GENDER AND TAXATION IN SOUTH AFRICA[i]

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Summary

Using South Africa as a case study, this paper examines the gender dimensions of taxation policy. We show that although tax reform in the post-1994 period has removed explicit biases in the taxation system, women continue to be discrimination against through a range of implicit biases. Ironically, the tax reforms based on removing discrimination against women have resulted in those women who are the most economically vulnerable continuing to pay a disproportionately large share of taxes**.**

Key words: gender, taxation, South Africa, Africa.

Introduction

A number of recent contributions within a rapidly growing literature on the economic analysis of gender relations have focussed on examining the importance of gender issues in development (see Diane Elson, 1991), in public policy (see Anne Marie Goetz, 1997; Caroline Moser, 1993), in macroeconomics (see Nilufer Cagatay, Elson and Caren Grown, 1995 and Grown, Elson and Cagatay, 2000) and in fiscal policy (see Ingrid Palmer, 1995). A particularly innovative recent development related to all of the above has been the analysis of the gender impact of public finance through so-called Women's Budgets, or Gender Budgets (see Debbie Budlender, 2000 for the review of Women's Budgets). Most analyses of government budgets and their differential impacts on women and men tend to focus on the expenditure side of the budget, with very little attention given to the revenue side. It is usually assumed that government expenditure has a greater direct impact than government revenue in addressing issues such as poverty and inequality.

There are a number of reasons why the revenue side of the budget, and specifically taxation policy, should be of interest for those concerned with issues of gender equity. First, the revenue side of the budget gets to the heart of distributional issues between men and women, and the rich and the poor. Second, taxation systems, being by their nature based on policy and legal decisions made over a long period of time, are influenced by social attitudes about gender. Third, as suggested by Budlender et al (1998), the revenue side of the budget is politically more sensitive than the expenditure side since the interests of powerful economic agents such as corporations and foreign investors are brought into the analysis. Fourth, analyses of revenue begin to touch on politically sensitive macroeconomic policy issues such as budget deficit targets, which may have important distributional effects. Fifth, revenue issues impinge on a wide range of other decisions that women and men make. For example, tax regulations and incentives have an important bearing on women and men's labour supply decisions.

With a few notable exceptions (e.g. Trudi Hartzenberg, 1996; Janet Stotsky, 1996), the examination of taxation systems from a gender perspective has been limited to exploring labour supply issues, issues of joint versus single taxation, and broad conceptual issues of public finance (see, for example, Conway, 1997, Blundell, 1992 and Palmer, 1995). This paper aims to develop this literature further through an examination of the impact of the changes in taxation policy on women in South Africa.

South Africa makes a particularly interesting case study for examining the gender impacts of taxation. One of the major victories of the democratic transition in South Africa is the constitutional commitment to gender equity. This has been translated into an impressive range of gender-related institutions, such as the Gender Commission, and government machinery such as the establishment of a number of gender units within government departments aimed at eradicating gender discrimination and improving the position of women[ii]. At a more political level, the South African government has ratified a number of international conventions, including the Beijing Declaration and Platform of Action and the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW), aimed at improving the condition of women. Though uneven, this political commitment has in many cases, including taxation, been translated into policy and practice (see Friedman 2000).

This paper does not cover all areas of taxation policy in South Africa. We focus only on taxation as it affect individuals – personal income taxes and value added taxes (see Smith, 2000 and Goldman, 2000 for broader analyses of government revenue). Our analysis is constrained by the lack of official statistics on women and men's share of the tax burden[iii]. However, what is covered in this paper should give an appreciation of the many subtle, and sometimes more obvious, ways in which taxation policy impacts on women and men, often with the effect of discriminating against women. The structure of the paper is as follows: we begin with a brief profile, for contextual purposes, of the economic position of women and men in the South African economy, then outline the process of tax reform in South Africa since the mid-1980s, and then analyse the gender impact of the main types of direct and indirect taxes, before concluding.

For conceptual purposes, it is useful to distinguish two forms of gender bias in taxation systems. Explicit forms of gender discrimination in taxation systems refer to specific regulations in the tax system that treats men and women differently. Explicit forms of discrimination are normally found in personal income taxes since, unlike corporate taxes or sales taxes, personal income taxes apply to individuals or households, and thus can more easily accommodate different treatment of men and women. Implicit forms of gender discrimination, on the other hand, relate to provisions in the tax legislation and system which, because of social and economic customs and arrangements, have different gender impacts. Unlike explicit discrimination, implicit tax biases are more difficult to identify since these often depend on changing value judgements about what might be desirable behaviour. Examples of implicit biases include progressive marginal tax rates for so-called secondary earners and indirect taxes (see Stotsky, 1996 for an elaboration of this).

