NETWORK FOR WOMEN'S RIGHTS IN GHANA (NETRIGHT)

TAX JUSTICE NETWORK AFRICA

POLICY BRIEF

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How Ghana's Tax Systems Impact Women and Men Differently

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Key Message

1. Even though Ghana's tax system does not explicitly discriminate by gender, there are several less obvious (implicit) biases.

2. The implicit biases (against women) are mostly manifested in the exemptions/ deductions and reliefs.

3. Although the VAT is progressive, there is evidence of slightly higher VAT incidence on food and non-alcoholic beverage among female-type households than their male counterparts.

4. Gender-responsive budgeting should not just focus on government spending but equal attention should be given to the revenue side.

5. Gender biases in the tax systems reflect social norms and requires transformative policies.

6. Taxation should not just be designed to mobilise revenue for the government but should also be used as a mechanism to bridge gender gaps in both market and non-market activities.

INTRODUCTION

Like many countries in the Global south, taxation is the most important source of revenue for the government of Ghana (see Figure 1). Unfortunately, one of the major challenges various governments have faced has been ways to mobilize enough revenues. Meanwhile, the informal sector remains under-taxed because the informal economy is highly unstructured with very limited data on economic activities performed in the sector, and this makes the administration of income tax policy costly. Where their activities are structured, challenges such as poor or lack of record keeping, extensive reliance on cash for transactions, and the mobile nature of many businesses in the sector make it difficult for tax compliance (e.g., Anamoah, 2019; and Okyere, 2011). The current macroeconomic conditions of the country necessitate intensification of domestic revenue mobilisation of which taxation would be key. Already, one of the key objectives of the country's Medium Term Revenue Strategy (MTRS) 2024–2027 is to increase revenue mobilisation by achieving a tax revenue-to-GDP ratio of between 18% to 20%.

The reality is tax systems may have differing effects on women and men by shaping individual's behaviours, consumption, savings and investment patterns, access to social safety nets and other public goods and services (Jellema et al., 2022). This means that the tax system can be a mechanism to ameliorate, intensify or reproduce gender inequalities (Tax Justice Network – Africa, 2011). Unfortunately, taxation in Ghana (like many other countries) is simply designed and implemented to mobilise revenue for the government. Even though Ghana signed on to gender-responsive budgeting in 2007, the focus has disproportionately been on

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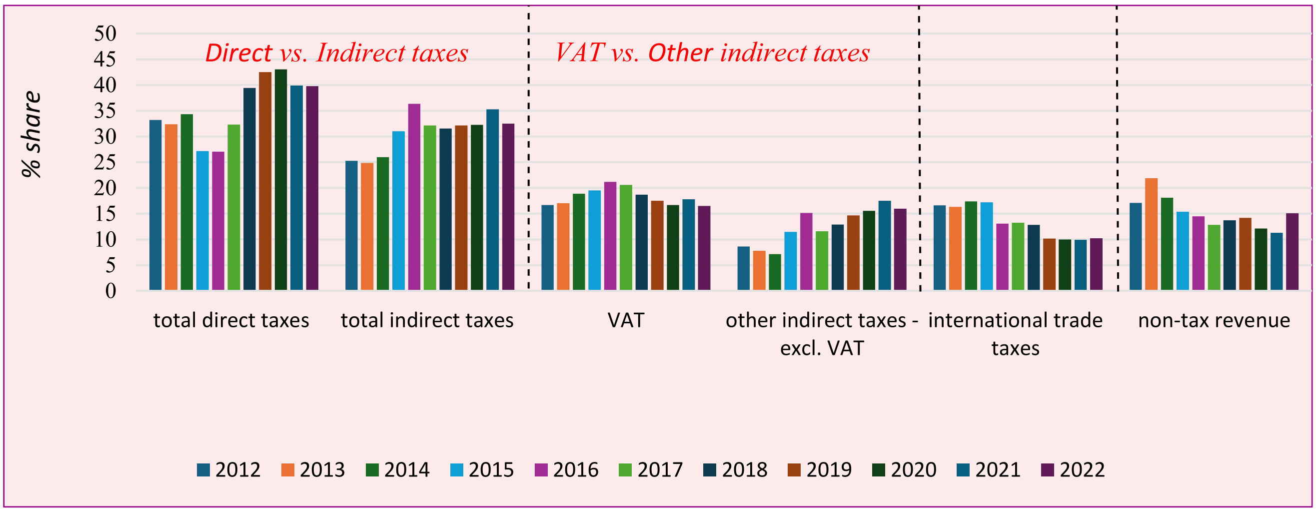
government spending, leaving the revenue (primarily taxation) side gender-blind which may be perpetuating gender inequalities in both market and non-market activities. Therefore, this policy brief is based on a study conducted to examine Ghana's tax regime with a gender lens to ascertain if there are gender inequalities and nature of those inequalities. The aim is to draw policymakers' attention to those inequalities, and advocate for a system where the impact of taxation is equal for both women and men. The timing of this policy brief is also right given that the Affirmative Action Act, 2024 (Gender Equity) has been passed by Parliament.

