

## Gender impact of taxation

Briefing from the UK Women's Budget Group on the impact of changes in taxation policy on women

### Key points

- Tax is the **necessary financial contribution** that individuals and companies make to a well-functioning society. Women tend to benefit particularly from the public spending that tax can be used to finance.
- At the same time that austerity measures are having particularly harsh effects on women, **tax giveaways disproportionately benefitting men will cost the Treasury £44bn per annum by 2020.**
- The Women's Budget Group calls on the Chancellor **not to raise income tax thresholds** any further; instead the whole income tax system should be reviewed to make it both more progressive and more inclusive.
- We also call on the Chancellor **not to continue to freeze fuel duty**; meeting climate change targets requires reducing fossil fuel use, with financial support given to those for whom reducing their use is exceptionally costly.
- We also call on the Chancellor to resist the temptation to continue fuelling a race to the bottom by **cancelling further planned reductions in corporation tax**; instead he should set it at average international levels and **lead efforts to institute the international coordination of tax rates.**
- The Women's Budget Group calls for **a review of all forms of income tax allowances**, which are unfair to those earning below the tax threshold and encourage tax avoidance and a view of income tax as a burden.
- **Inheritance tax** should be reformed and used more forcefully to reduce wealth inequalities and promote social mobility. **Progressive taxation of receipts rather than estates** should be pursued.
- **Cuts to central government funding of Local Authorities should be reversed** as leading to inadequate public services. They are also unfair in that **poorer LAs can raise less money from business rates and council tax but have greater demand for public services.** Women, being more reliant on those services, stand to lose most from these changes.
- **Tax avoidance**, both through tax havens and in the UK, should be tackled more effectively, including through **employing more and better qualified staff at HMRC.**

The Women's Budget Group views taxation as the necessary financial contribution that individuals and companies make to having a well-functioning society. In general, everyone gains from public spending, and one way to finance that spending is by raising revenue from taxation. Women, being more likely to take up caring roles, have on average lower incomes than men and are particularly helped by state spending both on social security payments and on public services. Men, having higher incomes, make a larger tax contribution through taxation, so benefit more from tax giveaways.

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,

cuts to general taxation, and even more so cuts that just reduce the contribution of the better off, promote the idea of taxation as an unnecessary burden, which is inevitably against women's interests.

In 2021-22, annual tax revenue could have been £44bn higher – more than the total annual cuts in social security spending – had three main tax giveaways in fuel and alcohol duties (£9bn), corporation tax rates (£13bn) and raising income tax and NICs thresholds (£22bn) not been pursued – all of them benefiting men and higher income taxpayers disproportionately.<sup>1</sup>

<sup>1</sup> WBG calculations using OBR policy measures database (March 2017) (<http://bit.ly/2l70HWH>)

## Income Tax and National Insurance

### The personal allowance and the higher rate threshold

The government has reaffirmed its pledge to continue raising the personal tax allowance (PTA), so that it reaches £12,500 and the higher rate threshold (HRT) reaches £50,000 by the end of this Parliament. These apparently popular measures are highly undesirable, costing a great deal but failing to benefit the worst off in society.<sup>2</sup> This is because more than 43% of adults do not earn above the current PTA and so do not benefit at all from raising it.<sup>3</sup> Of those that do not benefit, 66% are women and 41% have dependent children.<sup>4</sup>

Further, the majority of those supposedly 'taken out of tax altogether' by any rise in the PTA (though they still pay many other taxes) are women, most of whom gain less than other taxpayers, because their income is still too low to make full use of the new PTA. Also in households that receive Universal Credit (UC), taxpayers gain less than the full amount of any rise in the personal allowance because some of their gain will be clawed back in reduced payments (since, unlike tax credits, UC is means-tested on net rather than gross income). Women are more likely to live in such households, which tend to cluster at the lower end of the income distribution.<sup>5</sup>

The deleterious gender effects of this measure are compounded by those of the planned rise in the higher rate threshold (HRT) to £50,000. 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 HRT are men.<sup>6</sup> 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 gender bias that can only increase as the threshold is raised further.

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 erode the tax base on

which the government can hope to raise revenue both now and in the future. For the income tax system to be fairer in itself and, at the same time, provide funding for a public sector that better promotes fairness, it needs to be both more progressive and more inclusive.

