Gender and Taxation in South Africa

This policy brief examines tax policy from a gender perspective in South Africa. The information in this brief is drawn, among others, from work done in South Africa as part of an 8-country international study on gender and taxation. In each one of the countries, researchers analysed the gender dimensions of direct taxes such as personal income taxes and indirect taxes – VAT, excise taxes and fuel taxes.

The expenditure data used to calculate the indirect tax incidence (i.e. who ultimately bears the burden of taxes on goods and services) are drawn from the Income and Expenditure Survey (IES) of 2000 (chosen because some of the information from the more recent 2005 IES was considered unreliable). This is a nationally representative survey of 30 000 households. To estimate the gendered incidence of indirect taxes using these data, the researchers classify households as ‘male-type’ or ‘female-type’.

The possibility of zero-rating additional goods and services to benefit poor female-type households and those with children was also considered. Policy simulation exercises were conducted to identify the relative benefit to these households of zero-rating selected items, as well as the resultant loss in revenue to the government.

Key findings

1. Despite the removal of explicit discrimination there are still some areas of bias in direct and indirect taxes, for example in SITE and non-standard earnings.
2. Households with the same level of income and the same number of dependants do not pay the same level of direct taxes. Single-earner households, where for example you have a woman with a number of dependents, may still be paying too much direct tax compared to dual-earner households. This is due to single filing.
3. Total indirect tax incidence is lower in female-type households than in male-type households.
4. The current zero-rating of VAT on basic foodstuffs and paraffin has had a large and positive impact on lower-income and female-type households in particular. Further zero-rating may be beneficial.
5. Female-type and male-type households with children bear a lower burden of indirect taxes than those same household types without children.
6. Expenditure patterns affect tax incidence. High taxes on alcohol and tobacco and the fuel levy result in higher incidence of indirect taxes on male-type households and those without children.

1 This brief was written by Judith Shier. It draws on the work contained in the following two background papers "Gender and taxation in South Africa" (2008) by Debbie Budlender and Imraan Valodia, and "Indirect Taxation and Gender Equity: Evidence from South Africa" (2009) by Daniela Casale. The brief also draws on earlier work by Caren Grown, Trudi Hartzenburg, Terence Smith and Diane Elson.
Why is tax a gender issue?

Tax policies often have important, though unrecognized, gender implications. Gender activists have begun to address fiscal policy issues and to participate in discussions about the expenditure side of public budgets around the world. Few countries however, have addressed the gendered impact of the ways in which revenue is raised. Because taxes are the key source of revenues governments themselves raise, understanding the nature and composition of taxation and current tax reform efforts is key to providing public services and social protection, and assisting in poverty alleviation.

- Gender analysis of tax policy can potentially improve reform efforts and can play a role in redistribution in developing countries. Alternative measures (including the mix of direct and indirect taxes, and the structure of rates, exemptions, credits, allowances) should be explored to assess whether they address the goals of raising revenue and promoting gender equality objectives.
- Analysis can highlight the burden and incidence of taxation. Has it shifted to poorer households, for instance?
- Some personal tax policies are explicitly biased against women. In South Africa before 1994, for instance, women were taxed at a higher marginal rate than men, based on the argument that the male was the breadwinner and the woman’s income supplemented the household income so should be taxed more heavily.
- Less explicit biases exist in personal income tax systems eg car allowances typically favour men, who are more likely to own cars (for which tax deductions are often allowed), while discriminating against women who are more likely to incur other forms of travel costs.
- Consumption tax such as Value-added tax (VAT) is a regressive tax, placing an unfair burden on poorer households, which spend a larger proportion of their incomes on VAT compared to higher income households.
- Tax policy should be part of public discussions about the level of government services and who should pay for them, including the share paid by women and men as investors, consumers, workers and employers.

Analysing taxation through a gender lens can advance the commitment made by governments to incorporate a gender perspective in budgetary processes, as well as increase compliance with the Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW) in countries which have ratified this Convention.

