T20 POLICY BRIEF

Task Force 01

FIGHTING INEQUALITIES, POVERTY, AND HUNGER

Expanding Fiscal Space towards Gender Equity: The Role of Tax Policy in Securing SDG 5

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Abstract

In recent years, the world has faced a widespread polycrisis. Depending on each region, governments have chosen different approaches to face it, ranging from fiscal consolidation programmes to expansionary public policy through relief packages. However, a common challenge for many is the reduced, often shrinking, fiscal space. Fiscal consolidation has led to a reduction in allocation to public spending, which affects disadvantaged groups, especially women. Furthermore, studies highlight that fiscal policies, often perceived as gender-neutral, are gender-blind. The aim of gender equity needs greater alignment in international cooperation policies.

These challenges result in policies that deepen gender biases and move away from meeting SDG 5. Tax policy can help address these challenges when implemented from a gender perspective. However, according to OECD (2022), only twenty-two countries, including G20+ members, have implemented specific tax reforms for gender equity. In contrast, gender-neutral policies prevail, such as higher tax rates on second earners, informal taxation or user fees for services used more by women, and low taxation on capital income or wealth.

In this context, enhancing gender-sensitive fiscal spaces is essential. The G20 provides a valuable platform for fostering multilateral commitments. The concrete proposals are: i) Promote an Engendered Fiscal Space Framework for better alignment of tax policies with SDG 5; (ii) Help G20 countries build tax capacities and foster international cooperation to facilitate the exchange of best practices and technical expertise, enabling nations to overcome common challenges and achieve sustainable progress towards SDG targets; (iii) Advance progressive tax systems by a) re-shaping the tax mix to reduce the tax burden on low-income earners, b) rationalize the use of tax expenditures and c) increase taxation of the rich (Alstadsæter et al, 2024).

Diagnosis of the issue

As the global economy shows signs of recovery, women remain disproportionately affected by enduring inequalities. Income-wage disparities and unequal labor market participation persist. Although many countries have improved on the Gender Development Index (GDI) post-pandemic, the Gender Inequality Index (GII) still undermines this progress by 40-45%. The correlation between GII values and the Global Social Norms Index (GSNI) reveals biases that influence gendered time-use outcomes, particularly in unpaid work (UNDP, 2024). In this crisis-ridden context, the exacerbation of inequalities demands immediate attention.

Six years remain to achieve the Sustainable Development Goals (SDGs), and progress on Goal 5 is urgent, as over 80 countries are missing at least one indicator. Worsening food security has disproportionately impacted women, particularly in the Global South (GS), with over 340 million women and girls at risk of extreme poverty and 1 in 4 facing food insecurity (Figure 1). Achieving SDG-5 requires an estimated $6.4 trillion annually across 48 developing countries, plus an additional $360 billion for gender equality across all SDGs, including ending poverty and hunger (UN Women, 2023).

