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Australian tax-transfer policies and taxing for gender equality: Comparative perspectives and reform options

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Australia was the world innovator of gender budget analysis in the 1980s; however, even as its levels of human development have risen to second place in the most recent United Nations (UN) Human Development Reports, its gender development rankings have fallen from year to year. This chapter places the Australian experience in the comparative and international context. It compares the status of women in Australia with other select Anglo-group and Nordic countries, and, with regard to child care policies, with South Korea, a leading country in the Asia-Pacific region. The chapter analyses the gender effects of the long-term focus in fiscal policy on taxing for economic growth that has led to falling tax ratios (tax revenues as a share of gross domestic product (GDP)) in the interests of incentivising business profits and capital accumulation. In this comparative context, the chapter examines how key tax policies, in combination with government expenditure programs, particularly as affected by fiscal austerity strategies after the Global Financial Crisis (GFC) of 2007–08, in turn affect the economic status of women and thus progress toward gender equality. This is discussed on the structural level

and in relation to specific economic indicators such as women's high levels of unpaid work and workplace discrimination, and low levels of earnings and child care resources.

Taxing for economic growth vs taxing for equality

The history of contemporary taxation in Australia is, in many ways, the history of the search for capital accumulation and wealth by all available means—including through special treatment in taxation and spending laws. Debates over the use of households and corporations as tax units form part of that history, as they continue to be conceptualised as re/productive associations that mediate the ownership and taxation of incomes and capital in private hands. It has long been agreed that taxes should increase with ability to pay (Smith 1904, Book V, Ch. II, pars 25–28). However, even those advocating the use of tax systems to mitigate inequalities in incomes and wealth have agreed that the search for equality should not impair motivation to work and accumulate capital (Mill 1848, p. 510). Thus, efforts to bring capital gains into national tax bases failed until 1965 in the United Kingdom, 1972 in Canada and 1985 in Australia. Even after the introduction of capital gains taxation, these countries continue to provide generous exemptions for capital gains in their income and corporate tax systems.

During the 20th century, any balance that may have originally existed between principles of equality versus capital accumulation and productivity in the United Kingdom, Canada and Australia has discernibly shifted toward emphasis on 'taxing for growth'. The original concept of equality in taxation was displaced by appeals to equity (Parliament of Great Britain 1919, p. 2, par. 6), almost completely erasing the use of the term 'equality' in tax policy discourses. At the same time, treating corporations as separate legal persons for purposes of taxation, while eliminating what is called the double taxation of corporations and shareholders, has led to systems of corporate integration or imputation of corporate pre-tax profits to shareholder taxpayers. This effectively turns corporate income taxation into a temporary withholding tax on distributed or realised profits to shareholders. The shift is justified on the basis that it is a more equitable way to tax capital incomes and gains from corporate interests. In fact, it reduces effective tax rates on corporate capital incomes (see, for

example, Ainsworth et al. 2015, p. 32, figure 10). Turning to individuals, even in Australia and Canada, both of which had from the outset treated married women as separate individuals for income tax purposes instead of jointly as in the UK, the concepts of equity and ability to pay were increasingly invoked to justify a growing number of joint (couple) income tested tax and benefit provisions. These provisions reinforce denial of women's separate fiscal personality, while reducing effective tax rates for high-income sole breadwinner spouses.

Three developments with their roots in the 1970s and 1980s have framed contemporary debates as taxing for economic growth vs taxing for equality. The first development concerns economic growth. The restructuring of the UK fiscal system by the Thatcher Government in the early 1980s, which reduced corporate and top personal income tax (PIT) rates, augmented revenues with higher flat-rated consumption taxes, and reduced income security spending through the use of means-tested benefits, was highly influential. These changes were justified as necessary to increase economic efficiency and growth. Largely due to the growing political popularity of tax cuts, they inspired the US Government under President Reagan and governments of other developed countries to implement variations on this overall theme.

By the mid-2000s, the Organisation for Economic Co-operation and Development (OECD) had begun regular annual structural surveillance of the GDP growth of its members (OECD 2005) and it had also identified a set of tax and expenditure policies calculated to contribute to increased economic growth. This 'taxing for growth' formula calls for the following changes, in descending order of priority: reduce high personal and corporate income tax rates, employer social security contributions, and tax benefits and expenditures; shift the revenue burden to other tax bases such as the value added tax (VAT) or goods and services tax (GST), or other consumption taxes; reduce social spending on health, income support, pensions, disability and unemployment benefits (in both quantum and duration); and increase women's paid work time with accessible child care and reduced second-earner tax barriers (OECD 2007, pp. 17–19). The OECD has applied this approach in every annual edition of *Going for Growth*. It has been applied in the EU and regionally, as well as by international development and financial institutions (e.g. Acosta-Ormaechea and Yoo 2010).

The second development relates to gender equality and originated in Australia. The 1970s saw support for women's equality including in governments, leading to the enactment of new anti-discrimination laws and active monitoring of legislation for its gender impact, which produced formalised gender budget analysis in the early 1980s (as explained further in Chapters 10 and 11). Gender budgeting practices first developed in Australia are now carried out in well over 100 countries and have opened the door to systemic examination of the gender impact of virtually all forms of government action (Sharp and Broomhill 2013; Budlender 2001).

The third development, also related to gender equality, was the ratification of the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) (UN 1979) in the early 1980s, and then the adoption of the Beijing Platform for Action in 1995 (UN 1995). These both supported domestic constitutional and legal recognition of gender equality as a fundamental human right. CEDAW supported the enactment of statutory and constitutional sex equality provisions designed to require both formal and substantive equality in all laws, policies and practices (see, for example, Fredman and Goldblatt 2015). The Beijing Platform was important for the detailed guidance it provides on how all laws, policies and practices are to be evaluated for gender impact. The Beijing Platform expanded what is understood to fall within the scope of gender mainstreaming and gender budgeting in the context of periodic CEDAW reviews, including (from 2002) the adjudication of complaints brought against state parties under CEDAW optional protocols.

The call for 'taxing for gender equality' arose from the intersection of gender budget work and the growing recognition of women's equality in domestic and international law. However, the concept of gender equality in tax and welfare laws did not become concrete beyond domestic levels until well into the 2000s. Helen Hodgson and Kerrie Sadiq (in Chapter 4) describe how this human rights framework can be used in the development of fiscal policy.

By 2008, the combined effects of the GFC and resulting austerity policies brought increased urgency to demands for gender equality in both tax and expenditure policies. At this point, the OECD and the European Commission began to take note of the relationship between fiscal policies and economic inequality (see, for example, OECD 2008). The focus at these transnational policy levels remained on activating women's paid work, although growing concern about income inequalities did accelerate

work on taxing for equality during this time. Beginning in 2010, the OECD and International Monetary Fund (IMF) began publishing reports on taxation and gender equality, searching for synergistic tax and fiscal policies to promote both equality and economic growth, and, as the Occupy movement protesting concentration of wealth in the hands of the rich grew, they also began publishing high-profile reports on income inequalities (OECD 2010a, 2011; Joumard et al. 2012). At the same time, CEDAW and the UN agencies began to include tax and fiscal issues in their critical gender work.

