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# Tracing the Women-Friendly Swedish Welfare State in Tax and Social Security Law Reforms with a particular focus on Swedish Gender Equality and Fiscal Policy

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## Introduction

Again, the Global Gender Gap Report (World Economic Forum 2011) has ranked the Nordic countries at the top when measuring national gender gaps on economic, political, education- and health-based criteria. The outcome of the comparison of gender gaps shows that the Nordic countries to a large extent places themselves, based on the particular benchmarking in the report, as the most gender equal countries in the world. Sweden is now on the forth place, after Iceland, Norway and Finland, but has been ranked as number one before in the gender gap index, and various other global reports produced over the years by different international organisations as the UN.

Statistically one can claim that this proves that the Nordic countries, and maybe Sweden in particular, have managed to achieve a sustainable economic and political structure for gender equality. In the case of Sweden the sustainability of gender equality politics has emerged from a work-fare oriented welfare state ideology. Work-fare in the Swedish setting should be understood as a welfare regime in which the eligibility to social security rights are based on an employment strategy. Through paid work on the labour market the worker gain the eligibility to social security rights. It is an egalitarian view on social citizenship that regards both men and women (ethnically Swedish of course) as self-supporting individuals. The work-fare welfare state model has contributed to turn down some of the barriers between the public and the private divide of the economy such as the care economy and the market economy and the paid work and the unpaid work. Gender policy considerations have had an impact on tax design and redistributive considerations. The erosion of parts of economic gender-segregation has lead to both economic and cultural changes.

The use of income tax reforms to promote women’s labour market participation has been crucial for women’s high level of labour market activity in Sweden. Taxes and social transfers have also had a redistributive effect on the disposal income between men and women. Disposal income is the income that is left after social transfers and taxes. The income gap between men and women is lower after taxes and transfers. Residence-based or citizen-based, non income-tested social benefits as the general child care allowance, are important redistributive transfers as women benefit more of these types of social benefits. Men also pay income tax in total as they in average have higher market incomes.

Some phases of tax and social reforms have had a stronger impact than others on the gendered division of the public and private spheres of economic activities. There are reforms with a transgressing effect on the boundaries between the public and private that has improved gender equality, but there are also transgressing reforms that have been backlashes in respect to gender equality. I will focus on four phases:

* The individual tax reform 1971
* The neo-capitalist/neo-liberal marginal tax, hybrid tax reform 1991
* Budgets cuts and the Effective Marginal Tax Rate problems (EMTR) for middle, and low income families during 1990s, causing poverty, unemployment traps
* Tax credits as a part of distributive justice and gender equality policies during the 90s and onwards.

I will end the paper with a discussion about my idea that progressive reforms in terms of improvement and protections of women’s economic emancipation, making women self-supporting and autonomous in economic terms, have resulted in a more sustainable level of gender equality in Sweden (and the Nordic countries) in comparison to the other OECD-countries.

## A “Social Welfare Triangle” that Includes the Care Economy

Normally the description of how social welfare is produced and distributed is captured in a triangular relation between the market, the state and the household in what is called as an economic circulation. The mutual exchange between the households and the state is expressed in taxes and fees from the households to the state, and the distribution of social transfers and services and the payment of salaries from the state to the households. The welfare accumulated in the exchange between the households and the companies in the private sector of the market contains of salaries from companies to households and the payment for goods and services from the households to the companies. Finally, the exchange that takes place between the private sector of companies and the state are expressed in the companies taxes and fees, and the payments for goods and services and public transfers from the state.[[1]](#footnote-1)

However, in order to include what is normally the non-recognised care economy and to capture the whole gendered context of social welfare, one also has to consider the exchange of time, care and economic resources within the households. Nordic feminist scholars have developed a model for analysing both the public and the private side of welfare production and distribution. By adding the private relations of exchange of time, care and economic resources to the public relations of the exchange of money and work between the state, the market and the household, it is possible to see structural patterns through which tax law reproduces the division between the public and private spheres, which, in turn, mirrors the division between male and female lives (see Ketscher 1998: 60–68; Stang Dahl 1988; Gunnarsson 2003). The need to consider the time factor to capture the care economy has been recognised in in quite a number of public documents with different status. The care economy was publicly recognised in the Being Platform for Action[[2]](#footnote-2), and one can find radical statements about the need to trace the allocation of time to be able to see the economic effects of household production and care work. For example av report from the European Parliament stated the need for an analysis of the impact of public expenditures on time use in order to consider the implications of budgetary policies for unpaid work such as social reproduction, domestic work and family and community care.[[3]](#footnote-3)

### Tax Equity and Social Justice

An important part of breaking the boundaries between the public and private divide of the economy is to show that women’s care work and other domestic activities, part-time work and low wages must be included as a part of the analyse of tax equity and social justice (Apps 1984; Grbich 1987; MacCaffery 1993; Staudt 1996 and Young 1997). Taxes and and public expenditures ought to be tested in terms of the way they contribute to women’s autonomy in their context of every-day-life.