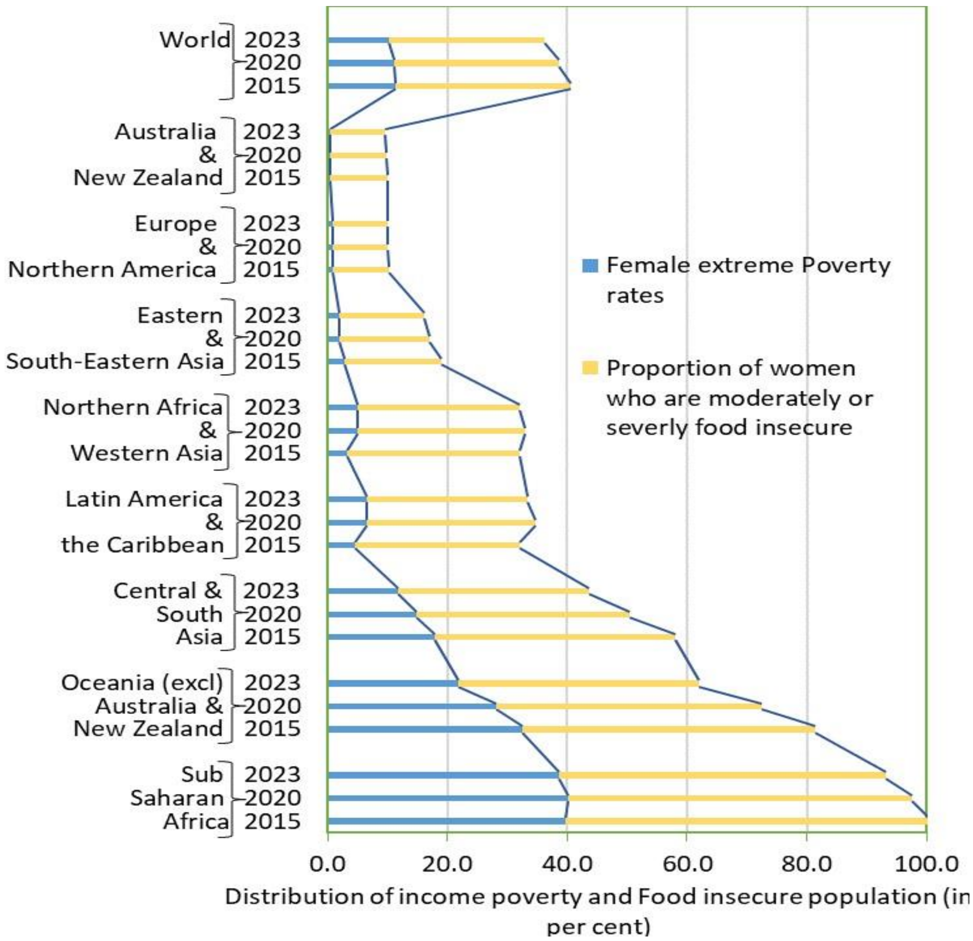

FIGURE 1: Income poverty and food insecurity (2015, 2020, 2023)

Source: Data from UN Women (2023)

Rising debt levels and three years of slowing growth have limited fiscal space for financing the SDGs. Governments, especially finance ministers, should prioritize creating fiscal space through gender-responsive measures to enhance women's economic participation, thereby boosting productivity. Despite improvements in public spending through Gender Budgeting, economic policies remain largely gender-neutral (UN Women 2021). Implementing gender-sensitive tax systems will address inequalities and finance a sustainable recovery.

Biases in taxation

Whether explicit or implicit, tax biases affect equity and fairness. Stotsky (1996) notes that explicit biases directly tied to gender are diminishing because they are easier to identify. Conversely, implicit biases stem from societal norms, making them harder to detect and remedy.

The distributive effect of taxation varies by region. In advanced economies (AEs) with progressive structures, the GINI coefficient improves by nearly 20 points post-tax and transfers, while in the other two regions, it improves by less than 5 points (Figure 2). Prospects for inclusive growth relate to higher education levels, increased social spending, and more redistributive tax-benefit systems, as shown in Developing Asia. Strengthening tax equity is crucial in countries with high inequality and weak transfer systems.

According to the OECD (2022), 7 out of 43 nations have tax biases discouraging married women from full-time work. In the GS, dominance of the informal sector hinders progress, employing women in casual or unpaid roles (Joshi et al., 2020). These effects are influenced by institutional conditions, cultural and socioeconomic factors.