According to calculations by the Resolution Foundation in 2016, if the government was to fulfil its pledges concerning the PTA and HRT by April 2020, it would be giving away more than £19bn per annum of what it would have received if these thresholds had been raised in line with inflation (the default assumption).<sup>7</sup> This compares to the £12bn per annum it will by then be saving through changes to social security benefits, which disproportionately hit women and the poor, who also benefit least from the tax giveaway.<sup>8</sup>

However, recent upwards revisions of inflation forecast is eating away at the gains to the individuals and cost to the government of fulfilling its pledges. It would now cost just £1.1bn a year to deliver a PTA of £12,500 and a HRT of £50,000 in 2019-20.<sup>9</sup> Indeed, on current inflation estimates, if allowances were just uprated with inflation the PTA would exceed £12,500 by 2021-22 and the HRT exceed £50,000 by 2022-23, or earlier if inflation forecasts are revised up.<sup>10</sup> On the other hand, the four-year freeze in working age benefits, the largest single welfare cut announced since 2015, has reduced spending more than initially expected because of inflation, and by 2019-20 is now expected to cut spending by a further £1.2bn, enough by itself to fund the government's pledges on income tax. This transfer of resources from benefit recipients to tax-payers, disproportionately hitting women and the poor, will enable the government to meet its tax pledges without increasing the deficit simply by failing to tackle inflation.<sup>11</sup>

If instead, in a change of heart, it decided to raise income tax, a 1%-point rise in all income tax rates

<sup>2</sup> HM Revenue & Customs (2016) *Income Tax: personal allowance and basic rate limit for 2017 to 2018* (<http://bit.ly/2kTKby3>)

<sup>3</sup> Institute for Fiscal Studies (2015) *Taxes and benefits: the parties' plans* (<http://bit.ly/2lgxWYH>)

<sup>4</sup> Hansard (23 March 2015) Lord Deighton: Answer to written parliamentary question asked by Baroness Lister. (<http://bit.ly/2ljx2R>)

<sup>5</sup> Landman Economics tax-benefit model

<sup>6</sup> <http://bit.ly/2aX4KBw> using HMRC data

<sup>7</sup> Resolution Foundation (November 2016) *Changing Tax: Pressing reset on the UK's tax policy* (<http://bit.ly/2meRwJ1>)

<sup>8</sup> Institute for Fiscal Studies (2017) *Autumn 2017 Budget: options for easing the squeeze* (<http://bit.ly/2z46GGS>)

<sup>9</sup> Ibid.

<sup>10</sup> Resolution Foundation (2017) *A matter of tax* (<http://bit.ly/2qMh3eH>)

<sup>11</sup> Institute for Fiscal Studies (2017) *Autumn 2017 Budget: options for easing the squeeze* (<http://bit.ly/2z46GGS>)

would raise around £5½bn, mostly from the better-off, a move the WBG would applaud.<sup>12</sup>

### **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 the tax reduction 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.<sup>13</sup>

### **National Insurance**

National Insurance Contributions (NICs) constitute a regressive tax on earners. If all NI rates were to go up by 1%, NICs would be somewhat less regressive and about £5.5bn additional revenue would be raised.<sup>14</sup> A more progressive reform would remove the upper earnings limit, so that high earners would contribute proportionately to their income (NICs are currently 12% of earnings up to this threshold but only 2% above it).

### **Income tax reliefs**

The Women's Budget Group would like to see the opportunities for individuals to reduce their taxable income through tax reliefs diminished or abolished. The system of tax allowances leads 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 genuinely unavoidable employment expenses and abolish the use of income tax reliefs to try to induce people to fund 'good causes'. The additional revenue collected could be used to fund genuine good causes directly, enabling a democratic

choice of how taxpayers' money is spent rather than one made just by those individuals rich enough to give large sums to charity.

### **Salary sacrifice schemes**

As an 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 too little to pay national insurance or 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 paying reduced NICs result in workers losing employment rights. Employers should not be able to avoid their responsibilities to their employees by 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.

### **Pension tax relief**

Contributions to private pensions receive tax relief at the tax payer's marginal rate. The extent of such reliefs has been cut in recent budgets, but still lose the Treasury £34bn per year which largely goes to the better-off. Men are more likely to have private pensions and contribute more to them than women, and thus gain more from such tax relief.<sup>15</sup> The WBG believes that pension relief should be restricted to the basic tax rate and the revenue gained spent on raising the State pension.

### **Taxation of earnings and different ways of working**

Currently different ways of working (e.g. 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.<sup>16</sup>

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<sup>12</sup> Ibid.

