



**FISCAL AFFAIRS**

# **Tax Policy and Gender Equality**

**JUNE 15, 2021**

Alexander Klemm  
Tax Policy Division

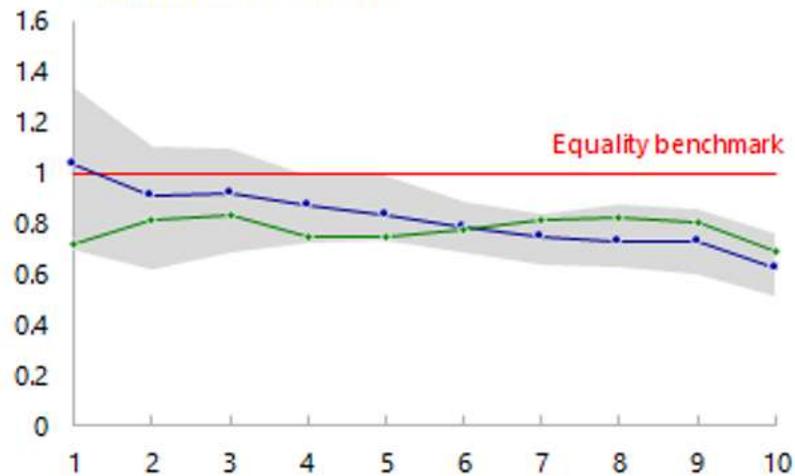
“The views expressed in this presentation are of the authors and do not necessarily represent the views of the IMF, its Executive Board, or IMF management.”