South Africa's taxation policy has prior to 1994 discriminated against women explicitly, through formal discrimination on the basis of gender and marital status, and implicitly, through a heavy reliance on indirect taxes which impact disproportionately on the poor, the majority of whom are women (see below). Since 1994, there have been a number of changes made to taxation policy which have reduced the burden of direct taxation on some poorer women. Explicit biases, on the basis of marital status and gender, in income taxes have been removed. In addition the amount of income tax lower income-earners (where women congregate) are required to pay has been reduced. However, despite such changes, there are still, we argue, significant elements of implicit discrimination against women in South Africa's taxation policy, particularly with respect to certain indirect forms of taxation and the way in which tax deductions and allowances are structured.

Profile of women in the South African economy

An understanding of the structural position of women in the South African economy is essential for an appreciation of the differential impacts of taxation policy on women and men. Since the distributional effects of taxation operate principally on income, we present, below, some data on income and employment by gender in South Africa. In the absence of a gendered breakdown of the tax burden in South Africa, using gendered income distribution data is the most feasible way of identifying the likely implications of taxation policies for women and men.

Table 1 below shows key labour market data for South Africa. These data show that women tend to occupy a disadvantaged position in the labour market. Proportionately, fewer women are in formal employment. Unemployment rates for women are much higher than that for men.

Table 1: Key Labour Market Variables for South Africa, 1999

Labour Market Variables	TOTAL	Men	Women
	000	000	000
Total Formal Employment	7 663	4 847	2 810
Employment in the Informal Sector	1 907	1 126	780
Employment in Domestic Service	799	36	763
Total Employed	10 369	6 009	4 353
Total Unemployed (official) (see i)	3 158	1 480	1 677
Total Unemployed (expanded)	5 882	2 573	3 307
Total Economically Active	13 527	7 488	6 031
Official Unemployment Rate	23.3	19.8	27.8
Expanded Unemployment Rate	36.2	30	43.2

(Source: Stats SA: P0317, 2000)

Notes:

i). The official unemployment rate includes only those out of work who have actively taken steps to either work or start some form of self-employment in the past four weeks, while the expanded definition excludes this criterion.

Table 2, below, shows unemployment rates by race and gender for 1999. The table shows that both race and gender are important determinants of labour market status. Unemployment rates are much higher for African workers compared to other races and for women compared to men. On the expanded definition, more that half of African women are unemployed.

Table 2: Unemployment, 1999 by Race and Gender

	Official Unemployment	Expanded Unemployment
Total	23.3	36.2
- Male	19.8	30.0
- Female	27.8	43.2
African	29.2	44.0
- Male	24.5	36.7
- Female	35.0	51.9
Coloured	15.2	23.6
- Male	13.4	19.3
- Female	17.5	28.4
Indian	15.6	20.2
- Male	14.5	17.8
- Female	17.2	23.8
White	4.7	6.8
- Male	4.4	6.3
- Female	5.1	7.3

(Source: Stats SA, P0317, 31 July 2000).

Table 3 below shows occupations by gender. These data show that women are clustered at the bottom of the occupational hierarchy, in elementary occupations and domestic, mainly in the informal economy. Even within professions and technical occupations, women tend to be clustered in low-paying jobs in the care economy, as nurses, teachers and social workers (see Valodia, 1996).

Table 3: Occupations by Gender, 1999

	Men %	Women %
Sen Officials and Managers	9	4
Professionals	5	6
Technical Occupations	8	13
Clerks	6	16
Service and Shop workers	11	12
Skilled Agricultural workers	6	3
Craft and related trades	19	5
Operators	16	4
Elementary occupations	18	19
Domestic workers	1	18
Other	2	1
	100	100

These employment patterns are mirrored by income data in Table 4 below which shows that most women are located in the under-R30 000 annual income category. In the 1999/2000 tax year, the tax threshold (i.e. the income level at which income-earners start paying tax) was R19 526 per year. Unfortunately the income brackets available from the census do not provide data to match this cutoff. Nevertheless, it is clear that the majority of women earn too little to pay income tax. Only a very small proportion of women compared to men are to be found in the higher income categories where marginal tax rates are higher. Men, therefore, constitute the bulk of personal income taxpayers and generally pay larger amounts of income tax.

Table 4: Income distribution by gender

Income	Population – Female	Population – Male
None	1.4	1
R0 – R12 000	49,5	36,8
R12 001 - 30 000	25,1	33,1
R30 001 – 54 000	13,6	12,5
R54 001 – 96 000	5,2	7,9
R96 001 – 132 000	0,7	2,3
R132 001 - 192 000	0,4	1,4
R192 001 – 360 000	0,2	0,9
R360 001 +	0,1	0,3
Unspecified	3,9	3,8
Total	100	100

Source: Derived from the Population Census '96

The implication of the employment and income profile, for taxation, is that women, as a group, are unlikely to bear a large share of the personal income or direct tax burden as most women are either unemployed or earn too little to pay a significant amount of personal income tax, if any at all. Indirect taxes, however, which tend to discriminate against the poor, are therefore likely to have a greater impact on women than on men.

