

**Policy briefings on  
coronavirus and inequalities**

# **Taxation and Gender**

## Taxation and gender

*A policy briefing from the UK Women's Budget Group*

### 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.
- The costs of the pandemic should not be paid for by immediate tax rises or any further austerity cuts in public services.
- Instead the tax system should be reformed to make it **more progressive and able to contribute better to the funding of public expenditure**, including by introducing more progressive income tax schedules in which all income, capital gains and gifts are taxed in the same way.
- **Tax reliefs, allowances and exemptions should be treated like any other expenditure** with their gains rigorously assessed against their costs. A wholesale reassessment of the existing system of reliefs on such a basis is required with a view to reducing the expenditure made on them, which fuels tax avoidance and tends to benefit better-off men.
- Inheritance tax should be replaced by the progressive taxation of receipts to reduce wealth inequalities and promote social mobility.
- Fuel taxes should not continue to be frozen; thought should be given to implementing **new and existing environmental taxes in ways that do not increase inequalities**.
- A better system of local taxation based on local income tax and a land value tax should be considered. In the meantime, central government funding of Local Authorities should be increased.
- Corporation tax should be set at average international levels for OECD countries to prevent a race to the bottom in taxing business profits
- **The UK should take the lead in developing international agreements to prevent tax secrecy** (e.g. by requiring country by country reporting), set floors to tax levels to prevent a race to the bottom in personal and business taxation, remove tax loopholes that allow for tax avoidance and restrict the range of tax allowances, reliefs and exemptions more generally.
- **Tax avoidance, both through tax havens and in the UK, should be tackled more effectively**, including through funding HMRC properly to employ more and better qualified staff at HMRC.

## **Introduction**

The UK Women's Budget Group (WBG) views taxation as the necessary financial contribution that individuals and companies make to having a well-functioning society. The coronavirus pandemic has shown how public investment in vital key sectors, such as adult and childcare, health and education, is needed both for normal times and to protect the economy from future crises, including pandemics. In the short-run, revenues from tax should not be expected to fund such investment, but in the long-run additional forms of taxation may be needed, in so far as such investments do not pay for themselves through generating increased revenue through existing taxes.

A period of mass unemployment is not a good time to raise the level of taxation on most people, whose spending is necessary to stimulate the economy. However, it is an excellent time to make the tax system fairer by ensuring that those with the highest incomes and greatest wealth pay the greatest share of tax. All else equal, this will also stimulate the economy by shifting disposable income from the rich to the poor, who are more likely to spend it, boosting overall demand.

For tax reform to be possible, the government must resist the temptation to portray paying tax as undesirable (for example, by the promotion of "tax-free" childcare or savings accounts) but instead shows support for taxation as a socially necessary contribution to society. A significant change in attitude towards tax payment in the rhetoric and actions of UK politicians is needed within and outside parliament.

## **No more austerity**

Women, being more likely to take up caring roles, are particularly helped by state spending on public services and more likely to receive social security payments. Men, having higher

incomes, make a larger tax contribution, so claim a larger share of any tax cuts.

The public debt has risen greatly in 2020 due to falling tax revenues and increased spending due to the pandemic. This should not be seen as a reason for further austerity measures. Cuts to public spending since 2010 have had a disastrous impact on women and our social infrastructure. Such cuts have also left the UK economy unprepared and uniquely vulnerable to the pandemic. If fiscal consolidation is ever thought necessary in the future, it should be achieved by tax rises rather than public expenditure cuts.

By 2021-22, annual tax revenue would be £47bn higher had three main tax give-aways not been pursued by successive government since 2010. 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> Additional spending on top of that for costs of the pandemic is now needed to put right the effects of the "austerity" cuts in public services and social security payments implemented at the same time as these short-sighted tax breaks.

## **Personal taxation**

The Personal Allowance (PA) and the Higher Rate Threshold (HRT) for income tax have been raised by successive governments since 2010, and now stand at £12,500 and £50,000, respectively. Such tax cuts have been highly undesirable, reducing revenue greatly but failing each time to benefit the more than 40% of adults who did not earn above the original PA.<sup>2</sup> Of those that gained nothing from the most recent changes, 66% were women and 41% had dependent children.<sup>3</sup> 63% of the benefit of the increases in the PA and HRT went to men, who

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

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

<sup>3</sup> Hansard (23 March 2015) Lord Deighton: Answer to written parliamentary question asked by Baroness Lister. (<http://bit.ly/2lzjX2R>)

<sup>9</sup> HMRC (2018) Overview of Tax Legislation and Rates (<https://bit.ly/2D0DUIH>)

made up 73 % of higher rate tax-payers in 2018.<sup>4</sup>

Total tax revenue as a share of national income is low in the UK compared with similar European countries because of lower revenues from income taxes and social security contributions (15% of national income, compared with an average of 20% across G7 countries and 25% in Scandinavia)<sup>5</sup>. In particular with an exceptionally large tax-free allowance, 42% of UK adults no longer pay income tax<sup>6</sup>.

