WOMEN'S WR REPORT

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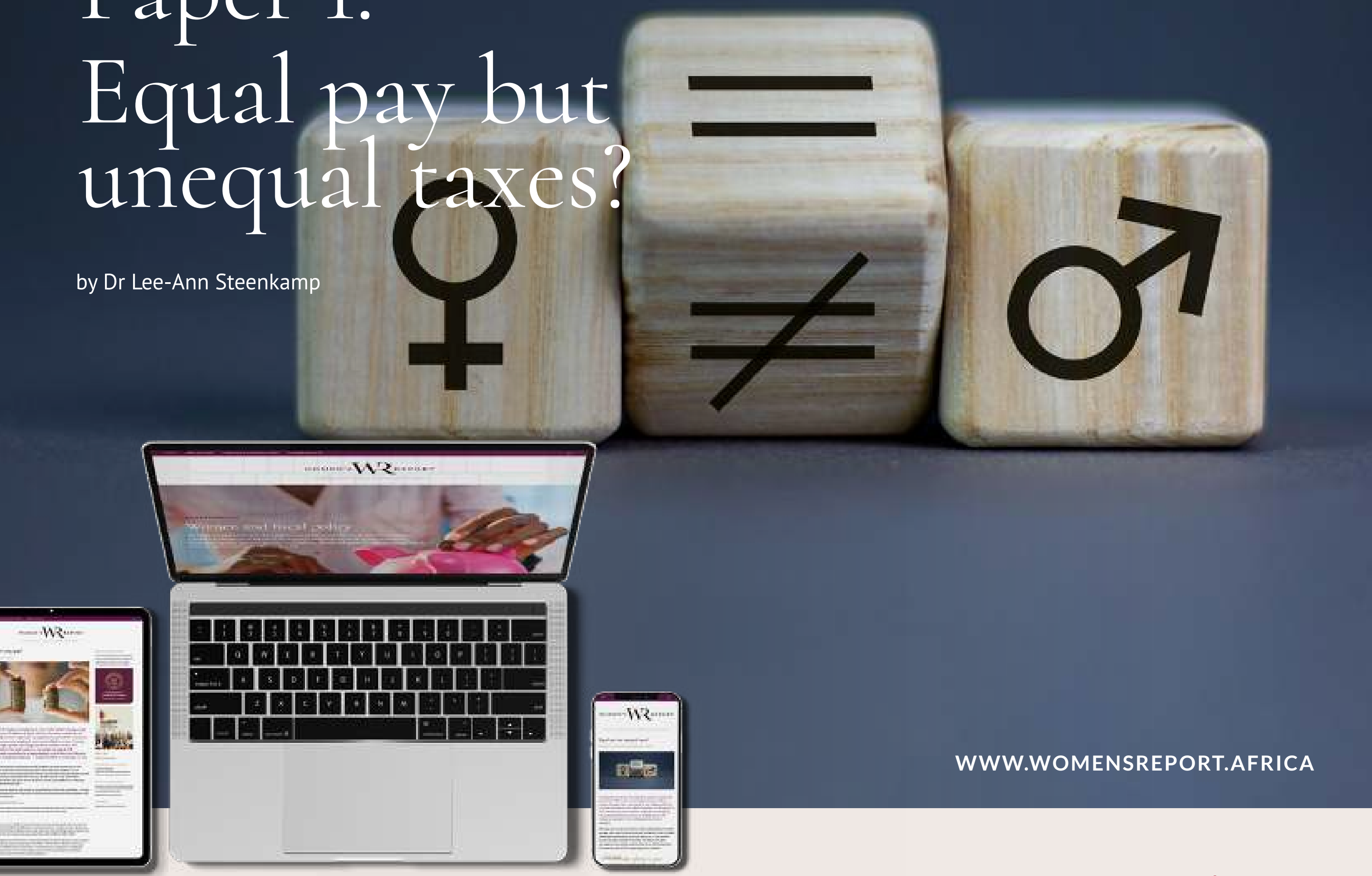
WOMEN'S REPORT 2022

Paper 1: Equal pay but unequal taxes?

by Dr Lee-Ann Steenkamp



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Equal pay but unequal taxes?