Strategies for ‘taxing for equality’ include reducing taxes on low incomes, particularly those of second earners and the self-employed, and increasing income security, pension and training supports for low-income and low-skill workers, single parents and middle-income workers. Funding such measures should come from increasing graduated personal and corporate income tax rates, and should be accompanied by increasing care resources to equalise unpaid workloads associated with low paid work levels, wealth and inheritance taxes and reduction in the use of tax expenditures and joint fiscal measures that have income and gender regressive effects. In Chapter 3, Patricia Apps provides a detailed discussion of the implications for women of a decline in PIT progressivity. Tackling inequalities also requires increased regulation of labour markets, a living wage, affordable education and increased taxation of capital incomes. Various studies have identified both tax and regulatory methods to reduce exclusive focus on growth, and have also pinpointed new tax and transfer policies that can counteract poverty and reduce overall income inequalities that are increasingly recognised as impediments to durable economic growth (Förster et al. 2014).

In 2016, taxing for gender equality became an acknowledged global policy priority as new transnational standards were adopted in relation to poverty, gender, economic and environmental development goals (UN 2016a; UN 2016c), and in relation to revenue issues and financing for development (UN 2015a). These documents contain express commitments to mainstreaming gender equality and poverty reduction outcomes on a systemic basis, including specifically in relation to all revenue issues (UN Economic and Social Council 2015). These commitments apply to global members in relation to all their domestic laws, policies and practices, as well as to all government acts involving transnational or international relations.

Two other important developments have deepened acknowledgement of the critical role of taxation in addressing gender equality and poverty issues. First, in 2014, the UN Special Rapporteur on Extreme Poverty and Human Rights produced a detailed analysis of how countless features of corporate and personal income taxation, value-added, excise, sales and property taxes, and various fees, charges and transfer laws systemically intensify women's economic disadvantages, perpetuate gender inequalities and poverty and thus violate international human rights laws (Carmona 2014, especially ss. I and II). The Special Rapporteur identified a lack of progressivity, lack of appropriate exemptions and failure to individualise tax laws as the most discriminatory features of income tax systems. In corporate income taxation, she found that the widespread use of low tax rates, special allowances and tax incentives largely benefits men because of their larger shares of private capital and their ability to form incorporated businesses under conditions that are not equally available to women.

With respect to consumption taxes, the most important of which are the VAT, sales and other flat-rated taxes, the Special Rapporteur expressed deep concern at the growing use of the VAT without careful design to protect those with low incomes. Consumption taxes can regressively reduce women's after-tax incomes to the point that they become unable to meet their own and their dependants' minimum nutrition and development needs. Not only does this pose serious risks to human development in the most fundamental sense, but it can also undo the beneficial impact of social protection or nutrition programs that may otherwise be provided by governments concerned with human wellbeing, particularly in the gestational and early years of life. To counter the many negative effects of existing tax and other fiscal policies on women, those living in poverty and other vulnerable groups, the Special Rapporteur made detailed recommendations on fiscal changes to support gender equality. In sum, these recommendations are conceptually simple—to use broad-based income tax systems with graduated rates built around actual ability to pay taxes to raise adequate and redistributive levels of revenues, and to make minimal use of flat-rated consumption taxes, particularly when they render basic necessities unaffordable to any members of society.

Second, two ground-breaking decisions were issued by the UN Committee on the Elimination of Discrimination Against Women that hold national governments accountable for failing their commitments to gender equality, poverty reduction and fiscal equality in tax/expenditure policies. In the 2014 *Blok* decision, the Netherlands was found to have violated women's

maternity leave rights (UN 2014). In the 2015 *Canada Inquiry* decision, the UN Committee held all levels of Canadian governments accountable for a long and detailed list of violations of international poverty reduction and gender equality rights in its persistent failure to take effective steps to lift Indigenous women and communities from the depths of longstanding poverty (UN 2015b). In both decisions, the committee found that signing and ratifying CEDAW bound states to implement it, and ordered restorative payments and programs to be established by the governments in breach.

Taxing for gender equality matters

It can be seen from the above brief history that the set of policies aimed at ‘taxing for growth’ gathered momentum during roughly the same period of time in which gender equality has become increasingly accepted as a normative policy standard. When viewed in the aggregate and over time, the cumulative effects of the ‘taxing for growth’ cuts in taxation and social expenditure on the status of women are clear. Although the UK, Australia, Canada and the US each have distinctive fiscal profiles, important parallels are seen in the changes in the levels and composition of tax revenues in each of these four countries, especially when compared with two Nordic countries, Sweden and Norway.

The Anglo-group countries started out with relatively low tax ratios in the mid-1960s. Even then, however, there were substantial differences among them: Australia’s tax ratio was the lowest at 19.9 per cent, the UK’s was 29.3 per cent, the US’s was 23.5 per cent and Canada’s was 25.3 per cent. Swedish and Norwegian tax ratios are much higher (above 40 per cent of GDP) and have been higher throughout. Tax ratios have tended to increase in most countries since the 1960s, although the US tax ratio fell to 23 per cent in 2009, which reflected both the extreme tax cutting policies of the Bush Government and the effect of the GFC on revenues (OECD.Stat 2016a). These high and low tax ratios do not necessarily correlate with governmental political orientations: the highest tax ratios in Australia and the UK have been under conservative governments (under Howard during 2000 in Australia, and Thatcher in 1982 in the UK); and in the US and Canada, under liberal governments (Clinton during 2000 in the US, and Chrétien in 1997 in Canada).

Women's levels of human development as compared with men's appear to be vulnerable to the effects of falling tax ratios in developed countries. Using a time consistent (TC) recalculation of the United Nations new 2014 gender development index (GDI, TC), Table 2.1 demonstrates that having and maintaining high tax ratios appears to increase the chances of maintaining high levels of women's human development relative to men in some countries, and it does appear that countries with low tax ratios throughout appear to slow down women's rates of development. All the countries in Table 2.1 started out with high GDI, TC rankings in 1995. Twenty years later, every one of those countries had lost significant ground on that version of the GDI, and all but the UK had scaled down their tax ratios to varying degrees.

Table 2.1: UN GDI, TC version ranks, OECD tax ratios, selected countries, 1995 and 2013/2014

	Tax ratio 1995 (%)	Tax ratio 2014 (%)	Change in tax ratio (%)	GDI, TC 1995	GDI, TC 2013
Sweden	45.6	42.7	-2.9	2	4
Norway	40.9	39.1	-1.8	5	7
Canada	35.9	30.8	-4.1	7	15
UK	31.9	32.6	+0.5	16	25
Australia	28.2	27.5	-0.7	14	20
US	26.3	26	-0.3	3	8

Sources: Stotsky et al (2016), Appendix D, p. 57. These data were used to re-rank high-development countries for purposes of Table 2.1. Copy on file with author.