**What is most pressing gender inequality issue on which tax policy can help?**

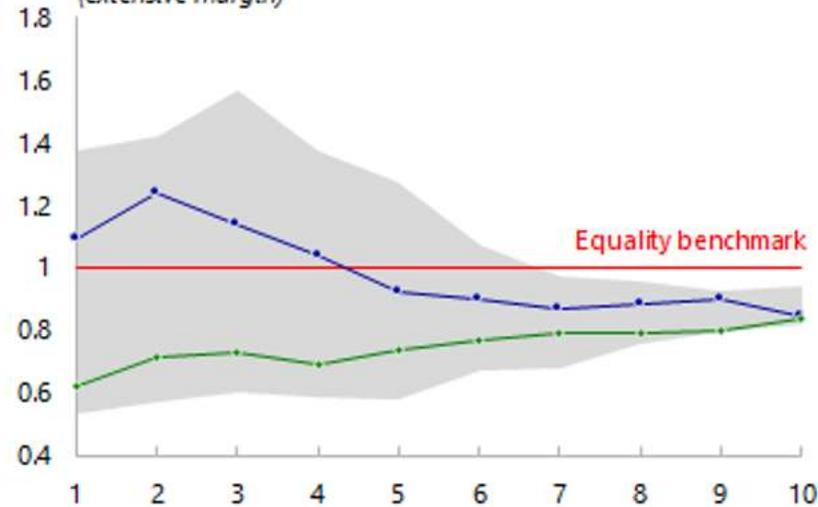
# Wage and employment gaps are common

10-90th percentile range   AE median   EM median

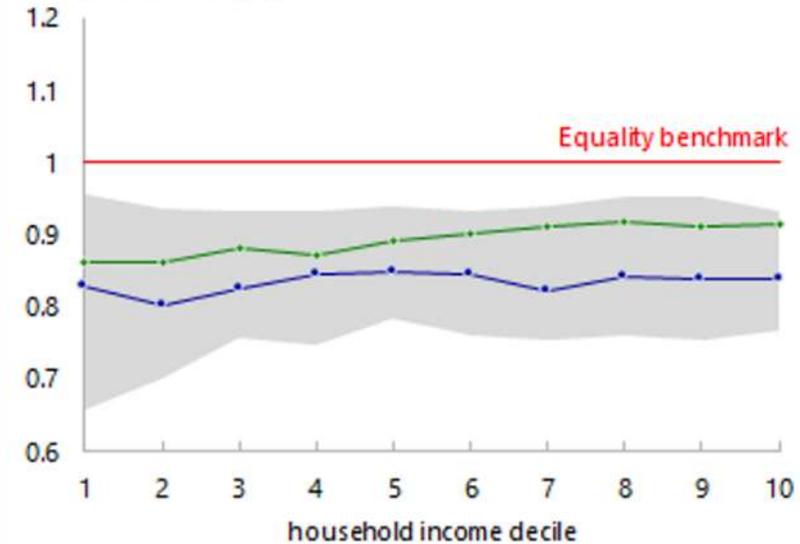
**Labor income gender gap**



**Labor force participation gender gap (extensive margin)**



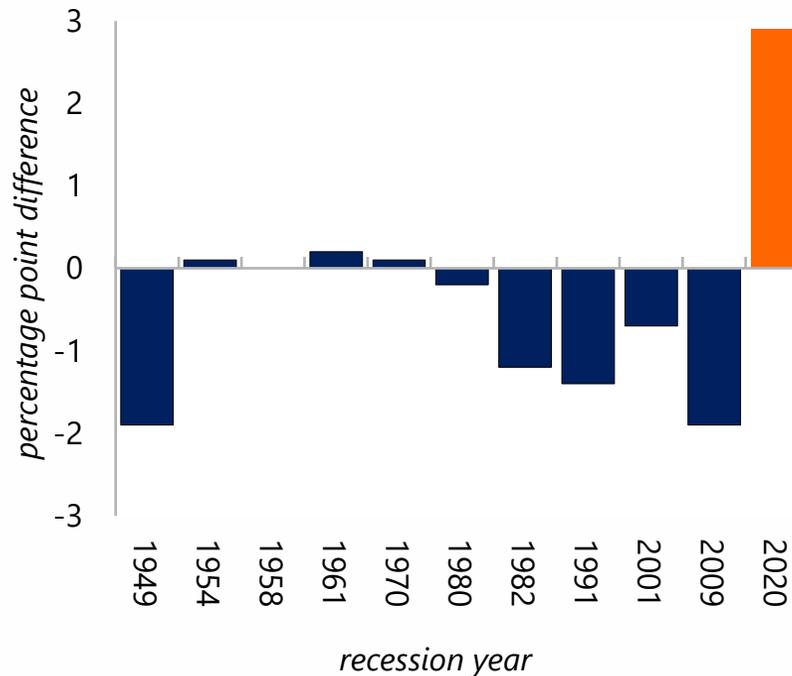
**Weekly work hours gender gap (intensive margin)**



