

VAT, Gender and Distribution: Evidence from an 8-country study

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VAT

- One of the features of tax system in developing countries is the rise and dominance of VAT.
- Since 1990s, more than three-quarters of countries in sub-Saharan Africa have adopted VAT
- For many developing countries, which lack high levels of formal-sector employment, VAT is the mainstay of tax revenue

Two controversies

- VAT places a heavy burden on the poor – negative distribution impacts
- VAT is a tax on consumption so may place a burden on persons who have a high propensity to consume
- VAT may therefore have negative gendered income distribution impacts
 - Women bear a disproportionate burden for consumption expenditure so may have a higher VAT incidence
 - Women are disproportionately in poorer households so may have a higher VAT incidence

Our study

- Combine income classes and gender
- 8 country study: South Africa, Ghana, Uganda, Morocco, India (West Bengal), Argentina, Mexico, UK
- Studied direct and indirect taxes, but I only report on indirect

Indirect taxes

- Tax incidence analysis
- Using household income and expenditure surveys
 - Split households into quintiles
 - Look at what households are spending
 - Calculate the indirect taxes they pay
 - Calculate gendered incidence

Which Indirect Taxes?

- Value-added taxes
- Excise taxes
- Fuel taxes

Methodological challenge

- Data on expenditure is at *household* level
- But gender is an *individual* characteristic so our ultimate interest is *individuals* within households
- How do we engender the analysis?

Bringing Gender into the Analysis

- How do we engender household level data?
 - Use “gendered” household classifications
 - Household gender composition by Adults (with/without children) (6 categories)
 - Female dominated
 - Male dominated
 - Equal numbers
 - Employment status
 - Male breadwinner
 - Female breadwinner
 - Dual earner
 - None employed
 - By Headship: male vs female head
 - For each type: with and without children

Indirect Tax Incidence in South Africa, by HH Head

Table 4. Tax as a percentage of GDP by headship

	Total Tax	VAT	Excise Tax	Fuel Levy
Male-headed	9.06	7.17	0.96	0.94
Femaleheaded	7.99	7.08	0.44	0.48

Results for India

Table 15: Overall Incidence by Household Types

	Total Tax	VAT	Excise Tax	Fuel Tax	Number of Households
<i>Headship</i>					
Male headed	2.079 (1.312)	1.901 (1.174)	0.045 (0.209)	0.059 (0.312)	7066
Female headed	2.12 (1.071)	2.021 (1.02)	0.027 (0.106)	0.024 (0.169)	821
<i>Household Sex Composition</i>					
Male-dominated	2.237 (1.612)	2.035 (1.473)	0.054 (0.279)	0.067 (0.349)	3282
Female-dominated	1.945 (0.949)	1.808 (0.847)	0.034 (0.121)	0.045 (0.239)	2552
Equal # females & males	2.011 (1.036)	1.851 (0.888)	0.037 (0.141)	0.052 (0.287)	2043

Total Indirect Tax Incidence South Africa

Figure 2. Total tax incidence by employment status, quintile and presence of children