The separate spheres of public and the private life have also a great impact on the equality of opportunity, which is a basic prerequisite for social justice. Susan Moller Okin is one of many feminists that have shown how normative, liberal theories about justice, without any reflections, constructs a dichotomy between the public world of political life and marketplace and the domestic, private world of family life and personal relations. In this dichotomy (Okin 1989) the private/domestic sphere becomes invisible and the normative concepts of justice are only elaborated in relation to issues concerning the public sphere. The consequences are, due to Okin:

“…the unequal distribution of rights, benefits, responsibilities, and powers within the family is closely related to inequalities in the many other spheres of social and political life. There is a cyclical process at work, reinforcing the dominance of men over women, from home to work to what is conventionally referred to as the “political” arena, and thence back home again”. (Okin,1989, 113)

Central for feminist critique when challenging the outcome of this constructed dichotomy, is that the personal is political, and also, that the political is personal. What the division overlooks is that the issues of power reside in the family as well as in the public life, and the public sphere is very much intertwined with the domestic life. The family is created by political decisions and the social constructions of our gendered identities and the gender-structures of the division of labour take place in the domestic sphere. On the basis of these reasons Okin regards the family as “ a crucial determinant of our opportunities in life” (Okin 1989, 16, 111-133). In analysing the Swedish gender equality model in feminist legal scholarship, we have expressed it as the equality of rights for women, in particular the economic rights, starts ends within the family (Gunnarsson, Burman, Wennberg, 2004).

Martha Nussbaum also focuses on the private life in her normative theory about social justice, developed on the basis of the observations of women’s economic and social living conditions in India. Her normative position is that there are certain capabilities that are essential for the function as a human being. This capabilities approach aims to prove the inter-dependence between human beings and their material, social and political environments. The aim of politics is to provide for a basic core of capabilities for all citizens. This is a fundamental condition for the possibility to function as a citizen. Capabilities central for human beings are for example health and bodily integrity, which in the observations of Nussbaum were not guaranteed for all women in the Indian society. This was particularly problematic in the families, were women often were denied the basic core of capabilities. Her analyse is, which is similar to Okin’s, that the theories of justice has to include the family. Otherwise the abstract principles of equality and human dignity will not be able to include the living experiences of women (Nussbaum, 2002).

Nancy Fraser has highlighted the contradiction between justice as economic redistribution and justice as cultural recognition of different groups, which she claims has to do with the decoupling from social policy in postsocialist, cultural politics. She writes:

“Many actors appear to be moving away from socialist political imaginary, in which the central problem of justice is redistribution to a `postsocialist´ political imaginary, in which the central problem of justice is recognition. With this shift, the most salient social movements are no longer economically defined `classes´ who are struggling to defend their `interests´, end `exploitation´ and win `redistribution´. Instead, they are culturally defined `groups´ or `communities of value´ who are struggling to define their `identities´. End `cultural domination´ and win `recognition´. (Fraser, Nancy, (1997), *Justice Interruptus: Critical Reflections on the `Postsocialist´ Condition.* London Routledge. See also Lindvert, Jessica, (2002), *Feminism som politik. Sverige och Australien 1960-1990*. Boréa, Umeå, 25-28).

In the debate with Axel Honeth, Fraser wants to conceive recognition as a matter of justice instead of self-realization. Her position is, on the basis of parity of participation as the normative standard for social justice, that politics of redistribution and politics of recognition should not be separated and dichotomised. Even though redistribution focuses on socio-economic injustices and recognition on cultural injustices, it is philosophically a false antithesis to view the two paradigms as either/or. Due to Fraser, situations of social divisions and injustices are complex issues. Features of both maldistribution, rooted in the economic structure, and misrecognition, rooted in the cultural status order, are parts of not all, but many forms of social differentiation. Fraser hereby promotes an idea of two-dimensional social injustices, which means that justice requires both paradigms (Fraser, Honneth, 2003, 10-19 and 93).

Many theories of justice concentrate on the distribution of material resources, which, in a way, subordinates other important aspects of justice. Iris Marion Young has highlighted that justice also is about the institutional conditions for participation on equal terms in the decision-making processes concerning the problems members of a polity (collective) faces. Her idea is that an inclusive concept of democracy will promote justice as the members of a community or citizens of a nation can use and develop their individual capabilities. Similar to Nussbaum she bases her ideas on just democracy on the values that Amartya Sen calls equality as capabilities. The ideal participatory conditions are inclusion, equality, reasonableness, and publicity. Young does not think it is neither necessary nor appropriate to develop a comprehensive theory of justice, but admits that notions of social justice are unavoidable in political theorizing. Her model of a democratic process for inclusive democracy is based on the ideals of self-determination and self-development, which respectively have their contradictory conditions in oppression, domination and institutional constraints. These basic values serve as criteria for an indirect definition of justice. Oppression can be performed in five different ways; by exploitation, marginalization, powerlessness, cultural dominance and violence. Young’s theory is focused on the democratic process and is discursive. It is fair and just conditions for the democratic process that guarantees the participation of all members of a society, and in the end a just society (Young, Iris Marion 2000, 27-51).

## The Dominant Economic View on Optimal Taxation

The power to raise and spend public revenues remains fundamentally associated with the nation state at a time when states increasingly set their fiscal directions in response to pressures associated with global economic integration, capital mobility and market deregulation. Nation states have also agreed to collaborate on matters of fiscal governance and policies in the OECD, the WBG and the IMF. Apart from having a strong global influence on world trade, these organizations also have a worldwide influence on multinational commitments to engage in stimulus budgeting and on cooperating in preventing tax evasion. A global economic order has been on the agenda for a while as a means for fighting harmful tax competition. Tax law reforms are regarded as valuable instruments for achieving this aim (Mumford 2010, 36-37). The series of economic crises starting with the global economic crisis in 2008 has also led to new multinational commitments. The interventions of international organizations in the economic and fiscal governance of national states is exposed, for example, in the way Greece has been forced to submit to massive budgets cuts and fiscal restrains.

