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# Tax and Gender

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

**October 2019**

## The many gender impacts 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 as austerity measures are having particularly harsh effects on women, **tax cuts since 2010 disproportionately benefitting men will cost the Treasury £47bn per annum by 2021-22.**
- 63% of the benefit of the increase in the Personal Allowance and Higher Rate Threshold in the 2018 budget has gone to men.
- The Women's Budget Group believes that the whole income tax system should be reformed to make it **more progressive, more inclusive** and reduce the use 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.
- **The fuel tax escalator should be implemented** ending the pattern of annual freezes; not only is fuel tax duty a useful source of revenue, but it is vital that fossil fuel use be reduced to help meet climate change targets.
- Corporation tax should be set at average international levels and the UK should **lead efforts to institute the international coordination of tax rates.**
- **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 cuts.

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.

By 2021-22, annual tax revenue could be £47bn higher – more than the total annual cuts in social security spending – had three main tax give-aways not been pursued. These were cuts in fuel and alcohol duties (£10bn), corporation tax rates (£13bn) and raising income tax and NICs thresholds (£24bn) – all of

which have benefited men and higher income taxpayers disproportionately.<sup>1</sup>

The NHS and social care are recognised as being in crisis. The additional funding in the 2019 spending review will not make up for successive years of cuts. Current calculations of the size of the social care 'funding gap' give estimates of the amount needed to maintain provision at the 2015 level (£1.5bn in 2020/21 and £6.1bn by 2030/31). But in 2015, provision was totally inadequate. Even just to return to the higher levels of provision in 2009/10, when social care was already widely seen as underfunded, spending in 2017/8 would have had to increase from £17.9bn to £24.3bn, a rise of 36%. To get to this level of provision in 2021/22 would require spending to rise to £27bn, and to £38.7bn by 2030/31;<sup>2</sup> in today's prices, a funding gap of £8bn and £15bn respectively.

Social security reforms, notably the rolling-out of Universal Credit (UC), the four-year freeze in working-age benefits and the two-child cap on benefits for children, are already causing great hardship and will continue to cause worse deprivation, particularly to women and ethnic minorities.<sup>3</sup> Additional funds will be needed if this disastrous policy is to be changed, as we would urge the government to do.<sup>4</sup>

## **Income Tax and National Insurance**

### **The personal allowance and the higher rate threshold**

In the 2018 Budget the Chancellor announced he would raise income tax thresholds by more than inflation, and a year earlier than required to do so to meet commitments in the Conservative Manifesto. As a result, the Personal Tax Allowance has risen to £12,500 and the Higher Rate Threshold to £50,000. Such tax cuts are highly undesirable, costing a great deal but failing to benefit the worst-off in society.

The tax cuts in the 2018 budget will give away nearly £3bn in 2019/20 and nearly £2bn in 2020/21 to

income tax payers (58% of whom are men), while those with earnings below this existing income tax threshold, who do not benefit from this measure at all, are predominately women<sup>5</sup>.

The larger gains go to higher rate tax payers (on average £387 each in 1919/2020) while basic rate payers gain less (on average £66 each in 1919/2020)<sup>6</sup>. More than 43% of adults do not earn above the current PTA and so do not benefit at all from raising it, while those who earn just above it or are on means-tested benefits gain less than better-off taxpayers.<sup>7</sup> Of those that do not benefit, 66% are women and 41% have dependent children.<sup>8</sup>

Because there has been no progress in closing the gender gap in earnings at this level, 70% of those taken out of higher rate tax are men<sup>9</sup>. 73 per cent of higher rate tax payers, who will benefit from the raising of the higher rate threshold, are men.<sup>10</sup>

Overall, 63% of the benefit of the increase in the Personal Allowance and Higher Rate Threshold goes to men.<sup>11</sup>

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.

