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Taxing for equality
– a re-emerging tax policy trend in Europe

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Key Findings

- Social dimensions of taxation are an underdeveloped field of research.
- The last decades of "growth-friendly" economically efficient tax policies in the European Union Member States have abandoned tax fairness objectives regarding income equality, gender equality and social justice perspectives. In fact, outcomes of these tax policies seem to undermine the inclusive social rights foundation of existing welfare states programs.
- Policy makers take legal obligations and socio-economic realities seriously to ensure that tax systems promote gender equality.
- Fiscal and social policies have to be coherent in the ambition to promote women's paid work in the labour market.

Introduction

Since the beginning of the 1980s, tax policy in the EU has been increasingly influenced by the optimal tax theory. It postulates that tax neutrality should be a guiding principle for the ultimate goal of taxing for growth. Neutral taxation bench-marks taxes that distort the economic efficiency of market processes as little as possible, implying a trade-off between efficiency and equity. By concentrating only on avoiding excess burdens of tax law on the economy, other tax objectives and principles have been down-graded, which in particular is the case for the tax fairness perspectives related to redistributive aspects on taxation.

Distributional objectives are now obvious in recent tax policy studies. The 2016 Survey on Tax Policies in the European Union published by the European Commission at the end of last year, starts out by stressing the empirically well-founded point that the sheer level of the tax burden is not decisive for growth. It is rather the structure of a tax system that matters. This explicit statement is really to be welcomed as it is still not recognized by a substantial part of public finance literature and in tax policy recommendations for the tax burden levels given in EU Member States. (European Commission 2016).

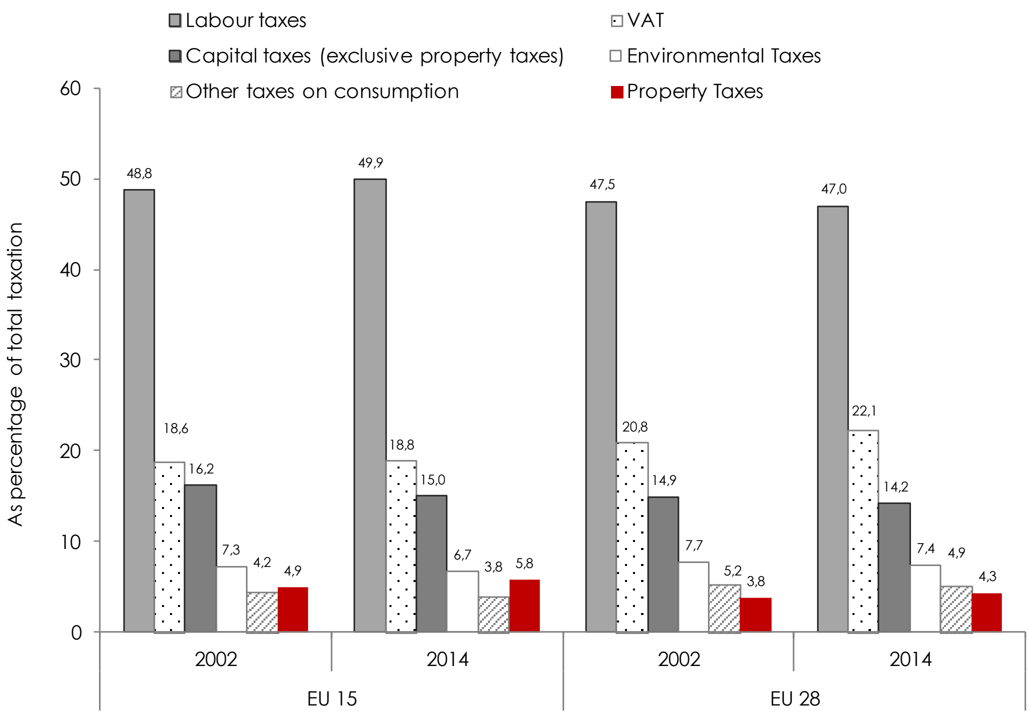
The structure of tax systems more important for growth then the level of taxation

The study is an essential step towards a policy that combines growth- and equality-enhancing perspectives, which is a return to a welfare perspective on social justice in taxation. It brings back the objective of reducing inequalities and fostering social cohesion to the tax policy agenda. This development is in line with European obligations to enhance substantive equalities and the fight against social exclusion anchored in the European Treaties, the Europe 2020 Strategy as well as the UN Sustainable Development Goals.