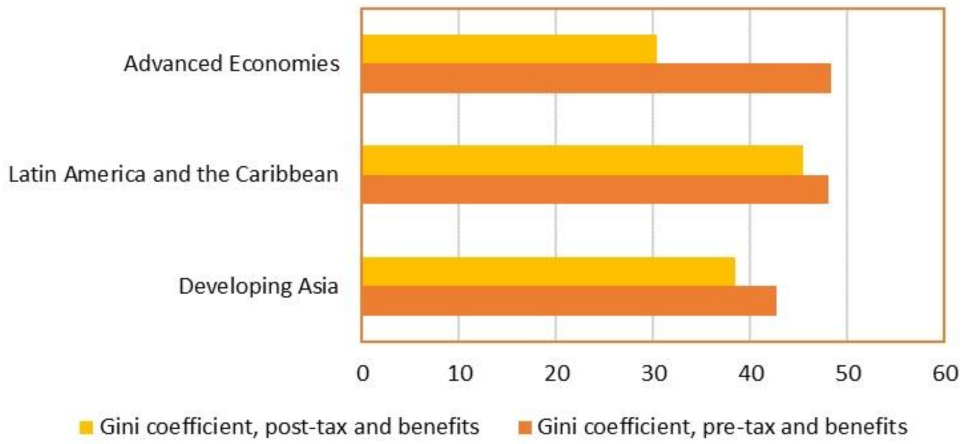

FIGURE 2. Redistributive effect of fiscal policy

While many countries address inequality through public spending, inequitable taxes worsen it. A common agenda recognizing each region's unique challenges and reforming tax practices exacerbating gender inequality is needed. Tax policy evaluations are essential for informing policymakers.

Tax collection

Following the pandemic, fiscal challenges remain. While some high-income countries implemented innovative gender-sensitive fiscal policies, many GS countries are struggling with high public debt burdens. In recent decades, European tax policies focused on economic growth and optimal taxation lack gender considerations. Labor taxes dominate revenues, with declining progressivity, while wealth-based taxes are insufficient. Regressive Value Added Taxes (VAT) have grown, exacerbating tax burdens in lower-income groups (Gunnarsson et al., 2017).

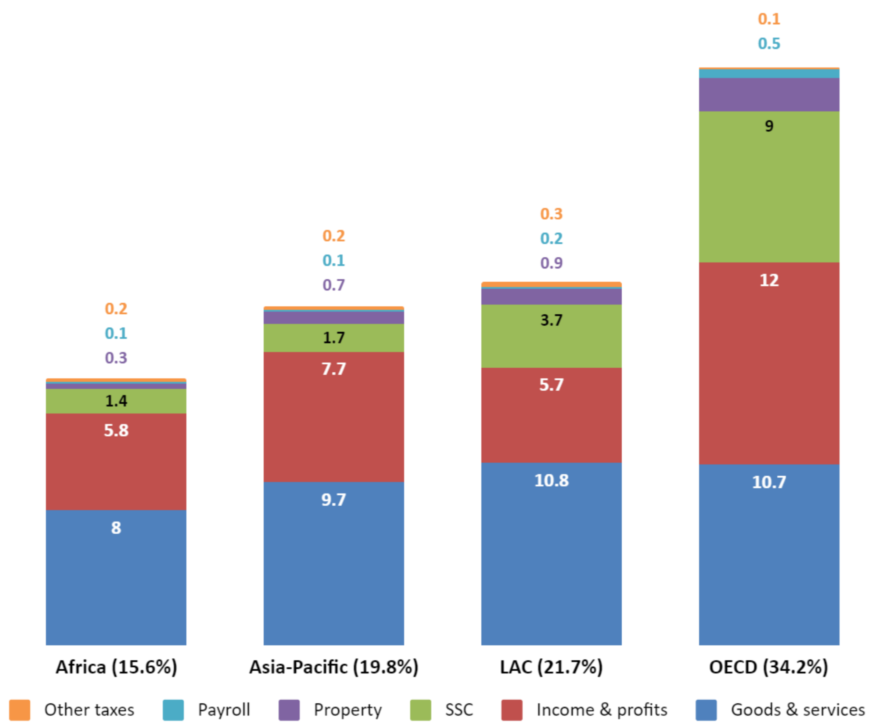

FIGURE 3. Tax to GDP ratio as a share of total tax revenue (2021)

Source: Data from OECD Global Revenue Statistics Database

Within the GS, Africa, Asia-Pacific, and LAC exhibit low tax collection rates, averaging 15.6, 19.8, and 21.7% of GDP, respectively, compared to the OECD's 34.2% in 2021. In the three regions, indirect taxes represent nearly half of total revenue (one-third in OECD’s-Figure 3).

International cooperation for achieving SDGs

Various initiatives aim to establish an International Taxation Cooperation Framework, but global consensus is lacking. The OECD framework (Pillars I and II) benefits AEs, but lacks inclusiveness. In 2023, the Africa Group proposed a UN resolution for fairer international taxation1. Two concerns emerge: i) the OECD and UN Tax Convention should mainstream human rights and gender perspectives, and ii) successful international tax cooperation depends on countries' ability to capitalize on institutional developments. The G20 can play a crucial role in coordinating new initiatives for inclusive and gender-responsive tax frameworks.