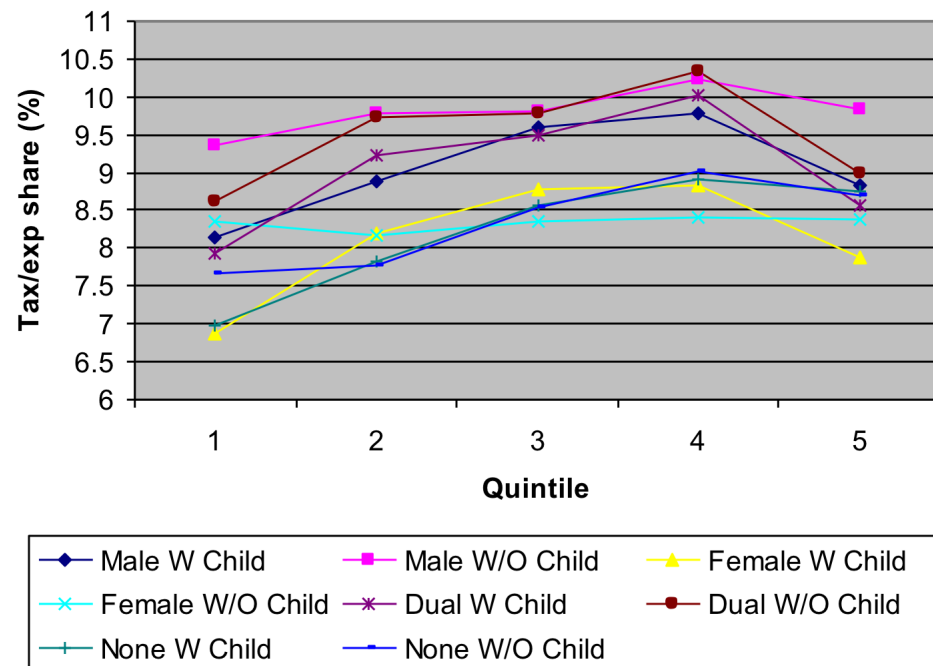
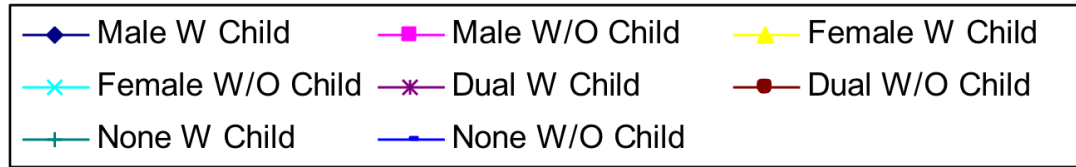
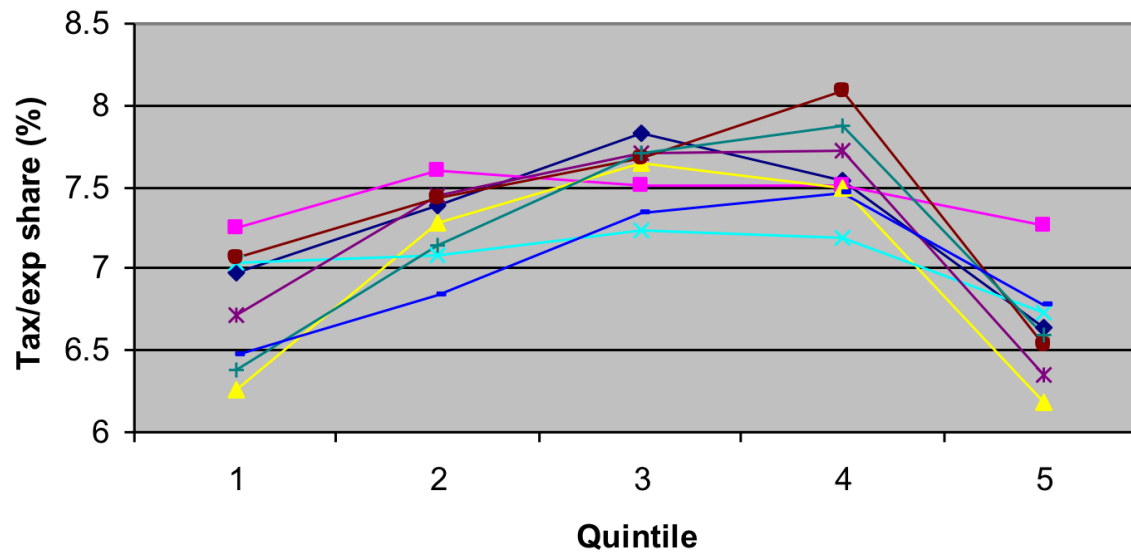


Figure 3. VAT incidence by employment status, quintile and presence of children



Indirect Tax by Income Class

Table 3. Greatest incidence of each type of tax by income quintile

Incidence falls most heavily on:	Total Indirect Taxes	VAT	Excises	Fuel Tax
Quintile 5	Ghana ¹ , Mexico, Uganda, Morocco	Mexico, Morocco, Uganda, UK		Argentina, Ghana, India, Morocco, South Africa, Uganda
Quintile 3-4	South Africa, UK	South Africa	Argentina, Morocco, South Africa	
Quintiles 1-2	Ghana ¹ , India	India	Ghana, India, Mexico, UK	Mexico ⁴ , UK
Proportional	Argentina ²	Argentina ³ , Ghana	Uganda	