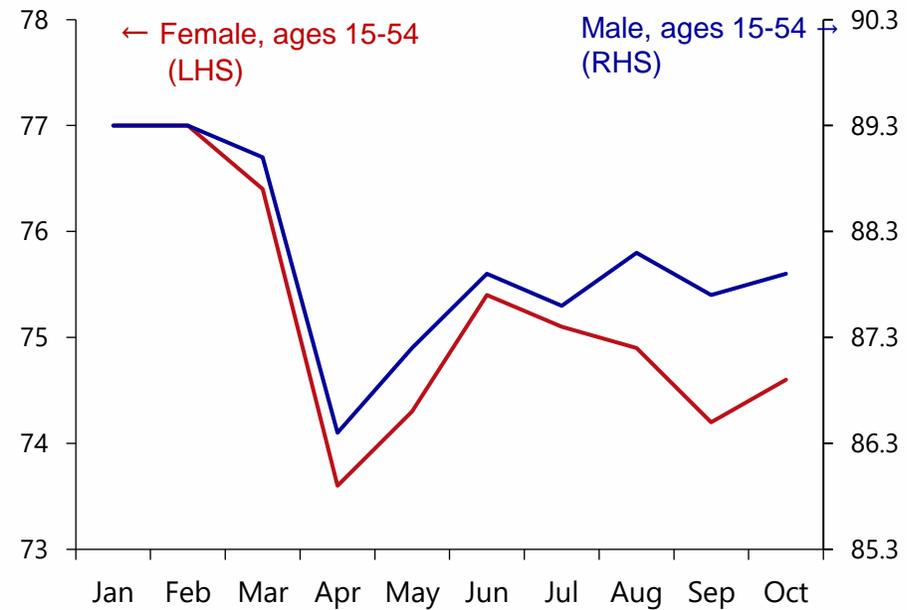
Source: LIS and IMF staff calculations

# Pandemic has likely increased gender inequalities: US experience

**Difference in rise of women's unemployment relative to men's during US Recessions 1/**



**US women vs. men's labor force participation, 2020**  
(percent, seasonally adjusted)

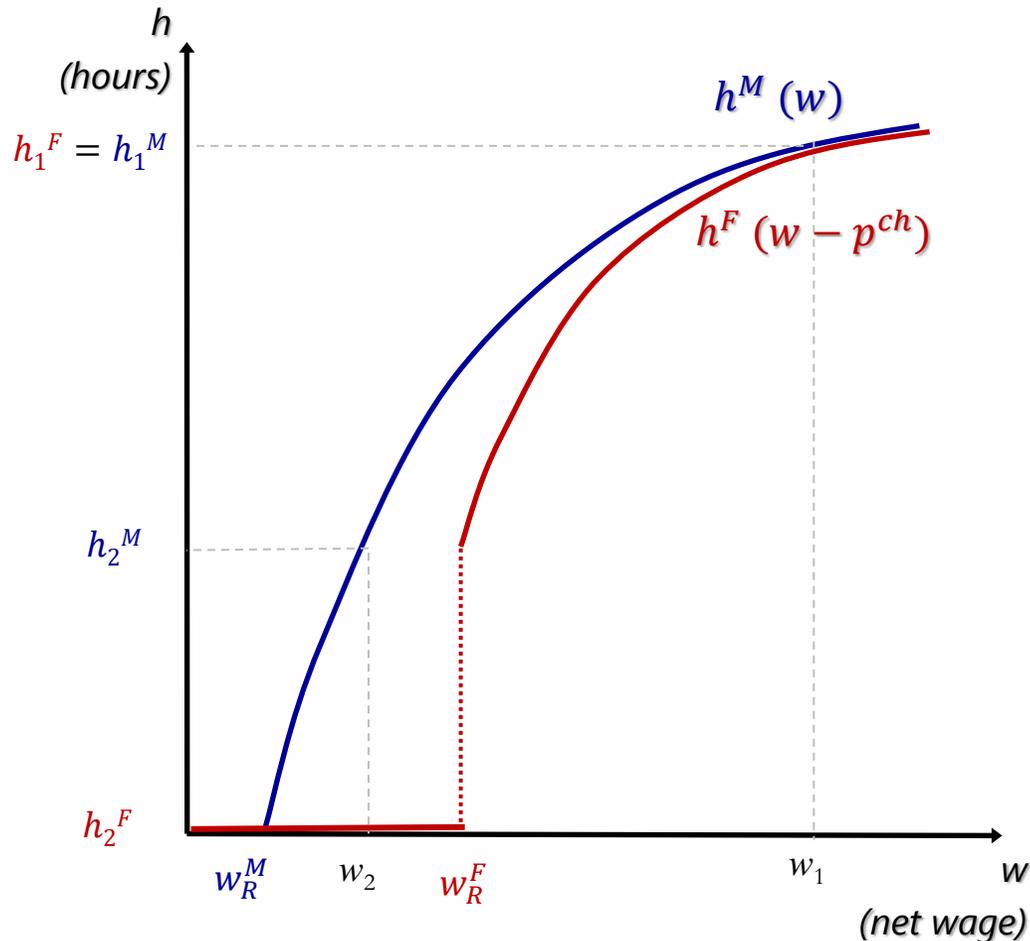


Source: Doepke et al. (2020) and based on data from the Bureau of Labor Statistics. 1/ Each bar is the rise in the women's unemployment rate minus the rise in the men's unemployment rate from the first to the last month of each. For the Covid-19 recession, change in unemployment from February to April 2020 is displayed.