<sup>13</sup> See more detail discussed in WBG briefing on TTA (2013) *Recognising marriage in the tax system will not benefit women* (<http://bit.ly/2zKGC1r>)

<sup>14</sup> Institute for Fiscal Studies (2017) *Autumn 2017 Budget: options for easing the squeeze* (<http://bit.ly/2z46GGS>)

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<sup>15</sup> See WBG briefing on Pensions (<http://bit.ly/2jvxiKQ>)

<sup>16</sup> Stuart Adam (2016) *Tax and benefit reforms, IFS post-Autumn Statement briefing 2016* (<http://bit.ly/2IMF6aj>)

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 self-employed earning below £6,025 a year, predominately women, do not have to pay NI, but unlike employees earning below a similar threshold do not then build up pension and bereavement benefits.

In his March budget, the Chancellor attempted to reform National Insurance for the self-employed, but this measure was subsequently claimed to break a Conservative 2015 manifesto promise not to raise NI rates and therefore not implemented. The 2017 Conservative manifesto contained no such promise. We would urge the Chancellor to continue to seek ways to make the taxation of different ways of working fairer, while sustaining the tax base as the economy undergoes rapid change. We urge him to act on the results of his consultation on this matter to reform both the tax and national insurance systems.

### **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 to creating a fairer society with more social mobility. We urge the government to set up its planned consultation on ways of funding Social Care as a matter of extreme urgency, and avoid using the emotive term 'Death taxes' to rule out using reforms in Inheritance Tax as a contribution to such funding.

### **Corporation tax**

Since 2010 the main rate of corporation tax has been reduced from 28% to 19%, with the government reaffirming its aim to reduce it to 17% by 2020/21. This policy continues to increase income inequality between men and women, since men are the majority of business owners, top managers and shareholders.<sup>17</sup>

Rather than engaging in coordinated international 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 a diminishing tax base for individual taxation.<sup>18</sup>

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 that depend on low corporation tax rates to do business in the UK are less likely to embed themselves in local economies, link to local businesses, or stimulate job-creating investment.<sup>19</sup>

Rather than continuing to cut corporation tax, the WBG calls on the Chancellor to set it at average international levels and lead efforts at to institute the international coordination of rates.

Maintaining the headline corporation tax rate at 19% rather than cutting it further would raise an estimated £5.2bn in 2020-21; returning to the rate of 20% that prevailed until this year would raise £7.8 bn.<sup>20</sup>

### **Indirect taxes**

#### **Fuel Duty**

What were to be automatic increases in fuel duty have been cancelled for the last six years, with fuel duty not even uprated in line with inflation. Compared to the fuel duty escalator planned in 2010, the cost of

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<sup>17</sup> 20% of FTSE 250 board members were women in October 2015 (<http://bit.ly/1YlOonnE>). 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>).

<sup>18</sup> The OECD warns about these pressures:

<http://bit.ly/1OzK2qN>

<sup>19</sup> Women's Budget Group (2016) *The Impact on women of the 2016 Budget: Women paying for the Chancellor's tax cuts* (<http://bit.ly/2zLvzVH>)

<sup>20</sup> See Mark Whittaker (November 2016) *Changing Tax*, Resolution Foundation (<http://bit.ly/2meRwJ1>)

freezing fuel duty will be about £9bn a year by 2021-22.<sup>21</sup> Freezing it for another year will cost an additional £0.75bn per annum.<sup>22</sup> 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,<sup>23</sup> and most of this tax giveaway will be picked up by the better-off half of households.<sup>24</sup> Rises in fuel duty should continue on environmental grounds, with financial support given to those for whom reducing their use of fossil fuels is exceptionally costly.

## VAT

Expenditure taxes tend to be regressive in that poorer households need to spend more of their income than richer households. However, since children are more likely to live in poorer households and poorer households spend more of their income on food, the regressivity of VAT in the UK 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.

## Local authority funding

The Women's Budget Group is particularly concerned that local authority (LA) funding has since 1993 become increasingly regressive and unfair. 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. The poorest LAs who receive the least from council tax charges and business rates are thus being supported by a dwindling central government grant,

resulting in the communities with greatest needs having the smallest budgets.<sup>25</sup>

That situation will only get worse by 2020 when, moving towards 'self-sufficiency' and 'away from dependence on central government' all grants from Whitehall to town halls will be phased out and LAs will be allowed to retain 100% of business rate revenues.<sup>26</sup>

Analysis by local authorities in the North East revealed that the 10 most deprived areas in England 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%.<sup>27</sup> 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.