Raising the PA in this way has thus eroded 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 better funding for the public sector to promote fairness, it needs to be both more progressive and more inclusive, with a steeper rise in rates from a lower basic rate and a lower personal allowance. Abolishing the PA and using the extra revenue to fund a flat payment to all adults, would make the system as a whole more progressive<sup>7</sup>. To fund such a payment by raising income tax rates, especially those on higher incomes, would be even more progressive.

### Independent Taxation

Independent taxation of income was undermined by the coalition Government's introduction of:

- the Marriage Tax Allowance, that allows the lower earner in a couple who are married or in a civil partnership to transfer up to 10% of their annual personal allowance 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.<sup>8</sup>

- the Higher Income Child Benefit Charge, that withdraws “child benefit” through the tax system from a higher rate tax-payer's income if they or their partner has claimed child benefit.

Both these measures make one partner's tax liability depend on the other's income, thereby undermining the right to independent taxation, an important contribution to women's equality, introduced in 1990 with all-party support. Both the Marriage Tax Allowance and the Higher Income Child Benefit Charge should be abolished.

### National Insurance and tax on earnings and other ways of earning

The taxation of different forms of work is in urgent need of reform:

- Earnings taken in the form of company profits tend to be taxed at lower tax rates; this option is not generally available to most employees, but taken by some of the highest paid, most of whom are men
- National Insurance Contributions (NICs) are payable only on earnings, and at a reduced rate for the self-employed (including those in the gig economy, classified as "self-employed", but more like employees in many respects.)

These differences create unfortunate opportunities for tax avoidance and can also lead to workers losing employment rights.<sup>9</sup>

Instead, all income from work should be taxed in the same way and NICs rates and benefits for the self-employed harmonised with those of employees. Consideration should also be given to whether those over 65 who are still employed should also be required to pay NICs. Reforms should also be made to employment legislation, so that employers cannot treat workers that are

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<sup>4</sup> WBG 2018, 2018 Autumn Budget: WBG full analysis, <https://bit.ly/2oGssNU>

<sup>5</sup> M. Conte, H. Miller and T. Pope, (2019) How Do Other Countries Raise More in Tax than the UK? IFS Report R160, (<https://bit.ly/35KOF1u>)

<sup>6</sup> *ibid*

<sup>7</sup> New Economics Foundation (2019) Nothing Personal: replacing the Personal Tax Allowance with a Weekly National Allowance (<https://bit.ly/3fdOaOC>)

<sup>8</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>9</sup> Stuart Adam (2016) Tax and benefit reforms, IFS post-Autumn Statement briefing 2016 (<http://bit.ly/2lMF6aj>)

effectively employees as self-employed, so that they lose employment benefits and protection. 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. We would also propose removing the Upper Earnings Limit for NICs, which makes them regressive tax over higher incomes<sup>10</sup>.

### **Income tax reliefs**

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 reduce their taxable income through tax reliefs. 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.

The current system of poorly designed tax reliefs, allowances and exemptions undermines the integrity of the tax system as a whole, by creating opportunities for tax avoidance that go far beyond the original intentions of their design. A 'tax-planning industry' based on the exploitation of such tax reliefs has grown up, wasting talent and redirecting resources into unproductive uses, and fuelling an attitude to taxation as an unnecessary evil to be avoided.

Further, there is little logic to the allowances and reliefs provided. In practice, they tend to go to the better-off, largely men, and are not subject to the same levels of scrutiny as other forms of Government expenditure.

Instead, tax reliefs, allowances and exemptions should be replaced wherever possible with non-means-tested benefits or services available to all (e.g. move from so-called "tax-free" childcare to direct funding of childcare services; from tax

relief on pension savings to an increase in the state pension, etc.)

WBG also urges the Chancellor to reduce the use of income tax reliefs to try to induce people to fund good causes. The additional revenue collected could be used to fund 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.

Any tax reliefs, allowances and exemptions that remain should be treated like any other Government expenditure with their gains rigorously assessed against their costs and their equality impacts considered. A wholesale reassessment of the existing system of tax reliefs on such a basis is required, as well as some specific measures outlined below.

### **Pension tax relief**

Contributions to private pensions receive tax relief at the tax payer's marginal rate, making it worth twice as much to higher rate as basic rate taxpayers and nothing at all to those who earn below the PA, ensuring that income inequalities between those of working age are magnified for pensioners. The extent of such reliefs has been cut in recent budgets, but still cost the Treasury £38.bn in the year 2016/7<sup>11</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>12</sup> The WBG recommends that any pension such relief should be restricted to the basic tax rate and the revenue gained spent on raising the State pension.

