

Understanding the gendered impacts of VAT reforms

In August 2017, the Vietnam Ministry of Finance announced a number of tax policy reform proposals covering Corporate and Personal Income Tax, VAT, excise tax, environmental tax and tax administration. The proposals, due to be approved in 2018, came against a background of high public debt, budget deficits and the reduction to 0% of many export-import taxes as Free Trade Agreements come into effect.

The VAT proposal was to increase the headline tax rate from 10% to 12%. Some items, notably water and educational materials were meanwhile to be moved from being exempt or subject to reduced (5%) VAT, to being subject to the new headline rate.

In response to the proposals, the Vietnam Tax Justice Alliance (VTJA) decided to conduct independent *ex ante* impact assessments of the proposed VAT reforms. The VTJA is made up of four organizations that collaborate informally to promote tax justice in Vietnam. The research was to consider impacts on households and on the economy as a whole, running a correlation analysis using the Vietnam Household Living Standards Survey (VHLSS) database and carrying out a literature review. The research questions integrated consideration of the gendered impacts of VAT increases:

- i) Gender impacts of VAT increases on people of low educational levels, qualifications and skills
- ii) Gender impacts of VAT increases on low-income groups
- iii) Impacts of VAT increases on families with male- or female-headed households

Overall, the research findings showed that a 2% increase in the VAT rate would push 240,000 near-poor households into poverty. Families with larger numbers of children, elderly people aged 80 or above, as well as female workers are most affected by poverty. Households with low educational attainment, in low-skilled occupations and working in the agriculture sector were also more exposed to such impacts.

Indirect tax reforms, including VAT, are not explicitly gender biased but they indirectly discriminate against women compared with men because of women's lower education levels, lower labour skills and informal sector work, higher unemployment levels and lower incomes. A decrease of VAT on essential goods is a means of providing a sort of social subsidy in the context of women and girls being particularly vulnerable to poverty. Therefore, the research has been used to support the argument that the state should consider reforming the tax system by lowering VAT to promote social equality and substantive gender equality. Specifically:

- 1) The gender impacts of VAT increases on people of low education with careers of low qualifications and skills

The poverty impacts associated with VAT increases are mainly focused on households with low incomes which are headed by individuals with low education levels, notably unskilled agricultural workers. Because education levels of women are generally lower than those of men, women are also more exposed to the impacts from increases in VAT.

- 2) The gender impacts of VAT increases on low-income groups

Rich households have significantly higher shares of non-food, health and education spending than poorer groups. This means poor households are more impacted by an increase in the tax rate on agriculture products

compared with rich households. Studies from Vietnam and other countries all show that women have lower incomes than men while spending more on essential goods such as clean water, food, education and healthcare. Therefore, application of low tariffs or tax exemptions for essential goods and services serves to reduce poverty and promote substantive gender equality, rather than exempting expensive items such as software, capital, land use and transport equipment (exemptions that reduce the cost of consumptions by men and businesses) because women are less likely to be able to consume these items.

3) Impacts of VAT increases on families with male- and female-headed households

Female-headed households have higher per capita spending than male-headed households because female householders often have their husbands migrating or are single, as well as tending to be smaller than male-headed households. This means that female-headed households are more impacted by this VAT increase proposal than male-headed ones.

The women's rights organization CEPEW was responsible for organizing and making available their gender expertise for this analysis. CEPEW was one of four organizations (VNI, VEPR, EPH) which co-designed and co-implemented the research, by framing research questions, sharing and reviewing findings and agreeing on conclusions. They also had a role in drafting the report and sharing the findings with the wider public. Their participation in this VAT work followed and was supported by some training by Oxfam on gender responsive budgeting (August 2017) that sought to enable women's rights, gender and fiscal justice activists to join together to work on a shared 'fiscal and gender justice' agenda.

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