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Gender Equity and the Henry Tax Review: Considering the "capabilities" approach

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Henry Tax Review

- Commenced in early 2008
  - *Architecture Report*
  - *Consultation Paper and various speeches etc*
  - *Final Report* (December 2009)
    - Released by government in May 2010
- Conducted by a Panel of 5 members, Ken Henry was Chair (supported by large secretariat in Treasury)
- Examined the overall tax-transfer system

Rudd Government Response

- Press release issued when Report released
- Responds to only a minority of Henry Tax Review recommendations
  - Cherry picks and distorts some of those recommendations to which it responds
- So this is really a matter for the next (and future) governments

Tax policy principles

- Revenue sustainability
- Efficiency
- Equity
- Simplicity

Capabilities

- Draws explicitly on Amartya Sen's 'capabilities' approach to human development and wellbeing

  "The true measure of human development is that a person has the "capabilities" necessary to leading the kind of life they value and have reason to value."

  (Sen 1999: 17).

- Ken Henry speech to ACOSS (April 2009):

  "capabilities allow an individual to fully function in society; they are not 'income' and, while they include basic civil rights and political freedoms, they are not limited to 'rights'; they are '**substantive freedoms**''"

Capabilities

- Henry Review:

  "In framing policies to alleviate disadvantage, a simple focus on the adequacy of income … has been replaced by **broader goals that focus on lifetime income and the capacity of people to engage in work and other social activities**. In particular, there is greater awareness that assistance should not encourage short-term choices which compromise the development of **capabilities that offer potential medium to long-term improvements in a person's wellbeing.**"

The centrality of "care"

- Nussbaum:

  "A good society must arrange to provide care for those in a condition of extreme dependency, **without exploiting women as they have traditionally been exploited, and thus depriving them of other important capabilities. This huge problem will rightly shape the way states think about all the other capabilities.**"

- This element is, I argue, at least partly missing from the approach and outcomes of the Review.
  - As a result, the Review still fails to value fully women's capabilities.

Key tax policy issues for women

- Work and the family
  - The tax-transfer "unit" and marginal tax rates are important
  - Tax-transfer treatment of costs of work (childcare) also crucial
- The ability to save and accumulate assets over the lifecycle
  - Tax treatment of retirement savings and housing is especially significant

Guiding principles

- **What are the implications of taking the capabilities approach seriously for women in tax-transfer policy?**
  1. Focus on the individual: It is her individual capabilities that, equally with those of others in society, should be developed and respected (*not* her family/spouse)
  2. Examine the individual lifecycle: long term wellbeing
  3. Ensure an equitable distribution of the cost and burden of care across society
  4. Ensure support for specific capabilities relating to material wellbeing of women, such as security of shelter and the ability to own and control assets on an equal basis over the lifecycle

Tax rates

- Marginal tax rate (MTR): the rate on the next $1 of income
- Effective marginal tax rate: EMTR that results from a combination of the tax rate structure and phase out of credits/benefits etc.
- Average tax rate (ATR): total tax paid/taxable income
  - Eg, may face a marginal rate of 46.5% in Australia at income of $200,000 but the effect of the progressive rate structure is that total tax paid is about $67,000
  - So ATR is about 33% for this top MTR payer.

The tax unit debate

- Tax system: define the unit of assessment
  - In Australia, the individual
  - Other possibilities include: couple (spouses) or household/other family grouping
- Why does the tax unit matter?
  - Negative effect on women's incentive to work
  - Assumes income sharing within the household where this may not be the case
  - Inequitable between different kinds of family (issues of definition)
  - A joint unit unfairly shifts the burden of tax to working women (see Apps paper)

