

# Taxation in Latin America and the Caribbean: Myth versus Reality

## Ana Corbacho



# Taxation in LAC: Myth vs. Reality

## Myth?

1. Low tax burden

2. Regressive taxes

3. Rampant evasion





# **Taxation in LAC: Myth vs. Reality**

## Myth?

1. Low tax burden

## Reality

Yes...in personal income tax ...but most significant rise in overall tax burden in the world

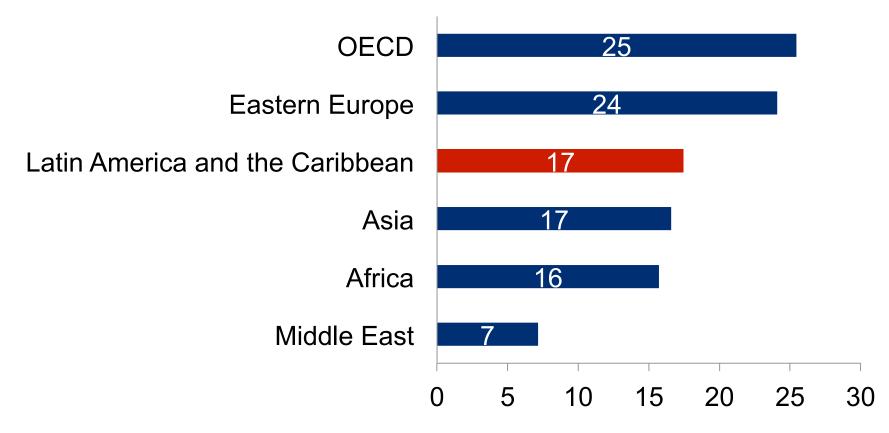




# Low tax burden in LAC

## Tax Burden as Percentage of GDP

(simple average, 2008-2010)

