

FOCUS ON
GENDER
BOSNIA AND HERZEGOVINA

Issue 08

**Tax and Gender
in Bosnia and Herzegovina:
Is personal income tax
gender blind?**



Sweden
Sverige



Tax policy is widely considered gender neutral. Even though the explicit gender biases are disappearing in the developed world, the implicit bias towards one sex over the other is still common. In this issue of Focus on Gender, we zoom in on personal income taxation, with a sex-disaggregated quantitative analysis on the usage of personal allowances during the period 2016 - 2020 in the Federation of Bosnia and Herzegovina and Republika Srpska. The data analysis on the beneficiaries of personal allowances confirms that they are primarily used by men, therefore

increasing their disposable income, while also implicitly reinforcing existing gender gaps in the labour markets and family dynamics. Some of the announced and recently adopted changes to the personal income tax laws might reduce these negative effects in several aspects, as the “breadwinner” model incentives are being significantly reduced. These could be positive changes, but not comprehensive measures to tackle gender equality issues via taxation. At the end of this brief, a set of recommendations is provided.

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LIST OF ABBREVIATIONS

PIT	Personal income tax
BiH	Bosnia and Herzegovina
FBiH	Federation of Bosnia and Herzegovina
RS	Republika Srpska
BD	Brčko District
OECD	Organization for Economic Co-operation and Development
MPA	Monthly personal allowance
SDG	Sustainable Development Goal

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INDIVIDUAL TAXATION IN BOSNIA AND HERZEGOVINA — AN OVERVIEW

In Bosnia and Herzegovina, direct taxes are imposed at the entity level, while indirect tax regulations are imposed at the state level.

Personal income tax (hereinafter: PIT) systems in Bosnia and Herzegovina are established at the level of two entities: the Federation of Bosnia and Herzegovina (hereinafter: FBiH) and Republika Srpska (hereinafter: RS), as well as Brčko District (hereinafter: BD). There is a high degree of harmonisation between the legal framework for PIT in the three jurisdictions, with the flat tax rate of 10% applied to taxable income. The main differences between the three jurisdictions are in the level of personal allowance (non-taxable, basic income) and the design and number of other personal allowances and deductions.

The PIT taxpayers are primarily residents of the jurisdiction, i.e. the individuals with a permanent address in a tax jurisdiction, or

those residing in a jurisdiction more than 183 days in a year, or those receiving funds from the public budgets on the basis of income from employment or a business activity. In addition, taxpayers are all other individuals (non-residents) for an income earned in a tax jurisdiction, whether from employment, business activity, capital investment or other sources. Additional rules are established for avoiding that an individual is taxed twice in Bosnia and Herzegovina, based on employment and residence.

In this publication¹, we focus on income from employment and related features of the PIT systems in the two entities. According to the pre-existing research, discussed in more detail in the following section, this is the segment of the policy where the majority of gender biased features are identified, and it is therefore the primary area of interest for this particular gender analysis.

¹ This publication was prepared based on a broader GRB analysis of tax legislation and policies in BiH, authored by Azra Bećirović, PhD, public finance and gender responsive budgeting expert.



GENDER BIAS IN TAXATION

Tax policies are directed at income, wealth, and consumption. If we know that differences between women and men exist in their income level and labour force participation, there are likely to exist differences in how and how much they are taxed. Further, there are tax provisions directed at promoting social or economic goals, such as tax allowances for supported family members and children (the breadwinner family model support), and deductions for investments in housing, medical expenses, etc. which again affect gender dynamics. Taxation of wealth, or the lack thereof, furthermore,

affects those individuals who are legal owners of land, real estate, and other assets. In consumption, different spending patterns of women and men lead to different impacts of applicable taxes.

When it comes to taxation, particularly personal income taxation, we observe explicit and implicit gender biases. In general, if the policy includes direct differentiation between sexes, or a reference is made to one sex only in its wording, we classify it as an explicit gender bias. An example of an explicit gender bias is presented in the box below.

Married men in the Netherlands were granted a higher income tax-free allowance than married women (until 1984).

On the Island of Jersey, married women needed their husbands' permission to talk to tax authorities and to file taxes under their own name (until a new law came into force in 2021).

Source: Harding et al. (2020).

Implicit gender bias is much more common in public policy, including tax policies. It comprises general, often regarded as gender-neutral, tax rules, that are indirectly reinforcing gender inequalities and pre-existing gender

roles in society. The most common example related to personal income taxation is the joint taxation of couples living in the same household, in jurisdictions where progressive income taxation² is in place.

Implicit gender bias in taxation results in different levels of taxation of women and men.

BACKGROUND ON THE RELATIONSHIP BETWEEN TAX AND GENDER

Personal income taxation is the primary area of interest when observing implicit gender bias. The general tax rules will result in a different effect on women and men, and in fact higher taxation of women, if the rules are not designed to prevent such results. The overview of OECD countries in 2014 for the comparison of the total taxation level of a single person and of a second earner³ in a household show that in more than two-thirds of OECD countries, second-earners face a disproportionately high tax burden when entering the workforce. This happens because the income of the second earner, when added to the first earner's income, takes the household over a tax bracket, i.e. a portion of their joint income is falling into the next bracket with a higher level of taxation. Second earners are predominantly women. In addition to other factors determining the motivation and the opportunities in the labour markets, such as educational level and childcare availability, such taxation systems are contributing to women being disincentivized to work.