[1] UN, “Resolution December 2023”

Recommendations

Our recommendations for the G20 focus on three core pillars: (i) foster an Engendered Fiscal Space Framework that ensures fairer redistribution of resources; (ii) Help build tax capacities and foster international cooperation to facilitate the exchange of best practices and technical expertise, overcome common challenges and achieve sustainable progress towards SDG targets; (iii) Advance progressive tax systems by prioritizing the reduction in taxes for low-income earners and avoid harmful explicit biases in tax regulations.

Engendered Fiscal Space Framework (EFSF)

Women are placed in vulnerable situations, exacerbated by ongoing polycrises. Tax systems can significantly shape gender disparities if ill-designed. Engendering fiscal space through progressive taxes, combating tax evasion, and eliminating inequitable tax expenditures (TEs) is crucial. The framework ensures resources for gender responsive and transformative policies towards a more inclusive society.

Achieving SDG-5 and overall SDG progress depends on gender equality in taxation. The EFSF integrates tax cooperation, placing women at the center of fiscal policy (Figure 4). Making the EFSF a natural part of every decision making process, each nation can develop equitable tax systems.

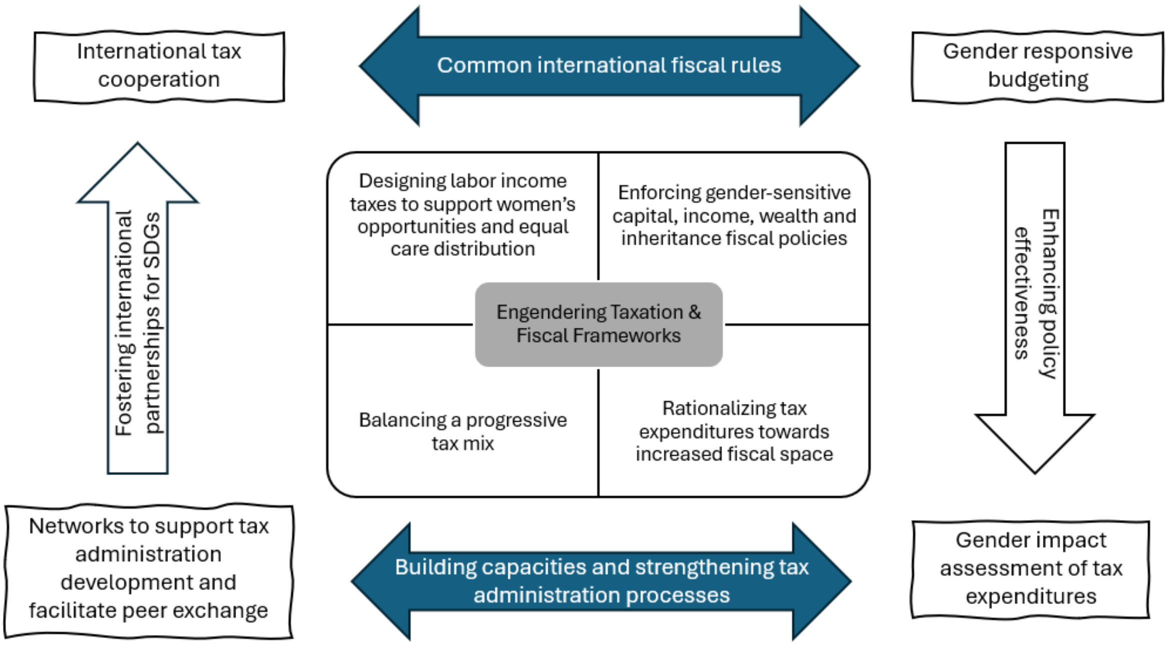

FIGURE 4. Engendered Fiscal Space Framework (EFSF)

Source: by authors

The rationale for this stems from *three* facts:

- Global variations in labor market inequalities demand tailored fiscal policies (Chancel et al, 2022).
- Differing tax burdens across regions can disproportionately affect women, especially in the GS (IMF, 2023).
- Economic and social contexts vary, impacting the fairness and effectiveness of fiscal policies (ILO, 2021).

