DO TAXES INFLUENCE INEQUALITY BETWEEN WOMEN AND MEN?

Analysis of tax codes in Guatemala, Honduras and the Dominican Republic with a gender lens to shape tax policy to limit inequality between women and men

Summary

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This report analyses the tax policies of Guatemala, Honduras and the Dominican Republic from a gender perspective. It concludes that the tax systems of those countries are essentially gender-blind and therefore end up deepening existing inequalities between men and women. The report recommends avoiding these biases in each country, contributing concrete proposals from women in fiscal debates. It also discusses how tax systems could help redistribute unpaid care work, an important debate throughout the Latin America and Caribbean region.

The full research report is available in Spanish.

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EXECUTIVE SUMMARY

From the standpoint of feminist economics, fiscal policy produces effects and impacts on the lives of women just as any other policy that is designed and implemented in contexts that are still heavily shaped by gender stereotypes. Traditional and preconceived ideas regarding the roles of men (as providers of household income) and women (as caretakers of the household and its members) in society are the basis for much fiscal policy.

Either one of the two components of fiscal policy – taxation and spending – may further entrench gender relations in which women are subordinate to men, with negative consequences for women's economic autonomy over the course of their lives and for the fight against gender inequality.

Gender analyses in Latin America and the Caribbean have focused more on studying the impacts of public spending policy on gender equality than on those of tax policies. This report seeks to reveal the gender implications of tax policy design in Guatemala, Honduras) and the Dominican Republic. While it is limited in scope, the proposals included in this report are relevant not only for the three countries analyzed, but also useful for the whole of the Latin America and Caribbean region and contribute to discussions about the potential of tax policy to help reduce gender inequalities in the region.[1]

Oxfam's research for this report analyzed whether there are explicit or implicit biases in the tax rules through a documentary analysis with a gender perspective, and then looking at the situation of men and women in each country with respect to levels and sources of income, property, consumption and labor. The research also assessed whether taxes have relatively more impact according to the level and source of income and labor, calculating effective income taxation rates in specific examples and then cross checking with official statistics on where most men and women are located.

The tax cost of corporate tax incentives and how much the investment could increase to reduce inequalities between men and women was also analyzed. Finally, different options for tax policies were looked at which could help to make visible, value and redistribute unpaid care work, assessing the advantages and disadvantages.

UNPAID CARE WORK AND ECONOMIC INEQUALITY BETWEEN MEN AND WOMEN

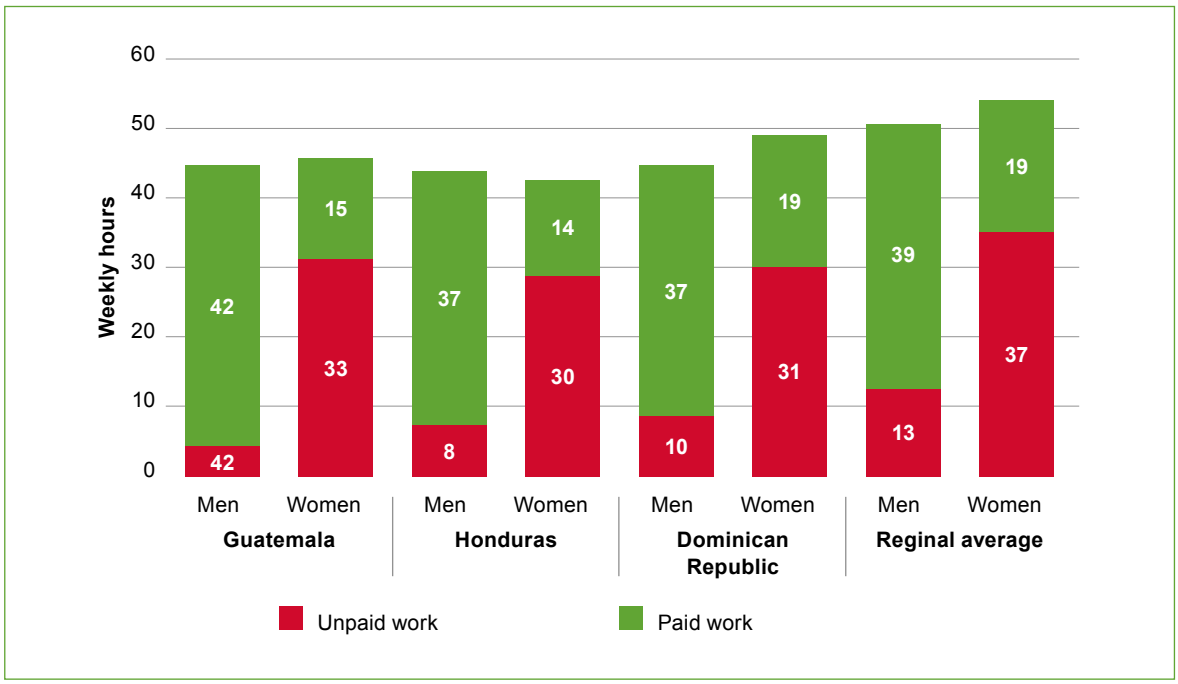
Traditional gender roles determine a large part of women's economic status and fortunes in Guatemala, Honduras, and the Dominican Republic. For every hour of unpaid work that men

