

6

Tax Policy Debates and Issues

The literature review in the previous section shows that there is a wide range of ways in which tax policy can have a gender-differentiated impact. This section discusses the principal tax policy debates of special relevance to developing countries, some general tax issues for developing countries and specific issues which are of importance to a gender analysis of taxation.

6.1 Tax Policy Debates

Tax policy is at the heart of an ongoing fiscal debate in all countries, which is of special importance to developing ones, about the role of government and the appropriate size of its budget. This debate recurs in every budget cycle. Its resolution, each time, is fundamentally a political process, which should occur with full participation of all sectors of society, full information and complete transparency, but which is too often determined by politicians and elites behind closed doors. The fiscal debate is posed around three interrelated questions:

1. What should be the overall size of the government budget? This question requires an evaluation of available resources, the desired level of public expenditures and the acceptable level of possible deficits.
2. Of the needed resources, how much should be raised from taxation (government revenue) and how much should be raised from other sources, such as foreign aid (grants) or borrowing (financing)?
3. Of the required amount of tax revenues, what should be the distribution of the tax burden across sectors and taxpayers?

Tax policy is also at the heart of the social debate regarding how to achieve goals of income and gender equity. Two factors have driven a new interest in the use of tax policy to actively promote and achieve redistribution goals. First, there is concern about increasing income inequality in both developed and developing countries around the world. Secondly, there is growing frustration and scepticism about the ability of public expenditure to reach the very poor. Some feminist economists, particularly, have argued that tax policy should be considered as a tool for achieving gender equity.

6.2 General Issues of Tax Policy in Developing Countries

In all countries, and especially in the developing world, the primary issue with regard to taxation is the complex task of designing policies that will provide sufficient

revenues to support desired social and economic development needs, while avoiding policies which may discourage the investment in financial and human capital which is also fundamental for economic growth.

A second issue for developing countries is that a large proportion of the population is too poor to pay taxes, creating a very narrow effective tax base. The narrower the tax base, the higher the rate has to be, which can result in greater incentives for tax evasion and corruption – a vicious cycle for these countries. Additionally, income and consumption can only be taxed to the extent that they can be reached by the tax net, and many developing countries suffer from weak tax enforcement and administration. Tax officials in developing countries need sufficient resources to improve tax administration and enforcement, but allocation of these resources from own-source revenues is difficult – requiring either higher overall taxes, or the reduction of other expenditures.

A third set of issues concerns the need to harmonise tax, trade and industrial policies. Taxes and tax rates need to be harmonised with neighbouring states to avoid tax competition, and to take into consideration the impact of open trade markets. This is especially important for small developing countries. However, in order to reduce trade taxes, countries must create other revenue sources, and the shift to increased reliance on consumption taxes has not resolved the problem of budget deficits. Are there other, more gender-equitable, options that can produce desired revenue?

Finally, there is a link between taxation and other means of closing deficits. Tax alternatives must be considered in the full context of other financing alternatives, including the acceptable level of debt and the need for foreign aid. This paper has not explored that important issue.

6.3 Gender-specific Tax Policy Issues

Beyond the general issues of tax policy for developing countries, there are a number of unresolved issues that are specific to the gender dimensions of taxation. The following questions are especially relevant to countries at low and low-middle levels of development:

- How should tax policy deal with rural–urban differences, low levels of formal employment and relatively large informal sectors, which is where the majority of women workers are concentrated?
- How can tax administration be made appropriate for low levels of literacy, especially for women, the impact of the HIV/AIDS epidemic on households and income, and weak tax enforcement and capacity?
- How should tax policy deal with different family structures, which influence the tax unit treatment (such as extended families, more than one wife and lone parent households)?

- How can tax benefits/allowances be designed to flow to the mother, since evidence suggests that a greater family benefit then ensues to the household?
- How can implicit bias in indirect taxes – heavily used in developing countries – be assessed, given the problems of measuring differential consumption? There is great difficulty in showing non-neutrality in value-added taxes and other broad-based consumption taxes.

Two other issues apply more generally to countries across levels of development:

- How should tax systems recognise the value of unpaid care-giving services? What types of exemptions should there be for spouses or partners who contribute unpaid care work?
- Should sex-based versus gender-neutral annuity/mortality tables be used for social security and other tax payments?

6.4 Summary of Debates and Issues

Tax policy analysis can play an important role in informing tax policy debates and addressing income and gender equity issues, but it is the overall impact of both taxes and expenditures in improving the distribution of income and wealth and improving gender equity that is important. The impact of both tax and expenditure policies on poverty, income distribution and gender equity require considerable more study in a wide range of countries in order to bring empirical evidence to bear on crucial policy decisions.