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Fiscal policy comprises two elements, namely income and expenditure. The ways in which a government collects income through taxes, and spends it, are influenced by the societies and contexts for which the policy was designed. As such, fiscal policy is not immune to gender stereotyping. The traditional notions of men as 'breadwinners' and women as 'caretakers' have influenced tax laws for centuries.

Although some progress has been made in addressing the gender pay gap, more work remains to ensure that parity is also achieved in the taxes that women pay. Fiscal policy can – and should – be used to redress gender inequities. The UN, for example, envisages fair tax policies to give effect to the fifth Sustainable Development Goal (SDG5) regarding gender equality:[1]

"Undertake reforms to give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance and natural resources, **in accordance with national laws.**" *(Emphasis added)*

There are a number of frameworks used in the literature in assessing the impact of taxation on gender outcomes. One of the most common of these was initially developed by Stotsky,[2] and recognises the explicit and implicit biases in tax systems. In this article, I explore how tax systems can either perpetuate or overcome these biases.

BIASES IN THE TAX SYSTEM

Explicit biases stem largely from patriarchal traditions, and manifest as discriminatory tax legislation, regulations, and practices.[3] In such cases, the tax law provisions are legally linked to gender, for example, not allowing married women to file their own tax returns, as was the case in Jersey until fairly recently.[4]

During the apartheid regime, South Africa's tax system contained several discriminatory practices in terms of both gender and marital status. For instance, married men were taxed at lower rates than unmarried people, who, in turn, were taxed at a lower rate than married women.[5] This was because the tax legislation defined a 'married person' only as male,[6] and contained a separate category for married women. In addition, allowances for dependants only accrued to married men. Different primary rebates were assigned according to marital status, and the tax treatment for the deduction of retirement annuity fund contributions varied.[7]

1 *United Nations (UN) Sustainable Development Goals (2016). SDG5.A. https://www.un.org/sustainabledevelopment/gender-equality/*

2 *Stotsky, J. G. (1996). Gender bias in tax systems. IMF Working Paper No. 96/99. https://ssrn.com/abstract=882995 or http://dx.doi.org/10.2139/ssrn.882995*

3 *OECD (2022). Tax policy and gender equality: a stocktake of country approaches. OECD Publishing. https://doi.org/10.1787/b8177aea-en (p. 10).*

4 *Peltier, E. (2020). "Married women on the island of Jersey win control of their taxes". New York Times. https://www.nytimes.com/2020/02/05/world/europe/marriage-tax-jersey.html. Prior to this legislative amendment, a woman required her husband's permission to even discuss her financial affairs with the tax authority.*

5 *Grown, C. & Valodia, I. (Eds). (2010). Taxation and gender equity. Routledge.*

6 *Prior to being scrapped in 1995, the definition of a 'married person' in Section 1 of the Income Tax Act 58 of 1962 read as follows: a) any male person who during any portion of the period in respect of which any assessment is made, was married and not living apart from his spouse in circumstances which indicate that the separation is likely to be permanent, or any person who during any portion of such period was a widower or widow; or b) any person who is in respect of such period entitled to any rebate in respect of a child under section 6(3)(a).*

7 *At the time, this tax treatment was not viewed as being bigoted. On the contrary, it was premised on the assumption that married couples would enjoy economies of scale; that a married woman's income could be taxed at a higher rate, as it was an 'extra' income for the household; and that married couples would split their income equally.*