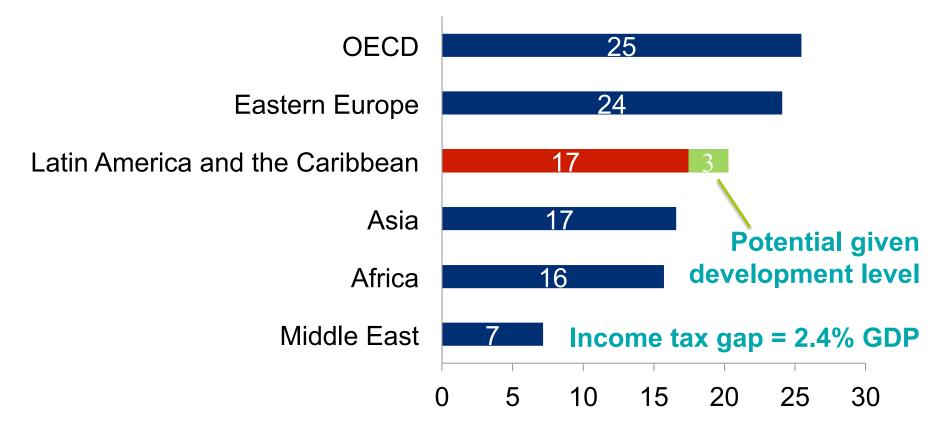




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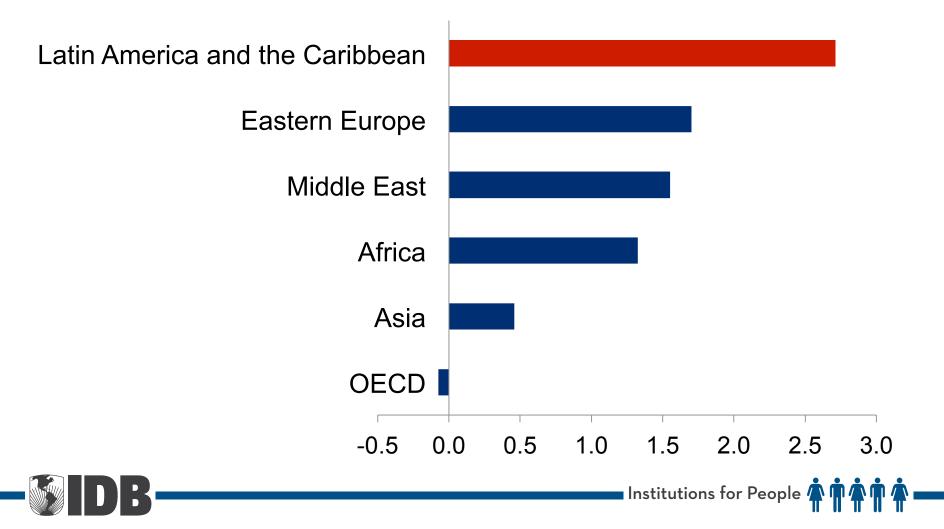




# But largest increase in tax burden in the world

#### Changes in the Tax Burden between 1990 and 2010

(simple average, percentage of GDP)

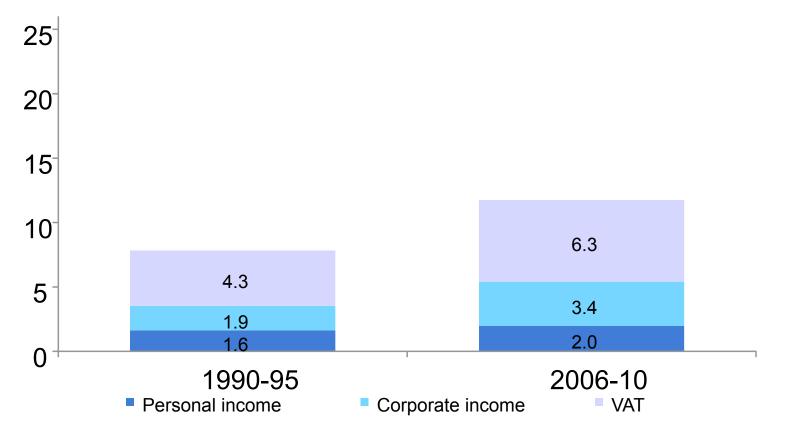


# ...in (almost) all LAC countries

#### Changes in the Tax Burden since the Early 1990s (percentage of GDP) Argentina Ecuador Bolivia Colombia Peru Dominican Rep. Paraguay Jamaica Costa Rica El Salvador Barbados Brazil Uruguay Latin America and the Caribbean Belice Guatemala Nicaragua Panamá Chile Honduras Venezuela Mexico Trinidad and Tobago -2 2 4 6 8 10 0 12 14 -4 Institutions for People

# ...and in (almost) all taxes

Structure of Fiscal Revenue in Latin America and the Caribbean (percentage of GDP)





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# ...and in (almost) all taxes

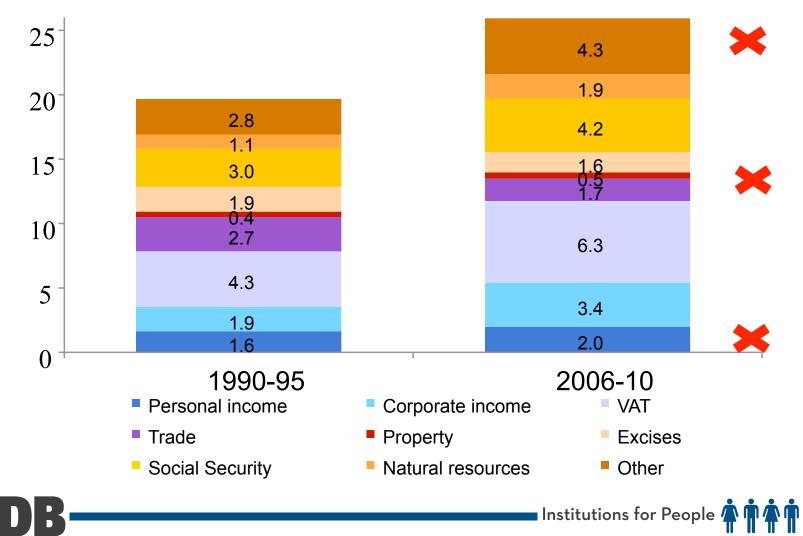
Structure of Fiscal Revenue in Latin America and the Caribbean (percentage of GDP)





