tax Allowances

Couples who are married or in civil partnerships can transfer up to 10% of their annual personal allowance of tax-free income from the lower to the higher earner, as long as neither pays income tax at more than the basic rate. This increases the incentive for couples to have just one earner, but money saved does not go to the partner at home but to the higher earner – 85% of whom are men. Transferable Tax Allowances breach the principle of independent taxation, introduced in 1990 with all-party support. They should be withdrawn, and the foregone revenue spent in more targeted and socially useful ways. For example, it could help pay for more generous maternity/paternity/caring leave payments, so that those at home with caring responsibilities would be remunerated themselves, while retaining their rights to return to employment.

Taxation of earnings and different ways of working

Currently different ways of working (eg whether registered as self-employed or as an employee) are taxed differently. This creates unfortunate opportunities for tax avoidance and can also lead to workers losing employment rights.[8] Such differences should be abolished to reduce tax avoidance and increase revenues. For example, higher earners setting up their own companies exploit the discrepancy between taxation and national insurance payments of employees and the self-employed and incorporated individuals. However, the lower earning self-employed, where women predominate, are incentivised to exempt themselves from national insurance contributions, by the substantially higher contributions that they have to pay, but then do not build up pension and bereavement benefits.

The Women's Budget Group welcomes the Chancellor' promise in AFS 2016 to consult on ways to ensure that the taxation of different ways of working is fair between different individuals while sustaining the tax base as the economy undergoes rapid change. We urge him to act on its results to reform both the taxation and national insurance systems.

Tax Allowances

The Women's Budget Group would like to see the opportunities for individuals to lessen their taxable income through tax allowances reduced or abolished. In practice the system of tax allowances can lead to large reductions in income tax collected, particularly from the wealthy, who can pay for more advice as to how to do so, including some somewhat dubious "charitable" schemes. Such tax breaks also give official endorsement to the view that an individual's payment of tax and national insurance is an undesirable bill that can legitimately be avoided by clever schemes, rather than a necessary contribution to a well-run society.

WBG urges the Chancellor to reduce what can be set against income to genuine unavoidable employment expenses and abolish the use of tax allowances to try to induce people to do good. The additional revenue collected could be used to fund genuine good causes directly, a democratic choice of how taxpayers' money was spent rather than one made, according to their tax bracket, by those individuals giving large sums to charity. The outcry that met the previous Chancellor's attempt somewhat to restrict the use of tax allowances would have been greatly reduced if his explicit intention had been to spend the revenue raised on good causes.

Salary sacrifice schemes

As a particular example of this, we urge the Chancellor to abolish salary sacrifice schemes, whereby employers and employees can reduce their tax and national insurance contributions by not counting as part of their salary certain socially beneficial spending such as on bicycles or childcare. Such schemes, which spread the idea of tax and national insurance contributions as legitimately avoidable to employees in general, are not only inefficient as a way of promoting desirable behaviour, they are also unfair because they are not available to those who earn so little that they pay no income tax.

Like the OBR, the Women's Budget Group is concerned about the loss of revenue such schemes entail. However, we are also concerned about the way such tax advantages result in workers losing employment rights. Employers should not be able to avoid their responsibilities to their employees by

[8] Stuart Adam, Tax and benefit reforms, IFS post-Autumn Statement briefing 2016 (http://bit.ly/2lMF6aj)

encouraging the take-up of such schemes. And giving a small tax break for commuters' and parents' costs is no substitute for the strategy and investment that is needed to tackle environmental problems or the UK's lack of affordable high quality childcare.

Inheritance tax

The government has made some changes to inheritance tax, notably exempting the main residence up to a limit. This is undesirable. Inheritance blocks social mobility, all the more so now that housing wealth is such a divider between those who can hope to inherit from their parents and those who cannot. Instead the whole system of inheritance should be reformed, so that receipts, rather than bequests, are progressively taxed, giving an incentive to distribute wealth to more recipients. The current system is also manifestly unfair to those who need to pay for social care; effectively a health lottery determines who can leave anything to their children. A reform of inheritance tax so that its replacement raises more revenue would be able to contribute to funding a fairer system of social care, as well as contribute to creating a fairer society with more social mobility.