Tax reform in South Africa

The current process of reforming South Africa's tax system began in 1986 with the *Margo Commission of Inquiry into the Tax Structure of the Republic of South Africa*. The Margo Commission was an important component of a more extensive reform programme of the then apartheid government, which sought both to shift the economy onto more market-based principles and to include segments to the black population into the economic mainstream (see Morris and Padayachee1998). The main recommendations of the Margo Commission of specific importance to women that the unit of taxation be changed from the couple to the individual as it was felt that "it is no longer true that women necessarily depend upon their husbands." The commission also recommended that there be a move towards a simpler income tax structure with fewer, broader bands and lower marginal rates. Although elements of the tax system were reformed, married couples were still taxed jointly.

In 1994, the new democratic government appointed the *Commission of Enquiry into Certain Aspects of the Tax Structure of South Africa*, known as the Katz Commission, "to inquire into the appropriateness and efficiency of the present tax system and make recommendations on its improvement taking into account internationally accepted tax principles and practices" (First Interim Report, 1994:1). The appointment of the Katz commission was part of the attempt by the new state to adopt a more developmental approach to economic policy, and to link taxation with issues of income distribution and poverty relief.

Following on from the recommendations of the Katz Commission, the South African government has, since 1994, introduced a number of tax policy changes. Some of the changes that relate broadly to issues of gender include: the amendment of various tax laws in order to comply with the new Constitution, including the elimination of formal discrimination based on gender; the introduction of a unified income tax rate structure for individuals (i.e. the removal of the distinction between married and unmarried people); and the introduction of tax relief for low- and middle-income taxpayers through adjustments to tax rates and income brackets.

Taxes can be broadly divided into direct taxes, such as personal income and company taxes, and indirect taxes, including VAT, user charges, customs and excise duties, and stamp and transfer duties. A significant change in South Africa's tax structure since 1994 has been a reversal of the general trend, established by the Margo Commission in the mid-1980s, towards shifting the tax burden from direct to indirect taxation. Table 5 below gives an indication of the shifts in the tax burden in the decade between 1988/89 and 1998/99. The shift away from such a heavy reliance on indirect taxes is likely to be of some benefit to poorer people. However, the main indirect tax which affects the poor, VAT, has not decreased substantially as a proportion of the total tax burden since 1994. VAT's contribution to total tax revenue only fell by two percentage points, from 26% in 1994 to 24% in 1998. The main decrease came in the "other" item, which includes the levy on financial services, import surcharges, marketable securities tax, transfer duties and stamp duties and fees. Decreases in these taxes and levies would be mainly of benefit to wealthier individuals.

Table 5: Composition of tax revenue: 1998/89, 1994/95, 1998/99

	1988/89		1994/95		1998/99	
Tax/Source of revenue	Revenue Raised in R'm	% of total Tax Revenue	Revenue Raised in R'm	% of total tax Revenue	Revenue raised in R'm	% of total tax revenue
Individual	14 910,4	30%	44 972,8	40%	76 400	42%
Mines	3 007,5	6%	1 629.9	1%	1 730	1%
Other companies (incl. STC)	8 236,0	16%	13 264.9	12%	21 600	12%
Other (1)	656.9	1%	1 366,8	1%	5 558	3%
Total – direct taxes	26 810,8	53%	61 234,4	54%	105 288	58%
VAT/GST	13 123,0	26%	29 288,4	26%	43 600	24%
Excise duties	2 508,8	5%	5 804,2	5%	8 338	5%
Fuel levy	2 555,6	5%	8 351,5	7%	13 600	8%
Customs duties	2 466,0	5%	4 247	4%	6 200	3%
Other (2)	3 054	6%	4 582,9	4%	4 044,1	2%
Total – indirect taxes	23 707,4	47%	52 274	46%	75 782,1	42%
Total tax revenue	50 518,2	100%	113 508,4	100%	181 070,1	100%

Source: Calculated from the Department of Finance,1999a.

Notes: (1) includes tax on retirement funds, donations tax and estate duties

(2) includes levy on financial services, import surcharges, marketable securities tax, transfer duties and stamp duties and fees.