Many OECD countries have reformed their income tax over the last twenty years. Even though a common understanding of the ideal income tax system has never been expressed openly, there are common strands in the various tax reforms. Based on a neoliberal tax ideology, a special interpretation of what constitutes an optimal taxation has guided the international trend in redesigning national budgets and fiscal systems. A line between fiscal purposes and social justice has been drawn, meaning that tax regulations with redistributive intentions are seen as political interventions in the market economy. Economic intervention creates excess burdens or welfare losses, which hinder economic growth. As redistribution of wealth and income are based on political ideals concerning economic equality, such interventions are seen as creating inefficiency in the economy. This has resulted in a normative standard whereby distributional neutrality is a part of the concept of fiscal taxation, which aims to preserve the status quo (Hayek 1956; Korpi, Palme 1993; Prop. 1989/90:110, 620-632). Subjecting all forms of income and consumption to tax fulfils the principle of distributional neutrality. The Swedish tax reform from 1991 expanded the income tax base by including a large group of previously tax-free fringe benefits and income in kind. In total the labour income tax base expand by almost one per cent (Birch Sörensen 2010).

The principles of tax neutrality and tax horizontal equity have been invoked to justify uniform taxation in conjunction with the goal of ensuring that taxation should only fulfil a neutral, fiscal purpose. The fiscal purpose is to raise revenue without any intervention that will distort an efficient allocation of resources in the market economy. The overall objective in the OECD community is to promote economic growth by reducing tax regulations that have a negative influence on entrepreneurship, labour supply and investments. When applied in national tax reforms a normative pattern emerges of reduced progressivity, financed by a broadening of the tax base for income taxation and higher consumption taxation. Some experts describe this policy as a shift from income tax to consumption taxes. Another element is the abandoning of the global[[4]](#footnote-4) personal income tax structure and movement towards a dual income tax system, in which labour income and various types of capital incomes are taxed separately. As an example of this international trend, the Nordic countries have combined progressive taxation of labour and social transfer incomes with a linear, flat rate tax on income from capital at a level equal to the corporate income tax rate (Gunnarsson 1995; Piper 2005; Owens 2006; Birch Sørensen 2010).

The Swedish welfare economy is debated by scholars in the OECD-world. Sweden has been the focus of a great deal of academic interest for a number of years for the simple reason that according to traditional economic analyses it should not be able to survive. Sweden has the heaviest tax burden, the most generous social welfare system and is the most egalitarian society in the world. At the same time, it is a highly productive and technologically advanced economy, home to some of the world’s most successful capitalist enterprises and enjoys one of the highest standards of living in the world. Quite simply, these things are not supposed to go together and, in the same way’s as the law of aerodynamics tells us that it is not possible for something constructed as a bumblebee to be able to fly, the established laws of economy tells us that an economy such as the Swedish cannot grow. Sven Steinmo has listed those features of the Swedish welfare economy that can be an obstacle for economic growth:

 [[5]](#footnote-5) high levels of income equality,

* universalist social welfare and tax policies,
* high levels of union organization and economic concentration,
* long history of labour/capital peace and cooperation,
* highest taxes in the world,
* highest level of social spending in the world and
* high levels of gender equality (Steinmo 2010).

One can see that the list is inspired by the message learned from the theory of optimal taxation that taxes should be designed to avoid dead weight losses. The wedge between pre-tax and after tax income distorts economic incentives, which reduces the total size of the pie available for redistribution. This theorem promotes principles of uniformity, neutrality and horizontal equality in taxation. The linear income tax is the ideal model that best fulfils these principles. However the theory of optimal taxation constitutes two theorems. The second theorem shows that there exists a cross-effect between men’s low income elasticity’s and women’s high income elasticity’s. All tax reforms that promotes lower taxes for the primary earners have a negative impact on the secondary earners labour market participation (McCafferey 1997, 178-180; Apps 2009). So it is equally possible in relation to the dead weight loss axiom, to build a normative case on the axiom that gender equality is an important pre-requisite for economic growth in welfare economies as it promotes an increase in labour market participation.

## Work-fare Oriented Gender Equality – The Swedish Model

The representation of the Swedish state as a form of state feminism, or at least as a women-friendly welfare state, has its roots in how it has actively advanced women’s interests. The idea of ‘workfare’ is at the core of the Swedish welfare state model that is based on an egalitarian ideology of social citizenship, and so also central to the policy of promoting gender equality. In contrast to a ‘bread-winner’ ideology, under the notion of ‘workfare’ men and women alike have been regarded as self-supporting individuals within a labour market in line with the ideal of a dual income-earner family ideology (Gunnarsson et. Al. 2004; Wennberg 2008; Pylkkänen 2009).

A prominent characteristic of the Swedish model is truly the fact that gender equality policy is closely intertwined with the Swedish welfare state ideology. In the formation of the welfare state gender equality has been a major concern in many welfare reforms, and has been particularly important in those reforms oriented at to the labour market. Employment strategies have acknowledged the significance of work in achieving economic independence and in earning the right to social security (Hernes 1987, Sainsbury 1996, Bradley 1996, Bergquist et. al. 1999; Gunnarsson, Svensson 2012). The overall objective of Sweden’s gender equality policy is to ensure that women and men have the same power to shape society and their own lives. The policy should be read from the perspective that it points in the direction of shared power and shared responsibilities, based on Yvonne Hirdman’s gender system theory. This theory represents a structural understanding of inequality. Hirdman claims that the principles of separation of the sexes and the male norm feeds gender inequalities on three interacting levels, which are the structural, the individual and the symbolic (Gunnarsson, Svensson 2012; Hirdman in SOU 1990:44).

By promoting a socially egalitarian citizenship based on notions of solidarity and redistributive social justice the Swedish social democratic welfare state has had a comparatively high degree of universalism regarding social benefits (Kautto et al 1999; 2001 and SOU 2000:83; Gunnarsson et. Al. 2004). General services and benefits available for eligible residents are the most inclusive part of Swedish social citizenship, in contrast to earnings-related social insurance benefits (Sainsbury, 1996, 1999; Gunnarsson 2007). Flat-rate benefits for households with children, such as the child allowance, health and childcare services and means-tested benefits, such as the housing allowance, have had a significant redistributive effect in favour of women (Skatteverket 2007:2, Prop. 2009/10:1).