Figure 1: Tax and non-tax revenues as shares to total government revenues and grants (2012 – 2022)



Source: Ministry of finance and Economic Planning, fiscal data, various issues

Have Tax reforms in Ghana been gender-sensitive?

Major tax reforms in Ghana date to 1980s, following periods of economic mismanagements in the late 1960s to 1970s. Generally, the tax reforms implemented over the years have been characterised by four (4) objectives – increase domestic revenue mobilisation, efficiency in tax administration, private sector development and production incentives. Obviously, the reforms have been implemented with disregard to bridging gender gaps in (and outside) the labour market.

Are there gender biases with direct taxes in Ghana and in what form?

We focus on personal and corporate income taxes because they constitute over 70% of revenue from direct tax.

a. Personal Income tax (PIT)

Generally, Ghana's PIT is progressive and does not explicitly discriminate against women (or men) since it uses the schedular system and is filled individually. But there are several less obvious (implicit) biases. First, consider the fact that women enter and exit the labour market either to give birth and/or care for children, or even to provide care for other family members (e.g., the elderly or disabled) given that social norms have assigned care responsibilities to women. Yet, the design and implementation of the PIT system in Ghana does not take into consideration unpaid care and domestic work (which is typically carried out by women. Meanwhile, the break in participation in paid employment coupled with their generally low earnings potential means relatively low savings and benefits from social security. Second, under the Income Tax Act, 2015 (Act 896), reliefs are available the same way to a woman as to a man even though evidence from the 2009 Ghana Time Use Survey (GTUS) indicates that women disproportionately bear the burden of unpaid work. The baseline report of a more recent study by ActionAid showed that women spent about ten times the amount of care that men do.[1] The implications are that time spent on eldercare will have a greater impact on women's participation in paid labour; and they are more likely to be time poor, with further repercussions on their health and wellbeing.

Another form of implicit bias may be linked to the PIT deductions/exemptions (e.g., SSNIT, and provident fund) which by their nature may disproportionately benefit men than womenbecause men dominate formal sector employment.[2]

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1 https://ghana.actionaid.org/sites/ghana/files/aag_power_baseline_summary_final.pdf Accessed on August 21, 2024.

Also, one could argue a potential implicit bias associated with the exemption of income from dividend payments and interest paid to individuals by financial institutions and interest paid on government bonds. Essentially, these exemptions largely benefit the higher income groups/earners, who are more likely to own such assets; and men may disproportionately benefit because they are more likely to own such assets than women.

There is evidence of implicit gender bias (against women) in the way concessions on income tax are granted. For instance, the income of a cocoa farmer from cocoa is exempt from taxation in Ghana. According to the 2021 Population and Housing Census, women farmers in Ghana are predominantly engaged in food crop production (i.e., about 74% of females grow arable crops). Meanwhile, their male counterparts are more likely to grow cash crops such as cocoa. This means that this kind of exemption will disproportionately benefit men than women.

b. Corporate Income Tax (CIT)

Generally, the fact that the corporate income tax (CIT) system does not levy different rates based on the gender of the owner but applies the same rate to businesses that are classified in a particular category implies no explicit gender bias associated with the way CIT is implemented in Ghana. In terms of tax burden, since more men than women are likely to own large businesses, men are more likely to be affected by CIT. But there are some implicit biases. For instance, the CIT incentives provided under Act 896, inherently discriminate against women as majority of the sectors are male dominated implying some form of implicit bias.

Another source of potential implicit bias regards the entire policy direction of trade liberalization which encourages countries to open-up by minimizing trade restrictions which include trade taxes and corporate income tax rates. While from a macroeconomic perspective such policies are beneficial, this means loss in revenue available for public expenditures which may include expenditure on social services (e.g., education, health, etc.), of which women may be disproportionately affected. For instance, if a decline in government's expenditure on education (resulting from removal of an import restriction, or decline in a CIT of non-resident Ghanaians) means people have to pay for education or increased education expenditure by households, where families have to choose who should receive education because of limited resources, the male child is most likely to be chosen in many parts of the country due to the patriarchal nature of many cultural settings.