A worrying development, from a gender perspective, is the dramatic shift away from corporate taxes to personal taxes in the composition of direct taxes in the last ten years. In 1988/89, individual taxes accounted for 30% of total tax revenue, while corporate taxes (mining and non-mining companies) accounted for 22%. In 1994/95, individual taxes had risen to 40% of total tax revenue, while corporate taxes had decreased to 13%. By 1998/99, the proportion of total tax revenue made up by individual taxes had increased further to 42%, while corporate taxes remained at 13% of total tax revenue. Since 1994, individuals have therefore continued to shoulder an increasingly disproportionate share of the direct taxation burden in comparison to companies. Although the majority of direct income taxpayers in South Africa are men, and steps have been taken since 1994 to reduce income tax rates on lower income earners the shift from corporate to individual taxes is likely to have had an adverse impact on employed women and men. Furthermore, men, as the majority of company owners and shareholders, are likely to have benefited far more than women are from decreases in corporate taxes.

The shift towards a greater burden on individual taxpayers in the composition of total tax revenue has relied heavily on the assumption that the government's Reconstruction and Development Programme (RDP) and other expenditure programmes would deliver adequate relief to the poor and bring about a more equitable distribution of income. As it turns out, the RDP has largely failed to meet the high expectations many people had of it. Poverty has, if anything increased since 1994[iv]. Furthermore, the strategy of reducing corporate taxes in order to encourage private sector growth has, we would argue (see Valodia, 1998), failed to have any substantial impact on employment creation.

In the following sections, we examine in more detail the impact on women and men of the specific changes that have taken place in the different areas of taxation policy since 1994.

Personal income tax

In late 1998 a total of 2 263 079 people were registered as individual taxpayers. Of these, 1 516 263 (67%) were men and 746 816 (33%) were women (Department of Finance, 1999b). The difference in tax paid (in monetary value) by women and men would be even larger, given that, as we have shown, men tend to earn more than women do, and would thus be paying larger amounts of tax. As was noted above, the direct personal income tax burden in South Africa is thus heavier on men than on women. This is because a larger proportion of men than women are located in formal, regular employment and because men predominate in higher income brackets where marginal tax rates are highest. However, to argue that taxes, in focussing on wage and salary earners, discriminate against men is to ignore at least three important points.

Firstly, the marginal utility of income is much higher at lower incomes than at higher incomes. In other words, the added value of an additional cent to a poorer person represents a much greater effect on income than the same cent to a richer person (Hartzenberg, 1996). Therefore, since women are generally poorer than men are, high income taxes have a greater impact on their income and welfare than on men. It should be noted, however, that this effect is reduced by a progressive income tax system in which marginal tax rates are lower for lower income earners. Secondly, the argument that taxes discriminate against men considers only direct taxation. There are, however, a number of indirect taxes which, as we will show, constitute a more significant proportion of total tax revenue, and which tend to discriminate against the poor, and therefore, women in particular. Thirdly, most discussions of taxation use a definition of tax which is too narrow and neglects what may be called the “unpaid labour tax” or “reproduction tax” (see Palmer, 1995) which women pay, in terms of their time, effort and money in the reproductive work of bearing and raising children and caring for other members of society. This work, like other forms of taxation, contributes to the general welfare of society and is essential to the functioning of the economy and society. Women, however, do not receive any direct reward for this work, which is in effect a tax that they bear and men do not.

The Katz Commission, in its First Interim Report in 1994, made a number of recommendations with regard to the restructuring of the personal income tax system. One of the most significant recommendations with regard to gender that has since been implemented was the removal of all formal discrimination against taxpayers on the basis of gender and marital status. Until then the household was taken to be the tax unit in South Africa. The income of a married woman was included in the income of her husband, under whom the combined income was taxed. For women, this meant that her income was taxed at a disproportionately high rate because her income, together with that of her husband, pushed their combined income into a much higher tax bracket than would have been the case had her income been taxed separately.

In addition, women, when taxed jointly with their husbands, were taxed at a different rate to their husbands. For income tax purposes, women were classified into one of three categories: “married person,” “married woman” or “unmarried person.” For each category, there were different tax tables with different tax rates and rebates. Married women fell into the category of “married woman” rather than “married person” and were subject to the highest tax rates unless they were the main breadwinner and obtained special exemption. Married men fell into the category of “married person” which was subject to the lowest rate of tax.

Table 6 below illustrates how this system made married women pay disproportionately high income tax compared to their husbands. At lower incomes (where most women are located) the amount of tax married women were required to pay was much higher than that of their husbands (who were classified as "married persons"). In the 1994/95 tax year, married women reached their top marginal tax rate at a taxable income of R50 000, while a married person reached "his" top marginal rate at an income level of R80 000 (Cele, 1995).