# ...and in (almost) all taxes (and revenues)

Structure of Fiscal Revenue in Latin America and the Caribbean (percentage of GDP)



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Maybe...but big losses to avoid VAT regressivity ...and to promote progressivity of personal income taxes



## **Regressive VAT? Measurement matters**

Tax rate as a percent of INCOME		Tax rate as a percent of CONSUMPTION	
Poor	15%	Poor	6%
Rich	4%	Rich	7%



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## Tax expenditure is a bad compromise

## **Of \$100 in exemptions, how much benefits the poor?**

	Costa Rica	Mexico	Uruguay
Poor	2%	5%	2%
Rich	49%	21%	36%



# Personal income tax: Design on paper

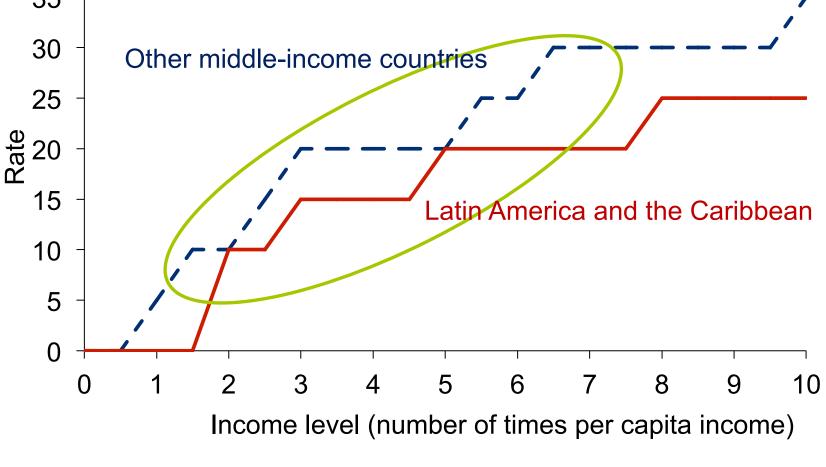
#### Other middle-income countries Rate Latin America and the Caribbean Income level (number of times per capita income)

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Maximum Marginal Rate for Each Income Level, 2010

# Personal income tax: Design on paper

# Maximum Marginal Rate for Each Income Level, 2010

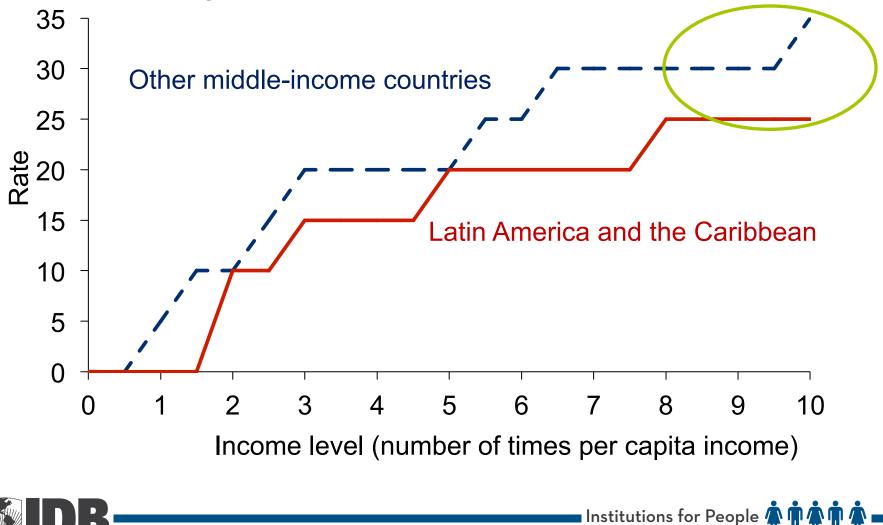


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## **Personal income tax: Design on paper**