At an early stage of the welfare state project a combination strategy was developed to enable women to fulfil the responsibilities of care whilst pursuing their wish to be self-supporting. Radical reforms in the 1960s and 1970s addressed gender equality based on the narrow egalitarian idea of promoting married women’s labour market participation (Gunnarsson and Stattin 2001; Gunnarsson et al 2004; Pylkkänen 2009; 123-149). The combination strategy aimed to further encourage women to participate in the labour market, whilst facilitating married women to combine paid work with family life. It thereby became a driving force in the active integration of women into the public sphere of social citizenship (Gunnarsson and Svensson 2009, 50; Gunnarsson, Svensson 2012). The abolition of joint taxation, together with progressive social reforms such as the introduction of publicly financed day care for children and sex neutral parental leave, constitutes the women-friendly welfare state.

### Every day life in the care economy challenge the model

As described in the illustration of the social welfare triangle Sweden economic, welfare politics has failed to incorporate the care economy into the welfare state model. Sweden has built their gender equality policy on a quite narrow concept that is strongly influenced by the inherent division of society into a public sphere and a private-domestic sphere. This division has a strong impact on the equality of opportunity, which is a basic prerequisite for social justice. Among many things, it creates a gendered opposition between breadwinning and caregiving. Indeed, the Swedish social democratic welfare state has promoted a socially egalitarian citizenship based on solidarity and redistributive social justice, but rights and obligations are also strongly connected to labour market participation. This dominant egalitarian work fare idea has governed women’s social, economic, political rights and bodily integrity, which of course have left many issues of gender equality related to the private sphere of society outside the scope of political reforms.

One of them is the neglect of the consequences of the every-day-life of women’s care-work and the cross-elasticity between the low income elasticity of the primary earner and the high income elasticity of the second earner. In effect the Swedish dual income earner family model is in fact a one and half income earner family model. In particular families with small children, women work part-time in a much larger scale than the men, which is illustrated below:



An effect of this example of the gendered dimension of the public-private divide is probably the fact that Swedish welfare and gender equality reforms have left the economic power relations between women and men relatively unchanged.

## Individual Income Tax Reform in 1971

## The income tax system Sweden has moved away from family taxation and towards individual taxation. It is up to the benefit system to deliver family income support in cash and in-kind payments. This is the result mainly of two tax reforms, one in 1971 and that of 1991. They represent the principal steps in the process in which family taxation was successively abandoned. The main structural features are the abolition of joint taxation, family-related tax allowances and tax credits, and the introduction of a dual income tax.

In the context of the differential treatment of taxpayers in different working and family situations, the question of the appropriate unit of taxation has been the most discussed issue in Sweden throughout the years. Despite the strong influence of the ability principle on the income tax system, the joint taxation of the marital unit was not seriously questioned in Sweden until a commission report was presented in 1969 (Fi 1969:4). When the change to an individual tax unit, following the proposals in the report, was carried through in 1971, it was only partial. The termination of the joint taxation of spouses took a long time, and the last remnants of the partial joint taxation of income were abolished as late as 1991 in connection with the thorough restructuring of the tax system.

Joint taxation of net wealth has existed much longer. Wealth taxation has been and still is a controversial issue. The Wealth Tax Act has been abolished and reinforced during the same year. This exceptional quick turn was caused by an election. The conservatives lost and the social democrats regained their power (SFS 1997:323). A new conservative government finally managed to abolish the wealth tax, during the end of the 2000. However, the social democratic party has promised to that it be reintroduced again with the same structure of joint taxation as before, if the social democrats with support by the left party will reentry into office.

The arguments against joint taxation have been many over the years. One of the main arguments put forward by the commission that proposed the partial joint taxation in 1969 was that the assessment of *ability to pay should not be made dependent on sex or civil status*. Such a dependency could have an impact on the expected increase in demand for labour supply in the future as joint taxation was seen as an obstacle for married women to get into the work force. Thus it would obstruct the aim of equality between men and women. Another argument made by the commission as well as by scholars was that joint taxation is not in line with the ability principle, which follows from the fact that income tax should be subject-related (Fi 1969:4, 60-, and Gunnarsson, 1995, 178-79).

The correlation between the labor market participation of women being married or living in partnerships, and the income of their husbands or partners, was recognized in connection with the change from joint to a partial individual taxation in 1971. After the introduction of the individual as the appropriate tax unit, the effective marginal tax rate became higher for married men at the same time as the marginal tax rate was generally lower for women. An increase in working-hours for men was therefore more costly for the households in terms of tax, than an increase in working-hours for women. As women have a high cross-wage elasticity, they are likely to increase their hours of work when their husband’s or partner’s marginal wage rate decreases.

## Neo-Capitalist/Neo-liberal Hybrid, Marginal Income Tax Reform in 1991

The tax reform from 1991 did change the redistributive basis for the income tax. I call it a marginal income tax reform in favor for a majority of men. The main aim was to flatten the income tax rates, and by this achieve a lower the total income tax on labor incomes.



To finance this very expensive reform, a higher and more broad-based VAT on goods and services was introduced. Several of the services that became part of the VAT-system, were those that functioned as a substitutes for household production. The reform had a distributive profile that was negative for households with small children. To compensate, an increase of social benefits such as child and housing allowances were part of the tax reform package.