Wealth inequality has increased even more than income inequality over recent years. However, wealth is not taxed per se, and some dividend and savings income, and the capital gains that arise from holding wealth are substantially under-taxed compared with income that arises from working.

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<sup>10</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>11</sup> National Statistics (2018) Registered pension schemes: cost of tax relief (<https://bit.ly/2PIZzsl>)

<sup>12</sup> See WBG briefing on Pensions (<http://bit.ly/2jvxiKQ>)

Since wealth is highly correlated with income, the under-taxation of wealth and income from wealth increases both income and wealth inequality, reinforcing external tendencies in this direction and the long-term pressures on the tax system that inequality produces. It also reinforces gender gaps in income and wealth. Women are less likely than men to have income from savings and dividends and have lower levels on average of such income. They are also less likely to make capital gains.

## **Wealth taxation**

### **Income from capital and capital gains**

Instead, rates for taxing unearned income should be the same as, or possibly higher than, those applying to earned income. On the same grounds, a surcharge equal to the NICs paid on earned income should be paid on all unearned income and capital gains. Capital Gains Tax (CGT) should be charged at income tax rates and the annual exempt amount and other reliefs should be abolished or significantly reduced. The exemption for gifts to spouses should be limited to prevent or minimise its use for tax minimisation purposes and extend independent taxation to capital gains.

### **Home ownership**

The favourable tax treatment of home ownership for CGT encourages an additional demand for housing, as does the additional allowance within inheritance tax for houses passed on to family members. Both of these measures advantage those who can afford to "get on the housing ladder", inflating house prices and rents, while at the same time:

- making suitable housing unaffordable to many
- channelling investment into raising house prices rather than more productive investment.

Such tax relief is biased towards those who can afford expensive property and consequently increases inequality too. Men are more likely to be able to afford to buy a property on their own than women<sup>13</sup>.

Instead, the taxation of housing should be reformed, by abolishing any permanent relief from CGT (while possibly allowing some its payment to be delayed across successive house purchases and transfers between residents). Consideration might also be given to imputing and taxing the in-kind rents that owner occupiers enjoy. Any revenue raised by these measures could be redirected to tackling the housing shortage. This would benefit women in particular, who are 67% of statutory homeless people<sup>14</sup>.

### **Inheritance tax**

Inheritance of wealth hinders 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. The current structure of inheritance tax, with its many allowances and reliefs is inadequate to tackling these issues. Tax reliefs within it only serve to concentrate inherited wealth, as does CGT forgiveness at death.

Instead, the whole system of inheritance should be reformed so that lifetime receipts, rather than bequests, are progressively taxed at income tax rates (possibly allowed to be spread over many years<sup>15</sup>) 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 has any estate left to leave. 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

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<sup>13</sup> WBG (2019) A Home of Her Own: Women and Housing (<https://bit.ly/3pKSLwR>)

<sup>14</sup> WBG (2019) A Home of Her Own: Women and Housing (<https://bit.ly/3pKSLwR>)

<sup>15</sup> Special provision would be needed for the less well-off widowed and for a joint residence.

fairer society with more social mobility. We await the government's proposed legislation on the funding of social care as a matter of extreme urgency, and hope that it reforms Inheritance Tax as a contribution to such funding.

## **Indirect taxes**

### **Fuel Duty**

In Budget 2020 planned automatic increases in fuel duty were cancelled for the tenth successive year, leaving fuel duty unchanged until the end of the 2020/21 financial year, the longest freeze for more than 40 years<sup>16</sup>. As well as having severe revenue and environmental costs, cuts in fuel duty primarily benefit men, who are more likely to drive and drive longer distances than women,<sup>17</sup> and better-off households, as unlike for many other consumer goods, the proportion of income spent on fuel is roughly proportional across the income distribution.<sup>18</sup>

Rises in fuel duty and other environmental taxes should continue with financial support given to those for whom reducing their use of fossil fuels is exceptionally costly.

### **Value Added Tax (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<sup>19</sup>.

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 taxation**

Local government in England has very limited revenue-raising powers compared to other wealthy countries, with every other G7 nation collecting more taxes at either a local or regional level.<sup>20</sup> Local authority budgets therefore rely heavily on central government funding, which also compensates for differences between LAs in the needs they have to meet and their ability to raise revenue locally. But central government funding was nearly £29 billion lower (in real terms) in 2019–20 than it was a decade earlier, a 77% fall in revenues per person (£560)<sup>21</sup>.