Policy Context in South Africa

With the commitment to gender equity following the democratic transition, South Africa has made considerable strides in eradicating formal gender discrimination in
taxation policy. The South African Constitution outlaws ‘unfair’ discrimination, and South Africa is a signatory to CEDAW.

**Tax Structure**
Table 1 shows the structure of taxes (the proportions raised through indirect and direct tax) in South Africa over the last two decades. For the 2007/8 period direct taxes form 61 per cent of total revenue (personal income tax comprises 30 per cent of this) and the indirect taxes VAT, excises and fuel taxes, which jointly make up 33 per cent of total revenue.

Table 1: Tax Structure, South Africa, 1988-2008

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Revenue raised in R'm</td>
<td>% of total Tax Revenue</td>
<td>Revenue raised in R'm</td>
</tr>
<tr>
<td>Individuals</td>
<td>14 910</td>
<td>30%</td>
<td>76 400</td>
</tr>
<tr>
<td>Companies</td>
<td>11 244</td>
<td>22%</td>
<td>23 330</td>
</tr>
<tr>
<td>Other</td>
<td>657</td>
<td>1%</td>
<td>5 558</td>
</tr>
<tr>
<td>Total – direct taxes</td>
<td>26 811</td>
<td>53%</td>
<td>105 288</td>
</tr>
<tr>
<td>VAT/GST</td>
<td>13 123</td>
<td>26%</td>
<td>43 600</td>
</tr>
<tr>
<td>Excise duties</td>
<td>2 508</td>
<td>5%</td>
<td>8 338</td>
</tr>
<tr>
<td>Fuel levy</td>
<td>2 555</td>
<td>5%</td>
<td>13 600</td>
</tr>
<tr>
<td>Customs duties</td>
<td>2 466</td>
<td>5%</td>
<td>6 200</td>
</tr>
<tr>
<td>Other</td>
<td>3 054</td>
<td>6%</td>
<td>4 041</td>
</tr>
<tr>
<td>Total – indirect taxes</td>
<td>23 707</td>
<td>47%</td>
<td>75 782</td>
</tr>
<tr>
<td>Total tax revenue</td>
<td>50 518</td>
<td>100%</td>
<td>181 070</td>
</tr>
</tbody>
</table>

Source: Calculations from National Revenue Account, National Treasury, South Africa

**Reforms**
Since 1994, in an attempt to adopt a more developmental approach to economic policy, the South African government has introduced a number of tax policy changes. It has also increased the tax/GDP ratio (regarded by some as a measure of the effectiveness of a country’s tax system), thereby creating fiscal space for increased expenditure.

Reforms included the amendment of various tax laws in order to comply with the new Constitution, and the introduction of tax relief for lower- and middle-income taxpayers through adjustments to tax rates and income brackets. A significant change in South Africa’s tax structure since 1994 has been a reversal of the general trend towards shifting the tax burden from direct to indirect taxation, as shown in Table 1.

**Gender Bias: Direct Tax: Personal Income Tax**

**Direct Tax Structure**
Table 2 illustrates the progressive structure of the tax. A change in the post-apartheid period has been the reduction in the number of tax brackets, and an increase in the tax thresholds.
Table 2: Personal income tax rates for 2009/10

<table>
<thead>
<tr>
<th>Taxable income (R)</th>
<th>Rates of tax (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1-132 000</td>
<td>18% of each rand</td>
</tr>
<tr>
<td>132 001-210 000</td>
<td>23 760 + 25% of the amount above R132 000</td>
</tr>
<tr>
<td>210 000-290 000</td>
<td>43 260 + 30% of the amount above R210 000</td>
</tr>
<tr>
<td>290 001-410 000</td>
<td>67 260 + 35% of the amount above R290 000</td>
</tr>
<tr>
<td>410 001-525 000</td>
<td>109 260 + 38% of the amount above R410 000</td>
</tr>
<tr>
<td>525 001 and above</td>
<td>152 960 + 40% of the amount above R525 000</td>
</tr>
</tbody>
</table>