Personal income tax systems have a large potential in redistribution of income and fighting poverty through the provision of essential services. As previously discussed, this potential is significantly decreased in the level of taxes collected via PIT in developing countries and the same is the case in Bosnia and Herzegovina, due to a low level of taxation and many exemptions from PIT, coupled with limited coverage (tax base). Nevertheless, the potential of PIT to tackle gender issues remains, as well as the simplicity in tracking the impact on women and men.

Firstly, the individualized taxation of personal income is a positive feature of the system in BiH. The flat personal income tax rate of 10% in both entities and BD is generally not favorable, and nor is the very low personal allowance (lower than the minimum wage), but the overall effects of the systems can be observed in relation to usage of available allowances. The gender analyses of personal income tax allowances in the FBiH and RS, including the expected effects of the newly introduced or announced changes to tax allowances are presented in the following chapters.

² Progressive personal income taxation is the system where high-earners are paying larger proportions of their income in tax, where tax rates are increased in accordance with the established tax brackets for specified levels of earnings.

³ Note: due to family-based, or household-based, taxation and reductions in dependent spouse tax credits.



ANALYSIS OF PERSONAL INCOME TAX ALLOWANCES IN THE FEDERATION OF BOSNIA AND HERZEGOVINA

In the FBiH, the Law on PIT prescribes the following deductions and allowances:

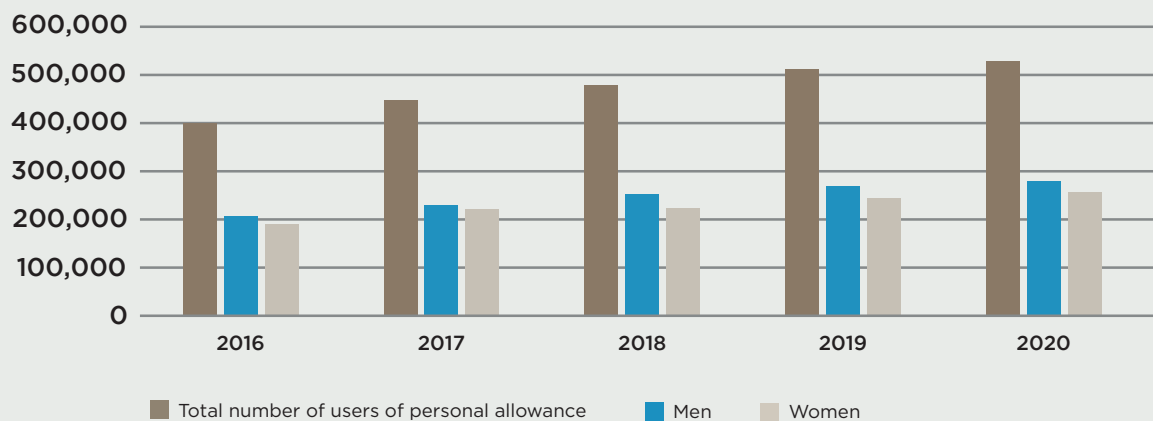
- Monthly personal allowance (hereinafter: MPA) – BAM 300;
- Allowance for a dependent spouse, or a former spouse to whom alimony is paid - (0,5 MPA= BAM 150);
- Dependent family member first child – (0,5 MPA = BAM 150);
- Dependent family member second child - (0,7 MPA = BAM 210,);
- Dependent family member third and every next child – (0,9 MPA = BAM 270);
- Other dependent family member (whose monthly income does not exceed BAM 300) – (0,3 MPA= BAM 90);
- Personal disability, or disability of other dependent family member allowance – (0,3 MPA = BAM 90).

Additionally, interest paid on a mortgage loan is deductible up to the full amount.

Our analysis starts by looking into the number of users of personal allowance which is presented in Figure 1. Personal allowance is available to every employed person who has a tax card issued in the Tax Administration of FBiH. While the total number of persons who claim the allowance is

increasing over the observed period, which correlates with the number of employed persons in the FBiH, the gender ratio is in favour of men, again correlating with the situation in the labour market, with more men in employment than women.

Figure 1. Personal income tax allowance (BAM 300, monthly) in the Federation of BiH, Beneficiaries, total and by sex, 2016-2020

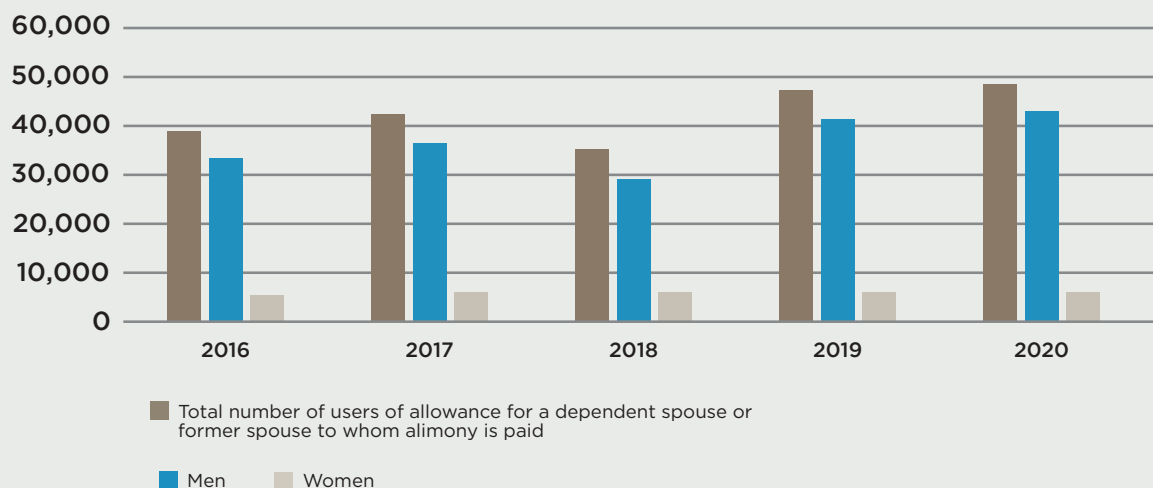


Data source: Tax administration of the Federation of BiH.