#### Maximum Marginal Rate for Each Income Level, 2010



## ...and ends up an empty shell

- Poor design
- Generous deductions
- Evasion

80% of population pays 0%

The very rich pay only 4%

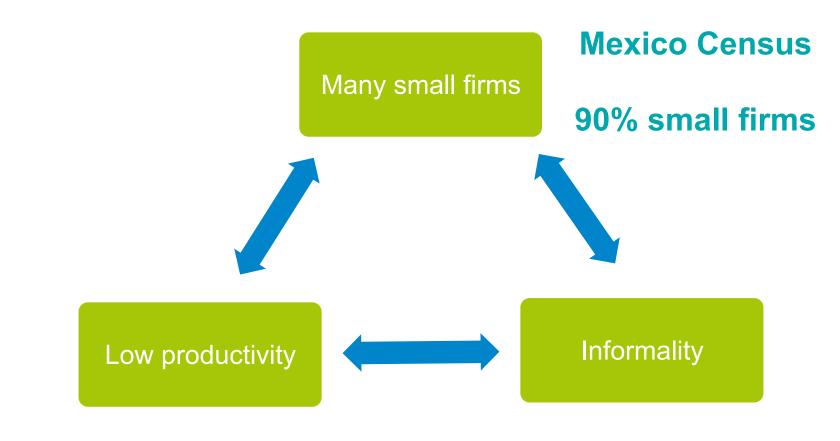
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## Change in income distribution before and after taxes = 0.008

**Progressive on paper...with NO real redistributive power** 



# The vicious triangle of the small firms



## **50% lower productivity**

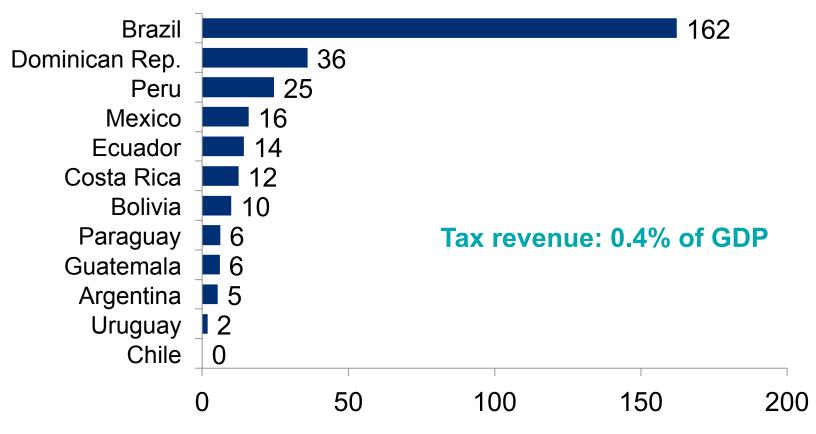
75% informal firms



# Special regimes: Fiscal dwarfism without revenue

### **Simplified Regimes: Maximum Income Limits**

(percentage of income per capita)





## ...that creates sizable horizontal inequity

#### Total Wedge for Annual Income of \$12,000

(percentage of wages)

	Simplified Regime	Salaried Worker
Argentina	7	34
Bolivia	24	29
Brazil	0	34
Chile	20	23
Costa Rica	15	29
Mexico	2	27
Peru	14	25
Uruguay	5	33
Average	11	29



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Yes in income taxes (lower in VAT) It's easy and risk free to evade



