FISC Public hearing :"The Impact of Taxation on Gender Equality in the EU" Draft Opening Remarks – Manal Corwin

- Ladies and gentlemen, honorable members of the European Parliament's FISC subcommittee, good afternoon.
- I would like to thank the Chair, Mr. Tridico, for the invitation to provide some remarks on this important topic. Unfortunately, because of the train strikes, I was not able to join in person.
- Improving gender equality is a priority for many governments. In addition to considerations of fairness and foundational human rights, gender equality offers economic benefits, including by increasing the pool of human capital, enhancing the versatility and competitiveness of labour and product markets, improving productivity, and accelerating development.
- Tax policies can affect gender equality either explicitly or through interaction with gendered social norms.
- Explicit provisions which worsen gender equality, for instance those that designate the husband in a household as responsible for filing tax returns or that provide for a "married man" allowance, are now extinct in EU.
- The rare remaining explicit biases are designed to reduce gender inequalities, for example, support for working mothers.
- More commonly, tax policies can result in gender bias via their impact on incentives to participate in the labour market and the wider economy, and as a result of interactions with differentials in level of income, consumption, and wealth.
- Some examples are highlighted on the slide and include:
    - Differences in income levels: On average, men earn higher incomes than women. In the EU – and the OECD more generally – most tax systems are progressive, which means that they reduce post-tax gender wage gaps.

- Differences in taxation related to character of income: Men earn more capital income than women, which is often taxed more lightly.
- Taxation of the Fiscal unit: by which I mean whether taxable incomes are calculated on a household or individual basis – can lead to implicit bias against second-earners.
- Consumption patterns also differ between men and women, which affects the gender profile of consumption taxes.
- Differences in social roles can have both a positive and negative effect on tax bias; and
- Finally, there are implications of corporate taxes for gender equality, given differences in men's and women's participation.

- Let me elaborate on a few of these potential sources of bias.
- First, personal taxation and the fiscal unit play a key role in gender equality.
- The 2024 edition of the OECD *Taxing Wages* publication included a special study on fiscal incentives for second earners, of whom over 75% are women in most OECD countries.
- To examine the fiscal incentives provided to second earners, the chapter compares their tax rates to those of a single worker earning the same wage.[1]
- As you can see, the average tax rates are higher for the second earner in almost all EU and OECD countries, with an average difference of 3 percentage points.
- This is due to two factors:

[1] This is 67% of average wage in each country; a relatively low wage.

    - Tax reliefs based on household income: the primary earner loses a dependent spouse shared allowance or tax credit when the second earner moves into employment.
    - Joint taxation: where taxation is based on the household's income, the second earner pays tax at a higher ate because their income is added on top of the primary earner's.
- The green arrows show EU countries where both tax rates and tax reliefs are computed on an individual basis [in the absence of children]. The average tax wedge is the same for single and second earners in these countries.
- EU-OECD countries have higher differentials between the taxation of single and second-earners than other OECD countries:
    - The average gap for the 22 EU-OECD countries is 4 percentage points; whereas it is 1.8 percentage points for non-EU OECD countries
    - *[Of the 20 countries with the highest gaps in the OECD, 16 are EU countries]*
- Therefore, EU tax systems that allow for joint taxation and/or apply tax reliefs at the household levels may disincentivise married women from increasing their labour participation, to a greater extent than for other countries in the OECD.
- There is a broad literature demonstrating that higher tax rates for the second earner help to explain gaps in labour supply between men and women.
- Another dynamic relates to part-time work. Women are three-times more likely to work part-time than men, earning lower hourly part-time wages in most countries.
- Given that most tax systems are progressive, our analysis shows that the tax system reduces the part-time gender wage gap – by 10% on average.

- However, the progressivity of tax systems can create a "part-time work trap" – because of the possibility that high marginal tax rates on additional income could discourage the transition to full-time employment.

- The IMF has found that tax disincentives explain between 20-90% of the observed gender gap in hours worked and are particularly important for lower-income households or households with high differences in spousal income levels.[2]

- Compared to personal income taxes, quantitative estimates of the impact of corporate income taxes on gender equality are limited.
- However, we know from many studies that there are significant differences in how men and women participate in the corporate sector.
- For instance, women typically:
  - Own fewer corporate shares & receive smaller shares of dividends & capital gains.
  - Are under-represented in corporate boards & among senior managers.
  - Own smaller businesses, which are less frequently incorporated.[3]
  - Are less likely to engage in tax evasion, as seen in several country studies[4] as well as in the OECD's work on tax morale.
- These differences mean that corporate taxes have implications for gender equality: For example,
  - Men are more likely, as shareholders and senior executives, to benefit from reductions in the CIT rate.
  - Tax incentives may have gendered impacts depending on the size and sector of the businesses targeted.

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[2] https://www.elibrary.imf.org/view/journals/001/2022/026/article-A001-en.xml
[3] For example, this one from the OECD Centre for Entrepreneurship
[4] For example, this 2020 study from New Zealand and a 2011 study from Denmark.

    - Finally, tax avoidance, which reduces corporate taxation, is both more likely to be engaged in by men, and more likely to benefit male shareholders and executives.

- Efforts to reduce tax avoidance and profit shifting – including the BEPS Actions and the Global Minimum Tax – are an important part of a tax policy mix that promotes gender equality.

- Similarly, efforts to improve tax transparency can reduce tax avoidance and improve the taxation of corporate and capital incomes, with positive gender implications, as well as reinforcing the progressivity and fairness of the overall fiscal system.

- OECD work on tax and gender goes well beyond what I have mentioned, including a comprehensive 2022 report for the G20 on country approaches to taxation and gender; initiatives to promote female leadership in tax administrations and in tax transparency; and existing and forthcoming studies on tax morale.

- Thank you again for the opportunity to share these insights, and I look forward to responding to any questions you may have.