perform each week, Dominican women perform an average of three hours and Guatemalan women work for seven.[2] Inversely, on average, Dominican women dedicate just over half the time that men spend performing paid work; in Guatemala and Honduras this proportion sits at barely 37%.[3]

The excessive burden of hours of unpaid care work that women take on often forces them to accept 'flexible' and/or 'precarious' employment to generate their own income while juggling the demands of care work at home. These jobs tend to be in the informal (unregistered) sector and in low-productivity work and are characterized by very low wages, the lack of a work contract, and poor or non-existent employment or social benefits, among other unfavorable conditions.

It comes as no surprise therefore, that given the burden of care work on women's shoulders in the three countries in this study, to a varying extent and profile these women all report little or precarious economic autonomy. Figure 1 shows some data to describe this phenomenon.

Figure 1: Hours dedicated to paid and unpaid work, by sex



Data source: CEPALSTAT, ECLAC.[4]

- In Guatemala, the percentage of women with no income (51%) is nearly four times that of men (14%).[5]

- In Honduras, according to the International Labor Organization (ILO), data on informal employment by sex indicate that 74.7% of working women and 67.5% of working men are found in the informal sector.[6]

- In Guatemala and Honduras, the proportion of women who work as self-employed or freelance workers (often in unregistered jobs) is greater than that of men.

- In the Dominican Republic, over 80% of working women are concentrated in low productivity sectors that, according to ECLAC, are associated with women's low economic autonomy as they age, and reduced access to the pension system.[7]

- The proportion of women working as domestic workers in private homes (an employment category in which labor benefits and social protection are often non-existent) is significantly higher than the proportion for men in the three countries in this study.

MAIN FINDINGS FROM THE GENDER ANALYSIS ON TAXATION

Oxfam's study included analysis to identify explicit or implicit bias against women's economic autonomy in tax legislation. The main findings are summarized in Table 1.

It is worth noting that a tax system is considered to have an explicit gender bias when tax legislation identifies and treats men and women differently on account of their sex alone. Implicit bias, on the other hand, occurs when the regulations established in tax law have different consequences for men and women as a result of failing to consider the root gender inequalities that characterize many societies in the design and implementation of the regulations.

Table 1: Summary of the main findings from the analysis of income taxes in the study countries

Scope	Guatemala	Honduras	Dominican Republic
Individual taxation	Yes	Yes	No, unless demonstrated that women have their own income
Different tax treatment by revenue source	Yes	Yes	Yes
Explicit or implicit bias via deductions for family burden	No	No	No

Explicit bias (different treatment in the norm on account of sex)	No	No	Yes, taxes are declared jointly by default, unless demonstrated that a woman has her own income stream.
Implicit gender bias due to different treatment by revenue source	Yes, especially penalizing independent workers; women make up a larger percentage of this group of workers. Business revenue receives greater benefits, followed by salaries and wages.	Yes, a gender bias may emerge against informal workers who must submit invoices to workers or businesses in the formal sector.	Yes, especially penalizing individuals and workers in dependent relationships (women make up a larger proportion of this group), benefiting business activities or simplified tax regimes.
	Yes, gender bias may emerge against informal workers who must submit invoices to workers or businesses in the formal sector.		