The tax-transfer unit

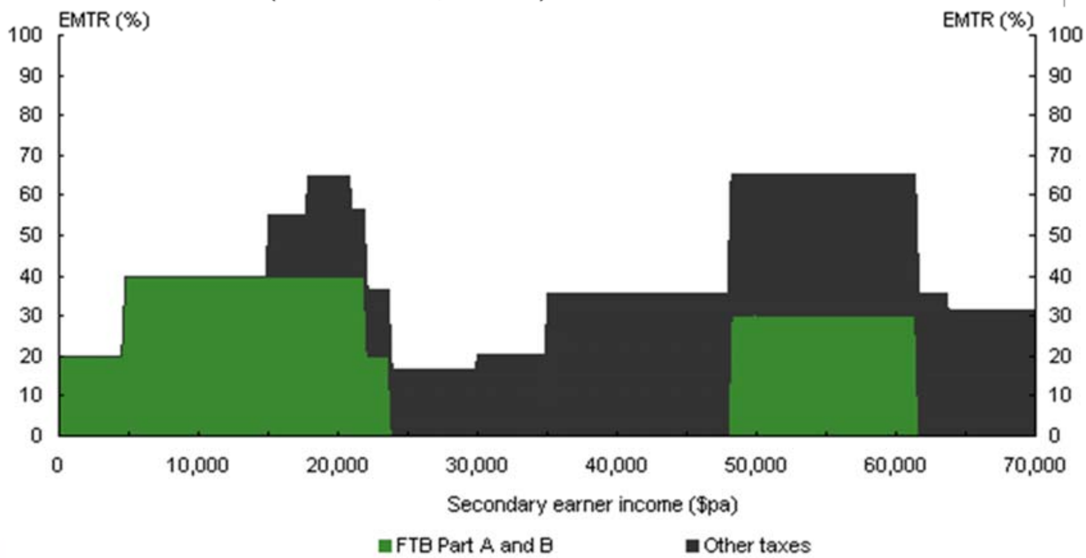
- Transfer (welfare) system
  - Define and withdraw targeted family benefits tested on joint income of a couple
- Elements of a joint unit may also result from other features of the tax system that are tested on joint income
  - eg phase out of family tax benefits or childcare payment; or
  - application of tax surcharges (such as Medicare Levy); or
  - allowing the transfer of a benefit such as a pension tax credit from one spouse to another.
- These *implicit* joint units are a result of the **combined** effect of the tax rate structure and the withdrawal of transfer benefits.

Efficiency: Work disincentives

- Breadwinner-homemaker family
  - Homemaker wants to return to work part-time
  - Would be the "secondary earner" in the couple
- What is the effective marginal tax rate on the home maker's income?
  - This income is effectively "on top" of the breadwinner's income because it is aggregated
  - So she faces the breadwinner's marginal rate (or higher)
  - She also faces additional costs of working: childcare etc
- The higher EMTR is a disincentive to work for the secondary earner
  - And also her overall (average) tax is higher than it should be which is unfair

EMTRs on secondary earner in Australia

- A similar effect is produced by simultaneous withdrawal of benefits tested on joint income, and application of the marginal tax rate on earned income (from *HTR*, 2009)



ATR on secondary earner in Australia

- Secondary earners are paying as much as 30% average tax rates (from *Apps & Rees, May* 2010)

Table 4.4 Tax burdens by primary income, 2008-09 $pa

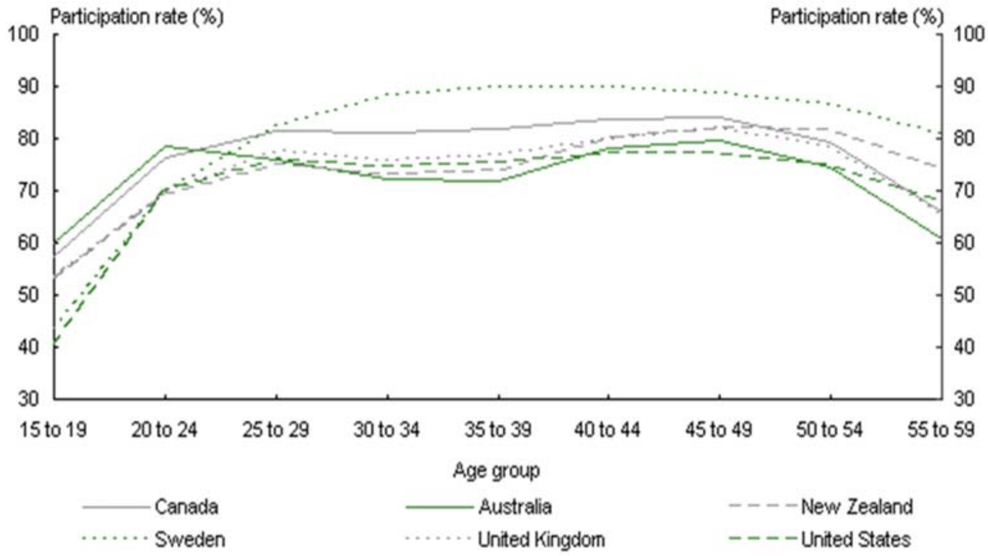
Quintiles of primary income	1	2	3	4	5	All
SE						
Net tax $pa	-8737	-1415	3121	9169	33718	8150
ATR %	**-22.4**	**-2.5**	**4.4**	**15.5**	**22.9**	**9.5**
PT						
Second earnings $pa	18090	21546	22781	22826	29727	22911
Tax on second earnings $a	5997	6267	6183	6248	8456	6600
ATR2 %	**33.2**	**29.1**	**27.1**	**27.4**	**28.4**	**28.8**
FT						
Second earnings $pa	24532	31969	38914	45919	65941	41342
Tax on second earnings $pa	7599	9332	10680	13831	20527	12311
ATR2 %	**31.0**	**29.2**	**29.9**	**27.4**	**31.1**	**29.8**