Rebates (individuals only)

<table>
<thead>
<tr>
<th>Rebate</th>
<th>Amount (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>9 756</td>
</tr>
<tr>
<td>Secondary</td>
<td>5 400</td>
</tr>
</tbody>
</table>

Tax thresholds

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount (R)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under 65 years</td>
<td>54 200</td>
</tr>
<tr>
<td>65 years and older</td>
<td>84 200</td>
</tr>
</tbody>
</table>

Source: National Treasury, 2009 Budget Review: 62

Bias

During the apartheid years the tax system was discriminatory on grounds of both gender and marital status, through the tax schedule definitions and application of the primary rebate and retirement annuities contribution deductions. From March 1995, in line with both the Constitution and the first report of the Katz Commission, a single tax structure was imposed on all individuals irrespective of gender or marital status, a single primary rebate (for those under 65 years) introduced, and the differences in retirement annuity deductions removed. The rebate for dependents was also removed.

These provisions put an end to formal, explicit gender discrimination in the tax system.

\[\text{ii} \quad \text{The primary rebate applies to all taxpayers, while those 65 years and above also get a secondary rebate. For this reason, the tax threshold – the minimum income needed to pay taxes – is higher for those 65 and above.}\]
Households with only one income earner

A question remains about whether removing gender and marital discrimination to allow for single filing as opposed to joint filing results in a system which is overall more equitable. (Smith 2002). A comparison of two hypothetical households, both of which contain two adults and two children, offers an illustration of this.

Household 1 consists of a husband, wife and their two children. The husband earns R2 000 per month and the wife earns R1 000 per month. Household 2 consists of an employed woman who earns R3 000 per month, the woman’s non-earning mother, and the woman’s two children.

Smith (2002) illustrates that the earlier tax regime attempted to place these two households in more or less equal positions given their seemingly equal needs, but with some reduction in tax for the married couple so as not to discourage women’s employment. After removal of discrimination on the basis of gender and marital status, and using the 1999/2000 tax tables the first household pays R850, while the second pays more than four times as much, at R3 460.

Table 3. Comparison of two hypothetical household’s tax payments on earnings of R3000 per month

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Household 1</td>
<td>3435.00</td>
<td>850.00</td>
</tr>
<tr>
<td>Household 2</td>
<td>5055.00</td>
<td>3460.00</td>
</tr>
</tbody>
</table>

It appears that formal discrimination on the basis of gender and marital status has been replaced with more severe indirect discrimination against some of those who do not conform to a nuclear family model (whether formally married or not).

Elson (2006) acknowledges the tension between a joint filing system, which might be better able to promote equity between households, and an individual filing system, in which it is easier to ensure (formal) gender equality. Her analysis suggests that a system which takes account of the unpaid labour of the non-earning mother in the second household described above, or the lack of it, when she is too old to work and perhaps needs care, might be a more equitable one, though difficult to implement. The question of the unpaid work of the employed woman is also a factor. The issue is of course further complicated by the fact that the net welfare of the second household is affected by possible benefits on the expenditure side of the budget through both the means-tested child support grant and an old-age pension, which if she is over 60 would be paid to the mother and is therefore income to the second household, while the first household may only benefit from the child support grant.

Standard Income Tax on Employees (SITE)

While explicit biases may have disappeared, some implicit biases persist. These occur in SITE tax deductions, and tax payments for non-standard employment.

Tax deducted on earnings up to R60 000 (in 2009/10) is known as SITE, and is deducted for all employees earning above the tax threshold. This threshold has not
been changed over a number of years. Those who fall below the SITE cut-off are not required to submit an individual tax return to SARS. Given the distribution of income, more women than men are likely to fall under the SITE provisions. Where the person does not earn consistently over the year the tax will be deducted on the assumption of consistent monthly earnings. This would disadvantage groups such as the many women who have seasonal work in fruit farms and factories in the Western Cape. The onus is on the employer to make the necessary submissions to allow for an adjustment to be made. The danger lies in the fact that many employers will not make the adjustment at the end of the tax year, and many employees may be unaware of their rights in this respect, or unable to enforce their rights. For the most part, the error is likely to work against the employee – for example, where she did not work a full year. These workers will then have paid more than they should have out of already small earnings. Women might be more likely than men not to work a full year because of bearing and looking after children. The SITE threshold has been at R60 000 for some time now. The tax threshold has been increasing and at, R54 200, is now close to the SITE threshold. For this reason, government is considering scrapping the SITE system.