The OECD/G20 Inclusive Framework has proposed a Multilateral Convention to integrate fiscal and monetary frameworks, strengthening multilateral tax cooperation. The 2024 Summit for the Future is crucial for G20 countries to emphasize that accelerating

SDGs requires gendering macroeconomic policies and cooperation for equitable outcomes (OECD, 2023).

Building capacities and fostering international partnerships for SDGs

The international tax policy landscape necessitates multilaterally agreed rules and tools to improve tax administration and cooperation. G20 strategies require strong fiscal management, investment in institutional capacity, gender-sensitive revenue analysis, and measures against cross-border tax evasion.

If companies are multinational, tax policies should also be global. Tax evasion costs governments $480 billion annually, significantly impacting developing countries, which lose $47 billion, compared to $433 billion for high-income countries (representing 49% vs. 9% of health budgets) (Tax Justice Network, 2023). This reduces fiscal space and exacerbates inequalities.

The "Tax Cooperation for the 21st Century" report and the “G20/OECD Roadmap on Developing Countries and International Taxation Update 2023” recommend full participation by developing countries in global tax initiatives, with support from AEs. However, these documents lack a gender perspective. The G20 plays a crucial role in promoting fiscal justice and facilitating knowledge transfer, acknowledging that fiscal policies are not gender-neutral. Implementing socially sensitive tax reforms requires stable leadership to overcome political obstacles: global platforms provide steady initiatives.

Securing real wages of women: Priorities in taxation policies

A. Taxation of labor income

Progressive tax systems can directly reduce post-tax inequality and narrow gender gaps in net incomes. In order to promote female labor force participation, taxes for low-income earners should be reduced and explicit biases avoided. Gendered rules govern shared income attribution and differential tax rates based on income type (labor or financial). Individual filing for personal income tax helps mitigate bias from joint filing, increasingly adopted by countries.

B. Taxation of wealth

The gender wealth gap is substantial and wider than the income gap globally, with women comprising only 12% of the richest individuals. Legal differences in inheritance, asset ownership, and credit access contribute to this disparity. In 2020, nearly 40% of economies limited women's property rights (World Bank, 2021). The global income gap and limited access to finance restrict women's investment, savings, and asset acquisition.

Taxing wealth can target net wealth, returns, or transfers. Hebous et al. (2024) suggest taxing returns are less distortive, but when limited to the super-rich, wealth taxes' administrative costs are reduced. Both methods enhance tax progressivity and increase the fiscal space. A net wealth tax on the super-rich ensures steady revenue, while estate taxes can counter wealth accumulation in countries without them. An already proposed 2% minimum tax on super-rich wealth to the G20 finance ministers[2] could raise revenue,

[2] G20 Brasil. "Gabriel Zucman"

improve tax compliance, and facilitate broader tax reforms, reinforcing social cohesion amidst growing inequality.

C. Taxation of capital income

Gender-based income inequality favors men in top income brackets. Additionally, women face barriers to financial access for business ventures due to factors like lower assets and financial literacy. The preferential tax treatment of capital income (Perret et. al, 2023), common in most countries, undermines tax system fairness and exacerbates gender disparities by favoring the richest men. Fairer taxation of capital gains could help mitigate wealth and income gaps.

D. Tax expenditures (TEs)

TEs result in a revenue loss for governments, amounting to around 3.8% of GDP and 23% of tax revenue worldwide (von Haldenwang et al., 2023). It is essential to rationalize their use, remove those shown as inefficient and ineffective, and design TEs to be gender-responsive and transformative. Redonda et al. (2023) noted that among 106 countries with publicly available TE reports, only 16 included evaluations, with merely two conducting gender-specific assessments of TEs. Evaluating the impact of TEs is crucial for enhancing policy efficiency and assessing the often hidden impact on gender. Challenges include a lack of gender-disaggregated data, methodological guidance, and institutional capacity. Addressing these challenges is vital for ensuring equitable fiscal policies.