Further, moving to the overview of the users of allowance for a dependent spouse or a former spouse to whom alimony is paid, as seen in Figure 2,

we see a striking, but not surprising gender gap in favour of men (88% in 2020).

Figure 2. Personal income tax allowance for a dependent spouse in the Federation of Bosnia and Herzegovina (BAM 150, monthly); Beneficiaries, total and by sex, 2016-2020



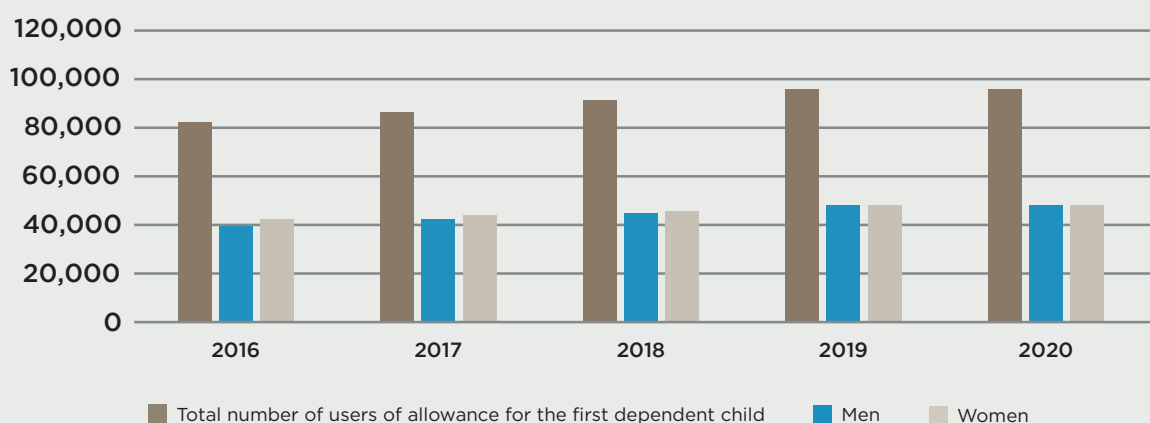
Personal allowances for children differ for the first, second and third and any subsequent child. The first, and also the smallest allowance in monetary terms, is for the first child, is used more overall by women (only in 2020, more men are receiving it). This result is more easily explained by the fact that more women are single parents, rather than that they are the ones with higher earnings and therefore claiming benefits for the child.

The situation reverses when looking into the allowance for the second child, higher in absolute terms, where men

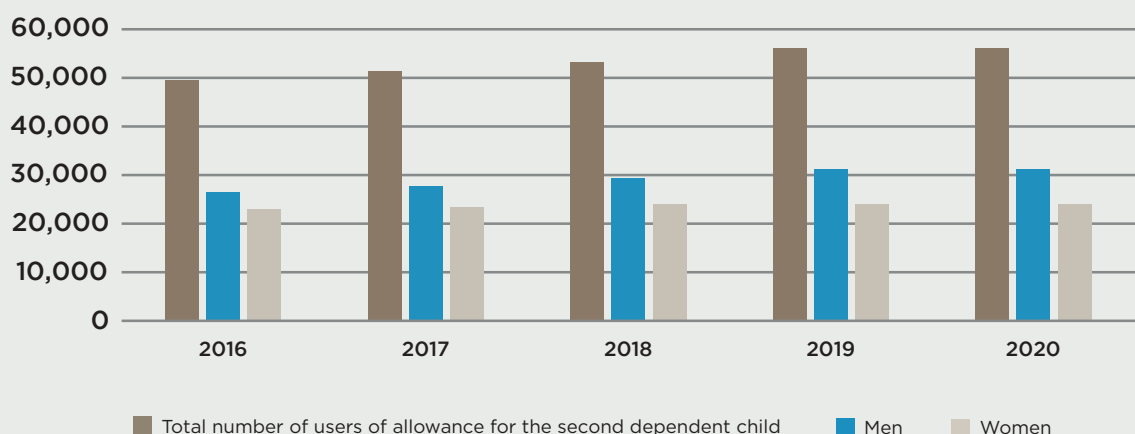
are 56% of beneficiaries, and peaks for the dependent third and every subsequent child, with men being 73% users of the benefit that is the highest in monetary terms (see Figure 3.). The design of these allowances is clearly aimed at supporting large families. The findings, however, show that it is primarily the father who is benefiting from such provisions, while a woman/mother is much less likely to be in employment and entitled to tax allowances. The gender gap in usage of these tax allowances significantly widens with more children in the family.