# There are theoretical reasons for greater sensitivity to net wages...

## Relation between net wage rate and work hours

PIT reform reduces wage rate  $w_1 \rightarrow w_2 = w_1(1 - \tau)$



Labor supply decisions relate to

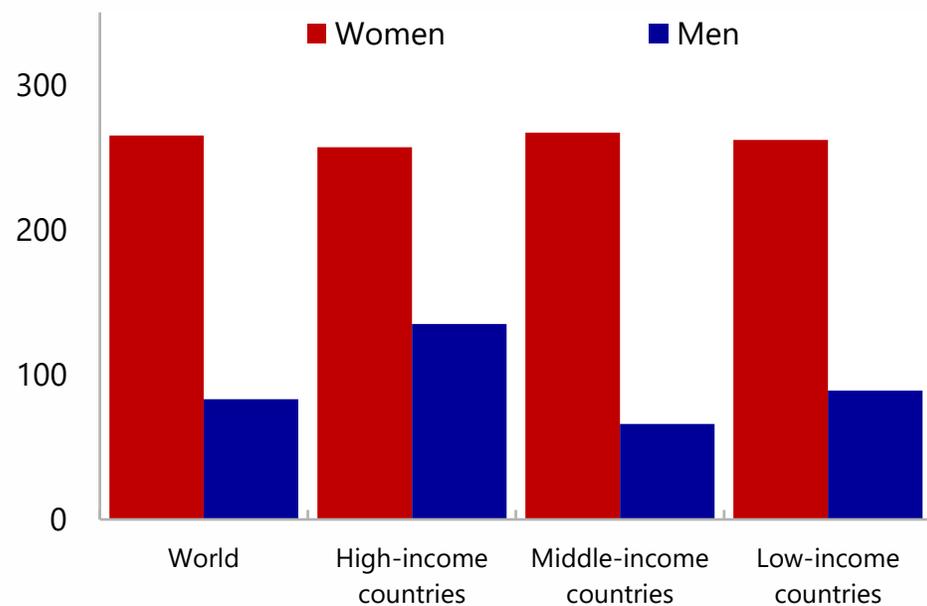
- Extensive margin: whether to work or not (exit labor force)
- Intensive margin: work hours (conditional on being employed)

Responses to tax reform can occur at both margins, depending on:

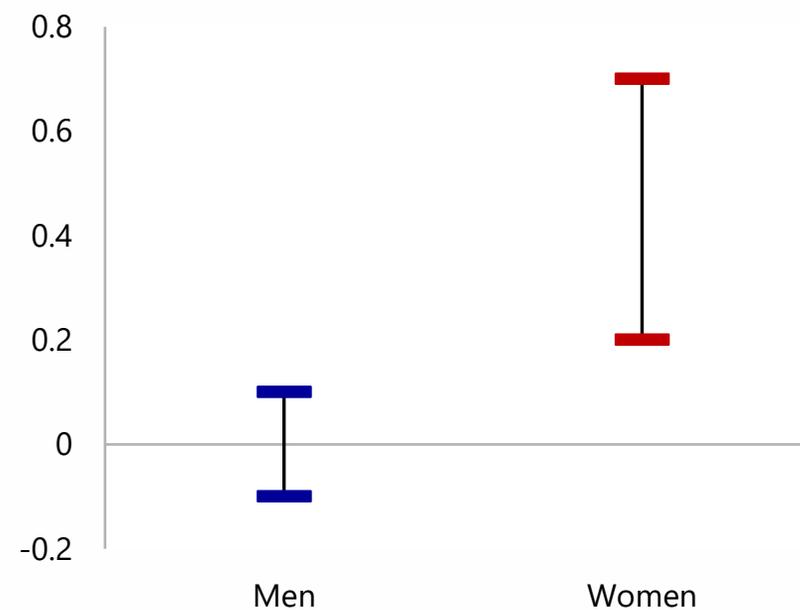
- Wage elasticity: response of work hours to changes in net wage rates
- Fixed costs (childcare), or limited job options (part-time or full-time)