Fortunately, these provisions were outlawed with the inception of the Constitution. Unfortunately, though, the new tax dispensation also resulted in some unintended consequences in the form of implicit biases. This type of prejudice occurs when tax structures seemingly treat men and women equally but have unequal outcomes. Several examples have been identified in literature, including biases in tax structures and revenue levels and the gender composition of tax administrations.[8] For the sake of brevity, I will focus on value-added tax and personal income tax, as these two tax types contribute the largest share to South Africa's fiscus.[9]

VALUE-ADDED TAX (VAT)

VAT comprises the bulk of revenue collections in most low-income countries, and is the second-largest tax revenue stream for South Africa. Moreover, most women in developing countries do not earn sufficient formal income to pay personal income taxes.[10] Instead, they are typically taxed through indirect taxes on consumption, such as VAT.[11] Although VAT legislation seldom differentiates between men and women, the burden of consumption taxes falls disproportionately on the latter. This is due to the caregiving role fulfilled by women, who, as a result, spend a greater share of their lower income on collective household needs such as food, health, and education.[12]

Governments have introduced numerous forms of VAT relief to assist poorer taxpayers. In South Africa, for example, VAT is levied at 0% (instead of the usual 15%) on basic foodstuffs such as brown bread, maize meal, rice, fresh vegetables, and paraffin used for lighting or heating.[13] Following increased pressure from community advocacy organisations against so-called 'pink taxes', some feminine hygiene products were also afforded zero-rated status in South Africa in 2019.[14] Thus, no VAT may be charged by retailers on the sale of such goods, and (at least in theory) the 15% cost saving would be passed on to consumers.

PERSONAL INCOME TAX

In an attempt to address the country's high level of income inequality, South Africa's personal income tax (PIT) system is designed to achieve wealth redistribution. The PIT rates are progressive, meaning that a higher income is taxed at a proportionally higher rate.[15]

A gender-based analysis of the recent tax statistics of the South African Revenue Service (SARS) reveals a steady (albeit modest) increase in the percentage of female taxpayers in the last few years. As illustrated in Figure 1, below, currently, approximately 46% of personal income taxpayers are women.[16]

8 *Joshi, A. (n.d.). Tax and gender in developing countries: What are the issues? ICTD Summaries Brief Number 6. https://www.ictd.ac/publication/ictd-sumbrief6/ The author points out two possible benefits of focusing a gender lens on tax administrations. The first is that the performance of tax administrations might be enhanced if more women were employed. The second, concomitant advantage is to female taxpayers themselves, who are less vulnerable to intimidation and extortion by female tax collectors as opposed to male tax collectors.*

9 *SARS (2022). Tax Statistics 2021. https://www.sars.gov.za/about/sas-tax-and-customs-system/tax-statistics/*

10 *Joshi, A., Kangave, J., & Van den Boogaard, V. (2020). Gender and tax policies in the Global South. K4D Helpdesk Report 817. Institute of Development Studies, UK.*

11 *Joshi, A., Kangave, J., & Van den Boogaard, V. (2020). Gender and tax policies in the Global South. K4D Helpdesk Report 817. Institute of Development Studies, UK.*

12 *Joshi, A., Kangave, J., & Van den Boogaard, V. (2020). Gender and tax policies in the Global South. K4D Helpdesk Report 817. Institute of Development Studies, UK. (p. 10).*

13 *In terms of Section 11 of the Value-Added Tax Act 89 of 1991.*

14 *The supply of sanitary pads and panty liners are zero-rated in terms of s 11(1)(w), as set out in Part C of Schedule 2 to the Value-Added Tax Act 89 of 1991.*

15 *This is in contrast to a flat rate, such as the corporate tax rate of 27%, which remains the same, irrespective of the level of taxable income.*

16 *SARS (2022). Tax Statistics 2021. https://www.sars.gov.za/about/sas-tax-and-customs-system/tax-statistics/*