Figure 3. Personal income tax allowances for supported children in the Federation of Bosnia and Herzegovina, Beneficiaries, total and by sex, 2016-2020

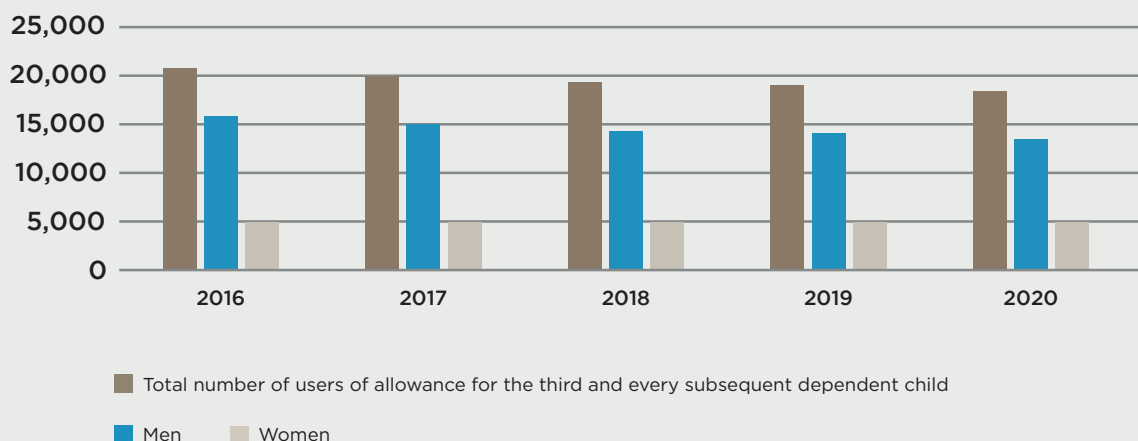
3a - first child (BAM 150, monthly)



3b - second child (BAM 210, monthly)



3c - third+ child (BAM 270, monthly)



Data source: Tax administration of the Federation of BiH.

Finally, the primary users of all additional allowances are men, with 73% users of allowance for any other dependent family member and 71%

users of allowance for disability of dependent family member. This data can be seen in Figures 4 and 5.

Figure 4. Personal income tax allowance for other supported family member in the Federation of Bosnia and Herzegovina (BAM 90, monthly); Beneficiaries, total and by sex, 2016-2020

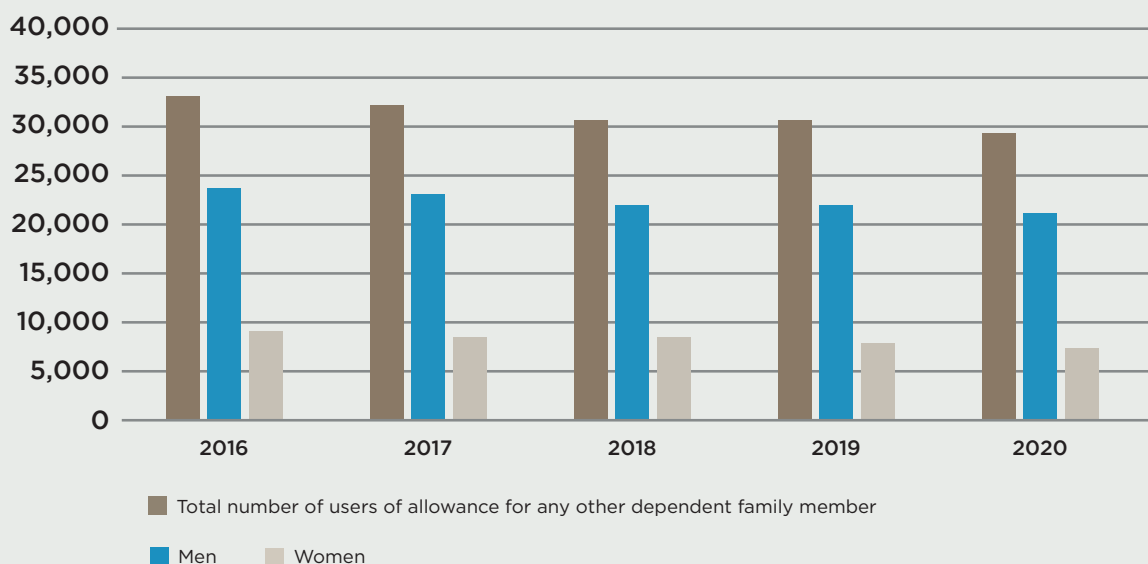
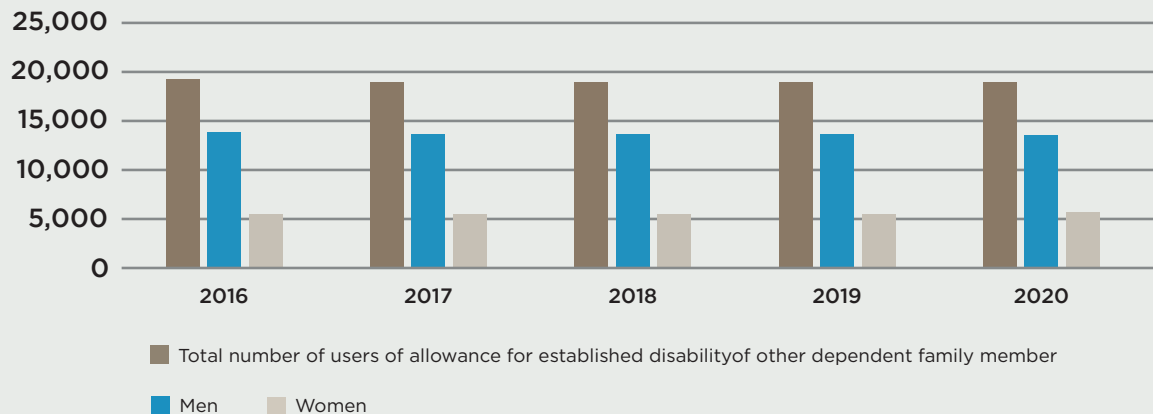