Non-standard employment
Similarly, SARS applies an administrative rule for persons in non-standard employment – part time or casual employment – requiring the employer to deduct 25 per cent of earnings for SITE and Pay as you Earn (PAYE). These workers are meant to submit a tax return at the end of the financial year and be refunded any overpayment. However, given that many of these workers may be relatively unskilled workers, large numbers are unlikely to do so and may bear an unfair burden.

Gender Bias: Indirect Tax : VAT, Excise duties and Fuel levy

Tax Structure
Indirect taxes contribute just under 40 per cent of total tax revenue, with VAT accounting for 25.7 per cent, excise duties (3.4 per cent), and the fuel levy 4.2 per cent of the tax revenue (see Table 1).

VAT
VAT is a 14 per cent tax levied on the consumption of most goods and services (whether they are produced locally or imported). There are a number of zero-ratings and exemptions. The following goods and services are zero-rated: 19 basic food items (among them brown bread, eggs, vegetable oil, grains, rice, milk, fresh fruit and vegetables, dried legumes, canned fish), illuminating paraffin, goods which are subject to the fuel levy (petrol and diesel), international transport services, farming inputs, sales of going concerns and certain government grants. The zero-rating of basic food items and paraffin (used predominantly by the poor as a fuel for cooking, lighting and heating) was implemented specifically to alleviate the burden of VAT on poorer households. The paraffin exemption was introduced after research by the Women’s Budget Initiative showed its negative effect on poor people, and women in particular.

The goods and services which are VAT exempt are residential rental; educational services (including crèches); public road and rail transport; non-fee related financial
services; and medical aid and medicine/medical services provided by public health institutions.

Excise duties
Specific unit excise duties are levied on sorghum meal, non-alcoholic beverages, alcoholic beverages and tobacco products.

Fuel levy
The fuel levy is also a unit tax, in 2000 this was levied at 110.1 cents per litre of petrol and 89.4 cents per litre of diesel (including the Road Accident Fund component).

Gendered Incidence Analysis of Indirect Tax
Overall tax incidence for the different household types using the three gendered definitions of households is reported in Table 4 below. Using data from the Income and Expenditure Survey (IES) of 2000, three definitions are used to classify households as being ‘male-type’ or ‘female-type’ households. The first simply takes into account the presence of male and female adults (aged 18 years and older) in the household, resulting in three categories: adult male majority households, adult female majority households and equal number adult households. The second and third try to take into account gendered spending power in the household by adding the dimension of control over resources, measured through headship and employment status.

Table 4: Overall incidence by household types (Tax as a percentage of expenditure)

