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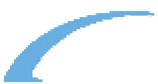
Studying the Studies: An overview of recent research into taxation operating costs

Chris Evans



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Republican, and Independent). We also test for political party effects on taxpayer attitudes towards a specific aspect of the income tax system, the tax rebate in 2001. Given new Congressional and Presidential proposals that include the use of rebates and given the constant political rhetoric about unfair taxes, academics will want to be informed about how the proposals and their presentation may impact their subsequent acceptance.

Our results support four basic conclusions. First, taxpayer preferences differ when they are in response to negative attributes such as unfairness rather than in response to positive attributes such as fairness. Second, political party affiliation is linked to taxpayer preferences. Third, the more closely identified the tax provision is to a

to couples without children. The bonus/surcharge terminology is consistent with the literature on attribute framing (Levin et al. 1998).

The tendency for losses to loom larger than gains (Kahneman and Tversky, 1979) is closely associated with the framing literature. Prospect theory was originally described as an explanation for economic risk preferences, but researchers have validated it in many decision contexts (Payne et al., 1984; Levin et al. 1987). Levin et al. (1998) and Rothman and Salovey (1997) conclude that objectively equivalent information can differentially affect attitudes, depending on whether it is positively or negatively framed. For example, Ganzach and Karsahi (1995) found that negative messages that emphasized disadvantages of using checks or cash payments had a much stronger effect on the subsequent use of credit cards than did a positive message emphasizing the benefits of using a credit card.

In summary, prior research suggests that attitudes will differ for positively and negatively framed information. As no prior study has examined whether attribute framing will affect taxpayer attitudes, our study applies these contrasting frames to the measurement of taxpayer attitudes toward the current income tax system, as no prior study has examined whether taxpayer attitude toward the tax system is affected by positive or negative wording. The first proposition tests whether attitudes toward the current income tax system vary when asked whether the system has become more fair and less complex (positive frame) or more unfair and complex (negative frame). The framing literature suggests a significant difference is expected. Thus, the first hypothesis is:

H1: Taxpayer attitude towards the current income tax system will not differ when framed positively (fair system) or negatively (unfair system).

Political Party Affiliation

An association between political affiliation and taxpayer attitude was documented by McGowan (2000) in a July 1995 nationwide telephone survey of U.S. homeowners. Wildavsky (1996), however, did not find a significant relationship in her October 1995 telephone survey. McGowan (2000) attributed the inconsistent results to the wording of the attitude questions. Wildavsky's results (1996) were based on the question, "What is the highest percentage of income that would be fair for a family of four making $200,000 to pay in all taxes combined?" In contrast, McGowan's results (2000) were based on taxpayers' preferences for a flat tax, value-added tax, sales tax, or the current income tax system. Thus, agreement exists in regards to maximum desired tax burden, yet political party affiliation influences preferences for different types of tax systems. Differences in the two studies emphasize the importance of acknowledging exactly what attitude is being examined. The differing results could be attributed to the distinct tax issues—maximum tax rates versus type of tax structure. This is supported by Gerbing (1988) who examined tax fairness and found that tax burden and tax structure represented distinctly different dimensions of tax fairness.

McGowan's hypothesis (2000) was based on Political Affiliation Theory, which posits that people with a strong party identification are more likely to support policies that their own party supports. Many researchers have documented the association between political beliefs and judgments about public policy issues (Sears et al. 1980; Rasinski and Tyler, 1988). Alvarez and McCaffery (2000) examined exit poll data from the 1996 presidential election and found that only 4.8 percent of the voters thought tax

was the most important issue facing the nation. Nonetheless, if voters thought of taxes as the most important issue, they were 15 percent less likely to vote for the Democratic presidential candidate, 13 percent less likely to vote for a Democratic senator, and 11 percent less likely to vote for a Democrat in the House of Representatives.

Prior research has not demonstrated which comes first, support for tax programs and then support for a specific party, or support for a political party and therefore support for its tax policies. In McGowan's study (2000) respondents were more likely to favor a flat tax or a national sales tax since those ideas had been previously proposed by prominent Republicans. That finding is based on a statistical correlation, making the cause-and-effect relationship difficult to establish. Similarly, our study does not test the chronological order of support for tax policies and support for a political party, as the results are based on statistical associations.

We test for the effect of political party affiliation on two tax attitudes: 1) overall taxpayer attitude about the current income tax system and 2) attitude towards a specific tax issue, the 2001 income tax rebate. It seems plausible that political party effects are more visible on specific issues rather than on general attitude towards the overall system. Roberts et al. (1994) found that tax preferences on progressivity varied by whether the question was an abstract or concrete one. An abstract idea tends to have a more diverse interpretation than a concrete application. Hence, systematic differences due to political party preferences could be harder to detect on an abstract question. Thus, the hypotheses we test are:

H2: Taxpayer attitude towards the current income tax system will vary by political party affiliation.

H3: Taxpayer attitude towards the 2001 income tax rebate issue will vary by political party affiliation.

Tax Rebate

In 2001 the U.S. Congress passed a tax relief plan that gave single taxpayers a $300 tax rebate, head of households a $500 rebate, and married filing joint taxpayers a $600 rebate. The rebate represented a reduction in tax rates from 15 percent to 10 percent on the first $6,000, $10,000, or $12,000 of respective taxable income. Treasury Secretary O'Neill stated that the tax relief plan "softened the economic downturn" (*Wall Street Journal*, February 27, 2002, p. A1), yet the Office of Tax Policy Research

In his State of the Union address on January 29, 2002, President George W. Bush stated that the "tax relief was just right." To date, however, sentiment toward the tax rebate has not been documented, nor has its effect on taxpayers' overall attitude towards the current income tax system. Thus, the fourth hypothesis is as follows:

H4: A positive attitude toward the rebate will be associated with a positive attitude toward the current income tax system.

METHOD

Approximately 500 subjects from Indiana participated in a statewide telephone survey during November-December, 2001. Households were selected by a professional survey firm using the Genesys list-assisted method. This method allows for unpublished numbers and new listings to be included in the sample. All subjects were asked whether for 2001 they expected to have a balance due or a refund. They were also asked whether they had received a rebate check, when they received it, and to describe what they did with the rebate check (e.g., spent it, saved it, gave it to charity, or did nothing yet).

Equity and simplicity have long been considered important criteria for determining good or bad tax policy. We use these two dimensions to examine framing effects. One-half of the subjects were asked if they agreed or disagreed with the statement *"Recent tax laws are proof that the federal income tax laws are becoming more unfair and complex"* For parsimony, this NEGATIVE FRAME is shortened throughout the paper as the "unfair" system. The other half were asked if they agreed or disagreed with the statement *"Recent tax laws are proof that the federal income tax laws are becoming more fair and less complex"* This POSITIVE FRAME is referred to as the "fair" system. To strengthen the positive versus negative frames we used two positive attributes, more fair and less complex, and two corresponding negative attributes, more unfair and complex. Thus, the nature of our test emphasizes the contrast between positive and negative frames.

After subjects were asked for their agreement or disagreement with the fairness or unfairness of the current tax system, they were then asked about their attitude toward the rebate. Subjects were asked whether they agreed or disagreed with the following statement, *"Sending taxpayers a rebate check was the right thing for Congress to do."* The fair/unfair descriptors were not included in the rebate question to avoid creating a demand artifact that would overly influence a correlation between a fair [unfair] rebate and fair [unfair] tax laws.

Demographic information was collected at the end of the survey. Data included age, income level, education level, number of children in the household, gender, marital status, and political party affiliation (Democrat, Republican, Independent, or other). Parametric and non-parametric tests were calculated to ensure that the two randomly assigned groups for positive and negative frames did not differ on the rebate question or on any of the demographics. No statistical differences were found.

RESULTS

Table 1 shows the demographic statistics for 421 respondents who answered all of the survey questions. Political party affiliation was fairly balanced: 26 percent indicated they were Democrats; 34 percent indicated Republican, and 40 percent indicated either Independent or "other" (e.g., "I vote for the person," "I don't have a party,"...). The

significant differences, these demographic variables are included as additional variables in a subsequent regression analysis to control for rival explanations.

In regards to the tax rebate check, 64 percent indicated they spent the money; 29 percent said they saved or invested it. A few said they gave it to charity, and the rest indicated they had not yet done anything with the money. The majority agreed that the "rebate check was the right thing for Congress to do" with 61 percent agreeing and 30 percent disagreeing.