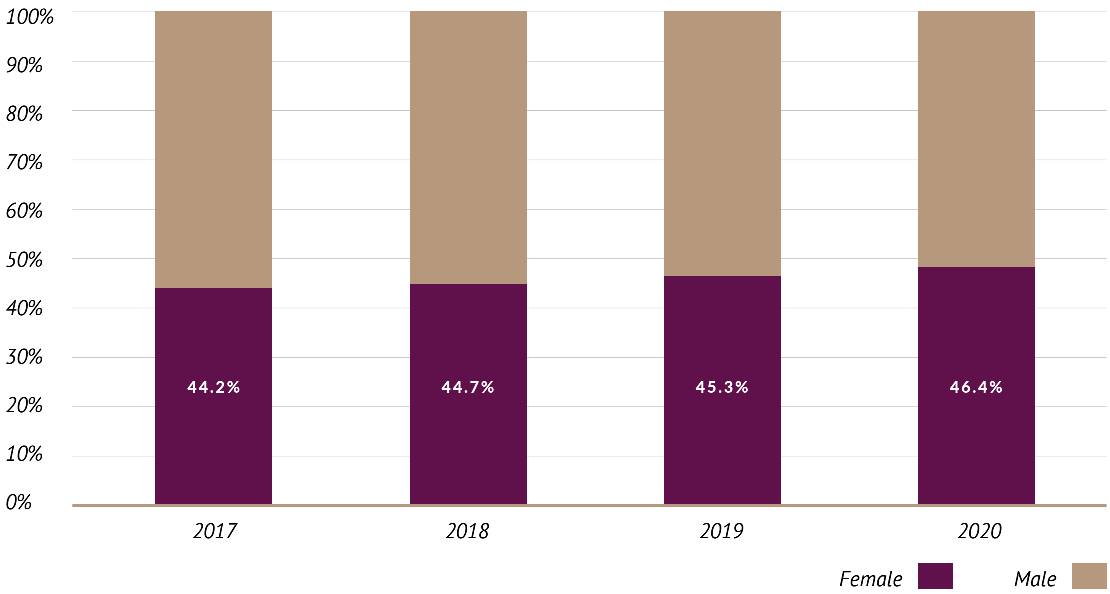

Figure 1: Gender distribution of assessed individual taxpayers (2017–2020)
Source: Author's own, based on data from SARS tax statistics (2021)

Nevertheless, women contributed only about one-third of total income taxes.[17] Thus, despite more women joining the ranks of taxpayers, their levels of taxable income are still much lower than those of men. This disparity is symptomatic of the country's historical gender pay gap and socio-economic inequalities. The result is that female taxpayers netted, on average, 19.3% less than their male counterparts, as measured by taxable income.[18]

Figure 2, below, indicates the spread of assessed individuals across the various income tax brackets. It is evident that women are more concentrated in the lower brackets. Furthermore, as the level of taxable income rises, the proportion of female taxpayers declines significantly, with the higher income tax brackets dominated by male taxpayers. In fact, for the 2020 tax year, only about 14% of the top earners were women.[19]

17 SARS (2022). Tax Statistics 2021. https://www.sars.gov.za/about/sas-tax-and-customs-system/tax-statistics/ 33.7% of the country's personal income tax liability was borne by women.

18 SARS (2022). Tax Statistics 2021. https://www.sars.gov.za/about/sas-tax-and-customs-system/tax-statistics/

19 SARS (2022). Tax Statistics 2021. https://www.sars.gov.za/about/sas-tax-and-customs-system/tax-statistics/

EQUAL PAY BUT UNEQUAL TAXES?