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.

## Tax avoidance and evasion

Unfair tax practices are a gendered issue because they reduce the amount of tax paid by the wealthy (the majority of whom are men), and by large corporations and thus reduce government revenue, making governments less willing to spend on the services and social security relied upon by women in particular.

Corporate tax incentives and allowances, like those on personal income, increase the scope for tax avoidance. Women-run and owned businesses tend to be smaller, meaning that they are less able to afford

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<sup>21</sup>WBG calculations using OBR policy measures database (March 2017) <http://bit.ly/2l7OHWH>

<sup>22</sup> Institute for Fiscal Studies (2017) *Autumn 2017 Budget: options for easing the squeeze* (<http://bit.ly/2z46GGS>)

<sup>23</sup> Department of Transport (2016) *Road Use Statistics Great Britain 2016* (<http://bit.ly/1ScwLEM>)

<sup>24</sup> Stuart Adam (2016) *Tax and benefit reforms, IFS post-Autumn Statement briefing 2016* (<http://bit.ly/2lMF6aj>)

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<sup>25</sup> Innes D TG. (2015) *Central Cuts, Local Decision-Making: Changes in Local Government Spending and Revenue in England, 2009-10 to 2014-15* (<http://bit.ly/2l6Pi9v>)

<sup>26</sup> Public Finance (2015) *Osborne scraps core grant and allows councils to keep business rates* (<http://bit.ly/1hx14Jy>)

<sup>27</sup> North East Combined Authority and ANEC (2016) *Taking Account of Differences In Ability to Raise Council Tax Income* (<http://bit.ly/2ms0f6P>)

specialist accountancy advance that would enable them to take advantage of specific tax incentives (and tax avoidance).

Corporate tax avoidance, especially through tax havens, worsens gender equality not only in the UK, but worldwide. It makes other necessary legislation, such as on employment and safety regulation and on minimum wages, harder to implement. All these factors especially impact on women in poorer countries, who are often employed at low wages in industries that are free to move to countries with less regulation, lower taxes and less social protection, weakening those workers' bargaining power.

Tax avoidance leads to inefficient company structures and business decisions purely to avoid taxes. That intelligent people are employed simply to help others avoid paying taxes, and so thwart the will of a democratic government, is also a waste of some of the best talent of this country and many others.

Men are not only more likely to gain from tax avoidance, they are more likely to be employed, and to be better paid, within the tax avoidance industry, a part of the financial services sector, where some of the most spectacular discrimination has been demonstrated by court cases in recent years. Well under 20% of the principals at the five largest accountancy firms in the UK are women.<sup>28</sup>

Recent research has also suggested that there is a gendered element to companies' propensity to avoid tax. A study of the largest US multinational enterprises over ten years concluded that 'the proportion of women on the board operates as a brake on corporate tax avoidance'.<sup>29</sup>

The Women's Budget Group welcomes all measures to reduce tax avoidance but notes that those introduced so far have done little to reduce the estimated £119.4bn tax gap.<sup>30</sup> We urge the government to spend more on employing well qualified specialists in the HMRC to tackle tax avoidance.

## Conclusion

The 2011 authoritative Mirrlees Review set out a comprehensive analysis and recommendations for designing a good tax system.<sup>31</sup> 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 gender analysis of the tax system, and of changes to it over time, is needed. Such an analysis is relevant because the objectives of a tax system should include improving gender equality in roles and relationships and in access to resources. Such analysis should examine not only the incidence of taxation on men and women, but also the total revenue raised towards public spending, given the importance of such spending to women.

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## UK Women's Budget Group, November 2017.

WBG is an independent, voluntary organisation made up of individuals from Academia, NGOs and trade unions. See [www.wbg.org.uk](http://www.wbg.org.uk)

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<sup>28</sup> Financial Reporting Council (2015) *Key Facts and Trends in the Accounting Profession* (<http://bit.ly/2zHJxtN>)

<sup>29</sup> Cooper, M. and Nguyen, Q. (2017) *A study of different approaches to corporate tax planning in large US multinational enterprises, a quantitative analysis* (mimeo)

<sup>30</sup> Tax Justice Network (2014) *Tax evasion in 2014 and what can be done about it* (<http://bit.ly/1poQEHn>)

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<sup>31</sup> Institute for Fiscal Studies (2011) *Tax by Design* (<http://bit.ly/2lxfkle>)