It was estimated in 2016 that if the government was to fulfil its pledges concerning the PTA and HRT by April 2020, it would by the end of parliament 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>12</sup> Inflation is making raising these thresholds less generous, less

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

<sup>2</sup> Watt, T. Varrow, M. Roberts, A. and Charlesworth, A. (2018) *Social care funding options: How much and where from?* (<https://bit.ly/2EtdNwn>)

<sup>3</sup> WBG (2017) *Intersecting Inequalities* (<https://www.intersecting-inequalities.com/>)

<sup>4</sup> See WBG (2018) briefing on women and social security and women (<http://bit.ly/2CTAFnw>)

<sup>5</sup> HM Treasury Budget 2018: policy costings (op. cit.) p5 and HMRC (2018) Overview of Tax Legislation and Rates <https://bit.ly/2D0DUJH> pp76/7

<sup>6</sup> HMRC (2018) Overview of Tax Legislation and Rates (op.cit.) p76

<sup>7</sup> Institute for Fiscal Studies (2015) *Taxes and benefits: the parties' plans* (<http://bit.ly/2lgxWYH>)

<sup>8</sup> Hansard (23 March 2015) Lord Deighton: Answer to written parliamentary question asked by Baroness Lister. (<http://bit.ly/2lziX2R>)

<sup>9</sup> HMRC (2018) Overview of Tax Legislation and Rates <https://bit.ly/2D0DUJH>

<sup>10</sup> WBG 2018, 2018 Autumn Budget: WBG full analysis, <https://bit.ly/2oGssNU>

<sup>11</sup> WBG 2018, 2018 Autumn Budget: WBG full analysis, <https://bit.ly/2oGssNU>

<sup>12</sup> Resolution Foundation (2016) *Changing Tax: Pressing reset on the UK's tax policy* (<http://bit.ly/2meRwJ1>)

expensive and therefore somewhat less unfair. But this £19bn still compares to the £12bn per annum it was planning to save over the same period by cuts to social security benefits, which disproportionately hit women and the poor, who also benefit least from the tax giveaway.<sup>13</sup>

If tax thresholds had been frozen at their pre 2018 level, that would have raised £7.6bn per annum by 2022–23: £5.9bn from the personal allowance and £1.7bn from the HRT, compared with raising those thresholds in line with inflation (under the OBR's current inflation forecasts, a 7.8% real-terms reduction in the level of those thresholds).<sup>14</sup> Imposing a similar four-year freeze on tax thresholds to that currently applied to working-age benefits would be a progressive move that the WBG would applaud, since such tax rises would not impact on the poorest, those who continue to earn below the current personal tax allowance, roughly two-thirds of whom are women.

Alternatively, if the government decided to increase all income tax rates by one percentage point, HM Revenue and Customs (HMRC) estimates that would raise around £6bn per year. This would be a move in an even more progressive direction than freezing the thresholds.<sup>15</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>16</sup>

### **National Insurance**

National Insurance Contributions (NICs) constitute a regressive tax on earners. If all NIC rates were to go up by 1%, about £5.4bn additional revenue would be raised from employees and £2.8bn from employers,

while removing the exemption from paying NICs on those above State Pension Age would raise £1.1 billion.<sup>17</sup> A more progressive reform would remove the upper earnings limit (UEL), 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). This would raise up to £11bn just from employees (assuming rates remained unchanged).<sup>18</sup>

### **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. 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.

### **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 cost the Treasury £38bn in the year 2016/7<sup>19</sup> 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>20</sup> The WBG believes that any pension such relief should be restricted to the basic tax rate and the revenue gained spent on raising the State pension.

<sup>13</sup> Institute for Fiscal Studies (2017) *Autumn 2017 Budget: options for easing the squeeze* (<http://bit.ly/2z46GGS>)

<sup>14</sup> Institute for Fiscal Studies (2018) *Green Budget 2018: Options for raising taxes* (<https://bit.ly/2Oy58O8>)

<sup>15</sup> HMRC Direct effects of Illustrative Tax Changes (2018) (<https://bit.ly/2CrgoEv>)

<sup>16</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>17</sup> HMRC Direct effects of Illustrative Tax Changes (2018) (<https://bit.ly/2CrgoEv>) and IFS (2018) *Green Budget 2018: Options for raising taxes* (<https://bit.ly/2Oy58O8>).

<sup>18</sup> A 1% rise in NI rates raises £1.1bn from those earning above the UEL (ibid.). Abolishing the UEL is equivalent to a 10%-points rise in NI paid by this group.