# ...as well as empirical evidence.

**Time spent in unpaid work**  
(minutes per day)



**Wage elasticity estimate ranges of married individuals (intensive margin)**



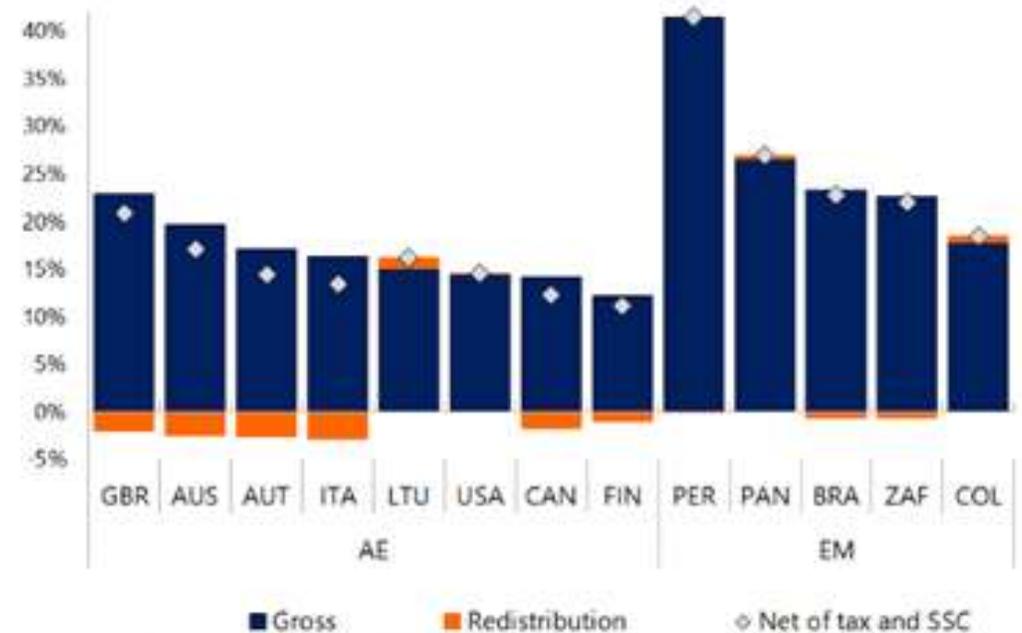
Sources: ILO (2018); European Commission (2011).