During the 20 years from 1995 to 2013, when the emphasis on tax cuts for economic growth intensified, all of these countries lost ground in terms of their GDI, TC rankings. Although the UK did not cut its tax ratio, it also lost considerable ground; tax ratios alone do not necessarily drive GDI, TC rankings.

Sweden and Norway, the two countries with the highest tax ratios in both 1995 and 2014, also fell in the GDI, TC rankings between 1995 and 2013, but they experienced the least downward movement of these six countries. It is notable that Canada, which made the deepest tax cuts overall, lost more ground on this index than either Australia or the US, even though the latter two countries started and ended with tax ratios significantly lower than that of Canada in 2014. The divergent taxation and transfer paths taken in the four Anglo-group countries have had considerable impact on

the development status of women in those countries, while maintaining high tax ratios in the Nordic group countries at least correlates with crucial gender equalising steps taken in Sweden and Norway.

The dimensions of gender, income inequality, economic opportunities and economic outcomes are not static but are ‘interactive’ (Gonzales et al. 2015, pp. 5–6) and ‘simultaneous’ factors that all actively reshape gender status on an ongoing basis (Stotsky 2006, pp. 17–22). The overall health of public finances in a country is important in ensuring that country’s ability to fund programs to improve the level of human development and gender equality. But explicitly taxing for gender equality also matters. The channels that connect macro-economic indicators like tax ratios with the gender impact of specific tax policies are themselves shaped by the status of women, defined at any point in time by existing ‘norms, practices, and social institutions governing gender inequality’ (Stotsky 2006, p. 18). Economic development engages all institutional arrangements—from access to education or transportation, to access to finance capital—that may affect women’s opportunities and outcomes as levels of development change over time.

Gender economists have now confirmed the validity of the UN gender indices in measuring progress toward gender equality (Gonzales et al. 2015, pp. 5–6), and studies testing the sensitivity of the GDI, TC to changes in various indicators are now underway. While these gender equality indices do usefully present the generalised status of women over time, it is essential that they be used with individual country-specific indicators to evaluate how the gender impact of key policies on their own and in context contribute to understanding how changes in the ‘broader picture’ have come about (Stotsky et al. 2016, pp. 42–43; Gonzales et al. 2015).

Identifying what ‘taxing for gender equality’ might mean in relation to a specific country or region calls for multiple levels of analysis. On the macro-economic level, the composition of tax revenues can be extremely important in identifying factors that promote or undercut gender equality. Just as gender indicators represent in a single figure the combined effects of a wide range of socio-economic factors, so tax ratios represent total revenues collected by large composite revenue and expenditure systems that operate on all levels of government throughout each year in question. And just as changes in large institutions such as the education system or transportation can affect gender equalities, the types and amounts of taxes collected can affect total revenues collected and after-tax incomes, and consequently their gender incidence.

Thus, taxing for gender equality begins with large aggregates, but in turn depends on identifying fiscal gender effects at institutional levels like businesses, households and schools as well as at individual levels. At the same time, individual level gender effects are meaningful only to the extent that specific individual characteristics such as living conditions, earnings and assets, dependencies, education, geographic location, health and age can be examined in the context of population numbers and in the context of specific revenue and expenditure policies.

Indeed, full understanding of fiscal gender impact can only be gained by bringing all elements—debt, public capital, illicit financial flows and tax administrative capabilities—into the picture. But the complexities of fiscal gender impact analysis are such that great strides still need to be made in unpacking the complexities of specific tax and benefit systems, one country at a time.

Connecting national tax structures with gender equality

Breaking historical tax ratios down into their main revenue components helps illuminate how multiple layers of tax and expenditure policies interact to shape economic gender outcomes. Figure 2.1 compares the two Nordic countries Sweden and Norway, the UK, Canada, Australia and the US in terms of their overall tax ratios and main revenue categories. These are income and capital gains taxes on individuals and businesses, social security contributions, property taxes, payroll and workforce taxes, and taxes on goods, services, and other forms of consumption.

Public fiscal capacity is important to the status of women because, historically, women have more constrained access to money, and thus to economic power; public provision is essential to fill this gap. In every country, even now, women have lower incomes but longer workdays, more unpaid work hours and lower hourly wages than men because they are culturally expected to take more responsibility for social provisioning and care work than men. In a sense, the continued high levels of privatisation of all aspects of social reproduction and provisioning continue to place additional barriers in the paths of women's access to paid work and thus to economic equality (see, for example, UN Women 2015, pp. 70–104).

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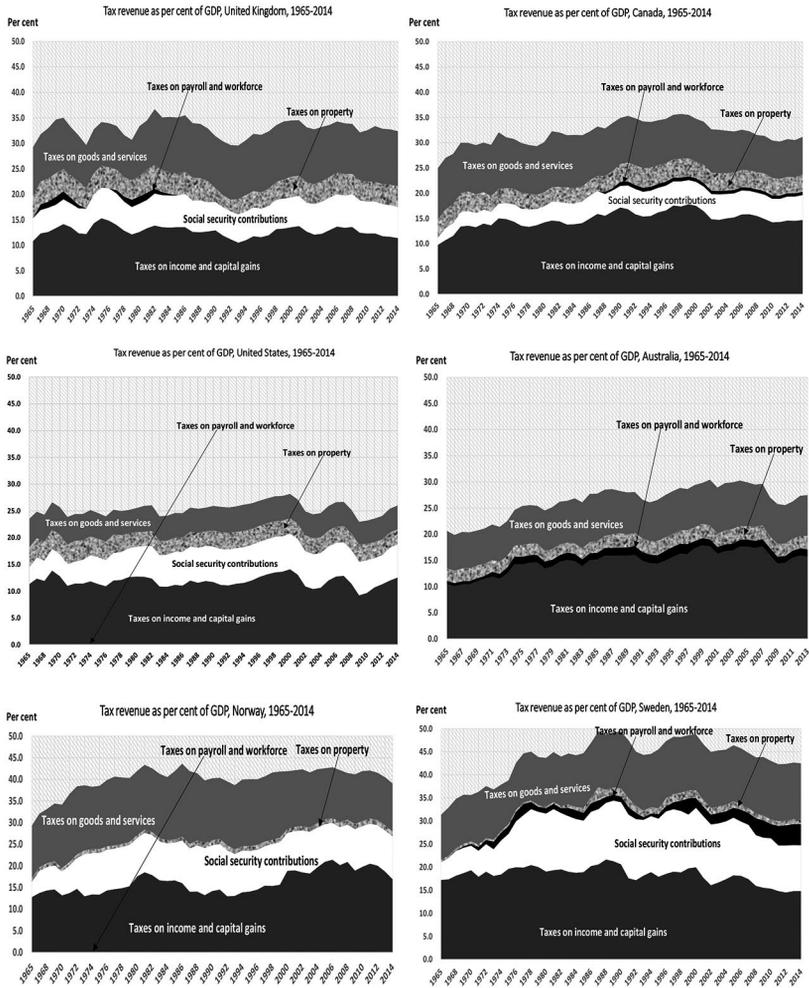


Figure 2.1: Composition of revenues, selected OECD countries, 1995–2013

Source: OECD.Stat (2016a).