Table 6: Income tax payable by persons under 65 with no children in 1994/95

Taxable income	Married person	Unmarried person	Married women
R12 000 p.a.	0	R270	R1 320
R30 000 p.a.	R3 575	R4 900	R5 950
R60 000 p.a.	R14 075	R16 840	R17 350
R100 000 p.a.	R31 075	R34 040	R33 350
R180 000 p.a.	R65 475	R68 440	R65 350

Cele, 1995:59

In the late 1980s, following the recommendations of the Margo Commission, a phased process of eliminating this discrimination was started. The first step was taken in 1988 to tax the salary income of a married women whose salary was subject only to the Standard Income Tax on Employees (SITE) separately from the income of her husband. In 1990 the trading income of married women became subject to tax separately from her husband's income, while in 1991 the investment income of married women also became subject to separate taxation (Department of Finance, 1998). The first step affected those with low incomes and the second and third affected those with higher incomes. The result of the phasing in of separate taxation was that the income tax burden was substantially lightened for families with two income earners. However, women, although taxed separately, were still taxed at a higher rate than their husbands were (Cele, 1995).

Following the Recommendations of the First Katz Commission report in 1994, a number of further measures were introduced to eliminate discrimination against women taxpayers completely. These included (Department of Finance, 1998):

- The introduction in March 1995 of a single income tax rate structure applicable to all individuals irrespective of gender or marital status, replacing the system of three categories of taxpayers
- The introduction of a single primary rebate (amount of income exempt from tax) for all taxpayers, replacing the different primary rebates for married persons, unmarried persons and married women;
- The granting of the same deduction for tax purposes in respect of contributions to retirement annuity funds, regardless of the taxpayer's gender or marital status. Previously, married women were entitled to only half the deduction that married and unmarried "persons" were allowed in respect of contributions to annuities (Cele, 1995).

The removal of this form of discrimination was necessary in terms of the South African Constitution. There was clearly explicit bias in the tax system, in that women and men were treated differently. The situation is, however, not so clear in terms of the actual outcome of the reform process. The difficulty arises because tax is imposed on the individual, but income consumed by a household, although different members of that household may have different power and control over the available income.

The previous South African income tax system was based on the argument that a household with two earners would be better off than a household with one income earner was. It was for this reason that the second earner should be taxed more heavily. To the tax authorities, this second earner would be the "wife." Hence, "married women" were taxed at higher rates than their husbands, who were classified as "married persons." This assumption fitted the prevailing notion of what the "normal" nuclear family should look like.

The problem with such a system of basing income tax on household income is that it assumes – as economic theory does – that altruism prevails within the household. It assumes that it does not matter who brings income into the household – they will share it equally with all other members. The previous system, by explicitly taking the extra tax off the woman's income, was implicitly reducing her power insofar as money gives power. Although the system of taxing women and men differently has been changed to a system in which women and men are taxed at the same rate, the new income tax system still discriminates against households with only one income earner. The problem can be illustrated by comparing two hypothetical households of two adults and two children. The first household consists of a husband, wife and their two children. The husband earns R2 000 per month and the wife earns R1 000 per month. The second household consists of an employed woman who earns R3 000 per month, the woman's non-earning mother, and the woman's two children. Both households, therefore, have the same total income.

The previous South African tax regime attempted to tax the first household at the rate of the second household. The higher rate on the wife's R1 000 income mimicked the effect of the higher marginal rate that would have been applicable if the husband earned the full R3 000 coming into the household. Using the 1994/95 tax schedule (the last to tax women and men differently) the total tax payable by the first household (incorporating primary and child rebates) was R3 435. The total tax payable by the second household, with only one income earner worked out to be R5055. This means that the household with only one income earner paid substantially more income tax than the household with two income earners, even though it had the same total household income and the same number of people to support.

The new tax system, in which men and women are taxed at the same rate, has not solved this problem. In fact, the discrimination against households with one income earner has got worse. Applying the 1999/2000 tax rates to our hypothetical households above, the total tax payable by the first household, with two income earners, is R850. The total tax payable by the second household, with only one income earner but the same total income, is R3 460. The second household now pays over four times as much income tax as the first household. This bias against single income households is important given the nature of households in South Africa. Posel (2001) shows that, female-headed households in South Africa, on average, contain fewer income earners that male-headed households, and are therefore, likely to be bearing a disproportionate burden of this discrimination.

Despite the continuation of the problem of discrimination against households with only one income earner in the tax system, there have been a number of changes to the structuring of tax brackets and tax rates since 1994 that have given some relief to individual income earners, especially lower income earners (which includes the majority of women). This has mainly been the result of reducing the number of tax brackets and the lowering of marginal tax rates. Table 7 below shows that a significant amount (36%) of the tax relief resulting from the lowering of marginal tax rates is expected to go to people with taxable incomes of less than R60 000. This will benefit women as the incomes of most taxed women fall within this category. However, it should be noted that most of the tax relief (47%) is enjoyed by taxpayers in middle-income category (R60 001 – 120 000 p.a.). Also, the wealthiest taxpayers (i.e. those with annual incomes of R120 001 and above) constitute 7% of taxpayers but still receive almost 18% in tax relief.