In response to the question about an "unfair" tax system, 19 percent strongly agreed, 32 percent somewhat agreed, 18 percent somewhat disagreed, six percent strongly

TABLE 2 ONEWAY ANOVA BY POLITICAL PARTY AFFILIATION

Dependent Variable: UNFAIR TAX SYSTEM [NEGATIVE FRAME]*

	Means (s.d.)	n	F-test	p Value	Bonferoni test
Republicans (R)	2.83 (1.22)	67	4.51	.012	R > I
Democrats (D)	2.76 (1.19)	45			
Independents (I)**	2.36 (.97)	92			
	2.59 (1.13)	204			

Dependent Variable: FAIR TAX SYSTEM [POSITIVE FRAME]*

	Means (s.d.)	n	F-test	p Value	Bonferoni test
Republicans (R)	2.90 (1.27)	79	3.09	.048	R = D = I
Democrats (D)	3.27 (1.18)	55			
Independents (I)**	3.14 (1.20)	83			
	3.09 (1.22)	217			

Dependent Variable: UNFAIR/FAIR SYSTEM [COMBINED FRAMES]*

	Means (s.d.)	n	F-test	p Value	Bonferoni test
Republicans (R)	2.97 (1.25)	146	6.15	.002	R > I
Democrats (D)	2.78 (1.18)	100			
Independents (I)**	2.56 (1.12)	175			
	2.75 (1.19)	421			

Dependent Variable: TAX REBATE CHECK*

	Means (s.d.)	n	F-test	p Value	Bonferoni test
Republicans (R)	2.21 (1.41)	146	7.36	.001	R < I;
Democrats (D)	2.64 (1.47)	100			R < D
Independents (I)**	2.68 (1.49)	175			
	2.51 (1.48)	421			

*See TABLE 1 for the coding of TAX REBATE CHECK, UNFAIR TAX SYSTEM and FAIR TAX SYSTEM. The latter was reversed coded for the COMBINED FRAMES.
**Those indicating "other" were grouped with those indicating they were Independents. When contrast tested, the means for Independents did not significantly differ from the "other" category.

The third hypothesis posited that taxpayer attitude toward the tax rebate, a concrete tax issue, would vary by political party affiliation with Republicans tending to favor the rebate more than the Democrats or Independents. The results in Table 2 indicate that the third hypothesis is supported. According to the Bonferoni test, Republicans were the most likely to agree with the Congressional decision to issue rebate checks (mean 2.21, s.d. 1.41). This was significantly more positive than either the Democrats' attitude (mean 2.64, s.d. 1.51) or the Independents' response (mean 2.68, s.d. 1.48).

Age, income, and expected refund status were significantly associated with political party affiliation. To ensure that the political party effects on tax attitudes reported in Table 2 were not being driven by these demographic variables, regression analyses were computed on overall attitude toward the current income tax system, fair tax system, unfair tax system, and on attitude toward the tax rebate. Independent variables included political party, framing effect, expected tax status (refund or balance due), age, and income level. In addition, since taxpayer rebate attitude was affected by political party affiliation, taxpayer rebate attitude was added to the model. By doing this, any resulting impact of political party affiliation would be over and beyond the influence of the tax rebate. The results are presented in Table 3.

The regression results for the combined measure of attitude towards the tax system (negative frame and reverse

The fourth regression in Table 3 presents the results on attitude towards the rebate for all of the subjects. Once again, responses by Democrats were compared to all other respondents, and Republican responses were compared to all other respondents. Thus, the model tests for the political party effect, while controlling for framing effect, combined tax system attitude, age, income, and expected refund status. The model was significant (F=5.06, *p*=.000) confirming that Republicans responded more favorably to the tax rebate than did other respondents and that subjects with a more positive attitude toward the system (disagreeing the system is unfair or agreeing system is fair) had a more positive attitude toward the rebate. Furthermore, those who expected a refund on their 2001 tax return were significantly more pleased with the rebate (*t*=2.61, *p*<.01) than were those who expected to pay additional taxes, and lower income respondents were slightly more likely to have a positive attitude towards the rebate. When the same model was tested using a discrete dependent variable for agree/disagree in a logistic regression, the results were statistically equivalent, confirming the results are statistically robust.

CONCLUDING REMARKS

Our study supports and extends prior research on attribute framing (Levin et al. 1998) and on penalty aversion (McCaffery and Baron 2001) by confirming that manipulations of perspectives or frames significantly affect normative evaluations of tax law preferences. When asked whether, given recent tax law changes, the current tax system is more unfair and complex, 51 percent agreed. This significantly differs from the 40 percent who disagreed when asked whether, given recent tax law changes, the current system is more fair and less complex.

A possible limitation, however, is the use of two descriptors in one statement. “More unfair and complex” was compared to “more fair and less complex” to provide salient manipulations of negative and positive attributes, respectively. However, asking for agreement to two terms could have mitigated the likelihood of an effect if the two were inconsistently combined. For example, if respondents agree the system is more complex but disagree the system is more unfair, then level of agreement on one could mitigate disagreement on the other. The same would be true for the opposite descriptors. For example, agreeing the system is more fair could offset disagreement that the system is less complex. The end result would be two responses that both gravitate toward the midpoint decreasing the likelihood of any significant differences between the responses, and therefore biasing *against* the likelihood of finding ant.1 TD -0.1598 6 Tc 65ficant d2

system) could be a promising strategy for getting Independents to support proposed tax reforms. Alvarez and McCaffery (2001) reported that 1996 voter choices for the President, the Senate, and the House of Representatives were more likely to be Republican when the voters thought tax policy was an important issue.

McGowan (2000) reported that 64 percent of the 1995 survey respondents indicated the tax system was unfair. In the present study, the 2001 survey respondents did not judge the system quite as negatively. When asked whether the current tax system is unfair, 51 percent agreed. When asked whether the current tax system is fair, only 40 percent disagreed. Clearly, the wording of the attitude measure affects the response. In addition, perceptions could have changed over time. Perceptions of the respondents from Indiana could differ from the nationwide-homeowner respondents in the McGowan study. In addition, the major tax reform in 2001 could have significantly affected taxpayer opinions. Moreover, increased levels of patriotism after the events of 9/11 could have influenced taxpayer attitudes at least in the short term. Future research should test for long-term effects, for nationwide effects, and for other aspects of tax reforms that may have a positive impact on taxpayer perceptions of the current tax system. While nationwide generalizability on overall attitudes cannot be made, this study does demonstrate that the perceptions are affected by attribute framing effects. This finding is important not only for promoters of tax reforms but also for researchers, as any future reports of taxpayer attitudes should carefully scrutinize how the attitude measure is worded.

In addition, our study demonstrates a significant political party effect on tax rebate attitude. Overall, 61 percent of the statewide respondents indicated they agreed with Congress' decision to issue tax rebate checks. Republican respondents, however, were more likely to agree with the rebates than were Democrats and Independents. This is consistent with prior research by McGowan (2000) since President Bush and the Republican Party were the initial backers of this tax reform. A limitation of our study, however, is that it does not prove the directionality of the results. Future research may want to design a study that tests whether respondents accept a policy because their political party supports i or whether the political party adopts a policy because its constituents support it.

Another interesting finding of the present study is the correlation between favorable attitude on the rebate check and favorable attitude toward the current income tax system. A limitation of the study is that cause and effect cannot be proven. However, rebate checks were mailed a few months before this survey and subjects were asked to agree or disagree with a statement that referred to "recent tax laws." It is, therefore, plausible that the rebate was salient to the respondents and affected taxpayers' general attitude towards the system, at least in the short term. In addition, our study did not explore the reasons why taxpayers reported a favorable or unfavorable attitude toward the rebate. Agreeing the rebate was "the right thing to do" was considered a favorable or positive attitude towards the rebate, even though the "right thing" could be justified for a variety of reasons (e.g., fair, present value of a dollar, or good for the economy).

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Tax Harmonization and Competition in the European Union

M. Peter van der Hoek[*]

Abstract

This paper presents a comprehensive review and analysis of tax harmonization and tax competition in the European Union. It is shown that while tax burdens in the European Union have increased substantially in the past 35 years, they did not converge. Also, there is no evidence of the 'race to the bottom' in taxing income from capital. However, small European Union country members tend to set lower effective tax rates than larger member countries. There is also a trend to abolish imputation systems in favour of a schedular tax on distributed profits.

I. INTRODUCTION

Economic integration in the European Union (EU) has progressed to a considerable extent culminating in the launch of Economic and Monetary Union (EMU) in 1999. Tax integration, however, has been relatively limited. Tax competition has attracted increasingly international attention, also within the EU. In itself, tax competition is generally welcome as a means of benefiting citizens and of imposing downward pressure on public spending. Unrestrained tax competition for mobile factors, however, can be harmful, for example by biasing tax systems against employment. In 1998, the Organisation for Economic Co-operation and Development (OECD) published a report on this subject presenting recommendations and guidelines (OECD, 1998). This report foresaw that OECD member countries would complete a self-review of their preferential tax regimes by April 2000 and recommended that they eliminate any harmful features of such regimes by April 2003.