Figure 5. Personal income tax allowance for disability of other dependent family member in the Federation of Bosnia and Herzegovina (BAM 90, monthly); Beneficiaries, total and by sex, 2016-2020



ANALYSIS OF ANNOUNCED LEGISLATIVE CHANGES TO TAXATION OF LABOUR IN THE FBiH AND GENDER EFFECTS

The proposal of the new FBiH Law on Personal Income Tax⁴ is introducing significant changes to the coverage and the level of taxation of personal income.

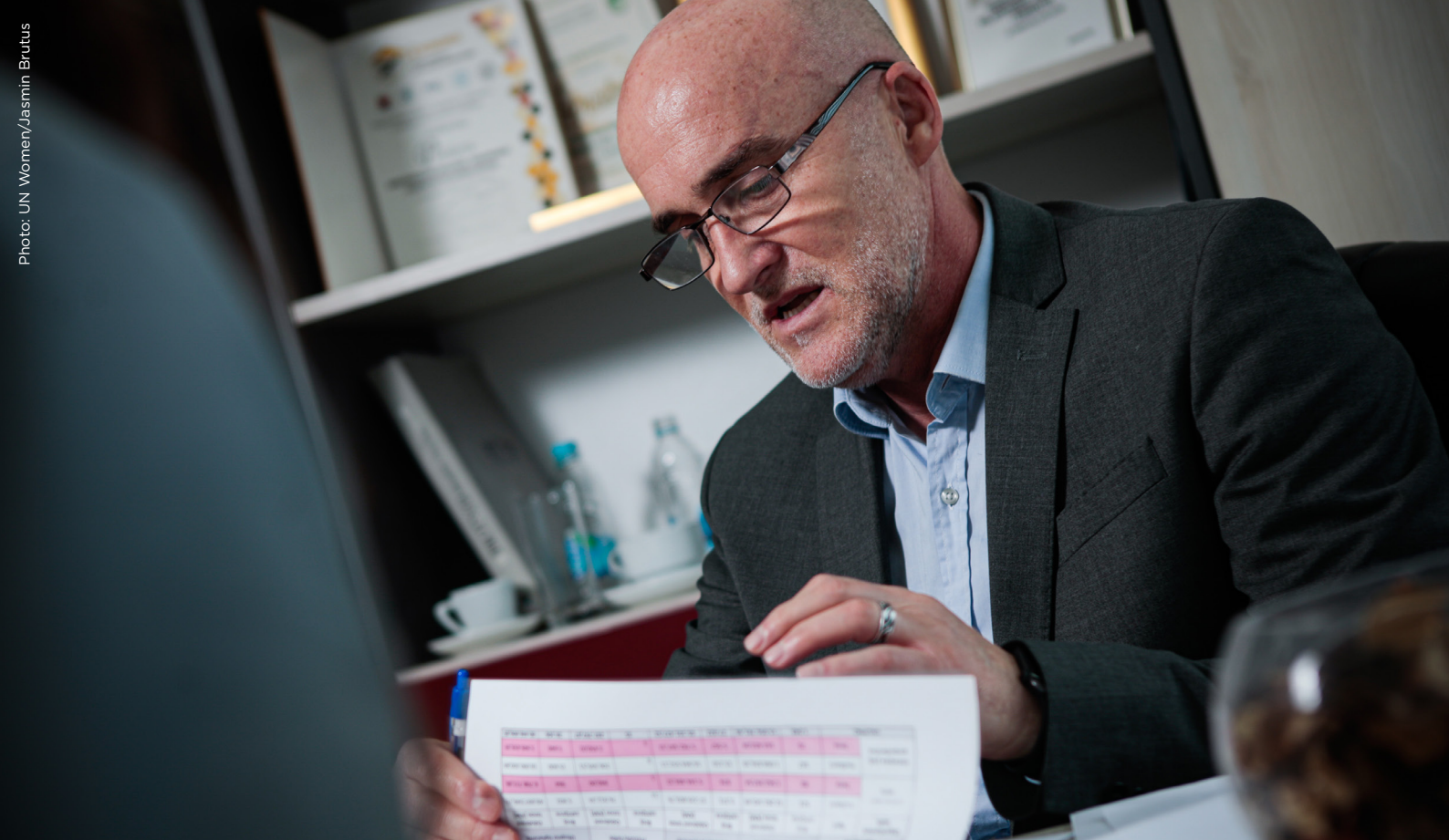
First of all, the PIT tax base is broadened, as it now includes earnings from employment besides the salary, such as allowance for travel, meals and vacation. The tax rate, previously a flat 10% rate, is now proposed at 10% and 13%. The lower rate is envisaged for income from capital investments, while other forms of income are taxed at 13%, coupled with, on the other hand, a significant increase in the personal allowance (300 to 800 BAM). This non-transferable allowance is to be the only deduction in the final tax obligation, as the proposed changes include abolishment of deductions for supported partner, children, and other family members, as well as the one for interest paid on mortgage and medical expenses.