Indirect taxes

Fuel Duty

What were to be automatic increases in fuel duty have been cancelled for the last seven years, with fuel duty not even uprated in line with inflation. Compared to the fuel duty escalator planned in 2010, the total cost of 7 years of freezing fuel duty so far will be nearly £9bn a year by 2020-21.[9] As well as severe economic and environmental costs, cuts in fuel duty primarily benefit men, who are more likely to drive and drive longer distances than women,[10] and the majority of this tax giveaway will be picked up by the better-off half of households.[11]

VAT

Expenditure taxes tend to be regressive in that poorer households cannot afford to save as much of their income as richer households. Like all indirect tax systems, the UK system is regressive with respect to income, but since children are more likely to live in poorer households and poorer households spend more of their income on food, the regressivity of VAT is reduced by most foods and children's clothing being zero-rated. Indirectly this reduces the incidence of VAT on households with women members, since they are somewhat more likely than men to live with children and to be in poorer households.

In the absence of wholesale reform of the tax system in a more progressive direction, the zero-rating of food and children's clothing for VAT should continue.

Corporation Tax

The Chancellor has reaffirmed the government's desire to reduce corporation tax further, from its current level of 20% to 17% by 2019-2020, continuing the process by which the main rate has been gradually reduced from 28% in 2010.

In the most immediate sense, this policy continues to increase income inequality between men and women, since men make up the clear majority of business owners, top managers and shareholders.[12]

Rather than promoting long-term policy making coordinated with world efforts to address tax avoidance, the government takes pride in having the lowest corporation tax rate in the G20. Aggressively reducing corporate taxes is likely to exacerbate income inequality by promoting an international "race to the bottom" with respect to taxing business profits, reducing government revenues and shifting the tax burden further onto individual taxation.[13] Given that the government is also intent on reducing individual taxation, this can only result in lower revenues

[9] Estimated using the OBR Policy measures database, updated Nov 2016 (http://bit.ly/2l70HWH).
[10] Department of Transport, Road Use Statistics Great Britain 2016 (http://bit.ly/1ScwLEM)
[11] Stuart Adam, Tax and benefit reforms, IFS post-Autumn Statement briefing 2016 (http://bit.ly/2lMF6aj)

[12] 20% of FTSE 250 board members were women in October 2015 (http://bit.ly/1YlOnnE). About 76% of the total CT bill is paid by only 6% of liable companies (73,000) and a third of the bill by 400 companies (http://bit.ly/2lg4cu5).
[13] The OECD warns about these pressures: http://bit.ly/1OzK2qN

reducing the amount available to be spent on much needed investment in public services.

This short-termism ignores the long-term risks of depending on businesses that merely re-locate to avoid tax, just to capture small gains in the short term. Companies which depend on low corporation tax rates to do business in the UK are less likely to be embedded in local economies, linked to local businesses, or to stimulate genuine job-creating investment.[14]

Perhaps the biggest problem with low corporate taxation is that it reduces funds that could be spent on more effective policies. The Women's Budget Group has argued before, alongside prominent economists, that alternative forms of investment, including social investment in skills, education and care services, have the potential to promote stronger and more sustainable growth that will be shared more broadly across society.[15] The cumulative foregone revenue of successive cuts in the main corporation tax rate will be £13bn per annum by 2021-22,[16] which is almost enough to provide the £14bn estimated cost of free social care for all critical needs in England by 2025.[17]

Table 1 Annual foregone tax revenue by 2020-21 from three major tax give-aways

Income tax thresholds	£18.9bn
Fuel duty	£8.7bn
Alcohol duty	£0.7bn
Corporation tax rates	£12.6bn
Total	£40.9bn

Source: WBG calculations using OBR policy measures database

Tax avoidance by large companies

The Women's Budget Group welcomes all measures to reduce tax avoidance but notes that measures introduced so far have raised little, while tax avoidance by large companies has been estimated to lose the Treasury many times this amount.[18] We urge the government to spend more on employing well qualified specialists in the HMRC to tackle tax avoidance.