The structure of the reform gave the *opposite effect* in relation to the 1971 individual income tax reform in 1971. The cuts of effective marginal tax rates had a moderating impact on women’s labor supply as the marginal net of tax salaries increased for men. This behavior strengthened as women also are more sensitive to income transfers, such as child allowances, than men are. As mentioned before, a part of the reform package was an increase of transfer payments to households with children. Altogether, the reform led to a reallocation of leisure within the households. Men increased their hours of paid work much more than women did (Aronsson and Palme, 1994).

The 1991 tax reform clearly stated that family taxation and social justice objectives were to be regarded as non-fiscal. Welfare state schemes were delegated to the transfer system of the public budget and were not to be carried out as tax expenditures. In this context, social justice included every possible welfare state reform that could be based on a diversity of objectives in areas such as the labour market, the family, housing and infrastructure policies. To regard these objectives as non-fiscal is, again, political and normative.

A final remark concerns the pragmatic use of the ability to pay principle in family tax policy. The dual income tax system has, by its division of income tax objects, pushed aside the former principal orientation towards the individual’s ability to pay. This has resulted in a policy that already for technical reasons excludes tax reliefs for family providers. Still, the ability to pay principle has been given a very strong position in defending the individual as the appropriate tax unit in family tax policy.

## Budget Cuts and the Effective Marginal Tax Rate Problems Causing Poverty and Unemployment Traps During the 1990s

The inherent normativity of drawing the line between fiscal and non-fiscal was not recognized in the 1991 tax reform. This may well be the reason why the Swedish strategy of avoiding unwanted welfare losses by cutting effective marginal tax rates (EMTR) and abolishing the non-fiscal, social dimensions of income tax law, has not succeeded. A high EMTR in a progressive income tax system is regarded as an excessive burden for the economy when it becomes a disincentive for high-income earners to work. Unfortunately, the 1991 tax reform also unintentionally contributed to strengthening the EMTR problem of the tax benefits interface. This was the result of a poorly coordinated combination of income-tested social benefits and fees for social services, such as municipal fees for childcare, an income-related basic deduction for low-income groups and tax reductions for certain categories of taxpayers with little ability to pay. The combined effects of these tax and social laws gave the welfare system as a whole a progressive profile for low-income households. This EMTR problem created disincentives in the form of poverty traps, which influence work and study decisions related to income (Gunnarsson 2003).

The effects of the 1991 reform and the budgets cuts during the beginning of the 1990s because of the retrenchments in the Swedish economy can be summarised as below:



## Tax Credits as a part of Distributive Justice and Gender Equality Policies From the 1990s and Onwards

### About Tax Credits

The term tax credit describes mainly two different concepts, One is a recognition of partial payment already made towards [taxes due](http://en.wikipedia.org/w/index.php?title=Taxes_due&action=edit&redlink=1). The other is the concept where a state benefit is paid to workers through the tax system, which has the effect of increasing (rather than reducing) [net income](http://en.wikipedia.org/wiki/Net_income). A tax credit is generally more valuable than a [tax deduction](http://en.wikipedia.org/wiki/Tax_deduction) or [tax allowance](http://en.wikipedia.org/w/index.php?title=Tax_allowance&action=edit&redlink=1) of the same magnitude because a tax credit reduces tax directly, while a deduction or allowance only reduces taxable income and so the reduction in tax is only a fraction (the marginal tax rate) of the deduction or allowance.

Within the [Australian](http://en.wikipedia.org/wiki/Taxation_in_Australia), [Canadian](http://en.wikipedia.org/wiki/Taxation_in_Canada), [United Kingdom](http://en.wikipedia.org/wiki/Taxation_in_the_United_Kingdom), and [United States](http://en.wikipedia.org/wiki/Taxation_in_the_United_States) [tax](http://en.wikipedia.org/wiki/Tax) systems, a tax credit is a recognition of partial payment already made towards [taxes due](http://en.wikipedia.org/w/index.php?title=Taxes_due&action=edit&redlink=1). A similar concept exists ([fr:Avoir fiscal](http://fr.wikipedia.org/wiki/Avoir_fiscal%22%20%5Co%20%22fr%3AAvoir%20fiscal)) in the [French tax system](http://en.wikipedia.org/wiki/Taxation_in_France), for example in the Credit Impot Recherche. This situation arises, for example, when standard rate tax has been deducted at source ("[withholding tax](http://en.wikipedia.org/wiki/Withholding_tax)"), but the tax-payer is subject to further taxation at a higher rate. It also applies in [dividend imputation](http://en.wikipedia.org/wiki/Dividend_imputation) systems. In some countries (e.g. the [United Kingdom](http://en.wikipedia.org/wiki/Taxation_in_the_United_Kingdom)), "tax credit" refers to tax treated as deducted at source, which has not actually been deducted or paid.

Tax credits may be characterized as either refundable or non-refundable, or equivalently non-wastable or wastable. Refundable or non-wastable tax credits can reduce the tax [owed](http://en.wiktionary.org/wiki/owed) below zero, and result in a net payment to the taxpayer beyond their own payments into the tax system, appearing to be a moderate form of [negative income tax](http://en.wikipedia.org/wiki/Negative_income_tax). Examples of refundable tax credits include the [earned income tax credit](http://en.wikipedia.org/wiki/Earned_income_tax_credit) and the additional [child tax credit](http://en.wikipedia.org/wiki/Child_tax_credit) in the U.S., and [working tax credits](http://en.wikipedia.org/wiki/Working_tax_credit) or [child tax credits](http://en.wikipedia.org/wiki/Child_tax_credit) in the UK.