By Gender

Table 4. Incidence of Indirect Taxes by Household Type

By headship (comparing male-headed versus female-headed)				
Incidence falls most heavily on:	Total Indirect Taxes	VAT	Excises	Fuel Tax
Male-headed households	Argentina, Ghana, Mexico, Morocco, South Africa, Uganda, UK	Argentina, Ghana, Mexico, South Africa, Uganda, UK	Argentina, Ghana, India, Mexico, Morocco, South Africa, Uganda, UK ¹	Argentina, Ghana, India, Morocco, UK, South Africa, Uganda
Female-headed households	India	India, Morocco	UK ¹	Mexico
By employment status (comparing male-breadwinner, female-breadwinner, dual-earner, none-employed)				
Male-breadwinner households	Argentina ² , Ghana, Mexico, South Africa, Uganda	Argentina ² , Ghana, Mexico, South Africa, Uganda	Argentina, Ghana, Mexico, Morocco ² , South Africa, Uganda	Ghana ² , Uganda, Morocco ²
Female-breadwinner households				Mexico
Dual-earner households	Argentina ² , Morocco	Argentina ² , Mexico, Morocco, UK	Morocco ²	Argentina, Ghana ² , Morocco ² , South Africa, UK
No-employed	UK		UK	
By household sex composition (comparing male-dominated, female-dominated and equal numbers)				
Male-majority households	Argentina, Ghana, India, Mexico, Morocco, South Africa, Uganda, UK	Argentina, Ghana, India, Mexico ³ , South Africa, Uganda	Argentina, Ghana, India, Mexico, Morocco, South Africa, Uganda, UK	Argentina, Ghana ³ , India, Uganda, UK
Female-majority households				Mexico
Equal-number households		Mexico ³ , UK		Ghana ³ , South Africa
Proportional		Morocco		Morocco

Indirect taxes- some headlines

- Total tax incidence in most countries falls on richest or middle quintiles;
- For the most part, total tax incidence falls on ‘male-type’ households, irrespective of household types
 - A few exceptions: India, Ghana

Why such positive results?

- All countries, with exception of India (West Bengal) have extensive zero-rating of basic consumption goods

Table 4 (cont.) Zero-rating and Exemptions

	Morocco	South Africa	Uganda	UK
Zero rating	Exports, Fertilisers, Agriculture tools, Acquisition of vehicles for taxi usage, Residential building construction, Products and equipment and medicine, Donations	19 basic foods, paraffin, exports, petrol and diesel, farming inputs, certain grants by government.	Export goods, milk, seeds, fertilizers, educational materials, cereals, machinery for agriculture, printing services for educational material	Food, sugar and confectionary, children's clothing and footwear, public transport, books and newspapers, medical expenditure, education, water and sewage
Exemptions	All food of basic necessity (cereals, bread, milk, fish, meat, fruits and vegetables), unprocessed food, sugar, salt, Paraffin and candles, books and newspapers, medicine, self construction of main home, healthcare acts, dental and nursing services, education, handicrafts, agricultural products and services, micro credit.	Residential rental and accommodation, Educational services (including creches) Public road and rail transport Non-fee related financial services, medical aid and medicine, medical services provided by public health institutions	Financial and insurance services, education services, medical, dental and nursing services	Financial and banking services, private education and health (excluding spectacles, lenses, sunglasses, most mobility and hearing equipment and non-NHS medical products and services), postal charges, betting and funerals
Reduced Rate	Water			Domestic fuel, women's sanitary products, children's car seats

South Africa

Effect of VAT exemptions and zero-rating by consumption category:

Benefit to female-headed HH:

- *Basic foods

- *Paraffin

Public transport

Education

- *relative gender gain largest

Benefit to male-headed HH:

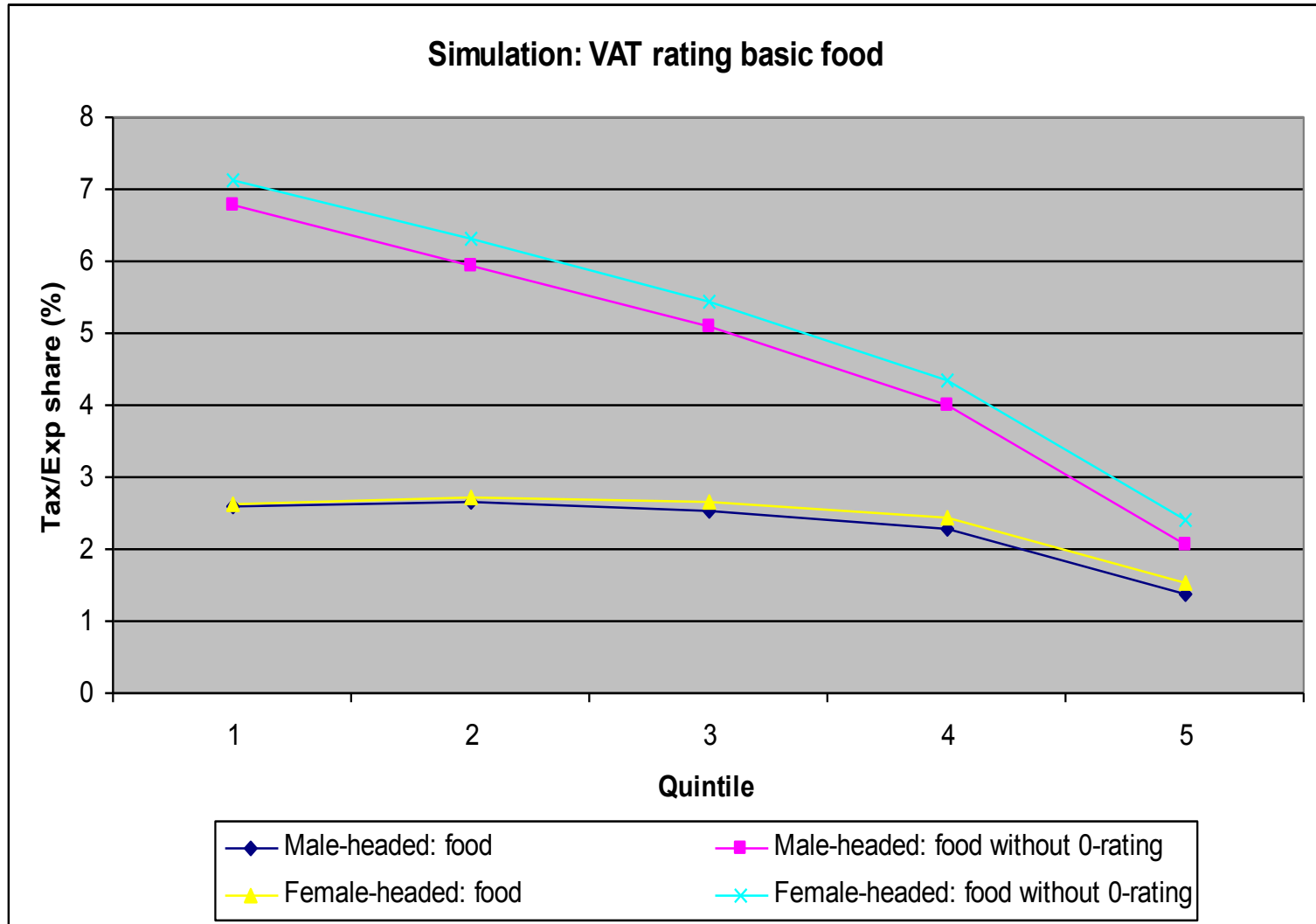
Housing/rental

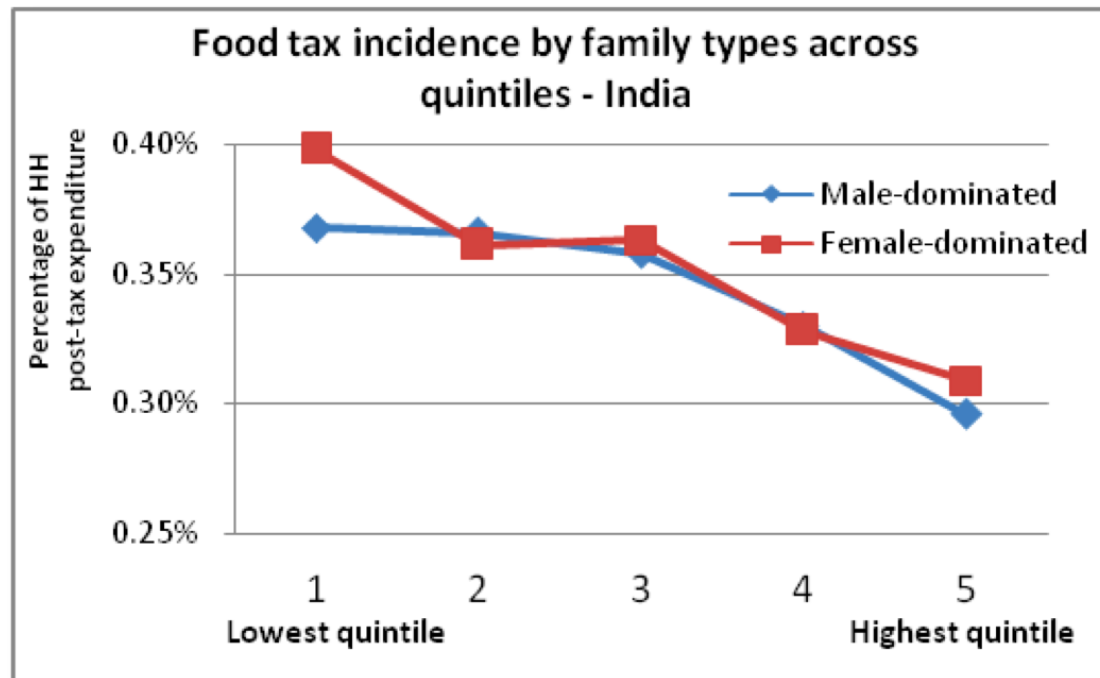
Financial services

Medical

Simulation: Vat rating 19 **basic food items** that are currently zero-rated.

Result: Zero-rating reduces incidence and regressivity substantially and eliminates the gender bias.