This move appears to aim at increasing women's participation in the labour market – because only if both partners work, can they make full use of personal income tax allowances.

This differs from the prior, and still effective, personal income tax allowances which were maximized for couples where only one of the partners works and they have more than two children – therefore, resulting in:

1. discouraging women, primarily, from entering the labour market;
2. leaving to the couple/parents to decide who is going to use the tax deductions for children usually leads to the one with higher overall earnings to use more of the deductions – usually a man, even though it is common for women/mothers to spend larger shares of their income on children and the elderly. The result is that women pay more tax as a percentage of their income and spend more on supported family members, leaving much less income for their own discretionary spending.

⁴ Currently in parliamentary procedure. The version analysed here is unified text dated September 2021, that includes the proposed June 2018 Law on Personal Income Tax, September 2020 FBiH government amendments and November 2020 Amendment I by Naša stranka (NS) [Our Party].



ANALYSIS OF PERSONAL INCOME TAX ALLOWANCES IN REPUBLIKA SRPSKA

The system of PIT allowances is slightly simpler in RS than in FBiH regarding the total number of available allowances.

The following allowances and deductions from a PIT tax base are available in RS:⁵

- Annually (BAM) personal allowance – BAM 8,400 (BAM 700 monthly);
- Dependent family members – BAM 900 (BAM 75 monthly);
- Interest paid on a mortgage loan is deductible up to the full amount;
- Premium paid on life insurance to an insurance company licenced in Republika Srpska is deductible up to BAM 1,200;
- The paid contribution for voluntary retirement insurance is deductible up to BAM 1,200.

⁵ Applicable at the time of analysis, the last quarter of 2021.

With an aim to improve the demographic picture of RS, a tax exemption for remuneration of childbirth has been introduced in the amount of one average net salary.

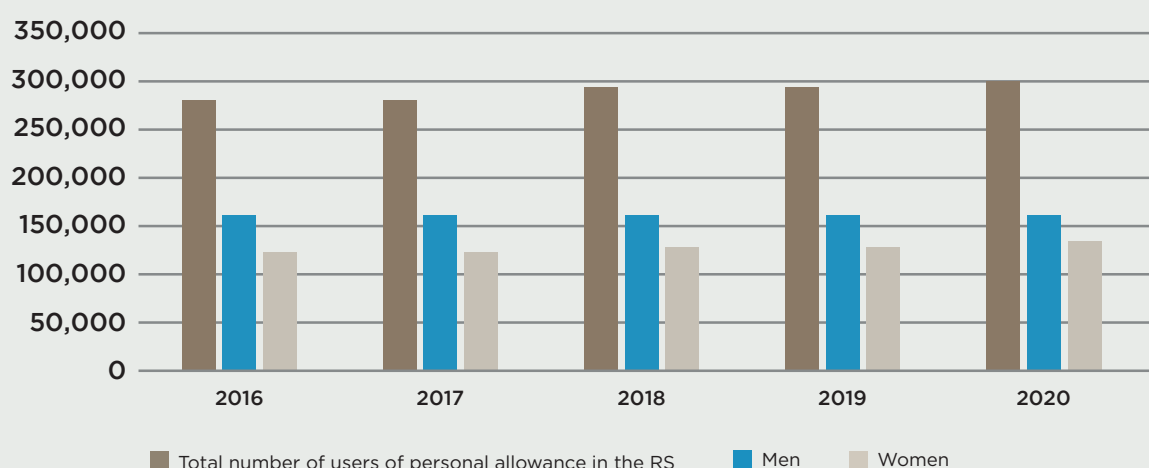
As in the other entity, usage of a personal allowance is related to the gender ratio in employment, with men being 55% of users. In the observed period, the number of employed persons seems to be increasing and that is related to higher employment of women and their usage of personal allowance, seen in Figure 6.

The dependent spouse allowance is again predominately used by men (75%), but the overall level is dropping over the period of five years, as seen in Figure 7.

The usage of allowance for a dependent child is also dropping over the period, but the gender ratio is slowly decreasing in favour of women (42% of users in 2020), as seen in Figure 8.

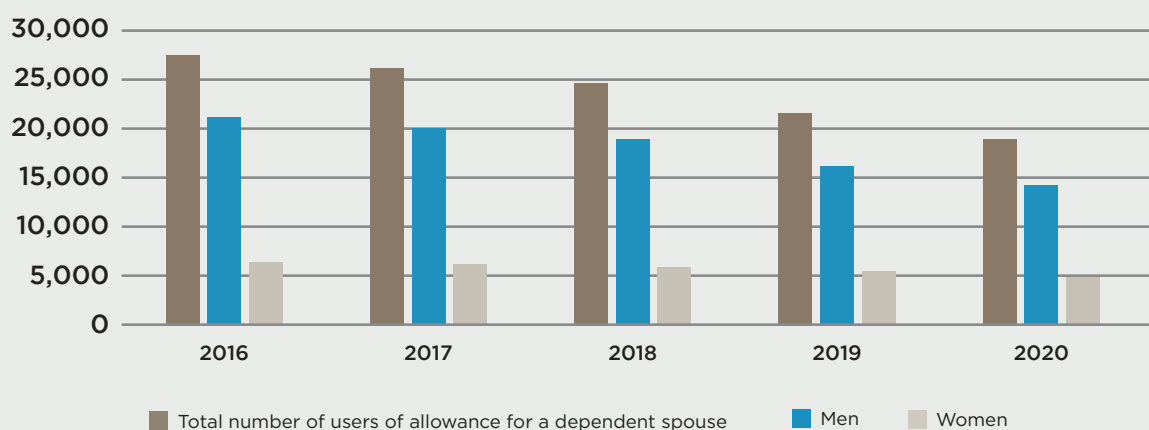
The other dependent family member allowance is predominantly used by men (78%) (see Figure 9.).