The most striking difference among the countries in Figure 2.1 is the volume of total revenues collected by Norway and Sweden compared with the other countries: Sweden's total tax ratio is 16.7 per cent higher than the US ratio, and Norway's is 13.1 per cent higher. These two countries have greater fiscal capacity to invest in equality-promoting policies than the other four countries. One view of women's high levels of economic engagement and equality in Nordic countries is that they are the result

of generations of investment in programs that support women's economic status (see, for example, Hernes 1987), although recent studies sharply differentiate 'maternalist' gender policies in Norway from longstanding recognition of women's individual workplace rights in Sweden (Sainsbury 2001, pp. 113–142, 133–137; Lundqvist and Fink 2016).

The composition of a country's tax revenues is relevant because tax systems not only raise revenues to fund government programs, but also withdraw cash from private hands, thus affecting the distribution of after-tax incomes by the types of tax laws that make up the overall revenue system. Finally, it is crucial to identify whether government spending and transfer programs are progressive or regressive in their impact on net after-tax incomes of women and men. At the macro-economic level, the degree of progressivity of the overall tax and transfer system affects the after-tax distribution of incomes overall and by gender.

In most countries, the main source of progressivity in the total tax/expenditure system comes from graduated tax rates applied to personal incomes and capital gains, together with the flatter rates applied to corporate incomes and capital gains. By that measure, Australia should produce the largest degree of redistribution of the six countries in Table 2.2, because its income taxes make up nearly 58 per cent of total revenues, followed by 48 per cent in the US and Canada. However, as the Gini coefficients in Table 2.2 demonstrate, the tax-transfer system in the UK is more redistributive than in any of the other countries in this set (167-point reduction), even though it raises just 34.9 per cent of its total revenue from income and capital gains taxes. In contrast, Norway raises 42.2 per cent of its revenue from income and capital gains taxes, but it starts out with a more equal distribution of market incomes, redistributes incomes almost as strongly as the UK through its tax-transfer system, and ends up with the highest level of income equality of the six countries. The US, which raises much more total revenue via income and capital gains taxes, redistributes the least in the tax-transfer process, and ends with the highest level of income inequality in terms of net disposable incomes after taxes paid and benefits received are all taken into consideration.

Table 2.2: Gini coefficients by income measures and revenue structures, selected countries, 2014

	Gini: Market income	Gini: Gross income	Gini: Disposable income	Change from market to disposable income Gini	% of all revenue from income, profits, and capital gains tax	PIT only as % of GDP
Norway	0.412	0.296	0.252	-0.16	42.5%	9.8%
Sweden	0.443	0.311	0.281	-0.162	34.9%	12.2%
Canada	0.44	0.361	0.322	-0.118	48.0%	11.3%
Australia	0.483	0.39	0.337	-0.146	57.9%	11.4%
UK	0.527	0.399	0.358	-0.167	34.9%	8.8%
US	0.508	0.433	0.394	-0.114	47.7%	10.2%

Gini: Scale 0 to 1, with 0 representing complete income equality and 1 representing the highest levels of income inequality; Gross income: before taxes; Disposable income: Net income after all transfers received and taxes paid; Revenue figures: All revenue from income, profits and capital gains tax includes taxes paid by both individuals and corporations; PIT (personal income tax): all revenue from taxes on personal income, profits and capital gains only.

Sources: OECD.Stat (2016a, 2016b).

Table 2.2 also demonstrates how important the progressive income tax components of overall fiscal systems are in these six countries—personal income, profits and capital gains taxes alone collected between 8.8 per cent and 12.2 per cent of GDP in revenues. The two Nordic countries have much larger overall revenue systems, and they have used those revenues to invest heavily over time in public infrastructure and services like education, health, housing, child care and transportation. Carefully designed public services and infrastructure can cut the costs of living for individuals, increase individual lifetime earnings and even enhance intergenerational transmission of economic status (Afonso et al. 2010, pp. 367–389). In such fiscal systems, higher levels of income equality and gender equality can be attained even without sharply progressive tax systems.

The longer view is also important in considering interactions among tax ratios, the overall tax mix and the degree of redistribution that may be generated by a specific tax-transfer system. As recently as one decade ago, each of the selected countries (except Norway) had higher levels of market income and disposable income equality than they do at present (OECD. Stat 2016a). Over time, the combined effects of tax cuts and reduced

government public spending and transfers have produced higher after-tax/after-transfer Gini coefficients signalling increased levels of overall income inequalities for all of the six countries except Norway.

The gender impact of Australia's tax structure

Connecting the structure of tax systems with gender-specific incomes requires us to disaggregate the statistics for income of men and women. This enables us to get a picture of incomes over time. It shows that women's earnings at different ages are distinctively different from men's.

Figure 2.2 presents the average pre-tax and after-tax income, by age groups and disaggregated by gender, in tax statistics released by the Australian Taxation Office (ATO) for 2012–13. The gender income gap for men and women was at about 22 per cent at age 30 (and was lower than this up to age 24). However, during peak adult earning years (ages 45 through 49 for both women and men), Figure 2.2 shows that men's incomes soared while women's remained more or less flat. Women faced an average income gender gap of about 40 per cent during those years. At increased ages, the gender income gap again shrinks to about 22 per cent and then to 19 per cent over age 75, although the gap never closes (ATO 2015).

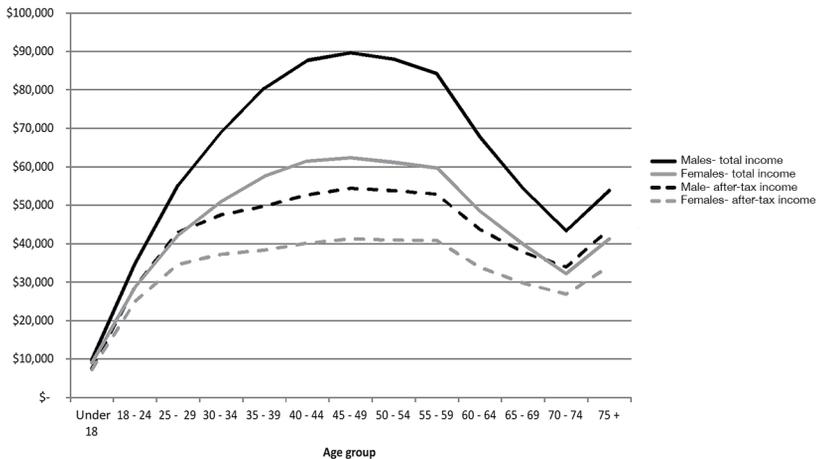


Figure 2.2: Average total and after-tax income, by age and gender, 2013

Source: Author's calculations and chart based on ATO (2015) data.