Table 7: Distribution of tax relief, 1999/2000

Income Category	Taxpayers per bracket (%)	Share of total tax (%)	% of tax relief
R0 – 60 000 p.a.	75,3%	16%	35,7%
R60 001 – 120 000 p.a.	18,1%	38,2%	46,8%
R120 001 and above.	6,6%	45,8%	17,5%

Source: Department of Finance, 1999a.
Note: The first income category is misleading as only people earning above R19 526 per annum were required to pay tax in 1999/2000.

Tax deductions

A number of implicit gender biases in the South African tax system are evident in the sorts of expenditure that is allowable as tax deductible. An exhaustive analysis of this is not possible within a paper such as this. We present below, some illustrative examples.

The South African system of individual income tax collection is comprised of two systems – the Standard Income on Employees (SITE) and the Pay as You Earn (PAYE) systems. All individuals who earn between R19 526 and R60 000 (in the 1999/00 tax year) pay SITE but no PAYE. The SITE tax is taken off the employee's wages and salaries by the employer and is paid to the SARS at the end of every tax period. The employee is not required to submit a tax return as long as her taxable income consists only of remuneration from employment and is less than R60 000 per annum. With very few exceptions, this is the final amount of income tax SITE-only taxpayers are required to pay (SARS Tax Brochures).

Any individual who has an annual income of more than R60 000 must pay SITE as well as PAYE. As with SITE-only taxpayers, PAYE is deducted by employers from their employee's wages and salaries. However, unlike SITE-only taxpayers, people who also pay PAYE are required to submit an income tax return at the end of every tax period giving details of sources of income other than wages or salaries (e.g. rental and annuities). The SARS does not collect data on the gender breakdown of SITE-only taxpayers (SARS, 1999). However, since the majority of women in South Africa fall into the under R60 000 income category, SITE is the main tax collection system applicable to them.

One of the most serious remaining problems with the SITE system is that, in not requiring people with incomes below R60 000 per annum to be assessed, lower-income earners are deprived of the full benefits of a range of tax deductions and allowances that PAYE taxpayers are permitted. Although the SITE system requires employers to make some deductions from tax, for instance for pension and retirement annuity fund contributions and medical expenses, in many cases the deductions allowed under SITE are lower, and fewer are included, than under PAYE. Employers also have less incentive to lower tax for employees than the employees themselves do. Since most women are subject to SITE only, they are thus disadvantaged by this situation.[v]

Under the current income tax system, people pay tax on their income when they actually earn it. However, an exception is made with respect to most retirement fund contributions and pensions, in which case tax is paid only when the retirement or pension benefits are actually received in the form of a pension or lump sum. This concession is intended to encourage savings for retirement so as to reduce the risk of dependence of individuals on state pensions in their old age (Third Interim Report, 1995). The Katz Commission pointed out in the Third Interim Report that these deferred pension taxes are regressive. Firstly, they are only available to people with sufficient income to be in the income tax system and, secondly, within that group, those who earn more, and are taxed at higher marginal rates, benefit more from deferral than those who earn less and pay lower marginal rates of tax.

This has a number of implications in terms of gender. Firstly, as was discussed in the earlier section on women in the South African economy, men make up the majority of the formal workforce. They would therefore be expected also to make up the majority of the estimated 7 million members of pension and retirement funds in South Africa. Secondly, women, less likely to be employed than men in the first place, predominate in the informal sector and in seasonal, part-time and contract work, from which pensions and retirement funds are excluded. Where women are employed in the formal sector, with access to pensions and retirement funds, they tend to be found in lower-paying occupations. The size of their pension cover will therefore be smaller. In addition, because women generally earn less than men, they do not benefit from deferred taxation to the extent that people who earn more and pay higher marginal taxes, benefit. Thirdly, men tend to be employed in larger establishments which are more likely to have pension funds, whereas women are more likely to be found in smaller, less-established businesses. Fourthly, many funds have also discriminated between married women and men in terms of pension eligibility and employer contributions. A final, important, concern about the current system of taxing pensions and retirement fund contributions relates to the difference in life expectancy between men and women and the sexual division of labour within marriage. Given the situation that: women generally live longer; younger women generally earn less and bear the primary responsibility for raising the family; older women are often left dependent on the pensions of their deceased spouses, it is in fact women who ultimately pay the taxes that were deferred when their spouses were younger.