Expected outcomes

The EFSF envisions three significant outcomes: i) increased fiscal space, ii) inclusive gender results and iii) G20+ and international cooperation for achieving SDGs

Increased fiscal space

Achieving SDGs requires increased tax revenue together with economic growth and strong institutions. Through more effective revenue collection, increased revenue can finance public spending and enhance trust, but it necessitates tailored institutional investments (Figure 5). Tax collection capacity relies on state capability. Benitez et al. (2023) reveal the potential for significant tax revenue increases: Low-income developing countries (LIDCs) by 6.7 p.p., Emerging market economies (EMEs) by 5 p.p. and AEs by 1.5 p.p. of GDP. LIDCs can further improve their potential by adopting EMEs institutions (2.3%).

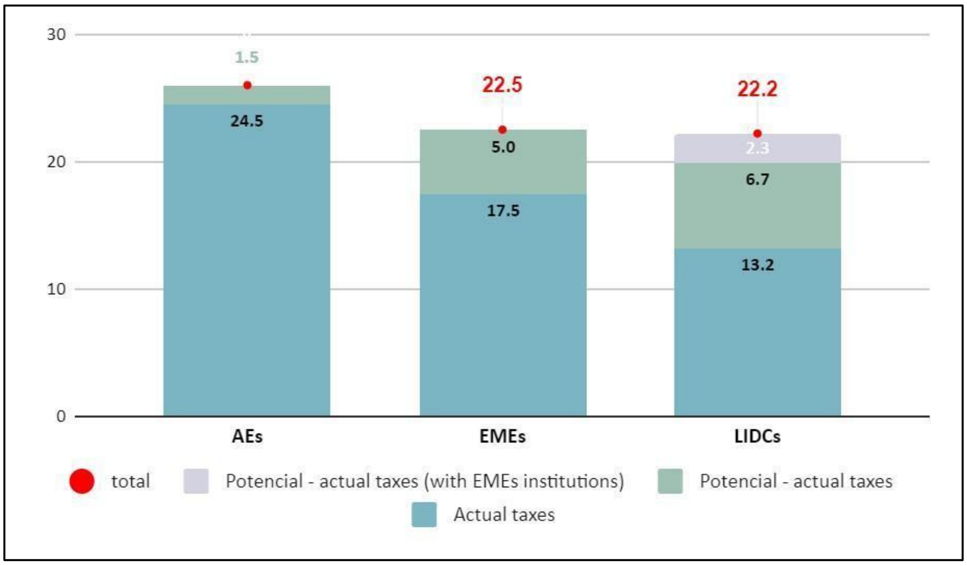

FIGURE 5: Tax potential and tax effort (% of GDP), 2020.

Source: Figure adapted from Benitez et al. (2023)

Across the globe, women in low-income brackets face a disproportionate tax burden due to biases in consumption patterns. To effectively address this issue, implementing public provisions alongside a robust and strengthened tax administration could result in VAT being applied more progressively. Ultimately, improved fiscal administration will also combat tax avoidance and mitigate negative externalities arising from tax evasion.

Inclusive gender outcomes

Since wealth is highly concentrated at the top of the income distribution, where men are overrepresented, the introduction of a net wealth tax on the super-rich would impact the gender distribution. The 2% global minimum tax for the super-rich targets 2500 individuals expecting to raise approximately $214 billion annually (Alstadsæter et al., 2024).

Gender disparities in income and wealth perpetuate the underrepresentation of women in top capital income brackets, so lower capital income tax rates disproportionately favor men, widening gender gaps. Aligning capital gains taxation with labor income could alleviate wealth disparities, necessitating complementary reforms to mitigate potential behavioral changes. Research shows no economic benefit from cutting capital income taxes in the US, and optimal rates can be higher. This requires complementary reforms, like taxing gains at death and introducing a net wealth tax, to discourage asset holding and increase tax progressivity (Matsui et al., 2022).