# Progressive taxation can help...

## Progressive tax system

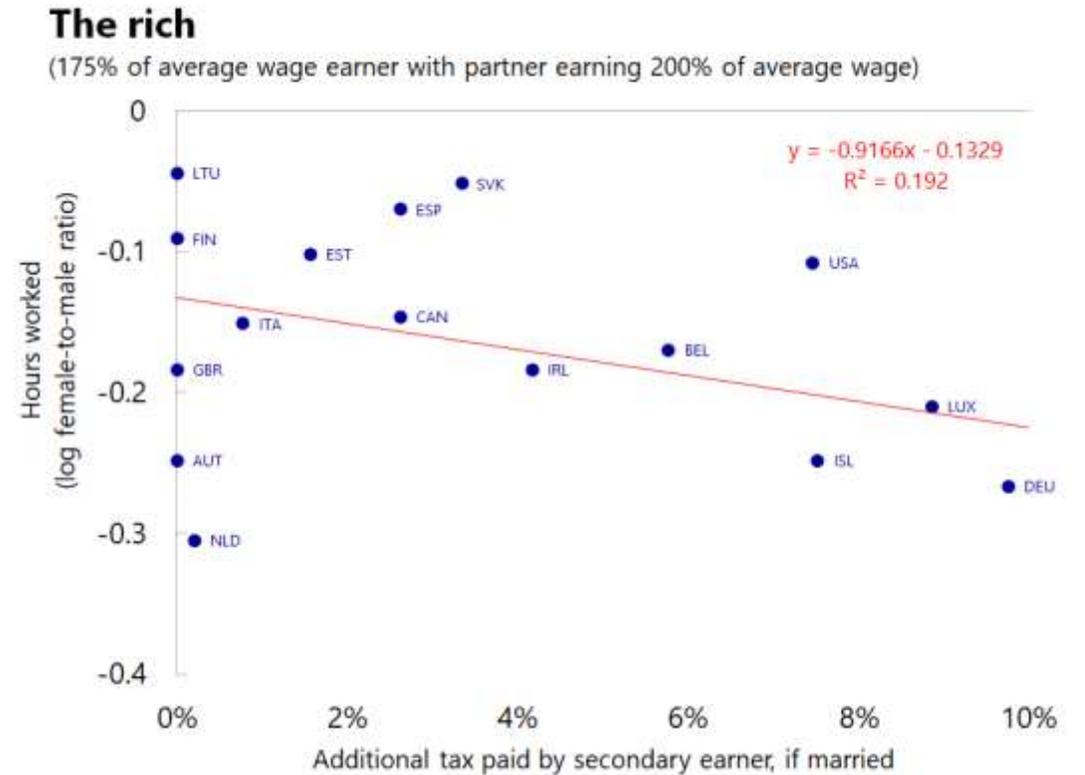
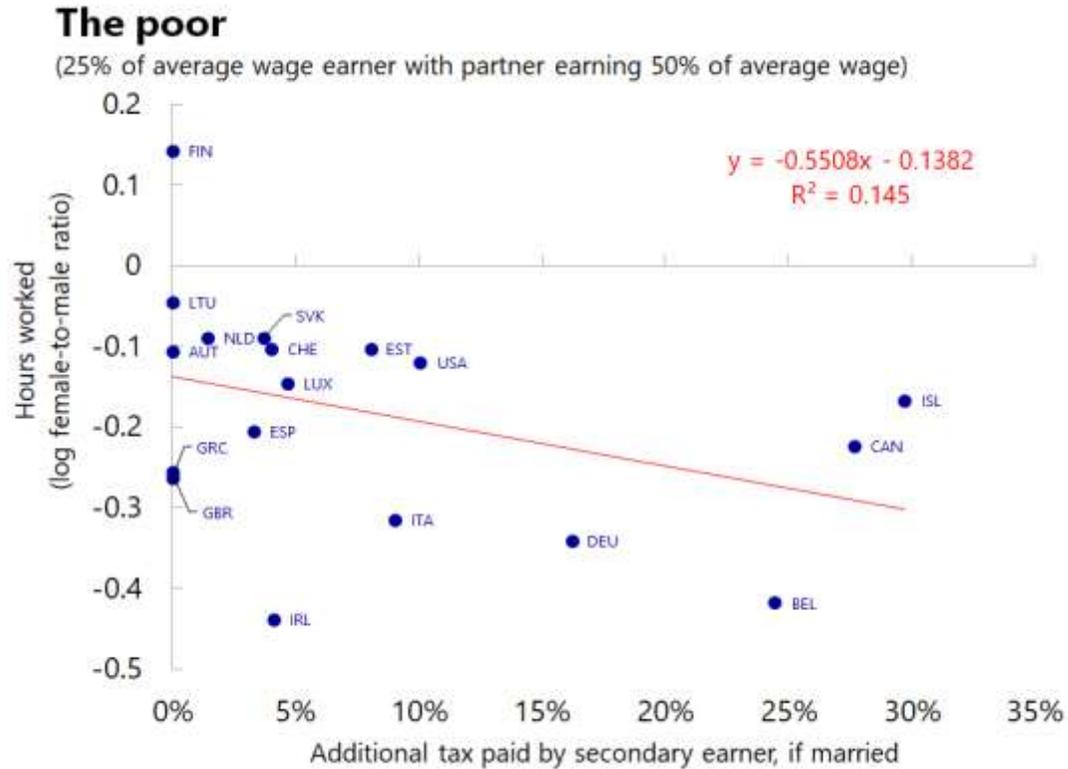
- Average tax rate rises with income
  - ▶ This supports female labor supply at extensive margin...
  - ▶ ...and if implemented through a lower marginal tax rate also at intensive margin
  - ▶ Moreover: directly reduces post-tax wage inequality

Average shortfall in women's labor income relative to men's



Sources: LIS and IMF staff calculations.