These gender income differences can also be expressed in terms of average individual incomes by age range. During peak earning years, men's average pre-tax income was \$89,588, and women's average pre-tax income was \$54,382. Note that taxable income includes some public transfers, such as the age pension, which are included in taxable income (although senior Australians and age pensioners get a higher tax threshold because of the Senior Australians and Pensioners Tax Offset); however, other transfers such as family benefits are not taxable. On an after-tax basis, men's average incomes were \$62,358, and women's \$41,247. This represented an average reduction in after-tax incomes of 30.4 per cent for men and 24.2 per cent for women, demonstrating that in that year, the Australian tax system was taxing women's average incomes more lightly than men's (ATO 2015).

The average redistribution from men to women will be different at every income level, but the gender impact of the tax system can be generalised by using gender shares of total after-tax incomes as an overall measure of gender redistribution. For example, in 2012–13, men started out with 62.1 per cent of all total incomes (defined as incomes from all sources plus public transfers). Women as a group started out with just 37.9 per cent of total incomes received in that year.

After taking account of various tax exemptions, deductions and tax rates in the PIT system, it can be seen that the combined impact of the income tax in 2012–13 slightly favoured women as a group. Men were left with about 1.8 per cent less after-tax income than they started out with at the beginning of the taxation process, for a total net after-tax/transfer share of 62.3 per cent. At the same time, women's total share was 1.8 per cent larger, bringing the combined share of all women's after-tax incomes to 39.7 per cent.

While this degree of gender redistribution may not seem like much, it represents a shift of substantial amounts of pre-tax incomes from men to women through the tax system. The 1.8 per cent increase in women's after-tax disposable income reduces the gender gap to 34 per cent for peak earning ages—6 per cent smaller than the pre-tax income gender gap. The gaps at other ages fell as well, from 22 per cent pre-tax to 19 per cent after-tax for early earning years and as low as 17 per cent after age 70. If detailed data on the distribution of market incomes, consumption taxes and all government transfers by gender were brought into the calculation, it is likely that the degree of gender redistribution through the entire transition from market to after-tax/transfer disposable income would be

even more substantial. As a comparison, in Canada, the transition from total income to total after-tax/transfer disposable income shifted 2 per cent of income from men to women in 2011. Another 2 per cent shift in disposable income can be attributed to the transition from market to total incomes, and from after-tax/transfer incomes to consumable incomes, which also take consumption taxes into account (see Lahey 2015, p. 39, Table 9).

These single-digit adjustments cannot by themselves offset the effects of longstanding economic gender inequalities. However, they emphasise that the fundamental principle of ability to pay in taxation has important implications for the taxation of women. So long as women face multiple forms of gender discrimination in terms of higher levels of unpaid care and social provisioning work, unequal hiring, retention and promotion in paid work, lower wages, fewer working hours, less high-quality employment, less saving capacity and unequal access to finance capital, then, on average, women do indeed have less ability to pay taxes than men.

Thus the first step in taxing for gender equality is to ensure that the PIT system uses a wide range of rates and that personal income and capital gains tax systems are designed to raise significant amounts of total revenues overall. The gender regressivity or progressivity of the tax-transfer system depends on raising substantial shares of total revenues through the PIT because almost all other components of tax systems are regressive in impact and thus detract from progressivity.

Gender and company taxation, tax expenditures and the GST

As discussed above, the most progressive components of tax systems tend to be PIT rates. However, we should also consider the tax base and its regressive effects for gender equality. While personal and corporate income, profits and capital gains taxes are more progressive in impact than most other taxes, corporate income and capital gains tax rates are usually lower and flatter than personal wage tax rates in most countries. Figure 2.3 shows that this is the case in all but the Norwegian tax system, which until recent years essentially substituted increased company income tax revenues for PIT revenues. Reducing the overall amount of revenue raised through corporate taxation does not necessarily reduce the regressive

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impact of that component of the total tax system. This is because as corporate income tax rates are lowered, there is a larger benefit for high tax rate individuals to restructure their personal income and investment flows through corporations.

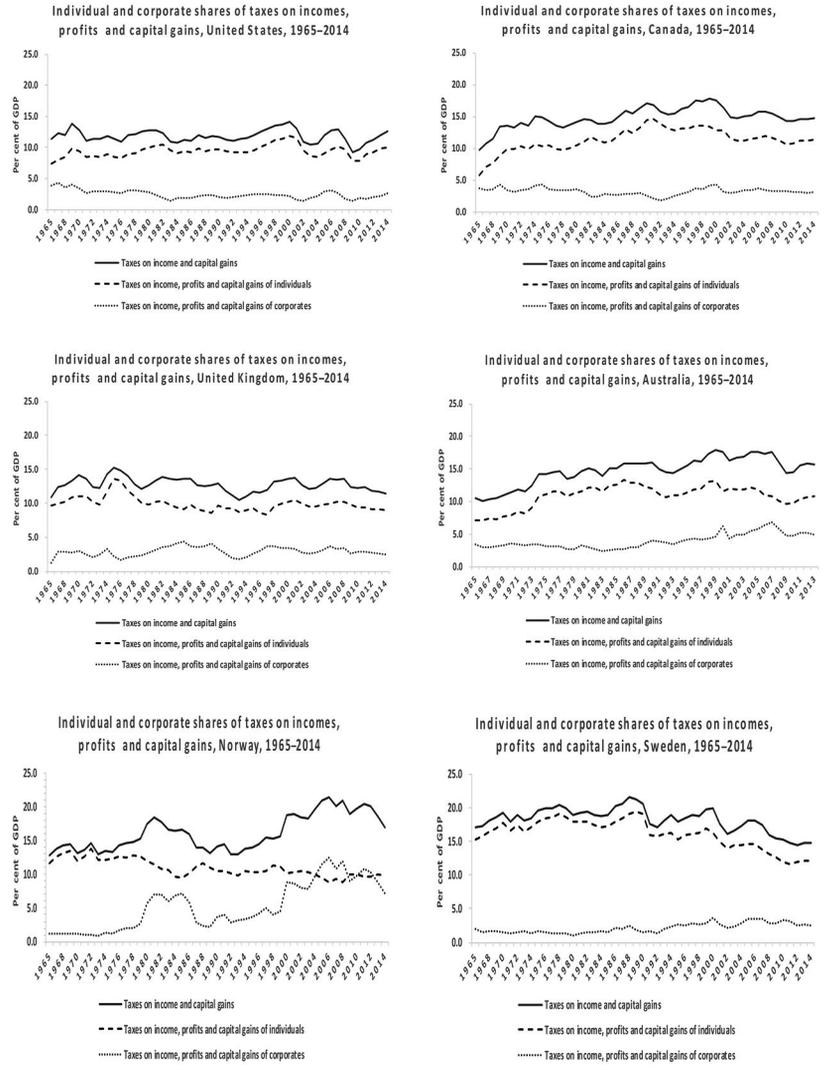


Figure 2.3: Individual and corporate shares of taxes on incomes, profits and capital gains, selected OECD countries, 2014

Source: OECD.Stat (2016a).