Figure 6. Personal income tax allowance in Republika Srpska, Beneficiaries, total and by sex, 2016-2020



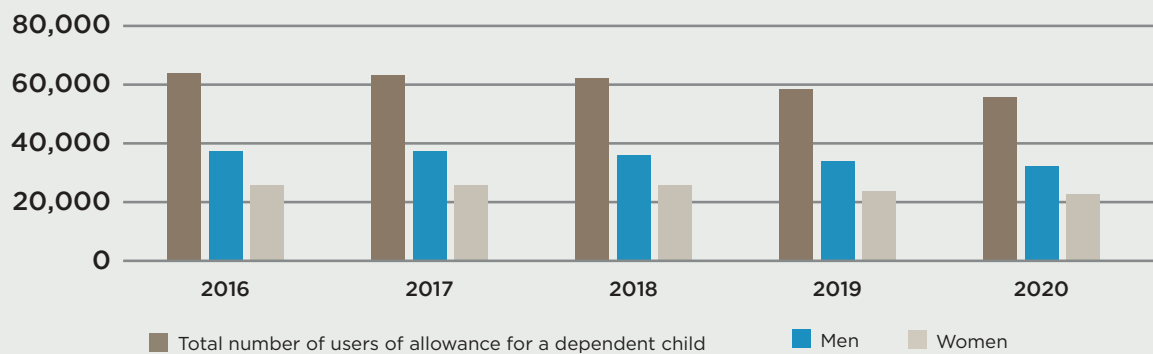
Data source: Tax administration of Republika Srpska.

Figure 7. Personal income tax allowance for dependent spouse in Republika Srpska, Beneficiaries, total and by sex, 2016-2020



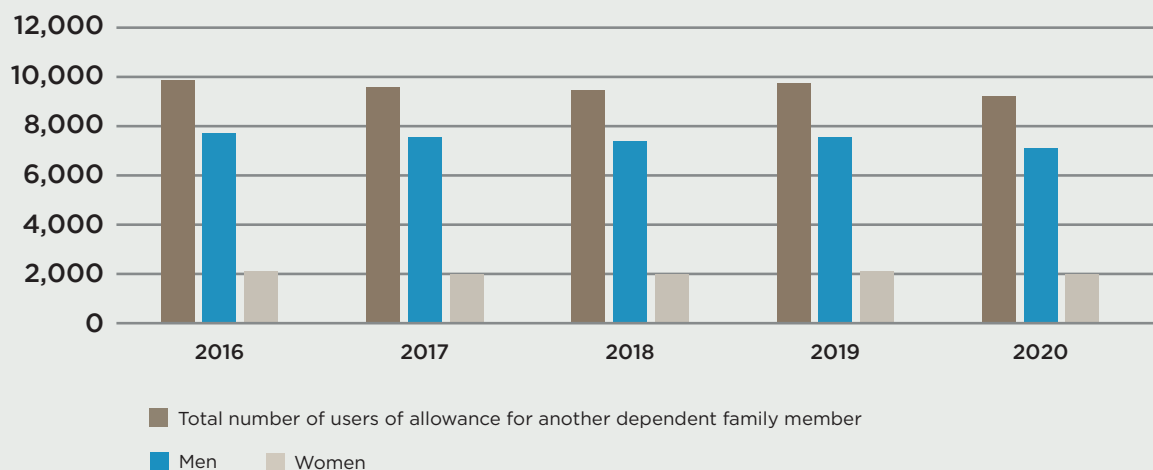
Data source: Tax administration of Republika Srpska.

Figure 8. Personal income tax allowance for dependent child in Republika Srpska, Beneficiaries, total and by sex, 2016-2020



Data source: Tax administration of Republika Srpska.

Figure 9. Personal income tax allowance for other dependent family member in Republika Srpska, Beneficiaries, total and by sex, 2016-2020



Data source: Tax administration of Republika Srpska.

ANALYSIS OF LEGISLATIVE CHANGES TO TAXATION OF LABOUR AND GENDER EFFECTS IN REPUBLIKA SRPSKA

Changes introduced in the recently adopted PIT law amendments in Republika Srpska⁶ include a different calculation of the earnings and related social contributions and tax obligations, resulting in overall higher net earnings, more tax and less social contributions paid.⁷

The personal allowance is risen significantly, to 1,000 BAM (applied to the gross earnings), and personal income tax rate is set at 8%, 10% and 13%, for different sources of income: income from employment is taxed at 8%; tax on income from an independent activity is 10%; income from royalties, copyright related rights and the right to industrial property, capital, capital gains and other income is taxed at 13%.

⁶ Adopted by the RS Government on 6 December 2021, by the RS National Assembly on 15 December and in effect from 1 January 2022. The effects are dependent on the proposed and adopted amendments to the laws that regulate the level and calculations of earnings in the private and public sector.