# ...while household taxation discourages labor supply.



Source: OECD-TaxBen, LIS and IMF staff calculations

# Additionally, the definition of the tax base is important

Marginal earner will assess labor income

- After tax (which could be high in case of household taxation)
- After costs
  - ▶ Childcare costs (other costs have less obvious gender impact)
    - ◆ Could be made deductible (difficulty: household cost)

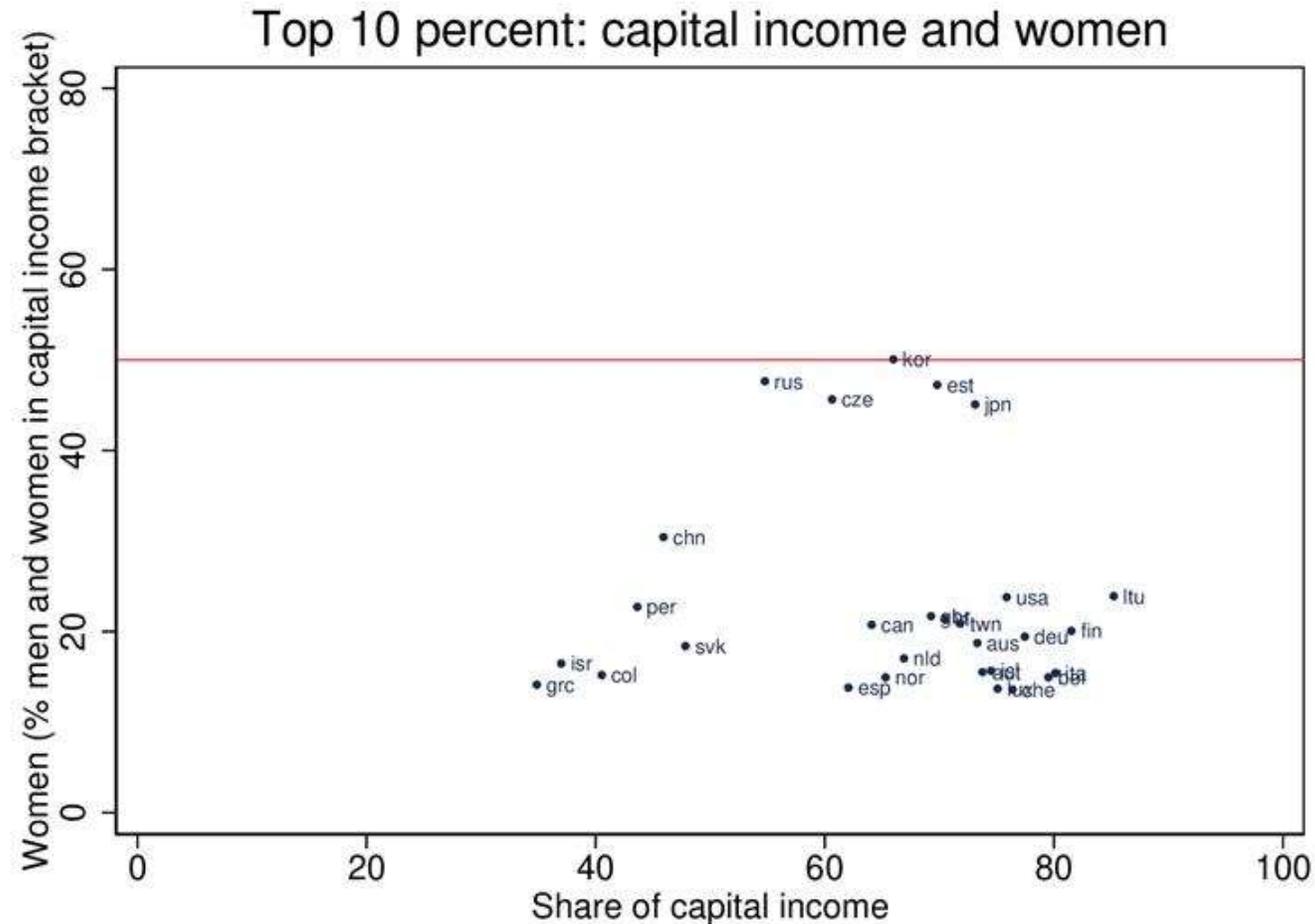
Childcare costs can also be reduced through other means