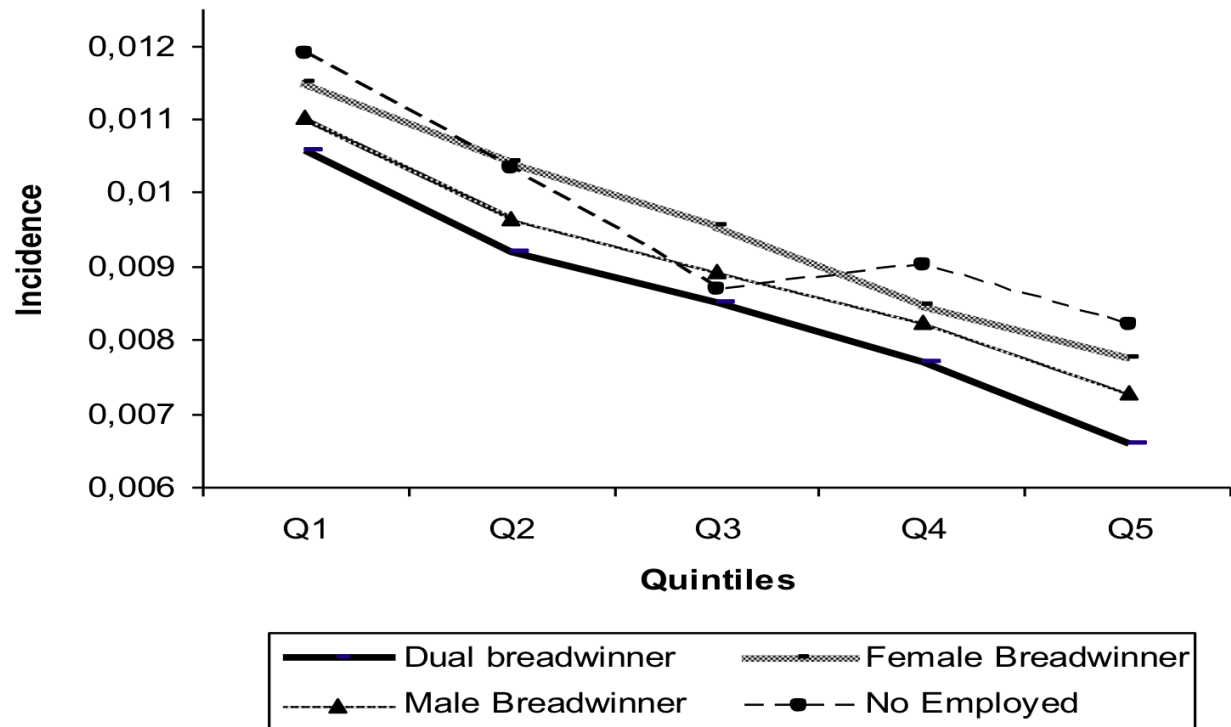


No zero-rating of food in India hurts poor women

Morocco – Food

Higher incidence at Q1 for HH without work and female HH

Tax for Basic Processed Food by quintiles and employed categories



Any remaining 'biases' by consumption item (after exemptions and zero-rating)?

