



# The EU Mutual Learning Programme in Gender Equality

The impact of various  
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# The impact of individual taxation on gender equality in Croatia

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## 1. Introduction

Since public revenues are defined by a number of legal regulations and their collection is necessary to finance public functions, from a perspective of gender sensitive budgeting, gender analysis of public revenue can be politically more sensitive than analysis of public expenditure. Therefore, most countries where gender responsive budget initiatives have been implemented analyse mostly public expenditures from a perspective of gender equality, while analysis of public revenue often remain at some simple and general level, although public revenues and taxes, as the most important source of budget revenue, also due to different social roles, property and socio-economic status of women and men have different allocative and distributional effects on men and women.

In the literature taxes are classified as direct and indirect taxes. Direct taxes are those taxes which the taxpayer is directly obliged to pay, which makes analysis of their distributional effect on women and men easier if gender disaggregated data on taxpayers and their tax liabilities are available. In contrast, indirect taxes are taxes that taxpayer bear indirectly, i.e. taxpayer transfers them from his/her economic power to the economic power of another person, which makes analysis of their distributional effect on women and men more difficult.

## 2. Relevant country context

Direct taxes in the Republic of Croatia (in further text: Croatia) include personal income tax and surtax, corporate income tax and property tax. Among the aforementioned forms of direct taxes, for analysis of distributional effect on women and men, the most appropriate one is personal income tax because taxpayers of personal income tax in Croatia are natural persons who generate income from employment, self-employment, property and property rights while the personal income surtax is paid based on the total amount of personal income tax. In Croatia, as in Slovenia, Italy and Finland, the model of individual taxation is applied and personal income tax is paid based on the income earned by each individual, regardless of the income of the other family members.

Personal income tax is relatively young direct tax in Croatia. It was introduced in early 1994 by adopting the Personal Income Tax Act (Official Gazette 109/93). Due to basic tax deduction and marginal tax rates, it is considered progressive. A basic tax deduction is a flat amount that the tax system allows each individual to deduct from the taxable base. From a standpoint of fairness, basic tax deductions ensure that all taxpayers have at least some existential income that is not subject to personal income tax. From year to year, there was gradual increase of basic tax deduction in Croatia. It rose from approximately EUR 95 (HRK 700) in 1995 to EUR 350 (HRK 2.600) in 2015. From 2017 standard tax deduction in Croatia is around

EUR 510 (HRK 3.800) (Law on Personal Income Tax, Official Gazette 109/93, 127 / 00, 177/04, 115/16).

The basic tax deduction granted to each taxpayer cannot be transferred from one spouse to the other, but single earner families can use an extra tax deduction for dependent immediate family member. Immediate dependent family member is considered to be a member of a close family, respectively a spouse, parents of a taxpayer, children after the first employment or an adult person who has been appointed to a taxpayer under a special law. Another requirement that has to be met to claim tax deduction for dependent family member is that the dependent family member does not acquire annual receipt of more than EUR 2.000 (HRK 15.000)<sup>1</sup>. Decrease of taxable base due to a dependent family member reduces the tax burden of single earner families. The amount of tax deduction for a dependent family member is determined as product of basic tax deduction and factor of basic tax deduction. Therefore, besides the increase of basic tax deduction, increase of factor of basic tax deduction from 0.3 in 1995 to 0.7 in 2017 also contributed to increase of tax deduction for dependent family members. More precisely the tax deduction for dependent family member, usually spouse, increased from EUR 28 (HRK 210) in 1995 to EUR 235 (HRK 1.750) in 2017 (Law on Personal Income Tax, Official Gazette 109/93, 127 / 00, 177/04, 115/16).

From 1995 to 2017 there were also changes in tax rates and tax income brackets. In 1995 there were only two tax rates. An additional, third, tax rate was introduced in 2001 and the fourth in 2003. With introduction of additional tax rates, progression in the tax system was sharpened which in connection with higher basic tax deduction was motivating factor for greater involvement of women in the labour market. With progression gender pay gap after taxation was lower than gender pay gap before taxation. Due to the fact that in Croatia the opportunity for part time employment is taxation. While greater progression of tax system did not lead to higher part time employment like in Sweden, due to fewer possibilities to work part time in Croatia. In 2010 there were only three tax rates (12%, 25% and 40%) and from the beginning of 2017 there are again only two tax rates (24% and 36%) (Law on Personal Income Tax, Official Gazette 109/93, 127/00, 177/04, 115/16).

The main aim of tax reforms in the last fifteen years, especially the last one in 2017, was to reduce the burden of personal income tax. The main element of reduction of burden of personal income tax is the increase of the basic tax deduction and its factor using which tax deduction for dependent family member is determined. So the tax liability of taxpayers who support close family members has decreased considerably and it was largely compensated by the increase of corporate income tax and value added tax.

Basic assumption of gender sensitive analysis of personal income tax is that, due to lower income of women, women benefit more from increase of basic tax deduction and men from decrease of tax rates. Because progression of personal income tax in Croatia is mostly achieved with relatively high basic tax deduction, it can be concluded that personal income tax in Croatia create incentives for women to enter the labour market. But on the other side increase of basic tax deduction and its factor result in higher tax deduction for dependent family members which decreases tax burden of personal income tax of single earner families. Even though tax

<sup>1</sup> Receipts by special regulations, such as social support, child allowance, maternity and parental allowances, support for newborns, family pensions after the death of parents and donations by legal and natural persons for health needs, are excluded from aforementioned amount.

deduction for dependent family members creates disincentives for women to enter labour market, given the current economic situation and high unemployment rate in Croatia it is needed for improving living condition of families living in the areas where besides from lack of jobs there is also a problem of low availability of childcare.