Under the 1998 Report, a tax haven is a jurisdiction that:

- imposes no or only nominal taxes (generally or in special circumstances),
- offers itself, or is perceived to offer itself, as a place to be used by non-residents to escape taxation in their country of residence, and
- possesses confirming criteria.

These confirming criteria are:

- lack of effective exchange of information;
- lack of transparency; and
- attracting business with no substantial activities.

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These criteria are consistent with the nature of the tax poaching schemes that are the object of the OECD's work: schemes that impede the ability of home countries to enforce their own tax laws.

Tax havens are often, but not always, somewhat peripherally located countries with extremely favorable tax regimes for certain groups of taxpayers. Examples are the Netherlands Antilles, the Bahamas, and the Cayman Islands. Examples in Europe are

an international point of view. J si

member states' tax laws could be jeopardized because their capacity to tax income from capital on the basis of recipients' ability to pay is undermined (Ruding Committee, 1992, p. 38). Table 2, however, does not show a strong trend towards a rising share of personal income taxes in total revenues with the exception of the USA.

TABLE 2 TAXES ON PERSONAL INCOME AS PERCENTAGE OF TOTAL TAXATION

	1965	1970	1975	1980	1985	1990	1995	2000
Austria	20.0	20.7	21.6	23.2	22.9	21.0	20.9	22.1
Belgium	20.5	24.9	32.6	36.3	35.6	32.1	32.0	31.0
Denmark	41.4	48.6	55.9	52.0	50.5	52.7	54.1	52.6
Finland	33.3	39.2	44.1	38.8	41.6	38.5	36.2	30.8
France	10.6	10.7	10.6	11.6	11.5	11.8	11.3	18.0
Germany	26.0	26.7	30.0	29.6	28.7	27.6	27.5	25.3
Greece	6.8	9.7	8.9	14.9	13.9	14.1	12.3	13.5
Ireland	16.7	18.3	25.2	32.0	31.3	31.9	30.7	30.8
Italy	10.9	10.9						

30.8 32.0 14.9 30.7

and the USA. Luxembourg and the Netherlands are the only EU member states where the share of taxes on goods and services in creased somewhat in the period 1965-2000.

TABLE 3 TAXES ON PROPERTY AS PERCENTAGE OF TOTAL TAXATION

	1965	1970	1975	1980	1985	1990	1995	2000
Austria	4.0	3.7	3.1	2.9	2.4	2.7	1.5	1.3
Belgium	3.7	3.1	2.3	2.4	1.8	2.7	2.5	3.3
Denmark	8.0	6.0	5.9	5.5	4.2	4.2	3.5	3.3
Finland	4.0	2.2	1.9	1.9	2.7	2.4	2.3	2.5
France	4.3	4.8	5.1	4.8	5.8	5.1	7.4	6.8
Germany	5.8	4.9	3.9	3.3	3.0	3.4	2.8	2.3
Greece	9.7	9.3	9.7	4.6	2.7	4.6	3.4	5.1
Ireland	15.1	12.2	9.7	9.7	4.0	4.7	4.5	5.6
Italy	7.2	6.0	3.3	3.3	2.5	2.3	5.6	4.3
Luxembourg	6.2	7.1	5.1	5.1	5.5	8.4	7.2	10.6
Netherlands	4.4	3.3	2.4	2.4	3.5	3.7	4.1	5.4
Portugal	5.1	4.2	2.5	2.5	1.9	2.7	2.5	3.2
Spain	6.4	6.5	6.3	6.3	3.5	5.5	5.5	6.4
Sweden	1.8	1.5	1.1	1.1	2.3	3.5	2.9	3.4
UK	14.5	12.5	12.7	12.7	12.0	10.3	10.4	11.9
EU-15	6.7	5.8	5.0	5.0	3.9	4.4	4.4	5.0
Australia	11.4	11.0	8.8	7.8	7.8	9.0	8.8	8.9
Japan	8.1	7.6	9.1	8.2	9.7	9.1	11.7	10.3
USA	15.9	14.2	13.9	10.7	10.7	11.4	11.3	10.1

Source: OECD (2002).

Theoretical economic models predict that tax competition between governments will result in diminution of source-based corporation taxes towards zero (Ruding Committee, 1992, pp. 143-151). Gordon (1986) shows that a small country would not find it attractive to impose a corporate income tax. Razin and Sadka (1995) foresee that capital income taxes will vanish in small open economies faced with perfect capital mobility because residence countries cannot enforce taxes on foreign source capital income, whereas they are able to tax immobile factors. Frenkel, Razin and Sadka (1991) show that zero taxation of capital is optimal if two small countries can coordinate their tax policies, while capital can flow without costs to tax havens in the rest of the world and escape residence taxation. However, empirical evidence shows that EU countries did not reduce their reliance on corporate taxation. Table 5 displays that the share of taxes on corporate income in total taxation was fairly stable in the period 1965-1995 and slightly increased in the late 1990s. In Japan it decreased considerably in the 1990s, whereas in the USA it declined particularly in the period 1965-1985. Australia shows a mixed picture with a decrease of the share of corporate income taxes in total taxation in the period 1965-1985 followed by a considerable increase both in the late 1980s and in the late 1990s.

Tax competition may serve as a disciplinary mechanism to prevent governments from growing bigger than the electorate prefers. Moreover, competition by other tax jurisdictions may put pressure on governments to increase their efficiency. A counter argument, however, is that tax competition will not lead to a lower tax level, but only to a shift of the tax burden from mobile factors to less mobile factors that are easier to tax (labor, consumption, real estate). If tax comp

allocation between the private and the public sectors since it does not respect cross-country differences in the preference for income redistribution (Hagen et al., 1998).

A less ambitious strategy is to fix some minimum rates leaving more latitude for member states.[8] Nonetheless, low-tax countries would suffer welfare losses because they are forced to raise their tax rates to the minimum. The European Commission abandoned its original plan for harmonization of indirect taxes. Instead, the EU agreed on low minimum tax rates representing a binding constraint only for very few member states. This is not surprising given the extent of diversity among EU member states. Diversity does not only result from different national preferences with regard to income redistribution, but also from differences in factor productivities, population size and composition, capital composition, and mobility of various types of capital. The extent of diversity between EU member states will further increase as a result of the eastern enlargement of the EU in 2004.

It can be expected that the welfare effects of tax harmonization will be unequally distributed, both over countries and over interest groups within countries. Large countries tend to benefit more from tax harmonization than small countries. Since large countries have certain advantages over small countries, they can impose higher taxes and yet remain competitive. Enterprises in small countries more often need to cross borders if they want to expand their activities than companies in large countries. Moreover, companies in a small country have fewer opportunities for loss compensation and depreciation relief than enterprises in a large country.

EU decision-making on taxation requires unanimity reflecting that taxation is in the heart of national sovereignty. Given the differences between and different interests of large and small countries it seems very difficult to agree on a tax level that is in the best interest of all EU member states. This seems a prisoner's dilemma. Harmonization can lead to a sub-optimal allocation of resources and welfare losses, if it is accomplished at too high a level. Therefore, tax harmonization can most likely only be achieved if the winners from harmonization compensate the losers. This not only requires that the efficiency gains exceed the efficiency losses, but also that winners are willing to compensate losers. Tax harmonization in the EU might thus lead to higher tax levels, may protect inefficient governments, and may lead to reduced competitiveness relative to other trading blocks.

IV. THE LEGAL FRAMEWORK OF HARMONIZATION

The general harmonization provisions (articles 94 and 95 of the EC Treaty) form the main legal basis for harmonizing taxes. Article 94 pertains to "directives for the approximation of such laws, regulations or administrative provisions of the Member States as directly affect the establishment or functioning of the common market." So far, however, only three directives have been issued,[9] though the European Commission has proposed several corporate tax directives. The Single European Act amending the EC Treaty introduced article 95 stipulating that the Council will adopt

[8] Janeba and Smart (2003) show that under specific conditions a minimum tax rate is superior to a restriction of tax preferences.

[9] The first aims at mutual assistance by tax administrations of member states and was issued in 1977. The second directive (Parent-Subsidiary Directive) aims at elimination of double taxation of dividends of parent companies and subsidiaries of different member states and was issued in 1990. The third directive (Merger Directive) was also issued in 1990 and stipulates that capital gains arising from a merger or a similar operation will only be taxed upon realization.