According to the 1995 October Household Survey, 20 % of women aged 18 or over have access to medical aid, compared to 23% of men 18 years and older. In each race group, women have less access than men do, with access being poorest amongst African women and men (8% and 11% respectively). Amongst whites, 73% of men and 72% of women had access to medical aid (October Household Survey, 1995). There are thus clear gender and racial inequalities in access to medical aid schemes in South Africa. This pattern is closely related to the pattern of formal sector employment in South Africa in which it is generally men who have formal employment and who can afford to contribute to medical aid schemes. For this reason, women are often covered on medical aid as dependants of their male relations, rather than as the primary member themselves.

Currently, contributions to medical aid schemes can be deducted from income before taxation. For a number of reasons, this system of deductions allowed for medical aid expenses is unlikely to benefit women. Firstly, women are less likely to be the primary members of medical aid schemes in the first place. Secondly, as it was noted earlier, the majority of women taxpayers pay SITE only. The full allowance for high medical expenses is only feasible where tax is assessed and this only happens for SITE-only taxpayers when they specifically request it. Thus, most taxpaying women with access to medical aid are unlikely to receive the full deduction permitted, especially in the current situation where few women are aware that they can apply for assessment. Women, however, are more likely than men to have high medical expenses, as they have both the health needs common to men and women plus those specifically related to reproduction (Women's Budget Initiative, 1997).

An examination of the smaller deductions and allowances reveals numerous examples of male-bias in the way tax deductions are permitted. Two other obvious examples are the allowances for travel and accommodation expenses. A certain proportion of travelling expenses (calculated by kilometre travelled) and entertainment expenses (including club subscriptions) that are directly related to a persons work can be deducted from personal income tax. Since jobs that typically require employees to travel and/or entertain extensively – for example, salespersons or managing directors – are generally the domain of men, and because women's reproductive work usually forces them to be based at home, these two allowances are clearly biased towards men. In addition, the entertainment allowance is biased specifically towards higher-income earners, such as professionals and persons in senior management positions, for whom dining with clients is part of the job. In contrast, 'reproductive' expenditure, the best example being childcare expenditure, is not an allowable deduction.

The tendency for allowances and deductions to be more applicable to men than women, and to higher-income earners than lower income-earners, means that men, and particular men in better jobs, have a greater capacity to avoid taxes through creatively employing a wide range of deductions that the tax legislation allows. It is also wealthier people, and therefore mainly men, who would have access to tax consultants who could help them to take full advantage of this.

Value added tax

Value added tax, or VAT, replaced the general sales tax (GST) in September 1991. It has since become a stable and major source of government revenue, with VAT accounting for over 24% of total revenue in 1998/99. As was noted earlier, VAT is a highly regressive tax as it has a greater impact on lower income earners because a higher proportion of their income is spent on taxes on basic consumption goods than higher income earners.

Table 8 below clearly illustrates the regressive nature of VAT. In this example, the VAT burden of four different household incomes has been calculated using the same basket of goods and services for each household. As the table shows, expenditure on VAT as a proportion of both total taxes paid and annual income is highest for the lowest income household and becomes lower as household income rises.

Table 8: VAT burden on households

Annual household income	Total VAT paid in Rands	VAT paid as % of total tax paid	VAT paid as % of annual income
R18 000	1 799	86%	10%
R30 000	2 910	54%	10%
R75 000	6 141	25%	8%
R140 000	10 241	18%	7%

Source: Department of Finance, 1998

Any analysis of the impact of VAT on the poor and women needs to be based on the different expenditure patterns of households in the various income categories. Lower income households tend to spend a larger proportion of their income on basic goods such as food and drinks, clothing and footwear, energy sources and furniture (Third Interim Report, 1995). By far the largest single category of expenditure for the poor is food. According to the 1995 Income and Expenditure Survey, households in the bottom expenditure quintile spend up to 51% of their total average expenditure on food, while households in the top quintile spend 12%. More than a third of the total food expenditure of the poorest households is spent on grain products (Hirschowitz, 1997).

The terms of reference of the Katz Commission required it to look at VAT and to investigate the effectiveness and desirability of zero-rating or the exemption from VAT of certain foodstuffs and other goods and services, as well as multiple differential rates of VAT. Noting the high levels of poverty and inequality in South Africa, the Commission claimed it would give special “consideration to the distributional incidence of VAT and its impact on the poor” (Third Interim Report, 1995:101)

Apart from adjusting the rate of VAT, zero rating is the main source of relief from the burden of VAT on the poor. Zero-rating applies to certain foodstuffs and exports and means that the goods remain in the VAT system but are subject to a tax rate of zero. This means that goods or services exempt from VAT are not subject to VAT on the final value of the good or service. VAT is, however, paid on the purchased inputs that are used in the production of the good or service (Third Interim Report, 1995).