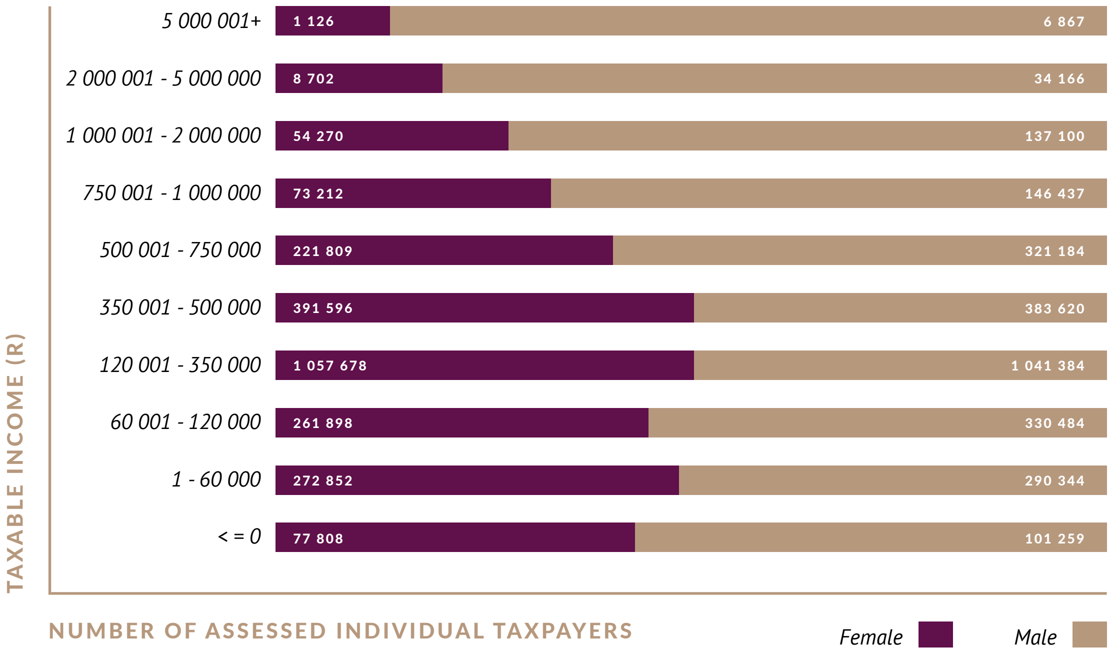

Figure 2: Gender distribution per income tax bracket (2017–2020)
Source: SARS (2022) Tax Statistics 2021

Given its progressive nature, it could be argued that South Africa's PIT system addresses gender biases in the labour market. Yet, despite the removal of the explicit discrimination occurrences mentioned earlier, the unisex tax tables have not adequately addressed the equity problem. In fact, the revised tax system seems to have deepened inequities between single-earner and dual-earner households.

SINGLE-EARNER HOUSEHOLDS

In terms of current South African income tax legislation, each individual is a separate taxpayer in his or her own right, regardless of marital status. Similarly, each individual is entitled to certain tax breaks, such as interest exemptions and personal tax rebates, which are determined by the person's age. As a result, dual-income households benefit twice from these tax breaks, which are only available once to single-earner households. This duality is best explained by way of a simplified example, wherein the personal income tax liability for two hypothetical households is calculated.

The following assumptions apply:

- *Each household earns R17 000 per month, all by way of salaried earnings;*
- *No other types of income (e.g., interest or dividends) were earned;*
- *No tax exemptions or deductions are available;*
- *The adults are younger than 65, and the children are younger than 18; and*
- *The income tax rates and rebates apply in respect of the 2023 tax year.*

EQUAL PAY BUT UNEQUAL TAXES?

	Dual-earner household			Single-earner household
Household composition	Working husband (earns R9 000 p.m.)			Working single mother (earns R17 000 p.m.)
	Working wife (earns R8 000 p.m.)			
	Two minor children			Two minor children
	Husband	**Wife**	**Total**	**Single Mother**
Taxable income	R108 000	R96 000	R204 000	R204 000
Tax at 18%	R19 440	R17 280		R36 720
Less: Primary rebate (< 65yr)	- R16 425	- R16 425		- R16 425
Income tax liability	R3 015	R855	R3 870	R20 295
Difference: R16 425				

Table 1 (Tax disparity in households) displays the calculated income tax liabilities for each household.
Source: Author's own, adapted from Jaffer (2020)[20]

The above example is illustrative of the fact that dual-earner households benefit twice from the same tax breaks, leading to significantly lower taxes. In this case, the single-earner household pays R16 425 more in taxes, which is equal to the primary rebate.