- are justified by pressing reasons of public interest;
-

determining the tax base have been harmonized to a large extent. The same holds true with regard to the procedures for tax collection and administration (VAT Information Exchange System, VAT identification numbers, multiple registration of companies for VAT purposes, tax representatives of foreign traders not established in the EU, thresholds, etc.). Statutory minimum rates have been established (15% for the standard rate and 5% for the reduced rate), but there are no maximum rates. Thus, actual rates are subject to intra-community tax competition. They still vary, but they converged in the period 1987-2002 (see table 6).[12] In 1987, the standard VAT rates varied from 12% in Luxembourg and Spain to 25% in Ireland. In 2002, this range of 13 percentage points had narrowed to 10 points. Standard rates range from 15% in Luxembourg to 25% in Denmark and Sweden. Effective VAT rates differ from the statutory rates, however, since tax bases differ across member states as a result of derogations and exemptions.

Cnossen (2001, p. 35) observes that the coordination of excises in the EU is based on three sets of directives:

- three directives on the structures of the excises on manufactured tobacco, alcohol and alcoholic beverages and mineral oils;
- four directives on the approximation of the rates of duty applicable to these products; and
- a directive on the duty-free movement and monitoring of excisable products

However, progress on harmonization of excise taxes has been very slow. Often, excise harmonization has been spontaneous. As borders were abolished and mobility grew, excises were reduced to their lowest common rate. Total excise revenues for the EU as a whole amounted to 3.8% of GDP, down from 4.4% in 1970, whereas in the same period the total tax/GDP ratio increased (see table 1). As a result, excise revenues decreased relative to total tax revenues. Table 7 shows that excise revenues still widely vary across EU member states. In 2001, the share of excises in total taxation ranged from 14.9% in Greece to 5.3% in Belgium, while the share in GDP ranged from 5.7% in Denmark to 2.4% in Belgium.

Cnossen (2001, p. 37) argues that harmonization of excises is more urgent than harmonization of VAT for four reasons. First, excises, particularly on drinking and smoking interfere less with production efficiency than VAT, let alone taxes on labor and capital. Harmonization would enable the member states to use the revenue to reduce more distortionary taxes on labor and capital. Second, harmonization would reduce the incentive for tax-base snatching and bootlegging. Cross-border shopping is mainly caused by differences in excises, not in VAT. Third, harmonization would improve the efficiency of exchange. Fourth, if fuel and motor vehicles are used in the production process, harmonization of the related excises reduces intercountry distortions from excise-induced differences in cost structures.

TABLE 7 EXCISES IN THE EU, 2001

	Excise revenue as percentage of	
	GDP	Total tax revenue
Denmark	5.7	11.5
Portugal	4.8	14.0
Luxembourg	4.8	11.5
Greece	4.7	14.9
Finland	4.7	10.2
Ireland	4.6	14.2
UK	4.1	10.9
Sweden	3.7	7.0
Italy	3.5	8.1
Netherlands	3.3	8.0
France	3.0	6.6
Spain	2.8	8.3
Austria	2.7	6.2
Germany	2.6	7.0
Belgium	2.4	5.3
EU-15	3.8	9.6

Source: Cnosse (2001), p. 36.

Major differences still exist between corporate tax systems in EU member states. Cnossen (2001, p. 53) points out that corporation taxes are commonly distinguished depending on whether and to what extent they reduce double taxation (corporation tax and personal income tax) on distributed profits. The classical system does not provide

any relief of double taxation, whereas imputation systems provide full or partial relief by granting shareholders a tax credit against their personal income tax for the corporation tax that can be imputed to the dividends they received. Subjecting dividend income to a separate or schedular personal income tax rate lower than the top rate can also mitigate double taxation.

Six member states (Austria, Belgium, Denmark, Germany, Luxembourg and Sweden) apply a schedular treatment system that provides dividend relief to shareholders by taxing distributed profits at a schedular personal income tax rate separate from other personal income. Six member states (Finland, France, Italy, Portugal, Spain and the UK) employ an imputation system providing full or partial relief by permitting shareholders a tax credit against their personal income tax for the corporation tax that can be imputed to the dividends (grossed up by the tax credit) they received. Usually, the gross-up and tax credit are expressed as a fraction of the net dividend. Finland and Italy are the only member states that permit a full tax credit against the personal income tax for the corporation tax attributable to the shareholder's dividend income. Two member states (Greece and the Netherlands) apply a dividend exemption system for shareholders. However, the Netherlands levies a net wealth tax, which is called a presumptive capital income tax. One member state (Ireland) employs the classical system and subjects dividend income fully to both the corporation tax and the personal income tax. There is a trend to abolish imputation systems in favor of schedular taxes on distributed profits as well as other capital income. Notably, member states providing shareholders relief for the corporation tax generally confine this to dividends received from domestic firms implying double taxation of foreign dividends.

VI. CONCLUSIONS

EU member states participating in EMU have given up the possibility of an independent monetary policy. Therefore, they have fewer policy options, so they might have incentives to use taxes to achieve competitive advantages, which may intensify tax competition. However, tax burdens in the EU increased on average by almost 50% in the past 35 years, while they did not converge. Since capital is much more mobile than labor it can be expected that the tax burden has partly shifted from capital to labor. Yet, there is no evidence for a "race to the bottom". In the 1990s, effective tax rates on corporations did not decline in the EU. Unlike the USA there is no strong trend towards a rising share of personal income taxes in total taxation in the EU. Moreover, there is no evidence of a rising share of property taxes in total tax revenues. On the contrary, in the EU as a whole this share decreased in the period 1965-2000, while the same holds true for Australia and the USA.

Tax competition theory suggests that small countries set lower tax rates than large countries. It appears that the five largest EU members have indeed an effective tax rate that is on average higher than in the smaller member states. The mean effective tax rate of small EU countries was 24.6%, whereas the mean effective tax rate of large EU member states was no less than 35.8%. The difference between small and large countries declined, however, from 10.8% in 1990 to 8.5% in 1999.

EU decision-making on taxation still requires unanimity making progress in tax harmonization a difficult and cumbersome process. So far, the achievements with regard to tax harmonization in the EU have been most pronounced in the field of indirect taxes, in particular the VAT. Minimum rates have been set, but no maximum

rates. As a result, VAT rates differ across EU member states. Moreover, VAT tax bases differ between member states because of derogations and exemptions. Less progress has been achieved with regard to harmonization of excise taxes. Harmonization in this field has been very slow and often spontaneous.

Insofar the EU has been involved in direct taxation, it mainly pertains to corporate taxes. The most significant progress in this field has been achieved by decisions taken by the ECJ. These decisions are not based on provisions on taxation in the EC Treaty, but rather on the provisions on non-discrimination and the four freedoms of the internal market. The ECJ has ruled that national legislation must avoid any overt or covert discrimination by reason of nationality to be consistent with EU legislation. However, major differences still exist between corporate tax systems in

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assumption of inter-changeability of assistance fails to acknowledge the profound gender issues involved. While in both parts of the tax/transfer equation men and women appear to be treated equally, as individual tax-paying and benefit-receiving citizens in a liberal democracy, in fact, the Australian tax, social security and family payment systems are not "sex-blind functions of citizenship" but are highly gendered (Shaver, 1988: p.150). Women, like men, pay income tax as individuals; but when it comes to tax and transfer arrangements for women with partners and women as mothers with dependent children, gendered circumstances enter the system of eligibility and entitlement. The system of family payments appears to be gender-neutral, but because the vast majority of people taking principal care of children are women, there is in effect, if not in legislation, a profound gender impact of the tax/family transfer payments system. These considerations are not encompassed within a concept of individualised citizenship. Instead, an officially legitimated social

WHY GENDER MATTERS IN CONSIDERING THE TAX/TRANSFER SYSTEM

Why does gender equity matter when analysing the tax/transfer system, when the transfers in question are concerned with the recognition of family responsibilities? Has not the male-breadwinner model as the basis for all Australian public policy been superseded by a dual-earner model? The increased labour force participation of women, the subsequent impacts on family relationships, and the public policies which have either constrained or supported these developments have been analysed in a comparative framework as variants of a "male breadwinner model" embedded in cultural expectations, labour market and employment conditions and tax/transfer policies. Jane Lewis (1992) and O'Connor, Orloff and Shaver (1999) argue

occurred in the times of the recessions of the early 1980s and the early 1990s, indicating that labour market circumstances rather than family responsibilities play the largest part in shaping men's work pathways.

paper that both trends are growing in Australia, in tandem, but they operate in different social class contexts.