There was a particularly large decrease after 2012 when LAs were given the power to retain 50% of their locally collected business rates. 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 and therefore having had to make the greatest reductions in services.<sup>22</sup>

This has particularly affected 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 for their family by their own unpaid work. This is true particularly in poorer areas. It has also affected women's opportunities for employment, since women are more likely than men to be employed by local authorities, whose gender pay gap tends to be

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<sup>16</sup>Next Green Care (2020) Fuel duty rates (<https://bit.ly/38UC38h>)

<sup>17</sup> Department of Transport (2016) Road Use Statistics Great Britain 2016 (<http://bit.ly/1ScwLEM>)

<sup>18</sup> IFS (2018) IFS Green budget 2018 (<https://bit.ly/2Oy5808>)

<sup>19</sup> De Henau, J., Himmelweit, S. & Santos C. (2010) "Gender Equality and Taxation: A UK Case Study" in C. Grown and I. Valodia (eds) Taxation and Gender Equity: A Comparative Analysis of Direct and Indirect Taxes in Developing and Developed Countries (<https://bit.ly/3favYpz>) pp 261–298).

<sup>20</sup> Institute for Government (2019) Local government funding in England (<https://bit.ly/2IPdQFN>)

<sup>21</sup>Harris, T. H Hodge & D Phillips (2019) English local government funding: trends and challenges in 2019 and beyond (<https://bit.ly/32UyX0i>)

<sup>22</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>)

smaller and who are more likely to be family-friendly employers than the private sector.

### **Council tax**

Although the nearest that we have to a wealth tax, council tax is highly regressive, with those in lower bands paying proportionately far more than those in the highest bands. It is not really a wealth tax because it is charged on occupants rather than owners.

WBG believes that a new settlement for local government funding is needed. Larger and more redistributive central funding is needed to support all, and especially the poorest, local authorities. Consideration should be given to replacing council tax with a local income tax combined with a land value tax, or in the absence of such a reform, council tax should at least reflect current property values more accurately and progressively.

### **Corporation tax**

Since 2010 the main rate of corporation tax has been reduced from 28% to 19%. The WBG applauds the Chancellor's decision not to implement a further cut in this rate which would only 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>

Rather than continuing to cut corporation tax, the WBG calls on the Chancellor to set it at average international levels (for OECD countries) and lead efforts to institute the international coordination of rates. Returning the rate to 26%, the level it was at in 2011/12, would raise around £19bn.<sup>25</sup>

Tax reliefs and allowances to corporation tax provide scope for tax avoidance, as well as leading to significant losses of revenue. A similar

wholesale review of existing tax reliefs and allowances to that advocated above for personal taxation should be instituted for business reliefs. Any tax reliefs, allowances and exemptions that remain should be treated like any other Government expenditure with their gains rigorously assessed against their costs and their equality impacts considered.

### **Tax avoidance and evasion**

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.

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 financial services sector, much of which specialises in advising firms on "tax efficiency", and 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>24</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>25</sup> In general, women-run and owned

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<sup>23</sup> The OECD warns about these pressures: OCED(2015) Corporate tax revenues falling, putting higher burdens on individuals (<http://bit.ly/1OzK2qN>)

<sup>24</sup> Financial Reporting Council (2015) Key Facts and Trends in the Accounting Profession (<http://bit.ly/2zHJxtN>)

<sup>25</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)

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.

The UK should take the lead in developing international agreements to prevent tax secrecy (e.g. by requiring country by country reporting), set floors to tax levels to prevent a race to the bottom in personal and business taxation, remove tax loopholes that allow for tax avoidance and restrict the range of tax allowances, reliefs and exemptions more generally.

WBG welcomes all measures to reduce tax avoidance but notes that those introduced so far have done little to reduce the estimated £119bn tax gap, the difference between taxes owed and taxes collected.<sup>26</sup> HMRC needs to be provided with the resources it needs to increase tax compliance and revenues. Cuts in spending on tax compliance are widely recognised to have been a false economy, since £97 is estimated to be recovered for every £1 spent by HMRC's Large Business Service<sup>27</sup>.

### **Recommendations**

- That policy makers make a positive case for taxation, talking about it as a contribution to society rather than a burden to be avoided.
- A more progressive system of income tax, in which all income, capital gains and gifts are taxed in the same way.
- Increasing corporation tax to average OECD levels to stop a race to the bottom decreasing public revenue in the UK and elsewhere
- Increasing fuel duty, and possibly other green taxes, while giving financial support to those who have exceptionally high costs in reducing their environmental footprint.
- Reducing tax allowances to reduce the scope for tax avoidance and funding HMRC properly to clamp down on tax evasion

- Taking the lead internationally in developing international agreements to prevent tax secrecy, avoidance and evasion

### **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 tax system should be reformed to make it more progressive, more inclusive and to challenge the view of tax as a burden.

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**UK Women's Budget Group, November 2020**

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<sup>26</sup> Tax Justice Network (2014) Tax evasion in 2014 and what can be done about it (<http://bit.ly/1poQEHn>)

<sup>27</sup> Tax Justice.UK (2017) Tax Should Be Effective (<https://bit.ly/32XHTSz>)