In light of the fact that nearly one-fifth of South African households consisted of a single person in 2020, this tax discrepancy deserves closer attention.[21] The gender ramifications are also pronounced, given that South Africa has a high prevalence (41.9% in 2020) of female-breadwinner households.[22] In addition, when it comes to child-rearing, single mothers by far shoulder the most responsibility, with 41.7% of children living with only their mothers, compared to 4.4% living with only their fathers.[23]

FISCAL POLICIES TO PROMOTE GENDER EQUALITY

A 'fair' tax system is premised on, amongst others, two economic theories. The first pertains to horizontal equity, which is achieved when taxpayers in the same economic position are taxed equally. The second refers to vertical equity, whereby the tax burden is distributed across a society's socio-economic spectrum.[24] In other words, taxpayers who experience different economic circumstances must be treated differently. South Africa's progressive income tax rates are a good step in the right direction in enhancing vertical equity in terms of income levels. However, more should be done to promote gender equity.

"Fiscal policy can play a supportive role as part of a nation's larger gender transformation agenda. In order to do so, Treasury departments must aim to gather more comprehensive gender-disaggregated data around consumption patterns and women in the informal economy, and conduct gender-impact analyses for tax policies."[25]

20 *Jaffer, T. (2020). Women's rights are human rights – a review of gender bias in South African tax law. M.Com thesis, University of Pretoria.*
21 *StatsSA (2021). General Household Survey 2020. https://www.statssa.gov.za/publications/P0318/P03182020.pdf StatsSA's definition of a 'household' is much narrower than that of a 'family'. The former is seen as "all individuals who live together under the same roof or in the same yard, and who share resources such as food or money to keep the household functioning", whereas the latter refers to "individuals who are related by blood and who may live very far apart".*
22 *StatsSA (2021). General Household Survey 2020. https://www.statssa.gov.za/publications/P0318/P03182020.pdf*
23 *StatsSA (2021). General Household Survey 2020. https://www.statssa.gov.za/publications/P0318/P03182020.pdf*
24 *Elkins, D. (2006). Horizontal equity as a principle of tax theory. Yale Law & Policy Review, 24.*
25 *Joshi, A., Kangave, J., & Van den Boogaard, V. (2020). Gender and tax policies in the Global South. K4D Helpdesk Report 817. Institute of Development Studies, UK (p. 21).*

When public services (for example, health and education) are under-resourced and communities are under-served, women and girls typically have to step in and provide unpaid or low-paid care work.[26] Governments should therefore consider expenditure-side strategies for enabling women to earn a decent income instead of performing unpaid care. This may be achieved through broadening access to free or affordable healthcare, education, water, and social protection, or by way of implementing social payments for care work.[27]

On the income side, tax laws could be redesigned to incorporate elements of affirmative action in favour of women, e.g., higher tax thresholds for women;[28] expanding zero-rated VAT on goods and services that support households; tax breaks for female-owned businesses;[29] reduced tax rates on property owned by women;[30] and gender-friendly tax education.[31] Another pragmatic suggestion is to allow a tax deduction for childcare costs.[32] Indeed, prior to 1994, a child tax rebate was available, but was since removed on the basis that it provided only minimal relief, and also that wealthier families unfairly benefitted from this.[33] However, policymakers could reconsider the introduction of some form of tax relief for childcare costs, which could be means-tested and capped to ensure equitable treatment.[34]

Achieving gender equity in tax systems is fundamental to supporting inclusive growth, which, in turn, can encourage labour force participation, enhance entrepreneurship and investment decisions, and ultimately improve the well-being of all citizens — men and women.[35]