# **Generalized evasion in income taxes**

**Tax Evasion Rates** (percentage) Corporate Income Tax Personal Income Tax VAT

10

20

30

40

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50

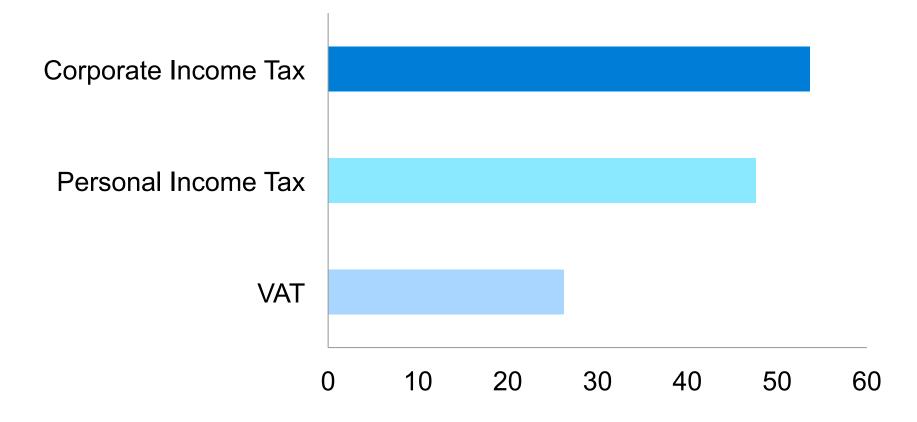
60

0

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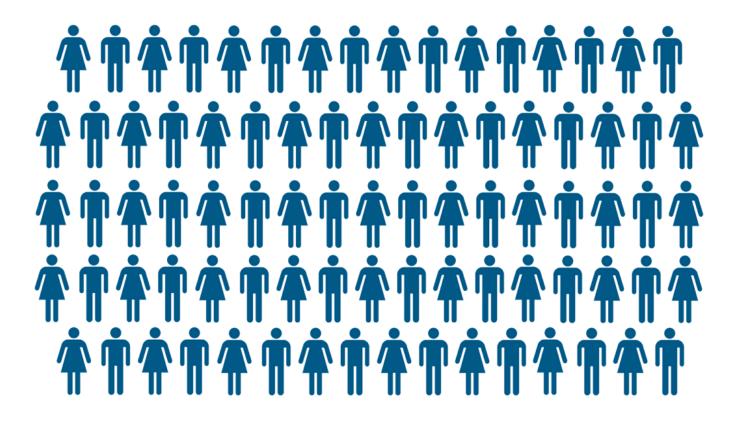
# **Generalized evasion in income taxes**

**Tax Evasion Rates** (percentage)



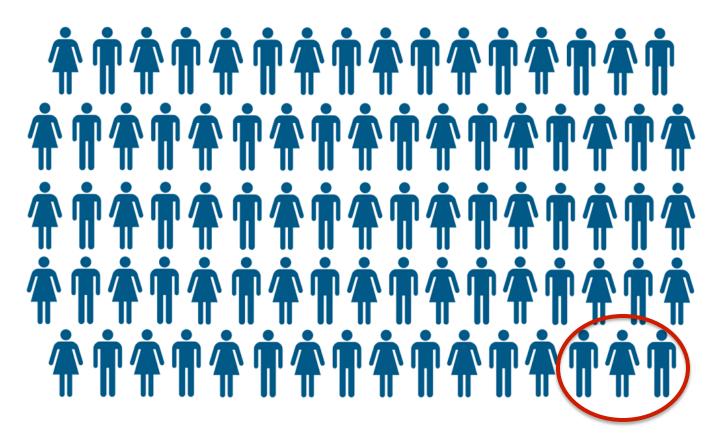


...with minimum chances of being audited





...with minimum chances of being audited



3% Mass audits



...with minimum chances of being audited



0.2% In-depth audits



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