Female-headed:

- all other non-basic food
- children's clothing
- personal care items
- fuel for household use

Male-headed:

- housing
- tobacco
- alcoholic beverages (esp. beer)
- meals out
- private transport
- fuel for transport
- adult's clothing
- communication
- recreation

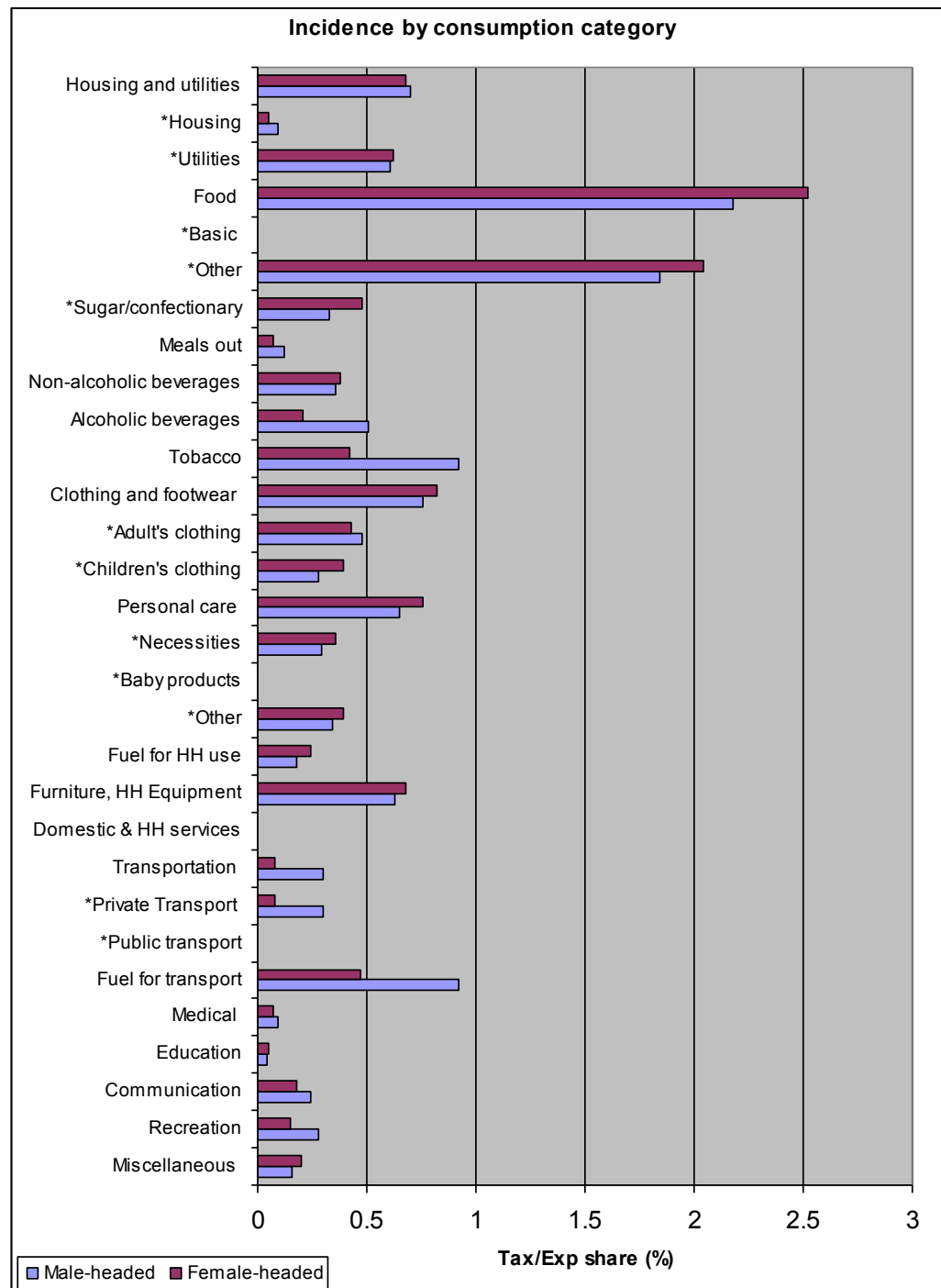


Table 6. Revenue implications: loss/gain to households (millions Rands per month in 2000 prices)