Source: Oxfam research.

Findings from the gender analysis on income taxation

- Taxation is individual in Guatemala and Honduras, thus avoiding the typical bias of joint tax returns for married couples. In the Dominican Republic taxes are declared jointly by default, unless a woman demonstrates that she has her own income. This represents the only case of explicit bias found in this study.

- In the three study countries, explicit gender bias against women in the form of differentiated treatment by sex in terms of rates, deductions, or allowed exemptions is avoided.

- There are no deductions for family burden, which could imply an ambiguous and unrealistic understanding of unpaid work, discriminate against single-parent households (usually led by single mothers), and/or discourage women's participation in the labor market.

- In Guatemala, self-employed workers pay an effective tax rate that is higher than the rate paid by business owners or formal salaried employees. Given that most working women are self-employed, the tax system contributes to widening the gender gap rather than closing it.

- In the Dominican Republic, unlike the case of Guatemala, formal salaried employees pay higher effective tax rates than those paid by business owners or self-employed workers. Given that Dominican women are over-represented among salaried employees, the tax system here also contributes to widening the gender gap.

- The existence of allowable deductions to establish the level of taxable income (available only to workers formally registered with the state who can demonstrably justify these deductions) produces a gender bias against women working in the informal sector, particularly in the cases of Guatemala and Honduras. In these countries, the proportion of women working in the informal sector is greater than that of men.

Findings from the gender analysis on indirect taxation

- In general, there are special tax provisions in the three countries in the study to protect consumers of the most essential goods and services. Nonetheless, the protections established are insufficient to avoid negative impacts from the application of indirect taxes on the poorest households, and in consequence, on women. With the increase in indirect taxation, it is likely that women in the three countries studied will find that they need to spend more time producing household goods and services themselves, in order to substitute the goods and services that they would otherwise procure through the market.

- None of the countries analyzed have considered tax exemptions or differential treatment for the consumption of goods and services related to child-rearing, care for older adults, or care for the sick as part of the design of their tax systems. This type of exemption or treatment could have a positive impact on ‘female’ households. It would also be a channel for transferring care responsibilities outside the household, thus freeing-up women’s time. This extra time could be allocated, among other activities, towards finding more opportunities for economic participation and income generation.

- Another limitation of indirect taxation in the country cases addressed in this study is the broad and heterogeneous scope of possible exemptions, which may go beyond exemptions on basic consumables alone. This setup is inefficient in general terms, and limits the generation of fiscal resources that could be used to finance public policies in favor of women and gender equality. This system configuration often implies unnecessary administrative costs for tax collection agencies.

Findings from the gender analysis on tax incentives for investment

- The evidence[8] indicates that progress toward job creation for women as a result of the many tax exemptions in place to promote investment (especially in the textile industry) is quite

modest. An analysis of aspects related to acceptable standards for decent work and wages for women workers reveals that the industries that have benefited from this special tax treatment are rooted in low wages, unstable and precarious working conditions, and unacceptable levels of job intensity, discrimination, and violence of all kinds against women. That is, even though exploitation of the female workforce does not explicitly appear as a strategy to attract investment, it is an implicit trend in many of the tax incentives for investment promotion.

- Although it can be difficult to obtain precise information, analysis was carried out on the national case studies to reveal the amount of money lost from public finances as a result of the tax incentives. In each case, the amount is substantial and correlates directly to the meager budgets in key programs and areas to improve women's lives and reduce the gender gap. These tax incentives clearly come at a significant social cost.

GENERAL RECOMMENDATIONS

In general, Oxfam concludes that the following approaches should be promoted and implemented in the three countries examined in this study:

- It is urgent to have tax information disaggregated by sex and other socioeconomic variables, to enable a more detailed assessment and identify with greater precision who is paying taxes in these countries, and who is not.

- Personal income from labor and other sources should be taxed at the same progressive rates and move towards more global schemes that tax all revenue for individuals, thus avoiding discriminatory treatment by income source. As women tend to have less capital, such a measure would help to address gender as well as wealth inequality.