At present a selection of basic foodstuffs is zero-rated. These include brown bread, maize meal, dried beans, milk powder, rice, vegetables and fruit (SARS Tax Brochures, 1999). Zero-rating on basic goods and services is of significant benefit to the poor. The Commission considered the issue of increasing the number of zero-rated goods but decided against extending zero-rating to any more goods on the grounds that this would involve substantial revenue losses and that the VAT rate on other goods would have to increase to make up this loss (Third Interim Report, 1995). There are however, other basic goods which are currently subject to VAT but which are basic necessities for the poor. A good example is paraffin, which is used extensively by the poor for cooking, lighting and heating. Although paraffin is relatively cheap, it is still considered expensive by the poor, who may spend up to 20% of their household income on fuel. The estimated loss to government revenue of zero-rating paraffin – a maximum of R150 million per annum – is relatively small. However, the benefits of zero-rating paraffin to the poor would be enormous (James and Simmonds, 1997). Zero-rating paraffin is particularly attractive as there is minimal consumption by wealthier people, and thus minimal leakage of the benefit.

Another way of reducing the regressive nature of VAT and its disproportionate burden on the poor is to use a multiple rate structure in which VAT is levied at a lower rate on goods typically consumed by the poor, and at a higher rate on goods consumed largely by the rich. The Commission, however, argued against the introduction of such a system, arguing that this would have only a limited impact on regressivity and that it would involve substantial administration costs (Third Interim Report, 1995).

Given the clearly regressive nature of VAT, and the Commission's claimed commitment to easing the burden of tax on the poor, it is difficult to understand why the commission has rejected measures that could make VAT less regressive. Moreover, in the absence of any significant social security net for the poor, and in the context of limited state funds for such spending, the Commission's argument that other instruments of targeting the poor should be used to offset the impact of VAT on the poor seems to be unrealistic for South Africa.

Conclusion

This paper has reviewed various aspects of the South African tax system with regard to the impacts on women and men. This has by no means been an exhaustive analysis of all the issues around taxation and gender in South Africa. Rather, the aim has been to highlight the many ways in which taxation policy has quite different impacts on women and men.

Taxation policy, like the expenditure policies of the government, has a vital impact on the redistribution of income and wealth in society. The distribution of the tax burden directly affects the welfare of individuals and households through its impact on disposable income and the consumption, savings and investment choices of people, as well as through its influence on private sector activity and job creation. In terms of gender, taxation policy can therefore be an important instrument for reducing the income and wealth inequalities that exist between men and women in South Africa.

Under the new democratic government, the taxation system in South Africa has been extensively reformed. An important dimension of this reform has been the removal of explicit gender biases in the taxation system. There are no specific regulations in the tax legislation that treat women and men differently. Yet, as we have shown, there are various aspects of the taxation system that are implicitly biased against women. Discrimination against women in South African tax policy occurs because the socio-economic profile of women is largely ignored. Most women in South Africa are poor. Many women either do not have formal employment, or where they do, they tend to be located in low-paying, low-skill jobs. Although this means that women, in comparison to men, do not bear a large share of the direct income tax burden, it does mean that women are disadvantaged by tax policies that favour the employed in higher-paying jobs (as in the case of the various tax deductions allowed to employees, such as pension and medical aid contributions) and taxes that tend to discriminate against the poor, such as VAT. Ironically, changes to the taxation system aimed as eradicating gender discrimination continue to discriminate against women. The new system, which views household members as individual income earners, disadvantages households with single earners. These households are increasingly those headed by women. The irony seems to be, then, that in seeking to introduce more gender equality in taxation, those women who are the most economically vulnerable, continue to pay proportionately more taxes.

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[i] This paper draws on a research paper that was written for the Women's Budget Initiative in South Africa. Thanks to Debbie Budlender for comments, assistance and encouragement. Thanks also to Vishnu Padayachee and Dori Posel for comments on an earlier draft.

[ii] For a comprehensive and critical discussion of women's struggles during the political transition, see Meintjies (1996). For a more general review o f the South African transition see Michie and Padayachee (1997) and Marais (2001).

[iii] The South African Revenue Services (SARS) does not collect detailed taxation data in relation to gender. Although statistics are available for the number of male versus female individual taxpayers, no data is available on what proportion of total tax revenue is paid by women and men.

[iv] For a discussion of these developments see Michie and Padayachee (1997).

[v] One other significant problem with SITE is that the earnings of temporary and seasonal workers used to be annualised and tax levied as if a full year had been worked. So, for example, if a woman was employed in a fruit canning factory for two months over the season, and earned R900 per month, SARS would assume that her annual income was R10 800, whereas, in fact, it was only R1 800. The effect of this was that workers in these sectors paid tax even though their annual incomes could turn out to be well below the tax threshold. Since women are dominant in the temporary and seasonal employment category, they were very disadvantaged by this situation.