<table>
<thead>
<tr>
<th>Household Sex Composition</th>
<th>Total Tax</th>
<th>VAT</th>
<th>Excise Tax</th>
<th>Fuel Tax</th>
<th>Distribution of individuals across household types (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adult male majority</td>
<td>9.23</td>
<td>7.29</td>
<td>1.1</td>
<td>0.84</td>
<td>21.9</td>
</tr>
<tr>
<td>Adult female majority</td>
<td>8.13</td>
<td>7.07</td>
<td>0.47</td>
<td>0.59</td>
<td>42.0</td>
</tr>
<tr>
<td>Equal number adult</td>
<td>8.84</td>
<td>7.12</td>
<td>0.85</td>
<td>0.88</td>
<td>36.1</td>
</tr>
<tr>
<td>Employment Categories</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male breadwinner</td>
<td>9.36</td>
<td>7.36</td>
<td>1.12</td>
<td>0.88</td>
<td>26.4</td>
</tr>
<tr>
<td>Female breadwinner</td>
<td>8.14</td>
<td>7.05</td>
<td>0.45</td>
<td>0.64</td>
<td>21.6</td>
</tr>
<tr>
<td>Dual earner</td>
<td>9.15</td>
<td>7.13</td>
<td>0.89</td>
<td>1.14</td>
<td>24.2</td>
</tr>
<tr>
<td>None employed</td>
<td>7.84</td>
<td>6.99</td>
<td>0.49</td>
<td>0.37</td>
<td>27.8</td>
</tr>
<tr>
<td>Headship</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male-headed</td>
<td>9.06</td>
<td>7.17</td>
<td>0.96</td>
<td>0.94</td>
<td>59.1</td>
</tr>
<tr>
<td>Female-headed</td>
<td>7.99</td>
<td>7.08</td>
<td>0.44</td>
<td>0.48</td>
<td>40.9</td>
</tr>
</tbody>
</table>

Source: Own calculations from IES 2000
Notes: Data are weighted.

Incidence of indirect tax: female-type households and male-type households overall. Total indirect tax incidence is lower in female-type households than in male-type households, by around a full percentage point on a base of approximately 8 per cent. In other words, comparing the sex composition, for each R1 of expenditure male majority households pay 9.23 cents in VAT, female majority households spend 8.13 cents on VAT, and equal number households spend 8.84 cents in VAT. This result
holds for the other types of taxes as well, i.e. VAT, excise duties and the fuel levy. The pattern of incidence among households with no employed members is similar to the pattern among female-type households, while the dual earner and equal number adult households resemble the male-type households in their tax incidence.

Excise taxes
While there are statistically significant gender differences for all three types of taxes, the largest gender differentials are reported for the excise duties and the fuel levy. The higher tax incidence on male-type households is being driven by the larger expenditure in these households on alcohol and tobacco and on fuel for private transport.

The results for overall tax incidence are consistent regardless of which household definition is used.

The zero-rating of basic food items and paraffin, goods which are consumed relatively more by poor female-type households with children, has helped to protect these households from carrying a disproportionate share of the indirect tax burden.

Female-type households with children
For the indirect tax system, there is no implicit bias overall against female-type households, those in the lowest quintiles, and those with children.

Implicit bias against female-type households in the indirect tax system is visible only when the results are disaggregated into different consumption items: female-type households (in the lowest quintile and with children) bear a higher burden on ‘good’ or necessity items such as food, basic personal care items, children’s clothing and fuel for household use.

Further Zero-rating of VAT: results of policy simulations
What are the distributional and revenue consequences of zero-rating additional goods? The effects of zero-rating the following categories are considered: 1) all other (non-confectionary) food items that are not currently zero-rated; 2) more specifically, poultry; 3) children’s clothing and footwear; and 4) a basket of basic personal care items (toilet paper, toothpaste/toothbrushes, soap, tissues, contraception, sanitary towels). Estimates of the effect of VAT rating items that are currently zero-rated, i.e. basic food items and paraffin, are also included for comparison. Table 5 shows the percentage change to the indirect tax incidence on households in the different gendered employment status categories (Panel One) and the expenditure quintiles (Panel Two) following the policy adjustment. The table also presents the ratio of the percentage changes for 1) female-breadwinner to male-breadwinner households and 2) the lowest three quintiles to the highest two quintiles. A higher ratio shows that the particular policy is more likely to favour female-type households and poorer households.
The findings from the policy simulations suggest that the largest income equity gains have already been exhausted through the government’s current zero-rating of basic food items and paraffin. The zero-rating of these items has also resulted in substantial gender equity outcomes, benefiting female breadwinner and households with no employed people the most in relative terms. The potential zero-rating of children’s clothing would offer the next largest gain in terms of income equity, and even stronger gender benefits than the current zero-rating of foodstuffs and paraffin. Although the revenue loss to government of this policy change (576 million Rands...
per annum in 2000 prices) is more than double the loss incurred through the zero-rating of paraffin, it amounts to a relatively small percentage of the total VAT intake (only 1.2 per cent, using the budget estimate for 2000).