A non-refundable or wastable tax credit cannot reduce the tax owed below zero, and hence cannot cause a taxpayer to receive a refund in excess of their payments into the tax system. An example of a non-refundable tax credit is the Saver's Tax Credit [[1]](http://en.wikipedia.org/wiki/Tax_credit#cite_note-0#cite_note-0) in the U.S. or the former [children's tax credit](http://en.wikipedia.org/wiki/Children%27s_tax_credit) in the UK. Another example would be declared gifts made to registered charities in the UK under the current [Giftaid](http://en.wikipedia.org/wiki/Giftaid) scheme, which attract tax relief (claimed by the charity) at the standard rate but which cannot reduce the donor's liability beyond the amount of tax actually paid by them in a given year. All tax credits in [Ireland](http://en.wikipedia.org/wiki/Republic_of_Ireland) are non-refundable.

Conservatives or libertarians, who generally favor tax cuts, often criticize *refundable* tax credits, saying that they are actually subsidies disguised as tax cuts. In other words, they are spending in the form of direct transfers from the treasury to individuals, except that they are administered by the tax authorities rather than the agencies usually responsible for welfare.

Tax credits can funtion as a means tested benefit paid direct to employees to encourage them into work. This indirect wage regulation forms an important part of income for low earners and their families. It is expected to reduce the stigma of collecting benefits for workers.

### The Use of Tax Credits in the Swedish Tax System

The manner in which principles of equitable and horizontal taxation have shaped the Swedish tax system from 1991 and onwards allows, in theory, no space for social programs in tax law. However, this attitude has proved to be impossible to uphold. After the 1991s tax reform several changes have been made to adjust the taxation to the individual tax subject’s overall collected ability to pay. This has not been done by shifting back to a global taxation, instead tax reductions have been used to adjust the tax burden for certain categories of taxpayers with low incomes. This is the case for the standardized reduction for single parents that was enforced for a period of some years. The reduction was a compensation for the lack of economic means for low income single parents to support their children. It was a perfect example of a tax expenditure (Gunnarsson, 2003, 62, 126). Another example of distributive policies in the regulations of tax assessment is the tax reduction with the objective to modify the burden of the object tax on real estate (Lag 2001:906) . The rapid increase of market values on real estate has also increased the assessed values, particularly in attractive regions. Low income earners, living in owner-occupied houses with high assessed values, cannot afford to pay an object tax, computed on the basis of 1 percentage of the assessed value, when the assessed value can be several millions.

*Jobbskatteavdrag – Work Tax Credit*

The most resent example of a tax reduction based on some sort of distributive objectives is the so called “jobbskatteavdrag” (65 chap. 9 a-d§§ IL) (Prop. 2006/07:1). The centre right wing government introduced the work tax credit with the objective of increasing the difference between disposal income after tax for those who have labour market income and those who receive social benefits, irrespective of if they are work-related, means-tested or universal. The Alliance saw the reform as a part of the employment strategy and as an incitement for those outside the labour market to apply for jobs. The tax credit was first introduced in 2007 for tax subjects with an income of employment or business income. The tax credit has successively become larger, and aims to give the, measured in proportion to income, the highest tax relief for low income and middle income earners assessed on the basis of joint, family income. It is delivered as a Family Tax Benefit (Prop. 2006/07: 1, vol 1, Sect. 5.2.1., 137, Prop 2008/08:22, App. 1).

In contrast to for example the UK and Australia, the Swedish type of a work tax credit is based on the individual income, not the couple income or the household income. A consequence of the joint income-testing for the Australian Family Tax Benefit, assessed on the basis of joint, family income, both the marginal and the average income tax rates have increased for secondary earners (Apps 2009; Stewart 2011).

*Tax credit for domestic services and the gender equality debate*

It is not only distributive motives that have resulted in tax relieves as a tax incentive. Labour market policies have been enforced by the use of tax reductions, in order to stimulate certain branches of business, like household/domestic services (Lag 2007:346) and building construction and maintenance craftsmanship[[6]](#footnote-6). An example of infra-structural objectives is the former tax reduction for the parts of the costs to connect to broadband. Also reductions on pay-roll taxes have been used as a tax incentive for the stimulation of employing new people and for establishing of new business in underdeveloped regions (Lag 2001:1170).

Tax credit for the purchase of household- related services, introduced in 2007, was a much debated tax policy initiative. The so -called *RUT-avdraget* was inspired by a similar Finnish reform, which was initiated to promote employment among low-skilled workers and to counter tax evasion (Prop. 2008/09:77). In Sweden the question gave rise to highly contentious moral and ideological controversies that swirled for a decade (Platzer, 2007). The initiator was an economist who argued that a tax credit on domestic services would allow unpaid housework to be transformed into paid work, enabling households to become part of the productive market (Pålsson & Norrman, 1994). After a long intensive debate the act concerning tax credit for domestic services was introduced in 2007 by the centre right wing government (Kvist, Carbin, & Harjunen, 2009).

The government’s main arguments for the tax reform were based on economic rationality. In the policy debate the assertion was that lowering taxation on domestic work would provide opportunities for households to buy domestic services, enabling the creation of a new labour market sector. The reform would encourage the replacement of unpaid work with paid work. Another central argument in the debate was that the tax credit for domestic services would provide a chance for legitimate companies in the domestic service sector to win market share from the informal work that was performed within this sector, replacing undeclared work with declared work. The reform would in that sense improve working conditions within the sector, entitling domestic workers to rights and insurances. A third argument was that the tax reform would create job opportunities for those with minimum education and the domestic service sector would provide a entry to the labour market for the unemployed and especially for those groups with few employment opportunities (Kvist et al., 2009).

