



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?

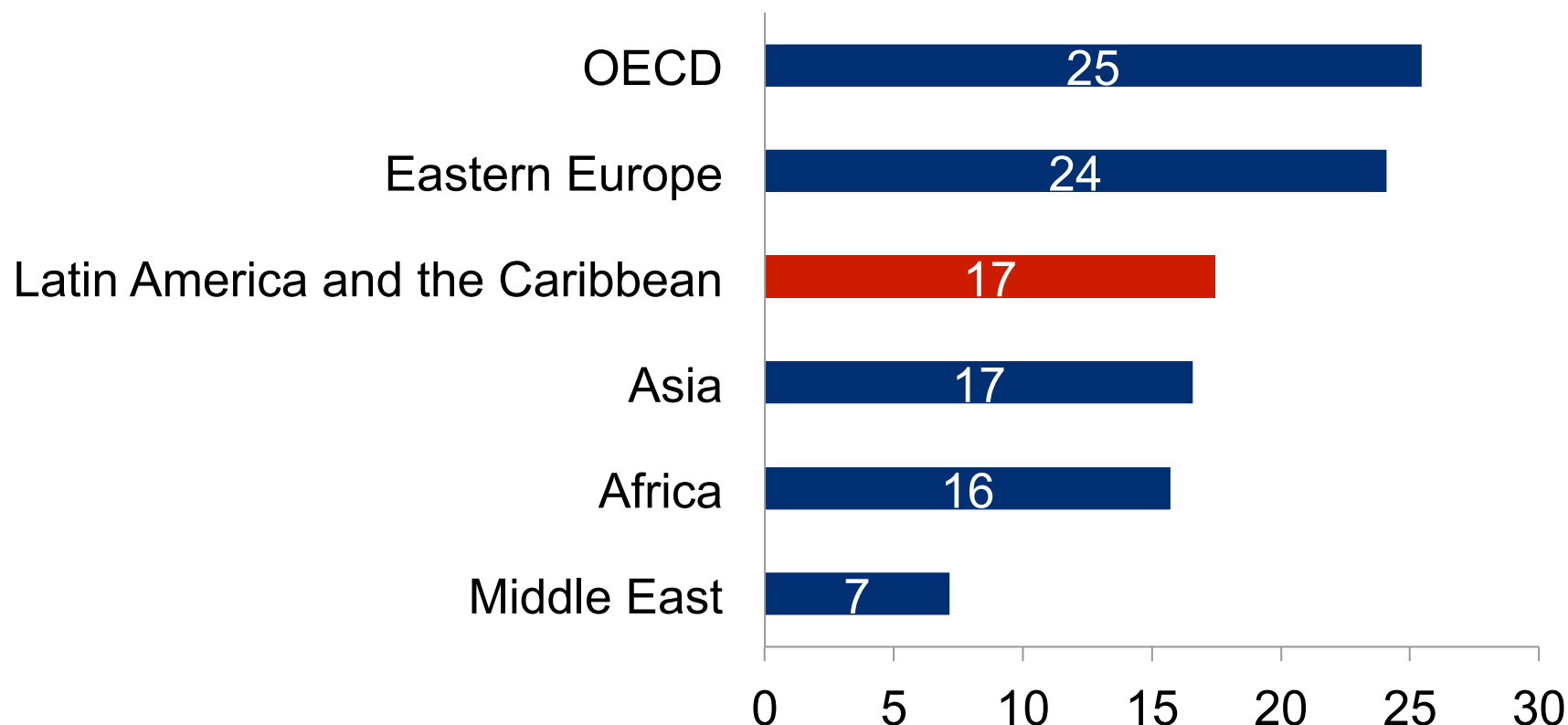
1. Low tax burden

Reality

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

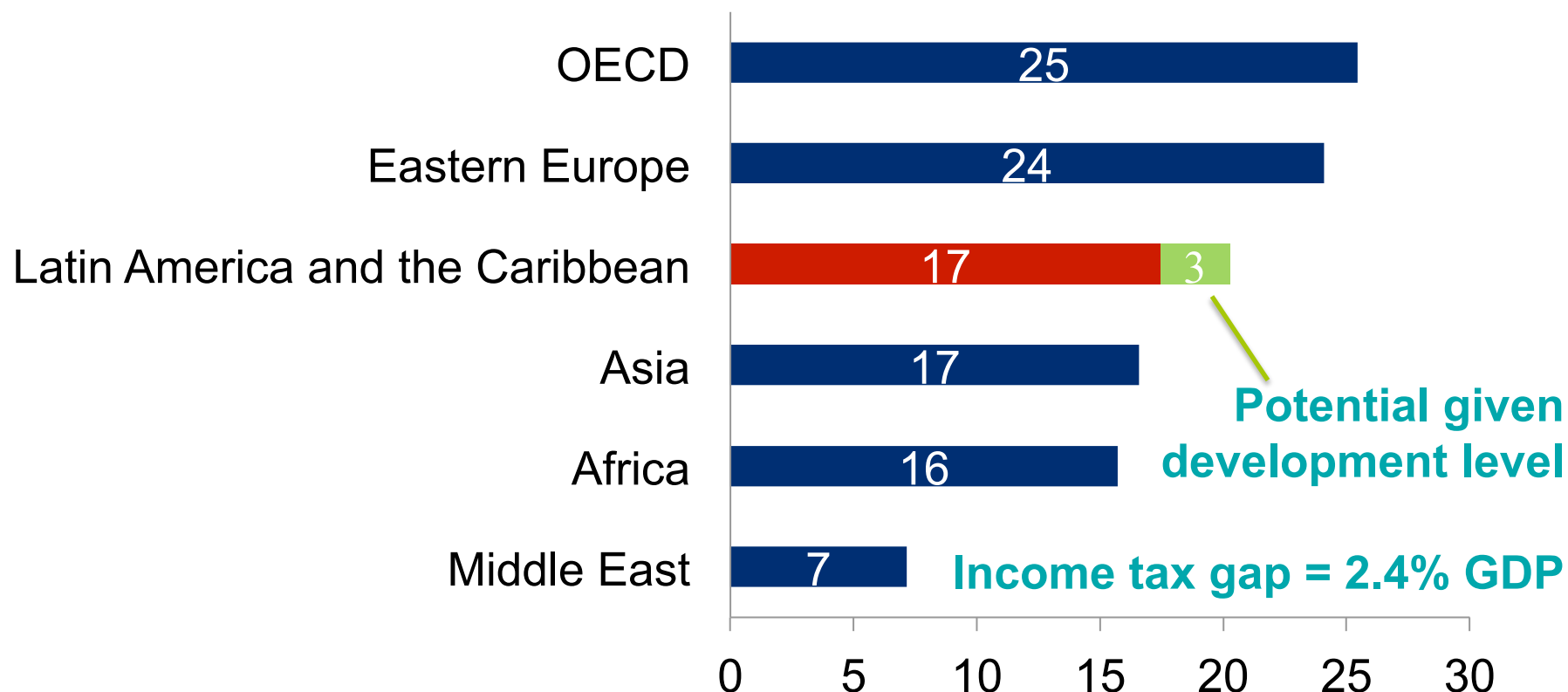