**Policy Considerations**

1. Tax systems are not gender neutral. Viewing taxation with a gendered lens can play a role in promoting gender equality. Even in South Africa where progress has been made in this regard, research shows that further action may be possible.

2. **Direct tax incidence:** The SITE system, which presumes that taxes collected by the employer are correct, may well be placing an unfair tax burden on poor women, especially those working in irregular employment.

3. The shift from taxing incomes jointly to individual-filing may also be placing a heavy burden on low-income, single female-earner households. Horizontal inequity across households with similar needs but with unequal numbers of income earners remains a feature of the personal income tax system.

4. **Indirect tax incidence: VAT**
   While there is no implicit bias overall against female-type households, these households (in the lowest quintile and with children) bear a higher burden on ‘good’ or necessity items such as food, basic personal care items, children’s clothing and fuel for household use.

5. **Zero-rating VAT**
   The findings suggest that the largest income equity gains have already been exhausted through the government’s current zero-rating of basic food items and paraffin. The zero-rating of these items has also resulted in substantial gender equity outcomes, benefiting female breadwinner and households with no employed members the most in relative terms.

6. **Zero-rating children’s clothing**
   Policy simulations suggest that the zero-rating of children’s clothing in particular may be a feasible recommendation for policy reform as it has large gender and income distributional impacts, it perfectly targets households with children, but has relatively small revenue implications. Implementing zero-rating on children’s clothing would, however, be complicated.

7. **Implementation**
   Any change to the indirect tax system that benefits female-type households needs to be evaluated against the trade-off of introducing further horizontal inequity (and complexity) into the indirect tax system. In addition, changes to the indirect tax system (that are feasible in terms of revenue loss to the fiscus) are likely to have a rather marginal effect on pre-tax gender and income inequities. Policies to reduce unequal outcomes for women and children may be better directed from the expenditure side of budget, particularly through the continued and extended provision of social welfare grants to those in need.
Bibliography


Grown, C. What gender equality advocates should know about taxation, Association for Women’s Rights in Development (AWID). www.awid.org


Direct tax is a tax on income and wealth, for example personal, corporate and wealth or inheritance tax. Indirect tax is a tax on consumption eg value-added tax (VAT) and sales tax and excise tax.

Equity in taxation refers to the idea that taxes should be ‘fair’ and its interpretation differs across individuals, countries, cultures and time. Horizontal equity means that taxpayers who are equally economically situated should be treated equally for tax purposes. Vertical equity means that taxpayers who are not identical from an economic standpoint, but are differently situated, should be treated differently for tax purposes. Progressive taxation means that those with lower incomes should pay a lower proportion of their incomes in taxation. Taxes that place a heavy burden on the poor by taxing a larger proportion of their incomes in comparison to those with higher incomes are said to be regressive. So, a VAT system that results in the poor paying say 7 cents in VAT for each rand of expenditure and the rich paying 5 cents in each rand of expenditure is said to be regressive because the poor are paying a larger proportion of their expenditure in taxes (even though the rich, because they have higher levels of expenditure, may be paying a greater amount of VAT)

Joint filing refers to a system in which the personal income of a married couple, from whatever source, is aggregated in a joint tax return. Individual or single filing refers to a system in which each person liable for income tax files an individual return.

Primary Rebate and Secondary Rebate - a deduction from an amount to be paid in tax. South African taxpayers get two rebates. All taxpayers are allowed a primary rebate. Taxpayers aged 65 and over get an additional, secondary, rebate.

Tax Burden - who ultimately pays the tax (bears the tax ’burden’).

Tax Incidence - which group in society bears the burden of tax;

Tax Schedule - schedule used to determine the tax on a given taxable income.

Tax Threshold - the figure (determined by government) below which income earners do not pay tax.