In general, the capital gains and dividends received by individual shareholders attract significant tax reductions, exemptions or other special treatment that reduce the overall progressivity of the personal tax-transfer system. This is true whether the role of the company income tax is reduced by lowering the company tax rate or by moving more fully toward ‘integration’ of corporate tax loads with individual taxation through mechanisms like Australia’s dividend franking credit or Canada’s partial corporate tax imputation system. Any measures that partially or fully merge corporate and personal tax burdens have this effect, because they eliminate permanently some component of either corporate or PIT bases from annual tax revenues, and thus can reduce the total tax collected on corporate-source incomes.

The use of tax systems to deliver tax expenditures in the form of exemptions, deductions, credits or deferrals also shrinks the tax base and thus its potential for progressivity. Finally, consumption taxes are based on consumption expenditure, not on income, exempt savings from taxation and, unless designed carefully, tax consumption by individuals of all ages, including those with little to no ability to pay. The gender impact of these systemic effects is affected by the socio-economic factors that shape women’s lower average incomes and wealth. Women with high incomes benefit less from these lower taxes on capital income and gains because women have lower incomes than men at every point on the income scale. Only 23 per cent of those in the highest income decile are women, and the average incomes of women in each decile are lower than the average men’s incomes in those deciles (ATO 2015, Table 3). This is explained further in Chapter 9 on the distribution of women with top incomes.

Gender, enterprise forms and the company tax

The gender effects of taxing corporations at flatter and lower rates than those applied to profits of unincorporated businesses produce a two-tiered income tax system that enables business owners and high wealth individuals to route income-producing activities through corporations at lower tax rates than will apply to unincorporated enterprises that are taxed within the PIT system.

In Australia, the 30 per cent corporate tax rate is high compared with that in many other countries. However, it is still 2.5 per cent lower than the 32.5 per cent PIT rate applied to incomes over \$37,000, and is substantially lower than the 37 per cent and 45 per cent rates applied

to incomes over \$80,000 and \$180,000, respectively (in 2016–17). The reduction of the company tax rate to 27.5 per cent for small businesses (under \$10 million turnover) has produced a further 5 per cent rate advantage in incorporating a small business.¹ In sum, the tax benefits of incorporating a business enterprise are significant, increase in value as the size of business investments increases and also enable shareholder-owners to accumulate after-tax business profits in corporations with the possibility of realising the long-term increase in the form of capital gains, half of which are exempt from the income tax.

Just as there are significant income gaps in employment earnings in Australia and most other countries, so business profit gender gaps are also substantial. Women who are business owner/operators comprise 12.5 per cent of all women in Australia's paid labour force, but only a third of them incorporate their businesses. The average profit received by women unincorporated business owners in 2011 was \$22,000, compared with \$46,280 by men (ABS 2015).

In contrast with women in employment, who have average earnings of \$52,000, self-employed women with no other employees had average incomes of \$30,520, compared to self-employed men on \$53,600. It seems likely that many women form their own businesses to adapt to lack of paid work opportunities and access to affordable child care. Almost half of women business operators surveyed had dependant children, and most were 55 or older, or in remote locations, or faced the additional barriers imposed on disabled, immigrant, Aboriginal or Torres Strait Islander women. Top detailed industrial occupations included hair/beauty, cleaning, child care, accommodation, food establishment, management and professional services. Most reported that retirement provisions were not a high priority (ABS 2015).

For women earning relatively low business incomes, incorporation produces little to no tax advantage, particularly if business profits are used immediately for living expenses instead of being retained in the company for business development. A similar picture emerges with respect to women-owned incorporated enterprises. Average incomes were \$51,900 for women, \$75,400 for men (ABS 2015). At the lower end of annual profits, incorporation could actually impose tax penalties on women.

1 The Australian Government has announced a further reduction of the company income tax rate in stages to 25 per cent, but this proposal has only partly been enacted to date.

The tax advantages of incorporation for women are relatively limited. Only the few who have sufficient start-up or finance capital and effective business plans will realise the potential tax advantages.

Women who own investment real estate or invest in shares can benefit from the capital gains tax reduced tax rate and the refundable dividend franking credit in the corporate-shareholder imputation system. However, in practice these tax provisions are not as valuable to women as to men. They operate to magnify women's existing income inequalities in two ways. First, women have lower annual incomes compared with men, less financial capacity for saving and investment, and they therefore receive smaller shares of such tax benefits. For example, women received just 29 per cent of the tax benefits of the dividend franking credit even though 42 per cent of those claiming the franking credit were women (ATO 2015, Table 3). Second, with lower incomes and facing lower tax rates, the proportion of saving from such tax provisions will be smaller than those realised by men, who have higher average incomes. This 'upside down' effect of tax concessions and other tax expenditures is a distinctive feature of income taxes with progressive rate structures. The higher the individual tax rate, the larger the total monetary value of a tax exclusion such as the capital gains tax 50 per cent discount.

Over time, the cumulative impact of men's larger shares of incomes and thus larger shares of concessionally taxed investment income and gains, larger shares of ownership in corporations and greater opportunities to accumulate wealth in corporations at lower marginal tax rates means that women lag behind men in accumulating wealth in Australia, both in terms of direct personal investments and in superannuation funds (Austen et al. 2014, pp. 25–52).

Gender and the GST

In the aftermath of the GFC, taxing for growth advocates have singled out increases in consumption tax rates (VAT, GST and carbon taxes) combined with cuts to both corporate and PIT rates as the best ways to increase government revenues while accelerating economic growth (OECD 2010b) in a 'tax mix' switch. Even though after-tax/transfer income inequalities have increased in most countries, including Australia, the UK and Canada, at least partly as the result of following these

recommendations, Australian governments have pursued this path in recent years. Arguments against such a change because of the well-known regressive impact are made, for example, in Usui (2011).

The regressive impact of consumption taxation on low-income people and those in poverty is widely recognised, but the gender effects of this switch have been more difficult to examine. However, there is growing evidence that this tax shift—or any increase in GST or VAT rates on their own—will be gender regressive in two ways.²

First, women's average incomes are lower than men's, and are clustered more heavily in lower income ranges. Any increases in GST rates or elimination of GST exemptions will overtax women as compared with men. GST systems use flat tax rates and thus take a larger proportion of low incomes than from middle or high incomes (Apps and Rees 2013, pp. 679–693; Lahey 2015, Table 18). This means that women will bear a larger share of such GST changes as compared with men (Equality Rights Alliance 2016; Apps 2015, p. 18; Lahey 2015, pp. 77–79, Table 19; Apps and Rees 2013).

When proposals to increase GST rates are compared with the distribution of personal income and/or corporate income tax increases as an alternate route to increased revenues, it becomes clear that the choice is between obtaining additional revenues from the poorest or from the wealthiest. GST increases will impose new tax liabilities on those with the lowest incomes, while personal and/or corporate income tax increases will have no impact on those with the least ability to pay, and will concentrate tax increases on those with higher incomes (Phillips and Taylor 2015, pp. 17–27 and Appendix Tables; Lahey 2015, p. 78, Table 19; Apps 2015, p. 18; Apps and Rees 2013).