### 3. Policy debate

Parenting increases the amount of unpaid work, which makes it more difficult for women to reconcile their family and professional life. Since women will involve in the labour market if they are able to reconcile their professional obligations with their family life, availability of childcare has been recognised as a very important precondition for female employment, especially for women with children under six years old. On average, availability of childcare in the Croatia is at a very low level in comparison with other EU countries and parents mostly rely on informal forms of childcare, especially in case of children younger than three (EU SILC, [ilc\_caindformal]).

In Croatia childcare is under direct jurisdiction of local government, in other words cities and municipalities and there is significant difference in the availability and provision of childcare among different cities and municipalities which makes it difficult for women in some areas to combine professional career with their family life. However, it is interesting that in Croatia, despite the low availability of childcare and rare opportunity for part time employment, employment rate of women without children is lower than employment rate of women with one or two children under 6. This could lead to a wrong assumption that in Croatia motherhood has positive impact on employment of women. On the other side data also show that parenthood increases the difference in the employment rates of women and men, which proves that motherhood, is one of the key causes of a disadvantaged position of women in the labour market (EU-LFS, [lfst\_hheredch]). So to correctly interpret everything aforementioned it is needed to understand the wider context of this problem. Because children increase household costs, preconditions for making the decision of having children are job security and possibility to combine family life with professional career. Therefore, in Croatia, the low availability of childcare not only has negative impact on gender equality on the labour market but also on the fertility rate cause parents are aware that they will not be able to finance child upbringing without a safe employment and the ability to reconcile family and professional responsibilities.

For now because of the absence of other forms of support, tax deduction for dependent family is seen as way of improving living conditions for single earner families. However, it is certainly necessary to change the way of thinking and to be aware that greater involvement of women in the work force is a prerequisite for financial independence of women and greater gender equality. Only by employment women achieve financial independence which gives them control over their own lives and the possibility of choice. Since a woman will be an active participant in the labour market if she is able to reconcile her professional obligations with family obligations, it is necessary to finance measures that would facilitate the reconciliation of women's professional and family life. Measure such as onetime financial support for a newborn baby, which is often used in Croatia, is not a best pro-natalist policy measure. A secure job, availability of childcare with flexible working hours, even on weekend and holidays, are measures that lead to higher birth rate, not only greater employment of women. Using those measures it is necessary to create conditions for equal involvement of women and men in the work

force, especially knowing that today women make up almost 60% of population with tertiary education (EU EDU, [educ\_uoe\_fine06]).

## 4. Transferability aspects

In Croatia, same as in Sweden, personal income tax is paid based on the income earned by each individual, regardless of the income of the other family members. The basic tax deduction is the same for all individuals and it could not be transferred to anyone else. But unlike in Sweden, in Croatia an extra deduction for dependent family members, popularly known as “the housewife deduction”, is still applied. With improvement of economic situation and higher employment rate, government should think about decreasing tax deduction for dependent family members and even about abolishing it.

Except for the improvement of the economic situation and higher demand for labour, very important prerequisite for greater involvement of women in the work force is also support of local community in raising children in the form of provision of childcare; full day school programmes and similar measures that help both parents reconcile their working hours with family life.

## 5. Conclusions and recommendations

The results of various studies have proven that greater gender equality carries a series of positive economic effects and is therefore often placed in the focus of macroeconomic policies among which fiscal policy is pointed out as a good tool for the elimination of these effects due to its allocation and redistribution function. Fiscal policy should be designed not only to contribute to greater gender equality, but also equality of all citizens, and the most important instrument of the fiscal policy, budget, should be used to achieve greater gender equality. So there has been a growing need in the past 20 years that the government and other state bodies, before making any decisions on the collection and spending of public money, analyse, among other factors, the effects the decision would have on women and men. It is therefore assumed that the budget not only affects the distribution of material and financial resources, but also non-material resources, especially time.

Gender-sensitive budget implies the analysis of the entire budgeting process from a gender perspective, which determines the effects of all public revenues and expenditures on male and female population. Even though personal income tax as a direct tax paid by natural person seems to be most conducive for gender sensitive analysis, it is also necessary to analyse all other forms of direct and indirect taxes, regardless of the assumptions of their gender neutrality. Gender sensitive analysis requires examining not only direct distributional effects on men and women, but also other impacts on men’s and women’s behaviour. So it is important to analyse impact of taxes on (Himmelweit, 2002, p.63-67):

- **Individual income.** In all economies, women's individual incomes are on average less than men's. Therefore, more progressive tax system by reducing post tax income inequality reduces gender inequality;
- **Household income and distribution of resources within household.** An individual’s standard of living does not solely depend on his/her own income, but also on household income and their bargaining power in distribution of resources within household. In addition, results of empirical research show that money paid

to women rather than men is more likely to be spent in the ways that benefit children and other household members. Therefore, it has to be considered how and to whom benefits should be paid to have intended effects, because women who contribute more income themselves are likely to have more bargaining power;

- **Employment incentives.** Increase of tax deduction for dependent family members could lead to employment of only one member of household, usually men as a breadwinner. This increases women's dependence on men and gender inequality in the labour market, and lower women's bargaining power in distribution of resources within household.
- **Use of time.** One consequence of being encouraged into or discouraged from employment is having less or more time to spend elsewhere.
- **A lifetime perspective.** Living conditions may change over time, and it is necessary to determine the impact of tax system on gender equality over a longer period (pension, family situation etc.).

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