26 *Joshi, A., Kangave, J., & Van den Boogaard, V. (2020). Gender and tax policies in the Global South. K4D Helpdesk Report 817. Institute of Development Studies, UK. (p. 5).*

27 *Joshi, A., Kangave, J., & Van den Boogaard, V. (2020). Gender and tax policies in the Global South. K4D Helpdesk Report 817. Institute of Development Studies, UK (p. 21).*

28 *The tax threshold is the point at which a person becomes liable to pay income tax. Thus, a higher threshold would benefit lower-income earners, as they would not need to pay income tax.*

29 *Tax breaks could take on a variety of forms, including lower tax rates, additional tax deductions allowed, and a simplified administrative process for submitting tax returns.*

30 *Alencar, H., Kuijper, C., & Theunissen, G. (2019). Gender and taxes. Oxfam, Tax Justice Network Africa. https://policy-practice.oxfam.org/resources/gender-and-taxes-the-gendered-nature-of-fiscal-systems-and-the-fair-tax-monitor-620868/ state that reducing property tax rates for women-owned (or jointly owned) real estate might provide an incentive to register property in women's names, thereby increasing their control over assets.*

31 *Joshi, A., Kangave, J., & Van den Boogaard, V. (2020). Gender and tax policies in the Global South. K4D Helpdesk Report 817. Institute of Development Studies, UK. (p. 21).*

32 *Jaffer, T. (2020). Women's rights are human rights – a review of gender bias in South African tax law. M.Com thesis, University of Pretoria. (p. 64).*

33 *Jaffer, T. (2020). Women's rights are human rights – a review of gender bias in South African tax law. M.Com thesis, University of Pretoria. (p. 64).*

34 *This is not to be confused with the existing child support grant of R480 per month, which operates independently of the tax system. This is a social grant aimed at covering the basic needs of children whose parents or guardians are financially unable to do so. More information is available at https://www.sassa.gov.za/Pages/Child-Support-Grant.aspx*

35 *OECD. (2022). Tax policy and gender equality: A stocktake of country approaches. OECD Publishing. https://doi.org/10.1787/b8177aea-en (p. 8).*

About the author

PAPER 1: EQUAL PAY BUT UNEQUAL TAXES?

Every year, we are privileged to have some of the foremost experts in their fields contribute to the Women's Report. Their insights, research, and thoughts on topics provide fresh perspectives on the advancement of gender equality at work. Experts come from the ranks of practitioners and researchers, and topics span women at work and the spill-over of perspectives on gender, at home and in society, on paid work.

DR LEE-ANN STEENKAMP

Dr Lee-Ann Steenkamp is a tax and accounting lecturer at Stellenbosch Business School where she teaches on the MBA and the Postgraduate Diploma in Financial Planning. She is also an Extraordinary Professor in Tax at the University of South Africa (UNISA). Lee-Ann is a National Research Foundation (NRF) rated researcher, the first woman from the Business School to receive this prestigious accolade. She obtained her PhD in Public Law from the University of Cape Town, wherein she examined the transition from the old Kyoto Protocol to the new Paris Agreement on Climate Change. She holds a Master's degree in taxation and is a registered Master Tax Practitioner (SA)TM. Her research focuses on 'green tax' issues, including biodiversity conservation, the taxing of energy use in developing countries and, most notably, South Africa's new carbon tax.

Lee-Ann supervises numerous MBA, MPhil Development Finance, and doctoral students, and frequently publishes in peer-reviewed journals. She is a contributing author to a number of books and university-prescribed textbooks, and presents at international conferences. Lee-Ann is Programme Director for the Postgraduate Diploma in Financial Planning, which is accredited by the Financial Planning Institute of Southern Africa (FPI).