However, in the debate on the tax reform another line of argument came into focus and created contention. The focal point of the long debate following the first suggestion was the gender-equality benefits of the tax reform. The right wing proponents of the reform argued that it would improve the possibilities of combining work with family life for women and in that way promote gender equality. Right-wing debaters presented the suggestion as a way of reducing the burden of domestic work on the households and improving women’s opportunities to participate on equal terms on the labour market. The tax reform would replace unpaid work with paid work. As women perform most of the unpaid household work, a tax credit for domestic work would provide opportunities for women to perform more work on the paid labour market, improving their position as professionals and providing economic self-provision. As argued in the Governments Bill that presented the reform, a tax credit possibility could result in the reduction of unpaid work hours. When unpaid work hours are replaced by more paid work hours on the labour market women’s employment position and economic independence are improved (Prop.2006/07:94. 31).

Opponents, drown mainly from Social Democratic Party, Left Party, Green Party, women’s organizations and trade unions, proposed another interpretation of gender equality. With references to the uneven distribution of power and recourses between women and men, the gender power system, the gender equality gains and economic rationality of the tax reform were questioned. In a statement from Union of Commercial Employees in 2007 it was argued that having low-paid women from the workers collective cleaning high-income earners’ houses is no solution to the gender equality problems within the homes. Instead this will cement predominant sex roles, which at the same time the gender equality question will become even more of a class question. Inequality in the homes should be solved by men taking more responsibility, not allowing to buy their way out through public subvention (referral statement from Union of Commercial Employees, 2007-01-22). Opponents suggested that men should take their share of responsibility for the housework instead, and expressed a fear that the tax reform would risk reinforcing the gender-based division of domestic work. They also argued that the tax reform was problematic as it favoured high-income earners.

Another argument against the reform concerned the work and working conditions it was assumed the tax reform would create. Critics feared that the tax reform would create more dead-end jobs mainly performed by women for low wages, part-time work and insecure jobs. The unequal consequences of the reforms were raised in many areas and added to the agenda different mutually constitutive inequalities, such as class, race and gender, mainly articulated by trade unions socialist members of parliament. These speakers claimed that the tax credit for domestic services mainly meets the needs of the privileged classes. They also claimed that men should take their share of the household chores (Kvist et al., 2009).

To sum up. The objectives for tax credit for domestic services are multiple. Firstly, they are a part of job growth policies aimed to stimulate new jobs in the domestic service sector. A second aim is to transfer unpaid work to paid work. Thirdly it has become a women’s issue where, mainly, left women and conservative women fight each other. It is a women against women debate, which seems to go in circles.

*Gender Equality Bonus as Tax Credit in 2008*

In Sweden the parental leave reform and the income support over the parental leave insurance reform was introduced in 1974. At first it was gender-neutral, but when many fathers showed reluctance to use their share of the paternal leave, as it was a basic aim of the reform, a fathers”-month was introduced, which was followed by a second “fathers”-month. Today the parental leave/parental insurance reform embraces 480 days per child, of which 60 days are reserved for each parent. They are entitled to benefits equivalent to 80% of the salary they were paid before the arrival of the child. They are also entitled to an additional 12 months of paid leave between them before the child turns eight or finishes the first year of school. Still, mothers accounting for over 70 % of the total parental. A care parental leave is also a part of the package. The parents are entitled to 60 days to take care of sick children, per child and year (up to 12 years). Fathers take, proportionally, out more of these sick, care leave days than they take out parental leave.



With the aim to make it easier for mothers to return to work after childbirth and to encourage fathers to take more of their parental leave so that mothers and fathers can share childcare duties more evenly, Sweden introduced a ‘gender equality bonus’ – in 2008, constructed as a tax credit. The Swedish government believes that, by encouraging the families to share parental leave more equally, it will strengthen incentives for mothers to return to work and will contribute to reducing the gender pay gap. Parents of children born or adopted after 1 July 2008 who share their parental leave equally between the couple (i.e. eight months each if all sixteen available are taken) are entitled to the full tax relief bonus, on condition that they work while the other parent is taking parental leave. This bonus can be as high as SEK 3,000 (around €275) per month, with the maximum amount available set at 13,500 SEK per child per year. To obtain the full allowance per month and per child, the family cannot use a publicly funded pre-school establishment for childcare. Parents are not eligible to receive the bonus until both have used their initial two month quota of parental leave. If one parent takes less than half his/her share of the parental leave then the amount of the bonus is reduced accordingly. The precise amounts depend on the income of the household and how many days each parent uses (Prop. 2007/08:93).

## Individual Taxes and Benefits – Best Practises for Gender Equality

Today joint filing of aggregated marital income is normally voluntary in those countries that base their income tax on a joint fiscal model. However, the freedom of the choice is imaginary as it often means that the family will loose a substantial amount of disposable income after tax. As long as income tax is progressive, the technique of splitting the aggregated income of both spouses and each spouse filing for half the income will reduce the total tax burden as the spouse with the highest income will be taxed at a lower rate of marginal income tax. This tax relief is magnified for one-earner families. As the income structures in heterosexual families follows gendered lines, income taxation of the marital unit results in the overtaxing of married women. This is truly a disincentive for housewives to enter the workforce, which for example is the case for women in western Germany and in Spain. It also traps many of those married women who work in the position of being secondary earner in the family. Contrary to the claimed neutrality between one-earner and dual-earner families, joint income and wealth taxation favour the marital tax unit. Experiences from Germany, Japan, Spain and the US show that the joint taxation of spouses contributes to a patriarchal, asymmetrical division between unpaid household work and paid work on the labour market. In contemporary tax systems income splitting between conjugal partners almost always has negative consequences for gender equality. Normally tax regulations allowing income splitting to reduce tax for the transferor are used as an element of tax planning. The splitting is merely a technique and the transfer of income is just a fiction. The tax liability of the receiving spouse will not correspond to a legal claim on the assets or income for which she will be taxed (Lahey, 2011; de Villota, 2011; de Villota & Ferrari, 2004; Wersig, 2011; Gottfried & O’Reilly, 2002).

