

# Gender equity and 100 years of income taxes <sup>[1]</sup>

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## EXCERPTS

I recently enjoyed the opportunity to speak at the Canadian Tax Foundation's Canadian Income Tax Act Centennial Symposium. Taking this opportunity to highlight gender and gender equity as a central consideration in the development of policy, I raised two simple points that are important when thinking about the appropriate tax unit (whether it be the family or the individual) and the tax base.

First, how we define the institutions governing the tax and benefit system will affect individual behaviour and can either act to preserve prevailing gender roles or facilitate gender equity.

Second, when considering equity across families, the popular conversation needs to be re-framed to fully recognize how unpaid household managers support their families.

For simplicity's sake, I will refer generally here to men and women. I clearly acknowledge the fact that our tax laws are written in a gender neutral fashion, but the typical family remains one where women are the lower earners, the primary caregivers of young children, and generally what I call the household manager.

On the first point – that our institutions matter for gender equity:

We first need to recognize that humans are fundamentally flawed and lazy. We do not always logically and critically assess the merits of all options put before us and choose objectively. Since the allocation of resources within a household requires a great deal of information, involves many complex decisions, and long-term planning, particularly with an assessment of comparative advantage, we tend to fall back on cultural beliefs to guide our decisions.

Where do these beliefs come from? There's a great paper out there linking a woman's likelihood of working today to her ancestor's use of the plough, possibly a couple thousand years ago. It harkens back to a time when there was a clearer, comparative advantage for men to specialize in field work (given the upper body strength required to operate the plough) and women for to specialize in the home. What's fascinating is that these beliefs about women's roles that developed with the use of the plough have persisted through time.

What might change these beliefs? We know that people respond to nudges – when those in authority set a default option for behaviour, people will often expect it to be in their best interest, and you can use this default option to nudge their behaviour in a new direction. Those nudges can be delivered as policy parameters. Resulting behaviours normalize and can reshape cultural beliefs.

Alongside this we need to keep in mind that people respond to incentives. We pay attention to prices, especially how much we can gain (after tax) with an extra hour of work.

Moreover, we need to keep in mind that people will negotiate. When people get married, they will bargain over how to allocate the household's resources: who works for pay, who doesn't, what to buy with labour income? The resources they control, both inside and outside the marriage, will matter and affect how resources are distributed in the household.

With this context in mind, how might institutions work to preserve gender roles?

I think the introduction of the Family Tax Cut by the previous Conservative government actually offers a great example.

The Family Tax Cut was shortlived. Introduced in 2014 as a tax credit, it was only effective for the 2014 and 2015 tax years. Budget 2016 eliminated the credit. The cut had moved us away from individual taxation toward family taxation by splitting at least part of the higher earner's income for tax purposes.

As is well-known, income splitting raises the marginal tax rate applied to the lower earner – most often women. This reduces women's incentive to work and in this way will act to preserve past gender roles. It improves incentives to remain out of the labour force and work in the household instead. In turn, their reduced labour income affects bargaining outcomes within a household. Exactly how this will work out depends on our assumptions about how bargaining and resource allocation in a household works, but there appears a general consensus in the literature that women will lose bargaining power and that reduces gender equity.

Moreover, I found the way that the family tax cut is implemented is interesting. The tax credit is only applied as a non-refundable tax credit for the higher earner, rather than actually splitting the proceeds of the tax cut between the spouses. How we distribute benefits matters. For example, we know from past experience that writing child benefit cheques to moms rather than dads will result in more of the money being spent on kids. With the Family Tax Cut, the benefits are paid out entirely to the dads, and that will affect how those resources are used.

Bringing together various strands of literature here, I come to the conclusion that individual taxation is the preferred option if we are interested in facilitating gender equity.

Turning to my second point: I suggest we need to re-frame how we think about a household manager's role when we are talking about taxes.

Consider this: As an economist, most of my colleagues are male. And most of my younger male colleagues have kids and they have wives who are primarily household managers. They are the primary caregivers of the children, they work primarily as unpaid labour in the home, and generally spend their time organizing the personal lives of their husbands. You can imagine what it would cost to hire someone to manage the household as well as these wives do. My colleagues in this situation will clearly and appreciatively speak to how important their spouse's work has been in supporting them, and their career, which only they really get to carry forward.

But then when we turn to our tax forms, the notion of support gets turned on its head and people tend to think of these husbands supporting their wives. With that view, there is an expectation of deductions or credits for it, as though they are at a disadvantage for having a household manager in their home.

Economists have clearly suggested that in the interests of equity, we need a proper accounting of the value of household production. Practically speaking, however, it's virtually impossible (or at the very least political suicide) to tax the unpaid labour of a spouse, and so it will remain tax-exempt. Amongst economists, we have seen efforts to account for the value of the household manager, in part by imputing a value to home production, in discussions of equity and taxation. However, the simple examples offered often involve some less-than-realistic assumptions about the use of child-care services, or individuals' wage opportunities, and I'm honestly left finding the comparisons across families difficult to work with.

Putting that aside, and I think more importantly, while I've seen various efforts to account for the value of a household manager amongst economists, it's been clear to me that the popular discussion, and especially political lobbying by groups like the Institute of Marriage and Family Canada, has put that value aside – at least for tax purposes.

Clearly, I prefer an approach to policy development that facilitates and even promotes gender equity. In that view, I think individual taxation and full recognition of a household manager's value are appropriate.

Whether the individual or the family is always the most appropriate unit for administering our broad system of taxes and benefits is much less clear to me. For example, Kathleen Lahey and others, have suggested that all benefits should be assessed at an individual level in the interests of gender equity. Yet I tend to think there are gains made when targeting child benefits to those kids who would need it the most – which in my mind involves offering benefits to those families with the lowest family income, not the parents with the lowest individual income. I won't try to settle this here, but will point to Frances Woolley who I think has put much more thought into this.

Our system of taxes and benefits has various goals. Gender equity should always be one of them.

-reprinted from Policy Options

**Region:** Canada <sup>[3]</sup>

**Tags:** gender <sup>[4]</sup>

equity <sup>[5]</sup>

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