[2] See GSS (2021) for the 2021 Population and Housing Census report on economic activities.

Are there gender biases with indirect taxes in Ghana and in what form?

We focus on VAT given its composition (close to 60%) of revenues from indirect taxes.

c. Value Added Tax (VAT)

VAT is a consumption tax, and the current standard VAT rate of 15% took effect from January 12, 2023. The registration is voluntary for businesses whose annual turnover is below GH₵200,000 but mandatory for those with transactions above GH₵200,000 annually or above GH₵50,000 in three months but expected to exceed a turnover of GH₵150,000 in the next nine consecutive months (Iddrisu et al., 2021). Even though certain sets of goods and services are taxed nearly at full VAT rates, others are not taxed at the retail level. Also, under the VAT Act, 2013 (Act 870), certain goods and services are exempt from VAT.[3]

Generally, the VAT can be argued to be progressive given the nature of exemptions and threshold for registration of businesses. In addition, for some essential goods and services such as food and clothing, the poor or people from low-income groups are most likely to buy from the traditional (or local) markets that do not charge VAT. In other words, the relatively higher income groups are the ones more likely to buy from high-end shops (e.g., supermarkets or bigger retail outlets) or use the services of facilities (such as restaurants, hotels, recreational centres, etc.) which charge VAT.

Despite being progressive, if it can be established that consumption patterns are gendered, then, there would be disparate impact of VAT by gender, and the gender inequality in VAT may be more apparent among the middle- and high-income earners who are more likely to buy from shops where VAT is applicable.

[3] See https://gra.gov.gh/domestic-tax/tax-types/vat-exemptions/ for detailed information on VAT exemptions.

Is consumption expenditure gendered in Ghana?

The consumption expenditure data from GLSS7 point to some gendered pattern. For example, expenditure shares on food and non-alcoholic beverages; housing; health and education are slightly higher among female-headed households than male-headed households. A similar observation is made in a comparison using household sex composition of adults, except that, in addition, expenditure share on clothing and footwear is bigger in households with more female adults relative to more male adult households.

Gender variation in incidence of VAT

Although the VAT incidence estimated for all applicable consumption expenditure indicated a slightly higher rate (9%) in male-type households (i.e., households with a male head; more male adults, and only male-breadwinner(s)[4], the incidence on food and non-alcoholic beverages (alone) was rather slightly higher (6.5%)[5] in female-type households (i.e., households with a female head; more female adults, and only female-breadwinner(s)). It was worrying to see higher VAT incidence in the rural sample (9.5%) than the urban sample (8.4%). Also, the VAT incidence was relatively higher among the poor households (9.5%) than non-poor households (8.9%). However, the gender gap was relatively higher among the non-poor households.

Conclusion

Overall, the gender implications of the tax system further raise issues regarding the extent to which gender issues are considered in the design and implementation of fiscal policy in general and revenue mobilisation (specifically taxation) in particular. Gender-responsive budgeting aims for a fair distribution of resources, and taxation is a way of redistributing resources. This means that a tax system that is deliberately designed to minimise or eliminate gender biases (particularly implicit biases because they are less obvious) will make the gender-responsive budgeting even more effective.

What policy recommendation do we propose?

a. Policymakers

Although the tax system does not explicitly discriminate by gender, given that employment, unpaid care and domestic work are gendered, to ensure that it does not implicitly reinforce gender biases, tax laws or systems must be designed to be gender-sensitive, and be applied effectively to ensure compliance that will lead to efficient results. Also, in a country with very limited pension scheme which is voluntary for the informal sector and almost non-existent state support and market for eldercare, women may even become more vulnerable in their old age given their dominance in the informal sector. Therefore, the government is encouraged to use taxation not only to mobilise revenue but should incorporate other objectives such as inclusivity and bridging gender gaps.

b. Revenue Administrators

Revenue administrations have a key role to play and are therefore encouraged to follow international best practices to gender disaggregate data to enable analyses that provide insights into the gendered impacts of tax systems so that deductions/ exemptions and reliefs may for example be designed in a way to bridge gender gaps in both market and non-market activities.

[4] Compared to the 8.8% for female-type households
[5] Compared to 6.3% in male-type households

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