Heavy tax burden on labour income and low progressivity of tax systems

The figure below shows an image of the tax structures for the average of the EU15 and the EU28 Member States, respectively, for the years 2002 and 2014. It describes the individual shares of the various tax categories in relation to overall tax revenue. The figure visualizes a longer-term taxation trend in EU Member States, reflecting the focus on optimal taxation and taxing-for-growth and the policy implications they suggest. Taxes based on labour constitute almost half of overall tax revenues and the overall progressivity of taxes on labour has fallen. The share of wealth-based taxes remains limited as increases are mainly driven by real estate taxation. The share of taxes on capital has even declined since 2002, caused by rather moderate flat rates in most Member States. In contrast, value added tax with its overall regressive impact has gained in importance. Over-taxation of labour in relation to the under-taxation of corporate profits as well as top capital incomes and top wealth owners, combined with a distinct trend of a shift to VAT, gives a distributive profile that is undermining social justice and solidarity principles from a welfare state perspective. (Schratzenstalller et al. 2016)

Taxation Structure in the EU, 2002 and 2014



Source: European Commission (2016); Schratzenstaller et al. (2016).

The need to rethink and contextualize tax principles on a fair and sustainable tax system

Studies of the development of European national tax systems reveal that the introduction of modern taxes on income, wealth and consumption was based on solid tax principles and objectives. Even though economic and political priorities have undermined and challenged the interpretation and implementation of these fundamental principles, many important national tax reforms indicate that a "good", well-designed tax system should be constituted in tax principles and based upon problem-focused outcomes to achieve sustainable and fair tax systems (Gunnarsson and Eriksson 2017; Lahey, Spangenberg, Mumford & Eriksson 2016).

A democratic tax policy framework is necessary to obtain fairness and sustainability

Both the legal and economic doctrine have showed that a systematically coherent and democratically valid tax policy framework based on values, aims and principles is necessary to obtain fairness and sustainability. On the European level the tax policy framework should be based on the European Treaties as well as international commitments that the EU and its Member States have undertaken, such as the most recent ratification of the Paris agreements and the Social Development Goals. The most pressing demands of European citizens currently are economic stability and social justice. Tax principles and the design of tax policies need to recognize that these two objectives are intertwined.

Tax research as well as numerous public reports confirm that such a comprehensive approach to tax policy, integrating social justice and welfare objectives in a concept of fair and sustainable taxation will, for many reasons, take on a difficult task. Trade-offs between growth enhancing, social or equality objectives have blurred principles and outcomes of tax systems. Another reason is that even though fiscal systems are potentially decisive for redistributive policies, tax reforms are seldom used as vehicles to promote social and equality policies. The fiscal side of public budgets is also rarely a part of welfare policy programs. Consequently, the social dimension of taxation is a quite underdeveloped field of research.

Gender equality and taxation in the European Union

Gender aspects of taxation are most apparent in personal income taxation. The basic design of income tax schedules and social security contributions affects both the distributional and the allocative impact in regard to the disposable after tax income and incentive to work. Joint tax and benefit provisions in tax systems creates a disproportionately high tax burden for secondary earners. In most Member States tax wedges and tax traps for secondary earners remain two of the main disincentives to women´s labour market participation. This has been recognized for some time now, but very few initiatives have been made in Member States. Tax reforms have not been used extensively to encourage women’s employment in recent decades. For researchers working in the field of gender and taxation this is a quite unsatisfactory situation. If national tax systems continue to feed and stimulate tax traps for secondary earners a sustainable platform for the improvement of gender equality will never be achieved. If the magnitude of the problem of the tax wedge on secondary earners is to be recognised in its full context, much more has to be done within tax policies on both the EU level and the level of Member States (Rastrigina and Verashchagina 2015; Gunnarsson, Schratzenstaller and Spangenberg 2017).

Tax traps for secondary earner are, however, just one of many gender-differentiated effects of taxation. Without a broader gender perspective on taxation, existing and new tax-induced gender equality gaps will never be traced and questioned. The increasing interest in the Nordic dual income tax model that promotes a progressive tax scale on labour income and a lower flat tax on capital income has to be discussed from a gender equality perspective. Dual income tax systems are not able to correct the unequal distribution of capital incomes between men and women, but rather risk to accentuate it. The recommended shift from taxation of labour income to consumption taxes totally neglects the undesirable gender impact inherent in increases of consumption taxes. Raising indirect taxation has a regressive distributional effect particularly affecting women who are over-represented in low income groups. This undesirable distributional effect is reinforced when reforms aiming at reducing the labour tax burden focus on the labour tax and leave untouched social security contributions, which in many national tax systems burden lower income groups considerably more than the labour tax. While tax expenditures are increasingly discussed with respect to foregone revenue and a lack of effective impact, benefits and effects for women and men are largely ignored, even though they impact crucially. Also, some studies indicate that tax expenditures, because of socioeconomic realities, often are less beneficial for women, adding to the shift of the tax burden towards women (Gunnarsson, Schratzenstaller and Spangenberg 2017).

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