The Nordic countries Denmark, Finland and Sweden all have all individual income tax (Pakarinen, 2011). In contrast to joint taxation, the experiences from Sweden and the other Nordic countries show that individual taxation is a pre-requisite for the improvement of economic gender equality. When studying the integrated development of gender equality and welfare state regimes in Sweden it can be shown that the individual income tax reform from 1971 opened the way for what has been defined as the women-friendly welfare state. The reform was unique of its kind as it addressed gender equality objectives. It was based on knowledge of the correlation between the labour-market participation of women living in partnership and the income of their cohabitant partner. When the reform was introduced the income tax rate was massively progressive, benefitting the households when women increased their working hours on the labour market (Gunnarsson, 2003: 57-62).

However, the 1991 tax reform went the opposite way in relation to gender equality. The objective of economic growth before social justice became a backlash for gender equality. Budgets cuts during the retrenchment of the economy in the 1990s disclosed that the benchmark of tax neutrality introduced by the 1991 tax reform, actually gave a regressive effect for low-income families with children. Single parents, in particular single mothers became the big losers from the neo-liberal tax policy.

Despite the backlashes in the 1990s one can see that Swedish policies for economic gender equality are still present. When the Swedish type of work tax credit was introduced, it was not constructed as an earning family tax credit type. It was not based on the household income, but the individual income. And it also seems as our public subsidies for domestic work are more in line with a sustainable gender equality than the public expenditures for domestic work that are in practise in the central European and Mediterranean countries. The Nordic countries - Sweden, Denmark and Finland - have used tax credits in the form of tax reductions for individuals. In Sweden one has to hire an employee from a domestic service company, which mean that the household does not employ the person working in the private home. In contrast Germany has applied a mini-job model, which is a specific category of employment for the household sector with low wages and low social contribution costs. Belgium, France and Austria have introduced a voucher model, which at least France combines with a tax credit provision. The voucher is pre-paid service check that the user of domestic services can purchase and use as a salary for the domestic worker. It aims to simplify the process of hiring and paying salaries as well as social contributions for domestic workers. If the vouchers model is combined with a tax credit, the employers of domestic workers also can claim an income tax reduction of parts of the costs for the voucher (Kvist 2011).

It seems as domestic services vouchers and mini-jobs are more commonly used policy options in bread-winner model countries that practise joint income taxation of Souzas (Gunnarsson, Kvist 2011). France is renowned for its history of supporting large, male-breadwinner families through an extensive form of joint taxation, which can be defined as a family-splitting system (Gunnarsson, 2003: 72-83; Wersig, 2011; Henderson, 2011). Austria has an individual income tax but allows income splitting between spouses and a taxpayer can also employ his or her spouse and claim the salary as a deduction (Buzanich, 2010). Belgium also applies joint taxation for spouses (Bammens, 2011). In Germany equality of taxation is expressed in the ability-to-pay principle, which in Germany is interpreted as a base for neutrality in the taxation of different forms of cohabitation. In order to avoid tax discrimination against marriage, an income-splitting tariff was introduced through a Federal Constitutional Court decision in 1958. This decision indirectly draws on the constitutional protection of marriage and family by underlining the fact that husband and wife are free to make decisions concerning the division of household labour. The income tax law contains no general provision regarding a joint tax unit, but spouses are allowed to file a joint assessment which is was most couples do as a progressive income tax schedule is applied on the aggregated total income of both spouses, divided into two (Lang, 1999; Wersig, 2011; Scheiwe, 2011; Perdelwitz 2011).

The stimulation of domestic services through mini-jobs and vouchers reforms seems to replace the unpaid work of the housewife or the servant tradition carried out by maids. The way in which the different tax credits for domestic services are constructed in the Nordic countries, are much more in line with a work-fare oriented gender equality tradition. The awareness of how the divide of paid and unpaid work between the public and the private spheres of economy contribute to gender gaps in relation to income and wealth seems to be present in the Swedish political debate. In that respect I claim that Sweden has managed to achieve a more sustainable level of gender equality than many other countries.

To sum up. This is my feminist view, based on Swedish best practise, on what constitutes a women-friendly income tax system:

* it should be progressive,
* individual,
* global.

And it should be combined with an universal child benefit.

1. The picture illustrates the way we want our students to answer the question: ”How can one describe the economic circlulation in a society?” [↑](#footnote-ref-1)
2. The Platform at: www.un.org/womenwatch/daw/beijing/platform/plat1.htm. [↑](#footnote-ref-2)
3. European Parliament Session Document (16 June 2003) “Report on Gender Budgeting on Gender Budgeting – Building Public Budgets from a Gender Perspective” at: www.europarl.europa.eu. [↑](#footnote-ref-3)
4. A global or comprehensive personal income tax is the income tax that aggregates income from all sources at the level of an individual or a family unit. The sum of the aggregated income is taxed at a single income tax rate. [↑](#footnote-ref-4)
5. A Swedish bumblebee. [↑](#footnote-ref-5)
6. Tax reductions for renovation and reconstruction of private homes, so called ”ROT-arbete”, has been used temporarily back and forth since 1993 with the two objectives of stimulating the housing construction branch in times of economic recession and tax evasion. It was introduced again in the beginning of 2009 as a quick response on the escalating economic crisis (Finansdepartementet, Skatte- och tullavdelningen, Skattereduktion för reparation, underhåll samt om- och tillbyggnad av vissa bostäder. Januari 2009). [↑](#footnote-ref-6)