⁷ Projections of the Ministry of Finance of Republika Srpska.

The related amendments to the Law on Social Contributions include a decrease of the health insurance contribution rate from 12% to 10.2%, which alters the total contributions rate from 32,80% to 31%.

Overall, an increase in the personal allowance and the lower rate of taxation income from employment are expected to result in losses to public revenues. Regarding the division of losses and gains from introduced reforms, it is estimated that the entity budget will see losses (increase in the tax revenues but decrease in social contributions, primarily contributions for health insurance), while the local self-governing units will have additional revenues.

The aim of the reform, to increase net earnings for the employed is estimated to be achieved, where the additional retained income, in relative terms, is the highest for the low-income groups: e.g. for the (minimum) net earnings of 540 BAM, the gain is 14.5 BAM (2.7%), while for the net earnings of 2,000 BAM, the gain is 26.6 BAM (1.3%).

Overall, more men are among high-earning individuals and more women are among those in lower earnings groups, so this change is expected to have positive redistributive effects, but also might increase women's take-home pay more than men's. Moreover, higher rates of taxation of additional sources of income, i.e. income from independent activities, royalties and capital gains might lead to an overall higher taxation of men.



Photo: UN Women BiH/Jasmin Brutus



CONCLUDING REMARKS

Our analysis of the effects of the existing PIT law during 2016-2020 shows that personal allowances are used at comparable levels by women and men, but those for dependent family members go primarily to men. In the FBiH, there are three categories of allowances for dependent children, and the larger the allowance, the wider the gender gap in using it, in favour of men.

This indicates either that a woman/mother is not working or is earning much less so she cannot make full use of the incentives, or she is ignorant about these benefits and the opportunities to preserve a portion of

her income due to supporting children or other family members.

Proposed changes to the Law include an increase in personal allowance, which results in those in low-income groups not paying any PIT. This is in line with the international guidance⁸ that no PIT (nor social security contributions) should be paid by those living near poverty lines, even though a gradual increase in the taxation for the higher income groups is still lacking. The abolishment of separate allowances for supported family members and children in favour of higher personal allowance might be a positive step from a gender

⁸ Lahey (2018).

equality perspective. Increase in personal allowance – the non-taxable part of the earnings, should motivate individuals, primarily women to work, and disincentivize provision of excessive unpaid care work.

In the RS, the number of allowances is smaller, but the gender effect is comparable to that in the FBiH. Recently introduced changes to personal allowance and the social contributions might benefit women more, but a follow-up analysis is needed to estimate these effects.

Further interventions from a gender equality perspective could be the introduction of tax allowances for paid childcare and care of the elderly,⁹ whether for publicly or privately provided services by companies or domestic staff contracting. One of the main challenges in tackling gender equality in employment and gender pay gap is the extent of unpaid care work, especially in highly paid and decision-making roles, but also dropping out of schools, higher education programmes and research careers. This issue of care work is also relevant for discussions on the measurement of the economic output: this comprises the invisible part of the economy – it is not quantified, therefore not valued in monetary terms.

With incentives for domestic staff contracting, there would be a two-way benefit for gender issues: besides relief from costs of care for women who participate in the labour market, it would also imply that the providers of such services – in BiH usually

unemployed women of all ages, would have an incentive to formalize their work and legalize business activities which would bring them more security, social and health insurance as well as retirement schemes, resulting in economically empowering the highly vulnerable category in a society. Ultimately, this would lead to an increase in the collection of taxes and social contributions, which, joint with the tax allowances, might have a neutral, or even positive, effect on total public revenues.

Furthermore, tax benefits for domestic help could be designed to be available to married (co-habitated) women only, and those for childcare specifically only to working mothers, if the main goal is to encourage women to remain in the labour market.¹⁰ On the other hand, if the goal is to increase employment, of women primarily, and tackle this segment of the informal economy, it is beneficial if the allowance for domestic staff is also available to married and single men.

Personal income taxation, as discussed, has a large potential to address gender issues related to earnings, employment, and unpaid care work. Social security contributions are intertwined with personal income taxation and can contribute to a fairer distribution of retirement and other contributory social benefits, especially in securing the old-age basic income for women who were primarily caregivers, those with interrupted carriers due to motherhood or those in precarious jobs.

⁹ Provided that these are not already subsidized via expenditure policies.

¹⁰ eg. Singapore.

RECOMMENDATIONS

Tax policy has a wide-reaching potential in tackling economic and societal goals, including the achievement of the 2030 Agenda and SDG 5 – gender equality. Therefore, continuous efforts should be put into benchmarking, monitoring, adjustments, and tracking the impact of tax policy on women and men.

To this end, the following recommendations are specified according to the stakeholder group:

GOVERNMENTS

- Ensure that gender impact assessment is prepared as an obligatory part of the policy development process, including tax policy amendments.
- Prepare regular analyses of the effects of applicable tax incentives and related tax expenditures, including their gender impact.
- Propose tax policy amendments that support the priority societal goals, including gender equality.

INTERNATIONAL COMMUNITY

- Provide expert support in tax policy developments and gender impact assessments, including the best international practices in designing tax incentives and tax allowances to benefit gender equality objectives.
- Advocate for a gender-sensitive approach in tax policy development at all levels of government.

MEDIA

- Raise awareness of the different impact of tax policy on women and men, via
 - reporting on publications and discussions on the topic;
 - publishing individual stories of women and men.