Progressive tax systems increase female labor force participation in low-income brackets by balancing revenue from high-income earners for lower tax rates. Coelho et al (2022) found that progressive direct taxes reduce the gap in women's income relative to men's by about 1.4 p.p. in AEs and about 0.3 p.p. in EMEs. While AEs have seen gender gaps in net incomes narrow, the impact has been minimal in EMEs due to less progressive tax systems. Tax provisions, social security contributions, welfare and fringe benefits can influence household finances and labor dynamics, encouraging secondary earners, often women, to engage in formal employment when designed with a gender equal lens and tailored to diverse household structures and spending habits.

G20+ and international cooperation for achieving SDGs

The current global cooperation system faces challenges in achieving multiple development agendas, including climate, finance, and the SDGs. The pandemic and recent global crises worsen economic prospects. Meeting these challenges demands increased political and financial commitments from both Global and South countries, primarily to address lagging progress in SDG-5 and women's empowerment across other SDGs. Between 2021-2022, 43% of bilateral allocable Official Development Assistance (ODA) prioritized gender equality, amounting to $64.1 billion, slightly down from 45% in 2019-2020 (Figure 6). The majority, $58.3 billion (39%), supported programs with integrated gender equality objectives. Despite the UN Tax Convention aims to enhance SDG policy and implementation strategies (gender equality in capacity building, governance, and technology transfers), challenges persist within the complex landscape of bilateral development assistance.

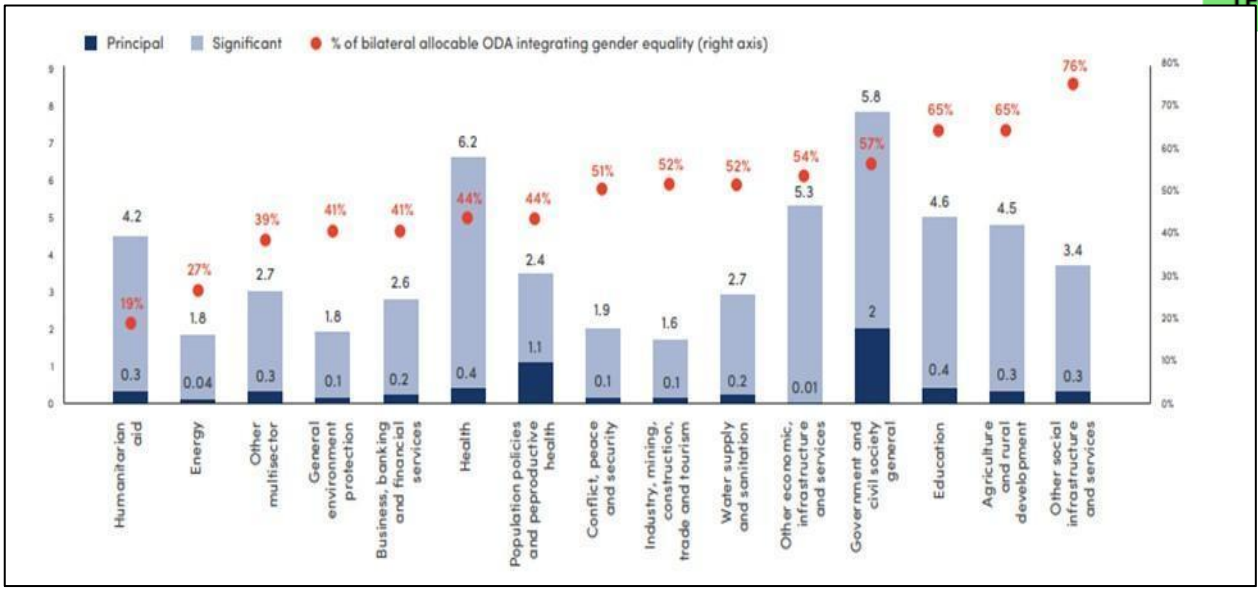

FIGURE 6. Volume and share of ODA for Gender Equality, by sector, 2020-2021 average ($billion, %). *Source: Figure reproduced from OECD (2023)*

The discourse on taxation requires a comprehensive international approach, considering globalization and the digital economy. This strategy must include gender-sensitive policies to ensure gender fairness. Initiatives like Feminist International Relations, endorsed by several G20 nations (UN Women, 2022), advocate for feminist international cooperation, addressing tax and transparency legislation.

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