- Lower taxation of childcare providers
- Nontax measures (e.g., subsidized/public provision)

**And what role plays capital income  
taxation?**

# Capital income likely even less equally distributed than labor income...

Figure 2. Share of individuals in the top 10 percent of capital income by gender, LIS



## **...and often subject to lower tax rates.**

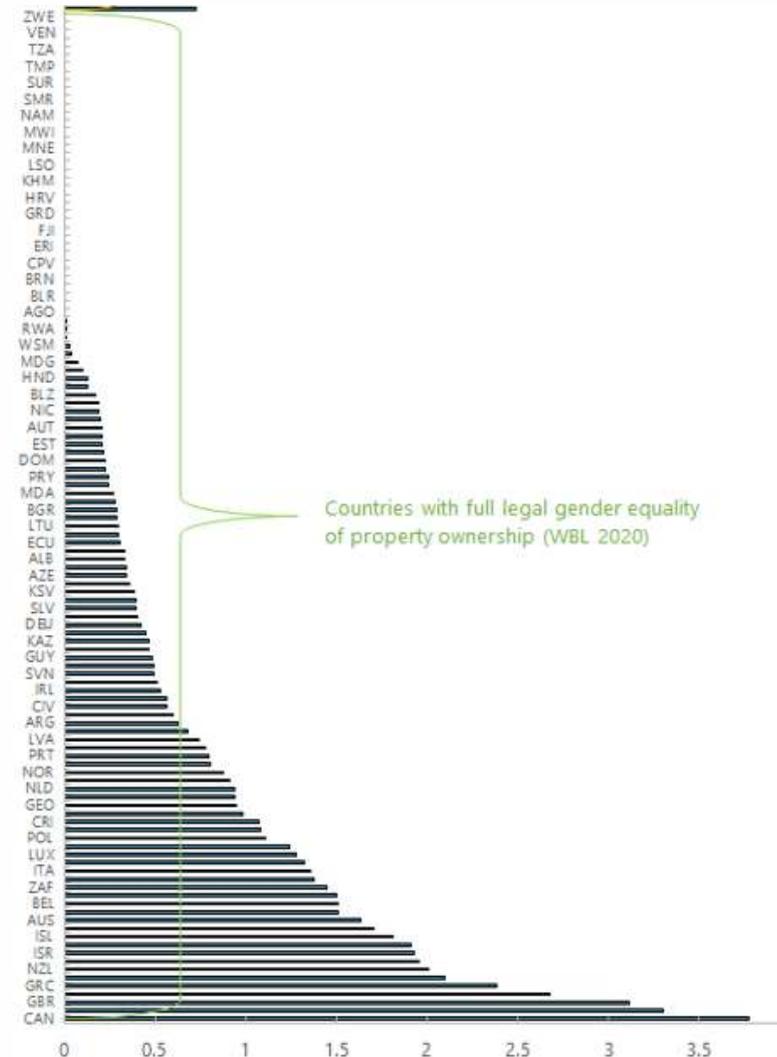
Capital income often taxed at lower rates than labor income

- General debate about distortions of savings
  - ▶ Consumption tax versus comprehensive income tax or any hybrids
  
- Additional gender angle
  - ▶ Lower taxation of a capital income versus labor income increase post-tax inequality when capital income more unequally distributed than labor income across genders

# Many nontax obstacles better addressed directly than through tax system...

- Unequal property rights
- Unequally split inheritances
  - ▶ by law (law can be addressed directly)
  - ▶ by custom (tax may help)

# ...which in turn may lead to higher taxation.



Sources: GFS 2019; OECD Global Revenues Database 2017; World Bank Women, Business and Law, 2020.

# Conclusions

- To improve gender balance in labor markets, important factors are
  - ▶ Progressive income taxes
  - ▶ Individual taxation
  - ▶ Cost of childcare
- Capital income is distributed more unequally than labor income
  - ▶ In net terms this is exacerbated by lower capital income taxes
- General: More equal gender balance associated with higher revenue mobilization
- Not time today, but we also study consumption taxes
  - ▶ Excises have gender impact (unless matching externalities)
  - ▶ VAT reductions not the most effective instrument