Local Authority Funding

The Women's Budget Group is particularly concerned about what has happened to Local Authority (LA) Funding, which since 1993 has become increasingly regressive and unfair, forcing councils to be increasingly reliant on local income (council tax and charges), meaning that the poorest communities have the smallest budgets.[19] Differences between LAs in earnings from council tax charges are supposed to be balanced out by adjustments made to the Revenue Support Grant from central government. Between 1993-94 and 2014-15, the share of centrally distributed income fell from 79% to 64%, with a large decrease after 2012 when LAs were given the power to retain 50% of their locally collected business rate growth. This had led to the poorest LAs receiving the least from council tax charges and business rates and being reimbursed by a dwindling central government grant.

The government has now signalled that it expects all local authority funding to be raised locally, moving towards "self-sufficiency" and "away from dependence on central government".[10] In October 2015 the Chancellor announced that by 2020 LAs will retain 100% of business rate revenues, devolving £26bn revenue from business rates to local authorities. At the same time, it was announced that all grants from Whitehall to town halls will be phased out by 2020.[20]

Analysis by Local Authorities in the North East revealed that the 10 most deprived areas in England

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[14] Women's Budget Group (2016), The Impact on women of the 2016 Budget: women paying for the Chancellor's cuts, WBG, London, http://bit.ly/2kTPopM

[15] See WBG briefing on social infrastructure (http://bit.ly/2lRoZZm)

[16] Estimated using the OBR Policy measures database, updated Nov 2016 (http://bit.ly/2l70HWH).

[17] As estimated by the Independent Commission on the Future of Health and Social Care in England, 2014 (http://bit.ly/WeicrB)

[18] See Tax Justice Network blog: http://bit.ly/1IT0DON

[19] Innes D TG. Central Cuts, Local Decision-Making: Changes in Local Government Spending and Revenue in England, 2009-10 to 2014-15. 2015. http://bit.ly/2l6Pi9v

[20] See http://bit.ly/1hxI4Jy

saw an average *decrease* in spending power between 2014-15 and 2015-16 of 10.5%, while the 10 least deprived areas saw an average *increase* in spending power of 1.1%.[21] LAs in poorer areas will collect lower business rates and council tax charges and therefore have to make greater reductions in services than in wealthier areas and consequently will be unable to provide the same level of service compared to wealthier areas.

The Women's Budget Group believes that these regressive changes should be reversed. They will particularly affect women, who tend to be more dependent on the services that Local Authorities provide, both for themselves and because they are often the ones who make up for the lack of such services by their own unpaid work. This is true particularly in poorer areas. It will also affect women's opportunities for employment, since women are more likely than men to find jobs with local authorities, whose gender pay gap tends to be smaller and who are more likely to be family-friendly employers than the private sector.

Conclusion

In 2020-21, the annual tax revenue from all measures announced and implemented since 2010 is costed by the OBR at £25bn per year. This sum could have been £41bn higher – more than the total annual cuts in social security spending – had the three main tax give-aways in fuel and alcohol duties, corporation tax rates and the income tax thresholds not been pursued (table 1) – all of them benefiting men and higher income taxpayers disproportionately.

The 2011 authoritative Mirrlees Review set a comprehensive set of analysis and recommendations for designing a good tax system.[22] According to it, a tax system should be evaluated for its effectiveness in achieving desired objectives; its efficiency in raising revenue at minimal cost; and its fairness in not treating people in similar conditions differently. The WBG also believes that it is right to conduct gender analysis of the tax system, and of changes to it over time. Such an analysis in our view is relevant if the desired objectives of a tax system include, as we believe they should, the impact it has on gender roles and relationships as well as the relative resources of men and women. It should examine not only the incidence of taxation on men and women but also the total amount raised to be used for public spending, given the importance of such spending to women in particular. Public spending and revenue foregone through tax allowances and reliefs need to be seen together, as they have the same economic effects. But they can have very different distributional impacts, as well as different effects on individuals' behaviour, and these also need to be taken into account.

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[21] North East Combined Authority and ANEC, 2016. Taking Account of Differences In Ability to Raise Council Tax Income. http://bit.ly/2ms0f6P

[22] See the final report, Tax by Design (http://bit.ly/2lxfkIe)