THE TAX/FAMILY TRANSFER SYSTEM, ITS INTERACTIONS AND IMPACTS ON EQUITY: 1941 TO 1996

Child Endowment, a transfer payment to the mothers of dependent children was introduced nationally in 1941, in particular conditions of war-

tax rebates for dependent children were abolished and the revenue disbursed in the form of large increases in child endowment, renamed Family Allowance. Low income women, previously unable to benefit from either tax deductions or rebates, were the major beneficiaries. However the Family Allowance reform, fundamental and progressive in many ways, was marred since no decision was made to index the payment to rises in the cost of living. As a result, intermittent political decisions and the advocacy of community and church-based organisations and women's groups were the unpredictable, irregular means by which increases in the rate of family payments were achieved, until the late 1980s.

From the late 1970s, various groups including the Australian Council of Trade Unions (ACTU) called for increases in and indexation of both family allowance and the additional income-tested payments for children made to families in receipt of pensions and benefits, to ensure that they did not erode in real value. Their advocacy highlighted the poverty suffered by children in low income families resulting from their parents' unemployment, or joblessness as sole parents, or low workforce earnings exacerbated by the erosion of the real value of all family payments (Vipond, 1986). Although all pensions and most benefits were indexed to rises in the Consumer Price Index from 1976, neither family allowance nor the additional income-tested payments for dependent children made to parents in receipt of pensions and benefits were indexed and were increased only on an ad-hoc basis. It could certainly be argued that family allowance, as a universal payment made to the principal child carer and therefore predominantly to women, satisfied the principles of horizontal equity and gender equity, but because of the lack of indexation of family allowance and of other child-related payments for low income families, these payments in their cumulative impact failed to meet the principle of vertical equity in an adequate way. The value of the amount redistributed fell in real terms and the evidence of increased poverty in families with children, especially in women-headed families, highlighted the increasing inadequacy of the tax/transfer system (Gallagher, 1985; Cass, 1988b). With family poverty placed on the political agenda by the Australian Council of Social Service (ACOSS), church-based welfare organisations and women's organisations, family income support became a highly contested political issue.

From 1983 to 1996 the Hawke/Keating Labor Governments adopted a 'needs-based targeting' policy in family income support, framed explicitly within a poverty alleviation objective, and rejected a rights-based, or universal system of allocation. Political discourse justified this approach as the most cost effective route to a more equitable and adequate tax/transfer and social security system, focusing on the needs of low income families and private renters in a period of imposed restraint on social expenditures. These developments generated strong debate about the apparently contradictory principles of alleviating poverty or maintaining a more universal rights-based system (Harding and Mitchell, 1992; Mitchell, Harding and Gruen, 1994; Saunders, 1994; Whiteford, 1994).

The principle of maintaining horizontal equity through universal family allowance was officially deligitimated as being in conflict with the principle of vertical equity and as undermining the priority which needed to be given to low income families (see Harding, 1986, for the terms of the debate). Alleviating poverty was given primacy in

welfare". However, redistribution to the parent primarily responsible for children's care, gender equity, remained the central issue in the advocacy of women's organisations across the political spectrum, including the Women's Electoral Lobby, the National Council of Women of Australia, the National Women's Consultative Council, the Council for the Single Mother and her Child and the Women's Action Alliance.

The first step in family income support reform in the 1980s was the introduction in 1983 of a tightly income-tested payment, Family Income Supplement (FIS), a bi-partisan measure put forward originally by the Fraser Coalition government and implemented by the Hawke Labor Government, and directed to families in low paid employment. It was paid to mothers, in addition to family allowance, at the same rate as the additional children's payments made to families receiving pension or benefit. The key policy consideration was to minimise the work disincentive effects which might arise when family breadwinners moved into low paid work and lost their additional children's payments. Family income supplement was expected to rectify this problem, but the income test was very tight and the visibility of the payment very slight. As a result, only 1-2 per cent of families received it in the period from 1983-1986, and this was considered to be partly a consequence of low take-up by parents who had an entitlement (Cass, 1986; Harding, 1986).

In 1986, the First Issues Paper of the Social Security Review, established in that year by the Minister for Social Security, Brian Howe, was published and became the focus of debate within community organisations and the Australian Council of Trade Unions. The Paper, *Income Support for Families with Children* (Cass, 1986) recommended that the universal family allowance be retained, increased and indexed and paid to all carers in recognition of the increased costs which child rearing incurs, both directly and indirectly ttiosrg 81 021 0 TDor Fe8deF 1 Tj 0 -n7ihe PmTc 44ong inoTw (bo1 -

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The next step was the introduction of the Family Assistance Package in the budget of 1987/88, providing a significant increase in income-tested payments for children in families receiving pension or benefit and in low paid employed families. The Family

security system had followed the male breadwinner model, reproducing the earlier logic of the family wage system in the social security system. Following the reforms of 1987-93, the principles of gender equality and individual social rights were more significant in family tax/transfer policies.

In addition, vertical equity principles were strengthened. The increases in family payments for low income families, combined with the liberalisation of the additional family payment income test which took place from 1987-1993 resulted in increased payments directed to one third of families in the lowest family income category, whereas only one fifth of families had received such assistance prior to the changes (Saunders and Whiteford, 1987; Whiteford, 1994).

A later change in 1994-95 involved the abolition of the Dependent Spouse Rebate, a tax rebate measure which wage-earning tax-payers with a dependent spouse and dependent children were eligible to receive, and its replacement by the Home Child Care Allowance (HCCA). HCCA was created by "cashing out and increasing the amount of the Dependent Spouse Rebate for families with children and paying it directly to the spouse at home caring for children" (Stanton and Fuery, 1996). This payment was subsequently subsumed into the Parenting Allowance, introduced in 1995, as one of the social security reforms introduced following the publication of *Working Nation: White Paper on Employment and Growth* (Commonwealth of Australia, 1994). Parenting Payment was designed to provide direct income support to carers with dependent children, where the carer had a low personal income and where the partner was a social security recipient or low income-earner. The maximum rate was paid where the partner was either not employed or a low-wage earner below a set income ceiling, and the carer had low individual income. From this point the payment was reduced as the employed partner's income increased, down to an irreducible basic payment, which was the equivalent of the former Home Child Care Allowance. At that point only the recipient's personal income test was able to reduce the base payment (Stanton and Fuery, 1996).

In all of these tax/transfer changes in the period 1987-1995 the movement away from the tax system for the delivery of family payments and the re-direction of all transfer payments to *women as mothers* was not made explicit. The recipient of payments was legislated as the *principal carer*, (whether male or female) in recognition of the increased costs incurred in caring for children. This marked a clear shift in tax/transfer policy away from the concept of women's "difference" stemming from their assumed dependency in a couple relationship, to a concept of "gender equality", where different treatment would be accorded not to "dependency" but to parenting responsibilities which either men or women might fulfil (Shaver, 1995). However, it is evident that, in the majority of cases, women in two parent and sole parent families are the parent with principal responsibility for child care (Cass, 2002), which in effect meant that these changes predominantly benefited women. Stewart (1999) has stated that the payment of all child-related benefits directly to the care-giver was a significant victory for feminists, since the provision of income to the care-giver recognised the carer's financial independence from her spouse and provided her with control of at least some income, challenging, at least to some extent, the legitimacy of dependency under the male breadwinner model. It would appear that vertical and gender equity were not contradictory principles in these tax/transfer reforms, but were the focus of the transformations, the former (vertical equity) being explicit, the latter (gender equity) being implicit .

It is of considerable significance for understanding the politics of the tax/transfer system in the time of the Hawke/Keating Governments that these increases in and indexation of family payments were negotiated in the incomes and tax policy framework of the Accord between the Labor Government and the ACTU. The Accord was based on the premise that employee wage restraint would be counter-balanced by expanded "social wage" measures, including universal health insurance (Medicare), child care services, the guarantee of occupational superannuation and increased family payments. The support of the ACTU was influential in embedding the case for increased children's payments within wage and tax negotiations, which gave the increased measure of tax/transfer redistribution to low income families its most powerful supporter in political negotiations and government decisions.

TAX DEDUCTIONS FOR CHILD CARE EXPENSES

While these debates and policy changes were occurring in relation to family payments, parallel debates and policy changes were taking place in relation to child care policy. Child care had been a peripheral public policy issue since the early 1970s when, in the context of an acute labour shortage, the Coalition government of William McMahan had legislated to enable the Commonwealth to provide subsidies for non-profit care. Child care spending grew rapidly during the Whitlam years but stalled somewhat during the Fraser period.

Following the election of the Hawke Labor Government in 1983, childcare moved to a central position on the policy agenda. The attention given to child care by the Hawke Government can be explained by two features of the new political environment: the emergence of corporatist political structures involving the trade union movement, employers and government, and the new priority given to women and 'women's issues' within the Labor Party and the union movement. Child care was one of the policy areas singled out for mention in the original agreement between Labor and the unions and it consistently featured in the social wage claims put forward by the union movement in subsequent years. The ACTU lobbied vigorously around several aspects of childcare - not simply an expansion in the number of places. It pressed the government to increase both community-based and work-based services, urged it to ensure that fees were kept at levels which could reasonably be afforded by low and middle income families and campaigned for improvements in the pay and conditions of child care workers.