	VAT RATE:		ZERO-RATE:					
	Basic food	Paraffin	Other non-conf. food items	Children's clothing	Basic personal care items	Poultry	Baby food (milk and grain)	Coal, firewood, candles
Total	-323.0	-19.1	399.0	48.0	51.5	63.4	6.5	12.6
Male-headed	-209.1	-11.1	288.6	31.6	35.1	42.2	4.3	7.2
Female-headed	-113.9	-8.0	110.4	16.4	16.4	21.1	2.2	5.4
Ratio female/male (0.28 HH exp)	0.54	0.72	0.38	0.52	0.47	0.50	0.54	0.75
Q1	-24.4	-2.1	11.3	2.5	2.4	3.1	0.5	1.4
Q2	-41.5	-4.1	26.4	5.3	4.8	6.9	0.9	2.7
Q3	-56.7	-5.4	47.6	7.6	7.7	11.0	1.4	3.4
Q4	-78.9	-5.5	92.3	11.5	12.5	17.1	1.6	2.8
Q5	-121.6	-1.9	221.6	21.1	24.1	25.3	2.2	2.3
Ratio Q1-4/Q5 (0.38 HH exp)	1.66	8.91	0.80	1.27	1.14	1.50	2.05	4.56

Baby food and other fuel for HH use have large gender and income distributional impacts.

But should further policy change come from the expenditure side rather?

Caveats

- Our sharing rule: equal splitting of expenditure inside the HH
- Not considered transfers on the expenditure side of the budget – eg. food subsidies in India
- No account of behavioral change

Policy Lessons

- VAT, and in general indirect taxes, do not appear to place an undue burden on women and the poor
- Zero-rating of food and other basic consumption goods goes a long way to protecting women and the poor
- Without this, the incidence of VAT would fall disproportionately on women and the poor
- Higher incidence of indirect taxes on men appears to be the result of their 'bad habits' – alcohol, leisure, transport

If you're interested

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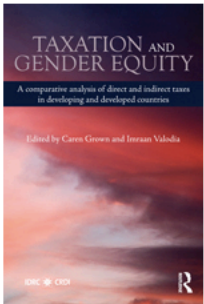
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A Comparative Analysis of Direct and Indirect Taxes in Developing and Developed Countries

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Equity issues are again attracting attention from academics and policy analysts concerned with taxation. This book makes a substantial contribution to this new awareness by emphasizing the important role that gender, like other social stratifications such as race and income, often plays in determining the impact of taxation on well-being.
Richard Bird, University of Toronto, Canada

This groundbreaking volume examines the gender dimensions of tax systems in seven developing and one developed country and is the first systematic treatment of its kind. The conceptual framework that it poses should be part of the toolkit of policy professionals, donor staff, and gender specialists in years to come.
Manuel F. Montes, Development Policy and Analysis Division, UNDESA, USA

This highly original book is essential reading for everyone concerned with equality in taxation. It provides a powerful conceptual framework that goes beyond comparing male and female headed households and sets out detailed empirical findings on the gender dimensions of both direct and indirect taxation.
Diane Elson, Centre for Research in Economic Sociology and Innovation, University of Essex, and Chair of Women's Budget Group, UK

Around the world, there are concerns that many tax codes are biased against women, and that contemporary tax reforms tend to increase the incidence of taxation on the poorest women while failing to generate enough revenue to fund the programs needed to improve these women's lives. Because taxes are the key source of revenue governments themselves raise, understanding the nature and composition of taxation and current tax reform efforts is key to reducing poverty, providing sufficient revenue for public expenditure, and achieving social justice. This book presents original research on the gender dimensions of personal income taxes, value-added excise and fuel taxes in Argentina, Ghana, India, Mexico, Morocco, South Africa, Uganda, and the United Kingdom. It will be of interest to postgraduates and researchers studying public finance, international

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