ATR on secondary earner

- (from *Apps and Rees May 2010)*
  - ATRs on the second income at the levels indicated mean that, on average, a married mother who decides to go out to work **will lose around a third of her income in taxes and reduced Family Tax Benefits.**
  - She will also contribute more to GST revenue, because her additional income will be spent at least partly on GST rated goods and services bought as substitutes for those she could produce herself by working full time at home.
  - Moreover, if she decides *not* to go out to work, and all mothers make the same decision, tax revenue from families could fall by almost 50 per cent.

Impact of care responsibilities on women's work

- Participation rate for women during years of raising young children (OECD 2010)



Capacity to pay, work and care

- How to compare two kinds of families with children?
  - Are the dual-earner and breadwinner/homemaker families in the same position?
  - What is the **capacity to pay** of each of these families?
  - Specifically: what is the capacity to pay, and the tax burden on, the **women** in each of these families?
- ***Consider:***
  1. Cost of childcare and other "homemaker" services
     - Purchased by the dual earner family out of after-tax income (non-deductible for tax)
     - But, provided by the homemaker free of tax (the value of home production is not taxed)
  2. Income sharing evidence: Is income really shared in the family?
  3. Power and control: Who controls the income in the family?

Saving and Wealth

- Components of household wealth (Tsy, 2008)
  - 44% home ownership
  - 13% private superannuation saving
  - 16% other real estate
  - 13% financial investments (eg shares, units)
  - 4% bank accounts
- Distribution across households
  - Top 20% have more than 20x wealth of bottom 20%
  - Top 10% derive more than half all capital income

Women's saving

- We don't have good data (most saving/asset data is by *household*)
  - Jefferson & Ong (2010): important analysis
- Overall: women have less than men
  - Much less superannuation saving, but
  - Many women *do* own a home (or have some housing wealth)
  - Likely to have fewer capital gains and dividends but more interest income

Current tax treatment of saving

- **Home ownership:** tax-free (benefit of living in the home and any capital gain is untaxed)
- **Superannuation:** low tax
  - Contributions and earnings taxed at 15% rate (funds may pay only 7.5%)
  - Ability to make tax-deductible contributions up to threshold
  - Payouts (lump sum/annuity) usually tax free
  - No upper limit ie. benefits high income earners the most
- **Financial investments and other real estate**: low tax
  - Capital gains taxed but CGT 50% discount applies
  - Negative gearing for rental properties and shares
  - High income earners benefit more from both features
- **Interest on bank accounts:** fully taxed at marginal rates
- **Business investments:** usually capped at 30% co. tax rate

Henry Review saving tax recommendations

- Home ownership: keep tax-free
  - Means test for very high value homes in the transfer system
- Superannuation:
  - A complex and tailored set of recommendations that would wind back some of the excessive subsidies for high income earners
- Other forms of saving:
  - 40% "discount" box: both gains and expenses
- NB. Rudd Govt cherrypicked and did not follow these recommendations

Capabilities approach to tax of women's saving

- A general shift to consumption tax that significantly reduces tax on saving will *disadvantage* women
- But, some tax concessions have enabled women to accumulate assets which mostly contribute to economic security across the lifecycle
  - Especially on the home
- Need to increase support for low-income saving and reduce excessive subsidies for high-income earners
  - Henry Tax Review 40% "discount" savings box is not a bad compromise
- Maintain fair collection of tax revenues overall, as public provision is of significant benefit to women

Thank you

Questions