The cost of child care was central to public debate in the 1980s. The Commonwealth reduced costs through two main mechanisms: operational subsidies to all approved services reduced the fees for all users, and this was supplemented by a system of Child Care Assistance (CCA) aimed at reducing the fees paid by low and middle-income families. CCA covered a certain percentage of a government-determined 'ceiling fee'. Parents were required to meet the gap between the subsidy they received and the *actual* fee charged by the service. While this was an effective system for low-income families, women who were excluded from CCA because of their family income (particularly if most of that income were earned by their partner) felt unfairly treated by the system. Accordingly, they began to lobby for some form of concessional treatment of child care expenses related to earning a living. Support for tax deductibility came from feminist economists such as Meredith Edwards (1980:150-52) and organisations representing professional women, such as the Women Lawyers'

would most likely be claimed by their (male) partner in order to maximise the benefit. Opponents of tax deductibility also argued that the amount of revenue which would be foregone by the Commonwealth in any such scheme might jeopardise the future of the Children's Services Program (Morrow 1981; Children's Services Action 1982). In 1984 the Department of Social Security estimated that tax deductions for child care expenses would cost about $400 million per year compared with expenditure on the Children's Services Program of $110 million (*Australian Financial Review,* 31 July 1984). The Minister for Community Services and Health, Senator Grimes, stated that if tax deductions were introduced the Government would regard the tax foregone as equivalent to an item of expenditure. It would be unlikely to continue direct outlays on the Children's Services Program in addition to tax deductibility.

The debate about child care tax deductions was effectively brought to an end in 1994 when the Hawke government introduced a non means-tested subsidy, the Child Care Rebate, specifically intended to assist with the costs of work-related child care. The rebate could be paid in respect of either formal or informal care (which meant it could be claimed for care provided by nannies and other private carers) and was payable in addition to the means-tested Child Care Assistance.

TAX MEASURES OR TRANSFER PAYMENTS: THE POLITICAL DEBATES

Throughout the twenty year period of family tax/transfer policy and child care reforms from 1976, there was a bi-partisan convergence in the trend away from tax measures and their replacement by transfer payments, - with consequent redistribution to mothers. But the bi-0

RECONFIGURING TAX AND TRANSFER PAYMENTS IN THE NEW TAX SYSTEM: 1996-2002: THE ILLUSION OF CHOICE

This was the debate about choice and a family-sensitive tax system within whose terms of reference the in-coming Coalition Government under Prime Minister John Howard made its family policy changes. The year before his election as Prime Minister, John Howard released a document outlining the 'values, directions and policy priorities' of a Coalition government. In a section entitled 'Greater Choice and Security for Families' it stated: 'A Coalition Government will move immediately to reduce the economic pressures on families (especially those with dependent children), to increase the opportunities open to them and to give them more genuine choices about how

The Family Tax Initiative was welcomed, with some reservation, by ACOSS, because it provided an "important boost to the family budget" (ACOSS, Budget Supplement,

test for Child Care Assistance; reduction of the Child Care Rebate for families above the Family Tax Initiative income ceiling; significant reduction in child care Operational Subsidies for; removing the new growth policy for long day care centres. In effect, these measures reduced the public outlay support for child care services and their affordability while increasing support for families where one parent, predominantly the mother, is outside the workforce engaged in full-time care of a child under school age (Brennan, 2002). Accordingly, it could be argued that the combination of the Family Tax Initiative providing additional benefit to a family breadwinner with a partner engaged in full-time child care, and the measures reducing the affordability of children's services for employed parents did not so much establish support for the "choice" of one parent (usually the mother) to remain outside the workforce, but established financial disincentives for an employment choice to be made.

- two payments/rebates designed to reduce the costs of non-parental child care (Child Care Assistance and the Childcare Cash Rebate) were amalgamated into one payment designated "Child Care Benefit".

The powerful symbolism of the use of the term Family Tax Benefit in the first two programs is apparent: to ensure that the changes were perceived as part of the new tax system; were seen as a corollary to the introduction of the GST and the cuts to personal income tax (they were described as the family component of the personal income tax cuts), and promulgated as fulfilment of the political commitment to introduce a family-centred tax system which would provide the most substantial benefit to single income families.

The political discourse before and during the introduction of the GST focused on the need for family-directed tax benefits to accompany personal income tax cuts, and provided for the doubling of the additional tax free threshold for families with dependent children from $1000 to $2000; and from $2500 to $5000 for single income families (both to be received in addition to the general tax free threshold of $6,000). This reform was justified in terms of "recognition of the extra costs involved in raising children and the sacrifices that families make" (Commonwealth of Australia, 1998: p.50). Increased family-directed payments were necessary to offset the substantial impact on the expenditure of families with children following the introduction of the GST, since families have little financial capacity to substitute savings for consumption.

There was a significant change in family income support policy introduced in the GST context. Whereas Family Tax Benefit part A, for which both single income and two income families are eligible, is income tested on joint parental income; the additional benefit received by single income families - Family Tax Benefit Part B has no income test imposed on the primary earner's income. This is a departure from the arrangements which had pertained to Family Tax Assistance Part B which it replaced. In the case of Family Tax Benefit Part A, which can be received by families with a dependent child up to the age of 20, or 21-24 if a full-time student and not in receipt of Youth Allowance, there is an income test imposed when joint parental income reaches $28,2000 a year. From this point the payment (at a maximum rate of $116.20 per fortnight for a child under 13, to use only one example) is reduced by 30 cents in the dollar, until the amount of payment for a child up to 18 reaches $37.38 per fortnight. A second income test cuts in at $73,000 (plus $3,000 for each eligible child after the first) with the payment abating at 30 cents in the dollar until it reaches zero. On the other hand, in the case of Family Tax Benefit Part B, which can be received by families with a single income earner who have a child aged up to 16 or to 18 if a full-time student, an income test is imposed only on the income of the carer (called the "secondary earner"), and there is no income test imposed on the income of the "primary earner". Maximum benefit ($99.80 per fortnight where there is a child under 5 and $69.58 where there is a child aged 5-16 or 18 if a full-time student) is received when the carer/secondary earner's income is below $1616 per annum, after which the benefit is reduced by 30 cents in the dollar. Payment under Family Tax Benefit Part B cuts out entirely when the secondary earner's annual income reaches $10,291 where there is a child under 5, and cuts out at an annual income of $7,633 where there is a child under 16, or 18 in the case of a full-time student. The primary earner's income is not taken into account at all in the assessment of eligibility or the rate of payment.

It is evident that vertical equity was given considerably less consideration in the design of the Family Tax Benefit system than was the politics of increased reward for single income families. While many low income families, both two parent and sole parent, derive much needed assistance from these family tax benefit measures in the

have their Family Tax Benefit paid into their bank or credit union account each fortnight, or access it through the tax system. If the tax system option is chosen, the parent may chose to take a lump sum by claiming Family Tax Benefit at the end of the financial year; or by asking the employer to reduce the tax instalment deductions in each pay period on the wages of either the principal carer or their partner. Those who do not have the choice of using the tax system are families in receipt of social security or veterans' affairs payments, who continue to receive their family assistance as a regular fortnightly payment. It is evident that families where at least one parent or the sole parent is in the workforce are provided with the option to access the benefit through a tax rebate, on either a regular pay period basis or an annual basis. It is significant that the policy move to the tax system for the delivery of family benefits appears not to have addressed the question of whether or not the benefit will be received by the parent with primary child care responsibility. Indeed, there appears to have been little debate on the matter. In addition, even if the payment route is chosen by recipients (and this appears from current information to be the majority choice), the logic of the tax system is embedded in the administration of the payment since the recipient is required to predict their annual income, on the basis of which payment is made. If annual income exceeds the amount predicted (eg if the principal carer gains a short-term part-time job, not previously planned), the recipient incurs a legal obligation to pay back the "overpayment". Using the logic of the tax system is a significant retreat from the former bipartisan policy of family income support directed to the primary carer on a regular basis, in favour of the discursive rhetoric of providing choice to single income families and re-instating the legitimacy, at least in family tax/benefit policy, of a male breadwinner model.