<sup>19</sup> National Statistics (2018) *Registered pension schemes: cost of tax relief* (<https://bit.ly/2PIZzSL>)

<sup>20</sup> See WBG briefing on Pensions (<http://bit.ly/2jvxikQ>)

## 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>21</sup>

We urge the Chancellor to continue seeking ways to make the taxation of different ways of working fairer, while sustaining the tax base as the economy undergoes rapid change.

### 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>22</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>23</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>24</sup>

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

Maintaining the headline corporation tax rate at 19% rather than cutting it further would raise an estimated £5.3bn in 2020-21; returning to the rate of 20% that prevailed until this year would raise £7.8bn; returning it to 26%, the level it was at in 2011/12, would raise around £19bn.<sup>25</sup>

### Indirect taxes

#### Fuel Duty

2018 was the ninth year in which what were to be automatic increases in fuel duty have been cancelled.

This has amounted to £46bn in lost revenue over eight years (£8.5bn this year alone), compared to the fuel duty escalator planned in 2010, and the cost of continuing to freeze fuel duty will be about £9bn a year by 2021-22.<sup>26</sup> Even just an inflation linked increase on fuel, would have raised £800m just in the coming year.<sup>27</sup> As well as severe economic and environmental costs, cuts in fuel duty primarily benefit men, who are more likely to drive and drive

<sup>21</sup> Stuart Adam (2016) *Tax and benefit reforms, IFS post-Autumn Statement briefing 2016* (<http://bit.ly/2IMF6aj>)

<sup>22</sup> 20% of FTSE 250 board members were women in October 2015 (<http://bit.ly/1YlOonE>). 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>23</sup> The OECD warns about these pressures: <http://bit.ly/1OzK2qN>

<sup>24</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/2zLzvVH>)

<sup>25</sup> Institute for Fiscal Studies (2018) *Green Budget 2018: Options for raising taxes* <https://bit.ly/2Oy58O8>

<sup>26</sup> *The Guardian* (3 Oct 2018) 'Theresa May pledges to freeze fuel duty for ninth consecutive year', citing IFS figures (<https://bit.ly/2OZ1x8n>)

<sup>27</sup> IFS Green budget 2018, <https://bit.ly/2Oy58O8>

longer distances than women,<sup>28</sup> and most of this tax giveaway will be picked up by the better-off half of households, as unlike for many other consumer goods, the proportion of income spent on fuel is roughly proportional across the income distribution.<sup>29</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 used to be compensated for by 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>30</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>31</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>32</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 specialist accountancy advice 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,

<sup>28</sup> Department of Transport (2016) *Road Use Statistics Great Britain 2016* (<http://bit.ly/1ScwLEM>)

<sup>29</sup> IFS Green budget 2018, <https://bit.ly/2Oy58O8>

<sup>30</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/2l6P19v>)

<sup>31</sup> Public Finance (2015) *Osborne scraps core grant and allows councils to keep business rates* (<http://bit.ly/1hxi4Jy>)

<sup>32</sup> North East Combined Authority and ANEC (2016) *Taking Account of Differences In Ability to Raise Council Tax Income* (<http://bit.ly/2msOf6P>)

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>33</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>34</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>35</sup> We urge the government to spend more on employing well qualified specialists in the HMRC to tackle tax avoidance.

## Conclusion

Gender analysis of the tax system, and of changes to it over time, is needed. 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.

The whole income tax system should be reformed to make it more progressive, more inclusive and avoid the view of tax as a burden. WBG recommends:

- A freeze on tax thresholds
- A more progressive system of income tax, in which all income, including capital gains, is taxed in the same way.
- Reversing planned decreases to corporation taxes which fuel a race to the bottom, overwhelmingly benefit men and take away from public revenue
- Considering introducing taxes on wealth and financial transactions.
- Increasing fuel duty, and possibly other green taxes, while giving financial support to those who have exceptionally high costs in reducing their environmental footprint.
- Reviewing the tax and social protection systems together.
- Reducing tax allowances to reduce the scope for tax avoidance and clamping down on tax evasion

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### UK Women's Budget Group, November 2019.

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>33</sup> Financial Reporting Council (2015) *Key Facts and Trends in the Accounting Profession* (<http://bit.ly/2zHJxtN>)

<sup>34</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>35</sup> Tax Justice Network (2014) *Tax evasion in 2014 and what can be done about it* (<http://bit.ly/1poQEHN>)