Second, attempts to ameliorate the income and gender regressivity of new or increased GST rates by distributing compensating welfare payments to those most likely to lose crucial purchasing power will also have negative gender effects. Such compensation payments are invariably based on household incomes and thus build in assumptions about shared consumption that may not be realistic. These compensatory payments would give women smaller shares of compensation than they would

2 This discussion refers to GST regressivity in terms of income as the welfare measure, not to expenditure or lifetime consumption as the welfare measures (OECD 2014).

receive if they were treated as separate individuals. As Patricia Apps has pointed out (see also Chapter 3), not only are these joint tax penalties, but these compensatory payments would not necessarily ameliorate the effect of overtaxation of women regardless of their own income levels or household incomes (Apps 2015, p. 18; Lahey 2005, pp. 30–31). They reduce women's access to such payments upon marriage, and violate the principle of independent taxation of individuals on the basis of their own ability to pay.

Taxes, transfers and making paid work pay

On average, women in Australia perform 65 per cent of all unpaid and 34 per cent of all paid work hours, but receive just 37.9 per cent of total incomes, including government transfer payments (UN 2006; ATO 2015, Table 3). Men work almost the same number of hours each day as women, but receive 62.1 per cent of total incomes because more of their time is devoted to paid work during their lives. These imbalances reflect the persistence of gendered sex roles in households and workplaces, government policy offices and cultural expectations that condition women to take most responsibility for physical and social reproduction, social provisioning and care work. It is left to individual women to figure out how to engage in whatever level of paid work they can manage as their lives unfold.

These traditional arrangements are culturally self-perpetuating; generation after generation of children and thus the whole of society are continually informed that this is what women should do, so that their mainly male partners can work full-time in full-year paid jobs. In this system, men begin earning higher incomes than women so early in life (as shown in Figure 2.1) that even if members of a couple decide to trade roles, it is not necessarily assured that they can step into each other's economic positions at will. Guyonne Kalb looks in more detail at how Australian tax and transfer settings discourage Australian women from engaging in paid work (Chapter 5), while the impact of 'market' work time on a male or female parent's choices about their time spent on child care is considered by Racionero and Dinh in Chapter 7.

Women's labour force participation rates have of course been increasing for well over a century. Although Australia has maintained a greater overall level of progressivity in its tax-transfer system than many other countries,

despite having a smaller fiscal footprint (see, for example, Joumard et al. 2012, pp. 35–37), Australia's tax and social benefit programs have not provided the same quality of support for women's paid work as for men's. Australian government ambivalence about women's paid work is revealed through family tax and transfer policies focused on making the breadwinner's paid work pay. These tax and benefit policies help families live on what are essentially 1.5 salaries to stave off child poverty, but without redressing gendered time and earnings inequalities.

Canada, the UK and the US all share the same pattern. Even Norway, which has pursued a much broader Nordic revenue/social spending model, has come relatively late to confronting the same dilemmas. No country has managed to free everyone from longstanding sex-role stereotypes socially, economically or in fiscal policies.

Tax-transfer unit choice

Three structural problems still have to be addressed in Australian fiscal policy. First is the tendency to conceptualise women as part of marital, cohabitation or household units instead of seeing them as fully equal individuals in their own economic and legal right. Second is the reluctance to socialise (re)production fully enough to enable all women and men to participate on equal terms in economic production. Third is the concern that promoting the narrow policy objective of women's equality in paid work, without regard to women's unpaid caring and home production workloads and life course needs, risks instrumentalising women's paid work rather than promoting substantive gender equality as a matter of fundamental human economic rights (see, for example, European Commission 2010, pp. 17–19).

When the US, Canada and Australia enacted their first income tax laws, they all broke from the UK model of using the married couple as the basic tax unit and instead adopted the individual as the tax unit. The US, however, moved toward the married couple as a tax unit in the 1920s, as high-income individuals sought to legitimate income splitting for tax minimisation purposes, with the result that full spousal income splitting and joint filing was enacted right after World War II and remains undisturbed even today.

In spite of the individual tax unit, none of the Anglo-group countries seem to be able to let go of fiscal coverture even though married women's struggles to obtain equal property rights are over a century old. In the 1960s, Canada began suffering from US joint filing envy in the wake of the Carter Commission report (Government of Canada 1966). Australia followed suit in the Asprey Report in the 1970s (Asprey 1975, pars 10.1–10.33) but ultimately accepted the individual tax unit. In the 1990s, Prime Minister John Howard attempted to resuscitate a family unit proposal in Australia, using outmoded US arguments. Political controversy led to withdrawal of his proposal. However, the government instead enacted a modified income splitting proposal, limited to 'a family that has a mother staying home', through family payments tested on joint income. Evidence of the high costs of income splitting made it clear that other social programs might have to be cancelled to finance even this partial form of income splitting (Costello n.d.; Smith 1994, p. 5; Page Research Centre 2004, p. 2).

More recent Australian governments have pursued the same policy goals through an array of policies designed to support single-income couples, give cash payments to 'stay-at-home mums', compensate mothers' unpaid child care in the home and help mothers stay out of paid work. In its May 2015 Budget, the conservative Abbott Government finally acknowledged that these now-costly single-income couple benefits had become largely irrelevant in a labour market dominated by dual-earner couples and that lack of adequate paid child care services had become a substantial barrier to women's paid work. Thus, the Abbott Budget presented proposals to replace the array of tax benefits for single-income couples with enhanced funding for paid child care for both single- and dual-income families. As of mid-2016, this approach has been further amended to provide direct compensation for up to 85 per cent of child care costs, plus supplementary child care support for low-income parents.

Child care costs

As in the UK, the US and Canada, the Australian budgetary cost-cutting advantages of delivering direct spending and tax benefits on a joint means-tested basis are difficult to combat politically. But the unfortunate result of this conceptual view is that single parents, who continue to be

mainly women, and coupled women who are conceptualised as ‘secondary workers’ continue to be expected to solve their own child care problems without sufficient public sharing of these high costs.

Cash transfers to families have some of the same negative fiscal effects as other joint or household-based benefits: even if they are included in taxable income, cash transfers provide net after-tax benefits to single-income couples, but couples that require paid child care to support a second income-earner will have to spend most such benefits on paid child care. The same effect is created for single parents, especially for those on social assistance but without accompanying child care funding. The greater the concentration of benefits on ‘recognising’ unpaid work contributions, the larger the divide between parents in paid work and those with an unpaid domestic worker. These are not trivial differences. In Canada, the total tax-transfer subsidy for unpaid care of various kinds came to C\$24 billion in 2015, while only C\$1.6 billion was made available as tax benefits for paid child care.

Table 2.3 quantifies net child care costs faced by second-earner and single parents from Anglo- and Nordic-group OECD countries in 2012, and includes South Korea for comparison. In Table 2.3, the left-hand column presents the net take-home pay for second-earner parents and shows this varies widely when the full costs of taxes payable on earnings (participation tax rates (PTRs) including income taxes and income supports), and net after-tax/transfer child care costs are taken into account. In the OECD, although only South Korea has made it financially possible for women who need paid child care to ‘make paid work pay’, to the same extent as for women with no paid care expenses, South Korea has not yet eliminated gender gaps in labour force participation rates and earnings as compared with men. This support for child care costs of parents in paid work is the case, even though South Korea still uses the family as the tax unit. Second-earner parents will take home as much as 89.6 per cent of their gross earnings in South Korea, but as little as 11.7 per cent in the UK.