The argument that there has been a significant redirection of family tax/transfer policy away from vertical equity and in favour of promoting the legitimacy of and rewarding the single income family is reinforced by a consideration of the "Baby Bonus" – the most recent introduction to the Government's array of family policies. First announced in the context of the 2001 Federal election, and subsequently introduced in 2002, this program provides a tax rebate for parents (either the mother or father depending on who takes time out of employment) in the five years after the birth of their first child, or, as a transitional measure, for a subsequent child born after 1 July 2001 (to apply to only one child in each family). The First Child Tax refund pays back tax paid by the mother (the most likely recipient) in the tax year prior to the birth of the child, over five years, if the she remains outside the workforce. The maximum rebate is $2,500 per year for five years (with the mother not in the paid workforce, to be reduced if she returns to the workforce in that period). The maximum amount is payable where the mother previously earned at least $52,666 per annum before the birth of the child. There is a minimum floor of $500 per annum for lower income women, women who were not employed before the birth of the child and women reliant on welfare, and this too is payable only if the woman remains outside the work force. It is also important to note that the rebate is not income tested on the income of the husband/partner. The regressivity of this policy is apparent: women who had previously earned at least $52,666 (which applies to only 5% of employed women) are eligible to receive a total rebate of $12,500 if they remain outside the labour force for 5 years – a situation which Australian Bureau of Statistics data indicate is normally only applicable to women with high income spouses; while lower income women receive only the minimum $2,500 over five years, one fifth of the maximum amount. Other ABS wage figures indicate that more than a third of female employees receive less that $20,000 per annum, and over one half of the female workforce receives less than $26,000 per

annum. The rebate for these women will vary between $500 and $800 per annum. In addition, the rebate is claimable only through the tax assessment at the end of the taxation year, and is not therefore available to the mother as cash in hand during the day-by-day period of early child care.

The regressive impact of this tax rebate proposal was noted by a range of groups, including the Australian Council of Social Service, the trade unions, women's organisations, and also by conservative family groups (who were not impressed by the small amount of the rebate, especially for lower income women). An article in the Australian Financial Review (29 October 2001) stated that the amount of the rebate is small, the policy regressive, and that the more appropr iate alternatives facing an Australian government would be either universal paid maternity leave or targeting on the basis of need.

What is the current government view on changes to the tax/transfer system? In his opening address to the Liberal Women's Conference National Convention in Adelaide on 6 June 2003, the Prime Minister re-iterated the theme of choice for families and argued that the Government's reform of the family tax/transfer system had effectively delivered income-splitting to families, with Family Tax Benefit Part B acting like a second tax free threshold for single income families (Howard, 2003). He argued that the tax system advantages two earner families who have two tax free thresholds and the Coalition government reforms have attempted to redress that inequity. This represents the conservative politics of the tax/transfer system, linked with endorsement of the male breadwinner model of family policy.

CONCLUSION

While the formal structures of the tax/transfer system are gender-neutral, the reality of people's lives – especially the gendered division of paid work and caring responsibilities – means that in practice men and women are treated differently by the tax/transfer system. Thus, in addition to the traditional axes of horizontal and vertical equity, it is important to consider the gender politics embedded in family tax and transfer policies. Our argument is not that different treatment is necessarily undesirable, but that its politics - and especially its redistributive consequences - need to be examined and debated.

In the post-war period until the mid-1970s, the key political issues that featured in debates about families and tax concerned the extent to which transfers and payments assisted taxpayers with children compared with those without (horizontal equity) and the extent to which particular policies redistributed support to low-income families (vertical equity). In addition, the debates focused on the contrast between, on the oneg 3p78 m0038

extension to lower income mothers) and directed all family-related payments to the "principal carer", predominantly mothers. In broad terms, this bi-partisan approach to gender equity remained in place for approximately two decades

Under the current government, this bi-artisan consensus has been overturned. Family payments have been renamed and restructured as 'Family Tax Benefit' and, in the name of choice, a key component of the payment can be taken either by reducing the tax of the principal earner or a providing a direct cash payment to the parent whom the government now calls the 'secondary earner'.

In developing family-related tax and transfer payments since 1996, current policy has evoked two dichotomous family types: families with a stay-at-home parent and families in which the sole or both parents participate in paid work. Moral legitimacy has been accorded in greatest measure to single income two parent families (or, at best) those where one parent, usually the mother, is employed for limited hours. The politics which have been built around these contrasting types are socially divisive and take no account of the research which shows the phases of transition in employment/family care combinations which women construct, usually related to the ages of their children, the availability of suitable employment, the availability of affordable child care. Perhaps more pertinently, the policy rhetoric of parental choice obscures a much more hard-headed policy trend to the favouring of family support delivered through the tax system, giving priority to single income families through tax relief – a policy signifying a perspective which takes the care-giving parent out of the circuit of redistribution .It is not "motherhood" which actually counts in such a circuit, but a family-oriented, apparently (but not in effect) gender-neutral tax policy.

The paradox of the current trend to familialisation of tax/transfer policy is that a policy emphasis on choice actually reduces choice, in the gendered world of the balancing of paid work and family responsibilities. The political value commitment to the male breadwinner model of family form and process - a model which is not conducive to the support of dual-earner families, nor to the support of long-term economic security for mothers - sustains tax/transfer arrangements which fail the tests of horizontal, vertical and gender equity.

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Studying the Studies: An overview of recent research into taxation operating costs

Chris Evans[*]

Abstract
Studies into the operating costs of taxation – compliance costs for taxpayers and administrative costs for revenue authorities – have flourished in recent years. This paper provides an overview of these studies, and reveals both the breadth and the depth of the research in this area. The paper focuses upon studies that have taken place in the last 20 years or so, although the

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picks up where other excellent summaries (for example, Sandford, Godwin and

An important factor contributing to the growth of interest (but also reflecting that growth) by both researchers and governments has been a series of conferences and symposia held on the topic in the last two decades. The International Fiscal

Postal surveys feature most prominently in the appendix, with nearly two thirds of the studies using this methodology wholly or in part. Roughly one quarter of the studies used interviewing techniques, usually on a face-to-face basis and with a structured survey instrument or script built into the process. The labour intensive diary and case study approaches tended to be the least used methodology.

The appendix shows that response rates for postal surveys into compliance costs have varied considerably. At the one end of the scale there are studies that failed to achieve

not need to be) the decisive factor; but it cannot be ignored in the way that it so often has in the past.

Pope identified a number of possible stages in the awareness of compliance costs (Pope, 1992, pp. 2-7). These ranged from initial neglect, through recognition by professionals (tax advisers etc), quantification (usually by academics), policy recognition, effective policy measures resulting in lower compliance costs, and finally to continual monitoring of compliance costs.

Many of the developed countries that have undertaken the studies summarised in the appendix have clearly passed through the first four of these stages, and in some of them there is even lip-service paid to the need to take operating costs into account when policy is formulated (see, for example, Evans and Walpole, 1999, pp. 38-77). But there is still a long way to go before any of the countries can truly claim that its tax laws are designed with a clear focus on the implications that design will have on the operating costs of the tax system.

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APPENDIX SUMMARY OF MAJOR PUBLISHED STUDIES OF TAXATION OPERATING COSTS SINCE 1980 BY REFERENCE TO GEOGRAPHICAL LOCATION

North American Studies

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1984 (1982)	Slemrod & Sorum	USA (Minnesota residents)	Personal income taxes	1. Postal survey 2. 2,000 3. 653 4. 33%	Compliance costs were 5% to 7% of revenue yield; self employed incur relatively higher costs	Not addressed
1984 (1979)	Thompson	Canada (Ontario personal taxpayers)	Personal income taxes	1. Estimate, based on assumptions applied to provincial tax statistics 2. Not relevant 3. Not relevant 4. Not relevant	Compliance costs that would be associated with the introduction of a personal income tax system in Ontario would be roughly C$150m or C$42 per taxpayer	Not addressed
1985 (1984)	Arthur Andersen & Co for the Department of Finance	Canada (Canadian businesses)	Federal sales and excise taxes	1. Documentary analysis for administrative costs; for compliance costs (a) face to face interviews (using survey instrument) with large firms (b) postal survey for other firms 2. (a) 76 (b) 1,600 3. (a) 36 (b) 171 4. (a) 47% (b) 11%	Compliance costs were C$731.4m or 7.56% of revenue yield; significant variation depending on size of firm, with compliance costs being higher for smaller firms	Administrative costs were C$76.4m or 0.8% of revenue yield
1985 (1984)	Arthur Andersen & Co for the Department of Finance	Canada (Ontario businesses)	Ontario retail sales tax	1. Documentary analysis for administrative costs; postal survey for compliance costs 2. 600 3. 43 4. 7%	Compliance costs were 5.85% of revenue yield; significant variation depending on size of firm, with compliance costs being higher for smaller firms	Administrative costs were C$39.9m or 0.6% of revenue yield