- Oxfam recommends homogenizing the taxation of labor revenue, regardless of the form of employment. This shift would help to eliminate the implicit gender bias that this study detected. On this issue in particular, it is important to review the systems for taxing independent and self-employed workers and small taxpayers. The 'simplified regime', 'single tax' or 'fixed payment' mechanisms may mean that even low total tax amounts represent a high proportional burden for taxpayers at the subsistence level. Legal registration systems for this type of activity and employment should promote the extension of social safety net benefits to these populations, rather than penalizing them through the tax system.

- Exemptions on indirect taxation should be reviewed closely, especially general taxes on consumables, to avoid benefiting those sectors which have higher revenue and consumption, and to ensure exemption on the basic needs basket.

- It is important to review the extensive mechanisms for tax exemption and other fiscal incentives to attract foreign direct investment (FDI). An honest review is needed of the benefits that these regimes produce (through the creation of quality employment and other positive

outcomes) compared with their cost – in terms of fiscal effort as well as the race to the bottom for labor standards – and the benefits for investment that could be sustained even without these exemptions. This review could be a starting point to revise the current exemptions, eliminate those that are unjustified, and use the added resources to finance policies that promote women's rights and reduce the inequality gap.

REFLECTIONS ON CARE WORK AND TAXATION

Tax policy cannot ignore unpaid care work and its negative impact on women's lives. While unpaid work is hidden in the economy because it is not assigned any monetary value, neither the economy nor society could exist without it.

There is an absence of rigorous debate with a gender lens to assess the possible direct approaches to unpaid care work through the tax system. Given this, and that the importance and urgency of this issue requires action, it is worth submitting some very preliminary reflections for academics, social organizations (national and international), governments, policy specialists, and other stakeholders to consider and build on to foster the best possible opportunities for promoting women's wellbeing using the tax system as a tool (where possible) alongside other policy solutions.

Which tax policy tools could be used to address the issue of unpaid care work?

One conclusion is that the type of tool will depend on the objectives. One priority issue among others is to recognize, value, and redistribute unpaid care work, and in doing so to support women by easing these limitations on their economic autonomy and reducing the violation of their rights.

Argentina has relevant experience in this area. In the framework of other measures to improve the labor conditions of domestic workers in private homes, Argentina promulgated Law 26.063 in 2005 to create a fiscal incentive for formalizing employment for domestic workers. This law allows employers that pay taxes on revenue (income) to deduct – up to a certain limit – the employer contribution and salary of their household employees. This series of measures has led to an 18% increase (from 2004 to 2014) in the level of formal employment of domestic workers in Argentina, which is a significant outcome. This formalization process has also opened the door to retirement benefits for domestic workers, and access to services such as social security.[9]

With the example of Argentina in mind, it is worth debating the merits of certain tax policy instruments that – although they are not without problems - could be part of possible solutions to consider:

- deductions from income taxes paid for hiring domestic workers or contracting nursing services and/or care services for persons with special needs not covered by the state;

- tax incentives for affirmative action when companies hire women under decent labor conditions;

- fiscal deductions for companies that include and finance internal care services as a worker benefit (for example, day-care) and support breastfeeding for their women employees.

These tools could feed into a very necessary debate on how tax policy can contribute to recognizing and fairly valuing unpaid work, and promote a more equitable organization and distribution of household care tasks between the state, companies, families, men, women, and communities.

Women have given clear examples of how this can be achieved in different aspects of social life. Making progress on taxation is a challenge in the context of an historic struggle and one that, if done with conviction, can untangle some of the most deeply entrenched forms in which inequality is reproduced.

NOTES

1 This report focuses on identifying gender biases in taxation that put women at a disadvantage. We also recognize that identifying gender biases in taxation or other policies implies not only observing bias against women, but also against men or the LGBTI (lesbian, gay, bisexual, trans-gender and intersex) population.

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4 CEPALSTAT. Data from 2014 for Guatemala, 2009 for Honduras, and 2016 for the Dominican Republic. Regional median taken from a simple average of the 15 Latin American countries. The most recent data were taken for each country. https://cepalstat-prod.cepal.org/cepalstat/Portada.html

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