Table 2.3: Participation tax rates and child care costs as percentage of earned income for second-earner and lone parents, selected OECD countries, 2012

	Second-earner PTR plus CCC	Second-earner PTR with no CCC	Second-parent CCC as % of pre-tax earnings	Lone parent PTR plus CCC	Lone parent PTR with no CCC	Lone parent CCC as % of pre-tax earnings
South Korea	10.4%	10.4%	—	60.0%	60.0%	—
Sweden	30.9%	22.2%	8.7%	61.7%	57.2%	4.2%
Norway	51.5%	29.3%	22.2%	66.0%	53.3%	12.7%
Australia	73.3%	42.2%	31.1%	69.2%	52.7%	16.5%
Canada	77.9%	31.4%	46.5%	94.1%	53.0%	41.1%
US	80.1%	27.4%	52.4%	91.0%	38.3%	53.5%
UK	88.3%	21.2%	67.1%	78.9%	70.4%	8.5%
OECD average	57.0%	31.5%	25.5%	73.4%	57.7%	15.7%

PTR: Participation tax rate for second earner, net of all taxes and income supports, as percentage of second earner's or lone parent's own new income, assumed to be 67 per cent of average country wage (first parent assumed to have income of 100 per cent average country wage); CCC: Child care costs, net of all tax and transfer effects, as percentage of second earner's or lone parent's own income; PTR plus CCC: Combined effect of both; all cases assume two children under five, full-time child care.

Source: OECD (2012).

These wide variations reflect differences in how tax-transfer systems affect second earners (here, with incomes at 67 per cent of average wages for the country) and in the market costs, tax implications and transfers associated with child care costs. The other two second-earner columns isolate the PTR from net after-tax/transfer child care costs, which also vary widely. In South Korea, the basic individual income tax rate and child care costs for second earners are only 10.4 per cent on the second earner's income, and zero for child care costs. Comparing the selected countries, child care costs net of taxes and transfers range from 8.7 per cent (Sweden) to 67.1 per cent (UK) of gross earnings.

So far as two-parent homes are concerned, the Nordic countries and South Korea appear to place high value on women's equal access to paid work. In contrast, the Anglo-group countries appear to place more value on homecare by a second parent, with the net costs of child care acting

as a penalty that is designed to discourage paid work for second earners who cannot obtain high enough incomes to ‘make paid work pay’ despite high PTR plus child care costs ratios.

It may be that the same values shape the outcomes for sole parents in paid work as well. Net child care costs as a percentage of gross earnings (assuming second incomes at 67 per cent of average wages) appear to be lower for sole parents in all countries in Table 2.3 (except the US) by margins of 4.5 per cent (Sweden) to 58.6 per cent (UK). But when net after-tax/transfer child care rates are combined with PTRs, these margins disappear as single parent take-home pay falls to just 9 per cent of earnings (US) to 40 per cent (South Korea). When the high costs of paid child care and the realities of poverty levels are taken into consideration, it does not appear that paid work can pay at all for single parents who face typical gender income gaps on average women’s wages. At these tax plus child care rates, and as low-income subsidies are tapered out, single mothers on average incomes face either living on income supports and foregoing paid work, or living below poverty levels unless they can gain access to comparatively highly paid work. Only Australia and the UK appear to have ensured (in 2012) that the combined tax and care costs of paid work for single parents are lower than for second-earner parents.

Recent changes to the tax-transfer rules in Australia suggest that even with heightened attention to the importance of affordable paid child care resources for single parents, paid work will barely ‘pay’ for single mothers who need to pay for child care while working for pay. This is because the combined effects of women’s incomes and the costs of paid child care—even when the new government child care subsidy rates are taken into consideration—barely bring single-parent families above the poverty line (Ingles and Stewart 2017). The value expressed in these complex single-parent subsidy and tax systems appears to be that homecare for children whose parents have to rely on income supports or on whatever one of two parents can earn is better for children than paid child care.

The problem with these values, including in Australia, is that women are still marginalised in relation to paid work, whether they engage in only as much paid work as they can afford (given the total tax plus child care costs involved) or turn to self-employment. The benefits of self-employment as an alternative to third-party employment may include control over times when paid child care may be needed, working hours and location. But the downside includes lower incomes, less ability to save for retirement and

greater economic vulnerability. It is clear from the ABS study on women in business that many women go into business not to accumulate capital assets, but to find sustainable sources of modest incomes (ABS 2015, Ch. 4). Similarly, women who take the income support route to solving this problem are also thereby excluded from income and retirement security benefits, and from the chances of becoming self-sustaining when their children are older.

As pressure to encourage more women into paid work to stimulate GDP growth increases, it may be that these implicit values will change. However, if the goal is not to optimise all human capital through the combination of early childhood education and higher and further education and workplace attainment for women as well as men, then merely increasing child care subsidies may not necessarily promote gender equality or human development.

Taxing for gender equality in Australia

Australian research and policy innovators began to work on adding the goal of economic security for women to the gender equality policy agenda, even as the Australian use of gender budget analysis to track the impact of fiscal policy analysis on women began to disappear. Supported by the Office of the Status of Women in the Prime Minister's Department and Cabinet in 2004, extensive work on documenting the dimensions of economic security throughout the life course was initiated. This long-term project defines economic security for women as including not just decent work that 'assures regular and continuous pay', 'delivers financial stability and independence' and provides 'basic essentials ... at a reasonable standard of living', but also as calling for policies and programs that protect 'women from fear of social dislocation and isolation' while enabling them to 'support themselves across their lifecycle', 'support various family members still in their care', and save and invest at levels needed when facing 'unexpected changes in economic conditions as well as providing economic security in later life' (eS4W 2016, p. 9).

Australia's leadership in promoting women's economic security has begun to influence the framing of strategies for attaining women's equality in the current century. In 2016, the UN High-Level Panel on Women's Economic Empowerment drew heavily on the concept of economic security for women in its report on the policies and outcomes needed

to fully empower and equalise women's economic status in all domains of women's work and lives. This report outlines promising policies to equalise adult unpaid work time, women's shares of assets, ownership and control of business enterprises and employment conditions and incomes, many of which include changes to tax policies and related government benefit systems (UN 2016b, pp. 52–96; Klugman and Melnikova 2016).

Australia has followed global trends in moving toward budgetary austerity, lower tax ratios, a focus on 'taxing for growth' and under-resourcing gender equality programs, as seen in the comparison with the UK, the US, Canada, Nordic states and South Korea in this chapter. Australia now appears to be taking some promising steps motivated by recognition that women deserve equal chances of sustainable and economically secure gender equal futures. But continued emphasis on 'taxing for growth' will preclude those futures until the steps called for here to achieve 'taxing for gender equality' become not just a goal but the reality.

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