

Income Tax and the Careers of Women

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Abstract

Under a jointly assessed system of income tax, the marginal rate faced by individuals in a couple depends on their combined income. As a result, the lower earner in a couple - typically a woman - can face the higher marginal rates imposed by a progressive tax schedule from even low levels of earnings. This paper considers how such a system of taxation affects the careers of women. I first adopt a differences-in-differences approach, exploiting the UK's abolition of joint taxation in 1990. Estimates suggest that absent the reform, employment rates for married women would have been 4-6% lower. However, income taxes also affect the incentives to invest in education, accumulate human capital and take time out from the labour market. To investigate these longer-run responses, and to unpack the mechanisms underlying them, I develop (and estimate the parameters of) a dynamic lifecycle model capturing women's education, employment, fertility and savings decisions. Simulations from this suggest that moving away from a progressive income tax schedule applied to couples' joint income can increase the employment and earnings of women in the long-run, and result in women choosing to have children later in life.