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1988 (1983-1985)	Arthur D Little Inc	USA (USA individuals and businesses)	Federal taxes	1. (a) diary study of 750 individuals (b) postal survey of 6,200 individuals (c) postal survey of 4,000 businesses 2. (a) 750 (b) 6,200 (c) 4,000 3. (a) 750 (b) 3,831 (c) 1,474 4. (a) 100% (b) 62% (c) 37%	Total estimated taxpayer paperwork burden increased from 4,342m hours in 1983 to 5,427m hours in 1985; record keeping accounted for 50% of this time and form preparation 29%; high degree of correlation between the total time spent on record keeping, learning, preparation and sending time associated with filing individual tax returns and the number of line items present on the tax return	Not addressed
1989 (1986 & 1987)	Vaillancourt	Canada (Canadian individual taxpayers and				

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	**Administrative costs**
1993 (1995)	General Accounting Office (US)	USA (Federal administration)	Value added tax	1. Estimate of administrative costs of a value added tax 2. Not relevant 3. Not relevant 4. Not relevant	Not addressed	Recurrent administrative costs of a value added tax would be between US$1.22b and US$1.83b, with 70% of those costs related to audit work; transitional costs of introducing a value added tax would be US$800m; costs would vary with key design features of the tax, and a simple single rate, broad-based VAT would minimise adj 30.75 0 TD 0 Tc -0.1875 Tw 2r0 c -0.1875 Tw ( ) Tj E

0.75 ( )

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1997 (1996)	Plamondon	Canada (Ontario employers)	Federal and provincial payroll taxes	1. Interviews (face to face) conducted by accountants with questionnaire 2. 40 3. 40 4. 100%	Compliance costs were "relatively low" (2.76% of revenue yield for 30 small and medium sized businesses interviewed); Ontario workers' compensation system causing confusion and uncertainty; support from employers for harmonization of payroll taxes	Not addressed
1998 (1996)	Plamondon & Zussman	Canada (Canadian business taxpayers)	Canadian federal & provincial business taxes	1. Estimation of compliance costs followed by panel discussion and poll 2. Not relevant 3. Not relevant 4. Not relevant	Compliance costs for Canadian business estimated at C$3.4b, or 0.4% of GDP, 1.5% of revenue yield; a single tax administration would reduce annual compliance costs by between C$171m and C$285m	Administrative costs of Federal & Provincial business tax system estimated to be C$2.2b; a single tax administration would reduce annual administrative costs by between C$97m and C$162m

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	**Administrative costs**
1989 (1983 & 1988)	Sandford, Godwin & Hardwick	UK (UK alcohol , tobacco and oil companies)	Excise duties	1.Postal survey of alcohol industry (a), and interviews with tobacco (7) & oil (3) companies and others 2. (a) 369 3. (a) 99 4. (a) 30%	"Administrative and compliance costs of the main excises are outstandingly low in absolute and proportional terms" (but estimates somewhat speculative); for 1986-87 administrative costs were £41.9m and compliance costs were £33.3m; total operating costs of £75.2m were 0.45% of revenue yield; some regressiveness, but not as pronounced as with VAT studies	
1989 (1986-87)	Sandford, Godwin & Hardwick	UK (UK oil companies)	Petroleum revenue tax	1. Postal survey 2. 14 3. 9 4. 64%	Compliance costs in 1986-87 were £5.25m, or 0.44% of revenue yield; low revenue yield in 1986-87 makes this ratio particularly unreliable; but compliance costs are relatively low (compared to other central government taxes)	Administrative costs 1986-87 were £1.4m, or 0.12% of revenue yield
1989 (1986-87)	Sandford, Godwin & Hardwick	UK (UK VAT registered traders)	Corporation tax (part of value added tax survey below)	1. Postal survey 2. 3,000 3. 680 4. 24%	In 1986-87 compliance costs were £300m (2.22% of revenue yield) and administrative costs were £70.3m (0.52% of revenue yield); total operating costs were 2.74% of revenue yield; roughly 50% of compliance costs were external fees to advisers; compliance costs were regressive; cash flow benefits exceeded compliance costs	

Year of publication (Year(s) under review)	**Author(s)**	**Country (population studied)**	**Taxes studied**	**1. Methodology 2. Sample frame 3. Respondents 4. Response rate**	**Major outcomes**	
					Compliance costs	**Administrative costs**
1994 (1990)	Allers	The Netherlands (Dutch individuals)	Total Dutch tax-benefit system	1.(a) postal survey for business compliance costs; (b) commercial postal polling for non-business costs; (administrative costs determined by way of documentary analysis) 2. (a) 5,252 (b) Not known 3. (a) 1,116 r non 28 Tw Tc ,6b) 10,w1re ermD ( ) Tj 0 -11.25 Tr17. f esponse		

Year of publication (Year(s) under review)	**Author(s)**	**Country (population studied)**	**Taxes studied**	**1. Methodology 2. Sample frame 3. Respondents 4. Response rate**	**Major outcomes**	
					Compliance costs	**Administrative costs**

Australasian and South East Asian Studies

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1990 (1986-87)	Pope, Fayle & Duncanson	Australia (Australian registered voters)	Personal income taxes	1. Postal survey 2. 6,737 3. 1,098 4. 16%	Compliance costs of PIT were between \$2.8b and \$3.8b, or between 7.9% and 10.8% of revenue yield; they were relatively higher than countries with comparable PIT systems; they were regressive; main determinants were level of income and type of return submitted	Not addressed
1991 (1986-87)	Pope, Fayle & Chen	Australia (Australian public companies)	Companies income tax	1. Postal survey 2. 1,837 3. 298 4. 16%	Gross compliance costs of public companies were between \$0.65b and \$1.3b, or between 11.4% and 23.7% of revenue yield; cash flow benefits were \$0.95b, or 16.9% of revenue yield; compliance costs were regressive and higher than other comparable countries	Not addressed
1992 (1989-90 & 1990-91)	Sandford & Hn5 170.-9 TD -0.1875 Tc 75 re .0616 s (91)) Tj 1161 Tc 0.18 357 0h.75 re f 36.75 38tseo5 0. ZeanD 0.2527-					

Year of publication (Year(s) under review)	**Author(s)**	**Country (population studied)**	**Taxes studied**	**1. Methodology 2. Sample frame 3. Respondents 4. Response rate**	**Major outcomes**	
					Compliance costs	**Administrative costs**
1994 (1990-91)	Pope, Fayle & Chen	Australia (Australian companies)	Companies income tax	1. Postal survey 2. 2,531 3. 571 4. 23%	Net compliance costs of companies were $2.05b, or 14.5% of revenue yield; compliance costs were regressive	Not addressed
1995 (1991 & 1992)	Prebble	New Zealand (New Zealand companies)	Companies subject to controlled foreign company regime	1. Two personal interviews 2. 200 3. 14 4. Not relevant	Compliance costs for controlled foreign companies are relatively lower than compliance costs for domestic companies of a comparable size	Not addressed
1995 (1994)	Ariff, Loh & Talib	Singapore (Singapore Stock Exchange listed corporate taxpayers)	Corporate income taxes	1. Postal survey 2. 200 3. 65 4. 33%	Compliance costs were "reasonable" compared to other countries, but the large element of fixed costs caused them to be particularly regressive	Not addressed
1996 & 1997 (1994-95)	Evans, Ritchie, Tran-Nam & Walpole	Australia (Australian business and personal taxpayers)	All federal taxes	1. Postal survey of (a) business taxpayers and (b) personal taxpayers 2. (a) 7,496 (b) 1,867 3. (a) 2,464 (b) 936 4. (a) 33% (b) 50%	Federal taxpayer compliance costs (after taking into account the value of tax deductibility of certain costs and the value of cash flow benefits) were $6.2b (1.4% of GDP or 7% of (were $6.2b (1.4% of GDP(werenue2 Tw (corpor18 (taxpDP(wP93 erview TD 0.0707 Tc 0 Tw (32xpayers) 5303TD 0 Tc Tcmercio aopinion 30ler	

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology	Major outcomes

Year of publication (Year(s) under					Major outcomes

International Studies and Studies from the Rest of the World

Year of publication (Year(s) under review)	Author(s)	Country (population studied)	Taxes studied	1. Methodology 2. Sample frame 3. Respondents 4. Response rate	Major outcomes	
					Compliance costs	Administrative costs
1999 1995-96	Shekidele	Tanzania (Tanzanian large businesses)	Excise duties	1. Hand-delivered survey (supplemented with semi structured interviews with firms and tax officials) 2. 14 3. 9 4. 64% 4.		

Submissions

Submission of contributions is free of charge and should be sent by email to the

Working papers, Conference papers, etc

Beer, G. (1996), "An Examination of the Impact of the Family Tax Initiative", *National Centre for Social and Economic Modelling (NATSEM) Policy Paper* No. 3, University of Canberra, Canberra.