She advises on carbon tax policy matters, and chairs the South African Institute of Chartered Accountants (SAICA) Carbon Tax Subcommittee, which provides input to National Treasury, and serves on the African Tax Administration Forum (ATAF). In addition, she is a member of the Steering Committee for the biennial International Conference on Clean Electrical Power held in Italy.

A message from the Editor

Welcome to the 2022 edition of the Women's Report!

In this edition, we hover an equity lens over the realities created for women by South Africa's fiscal policy. Fiscal policy relates to the way in which a government spends its revenue and collects its taxes. It seems reasonable to treat women and men exactly the same when it comes to fiscal decisions — 'One for you, and one for me', at first glance, is fair, is it not? Such an approach is supposed to yield a symmetrical outcome, as each individual is given the same resources and opportunities.

The reality, however, is that a number of systemic forces are disturbing the intended outcome of this equal treatment, creating asymmetries that manifest during the entire lifetime of women of all walks, from birth, during their careers, and through retirement. Perhaps that is why Aristotle used the Greek word '*isos*', which means more than mere equality — it intimates fairness through equity. When we understand equity to be a state, rather than the balance on a receipt, we can start to work backwards to identify and address the systemic causes of the asymmetry.

"This year, we take a look at some of the characteristics of South Africa's fiscus that are contributing to what becomes life-long inequity for the country's women, especially the poorest."

Tax expert Lee-Ann Steenkamp, from Stellenbosch Business School, considers the ramifications of discriminatory tax legislation, specifically the sad reality that the burden of consumption tax, VAT, falls on the poorest women – those whose income is too low to be taxable. Lee-Ann also paints a worrying picture of the current status of women's permanent employment, income levels and the wage gap, based on national tax data, together with a discussion of tax laws that disproportionately burden households with a single breadwinner, of which 41.9% are women.

In a second contribution, Lee-Ann points out that many women do not earn enough to save for retirement, they do not enjoy employers' contributions to a retirement fund, and they also overwhelmingly bear the greatest caregiving burden in society — often without compensation. She outlines "a myriad labour market, cultural, behavioural, and biological forces that converge to hamper the financial security of women retirees". Coupled with the caring responsibilities these women shoulder, it becomes clear why social grants are critical. The gender pension gap may also be ascribed to the fact that, in South Africa, more women than men hold non-permanent jobs — approximately 59% of temporary employees are women.

A message from the Editor

Ingrid Woolard, Dean of Stellenbosch University's Faculty of Economic and Management Sciences, hones in on the different types of social grants that play a key role in the anti-poverty fiscal strategy of the South African government. She clarifies the role that social grants play in "reducing short-run extreme poverty and ensuring that people are able to eat and obtain the most basic necessities", and shows that social grants are primarily paid out to women. Contrary to popular belief, young women do not aim to have more children in order to gain access to childcare grants. Ingrid outlines how "national surveys suggest that the number of pregnancies among young women is not increasing", and that younger women tend not to apply for the childcare grant, even though their children meet eligibility criteria. She reminds us that teenage pregnancies are mostly a result of inadequate sex education and risky behaviour. Young women understand the lifetime care burden that befalls them when they fall pregnant, and know that childbearing is likely to make it much harder to reach their own goals – hardly an incentive to become pregnant in order to gain access to R480 per month.

Ingrid's article dovetails with the considerations raised by Lee-Ann, creating a more comprehensive understanding of the myriad balls women have to juggle while trying to progress while providing. While this is only a slice of the gender reality pie, this issue of the Women's Report shows that much needs to be done and with greater care and consideration of the facts of life in South Africa that hamper women's advancement. Careful considerations of aspects of fiscal policy, including tax, social grants, retirement funding and gender-based budgeting, could halt the downward spiral of odds that progressively stack up against women as they navigate life. Without such informed and dedicated action and targeted fairness, addressing the plight of the poorest of the poor and eradicating the cycle of poverty for the current generation of children will remain merely a noble aspiration.

Anita

Wishing you happy reading!

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