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Indirect Taxation and Gender Equity: Evidence from South Africa[1]

Daniela Casale

The paper explored the equity implications of indirect or consumption taxes (VAT, excise duties and the fuel levy) from a gender perspective, using detailed expenditure data from the 2000 Income and Expenditure Survey. While a growing literature on the incidence of indirect taxes investigates their impact on the income distribution in developing countries, there is little work on whether indirect taxes have differential gender outcomes. Although the indirect tax code does not explicitly differentiate between men and women, an implicit gender bias is likely to exist in taxes that are levied on consumption expenditure, because men and women (and their households) spend their incomes on different types of goods, or on goods that are taxed differently. To estimate the gender incidence of indirect taxes, households were classified as 'female-type' or 'male-type' according to their demographic and economic attributes, namely headship and the presence and employment status of adult men and women in the household.

The results suggest that the zero-rating of a selection of basic foodstuffs and paraffin is important in protecting 'female-type' households, especially those in the lowest expenditure quintiles and with children, from bearing an otherwise disproportionate share of the burden of these taxes. In contrast, high taxes on alcohol, tobacco and fuel for private transport result in a higher incidence on 'male-type' households, those in the middle and top expenditure quintiles and those without children.

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

The policy simulations we conduct suggest that the zero-rating of children's clothing in particular may be a feasible recommendation as it produces large gender and income distributional benefits, it perfectly targets households with children, but has relatively small revenue implications. However, 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. Debates in the tax literature suggest that a broad-based tax that introduces the least distortions possible is most desirable from both an efficiency and administrative simplicity point of view.

Instead, policies to reduce unequal outcomes for women and children may be better directed from the expenditure side of budget. While this is partly achieved through a relatively extensive system of social welfare grants in South Africa and a large budget for social services, many households are unable to access these, and significant gender (and income) inequities persist in South Africa. This suggests, at the very least, a need for constant evaluation of tax policy on both income and gender equity grounds

[1] Based on research done in 2008-2009 and using data from 2000.