Low tax burden in LAC

Tax Burden as Percentage of GDP
(simple average, 2008-2010)



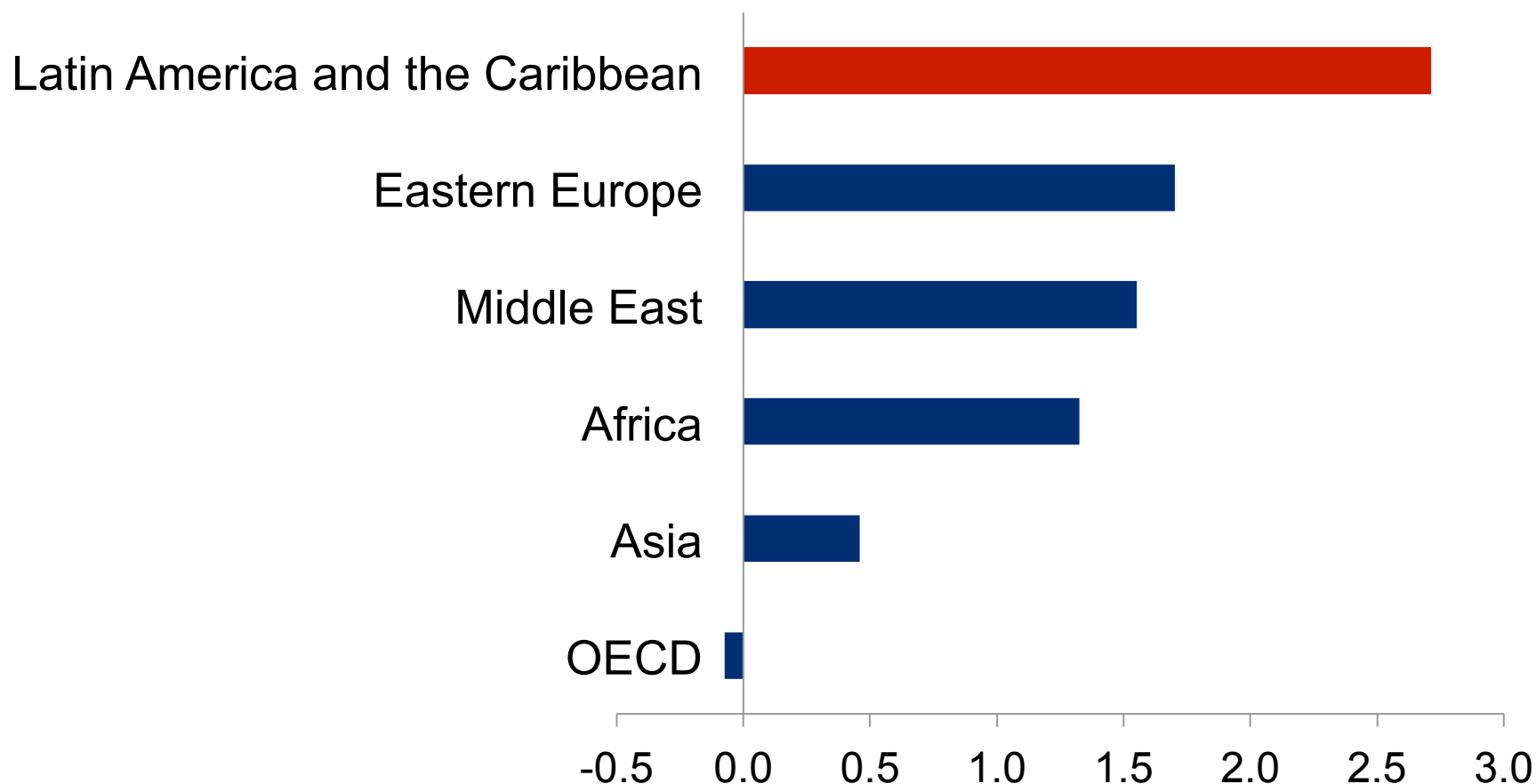
Low tax burden in LAC

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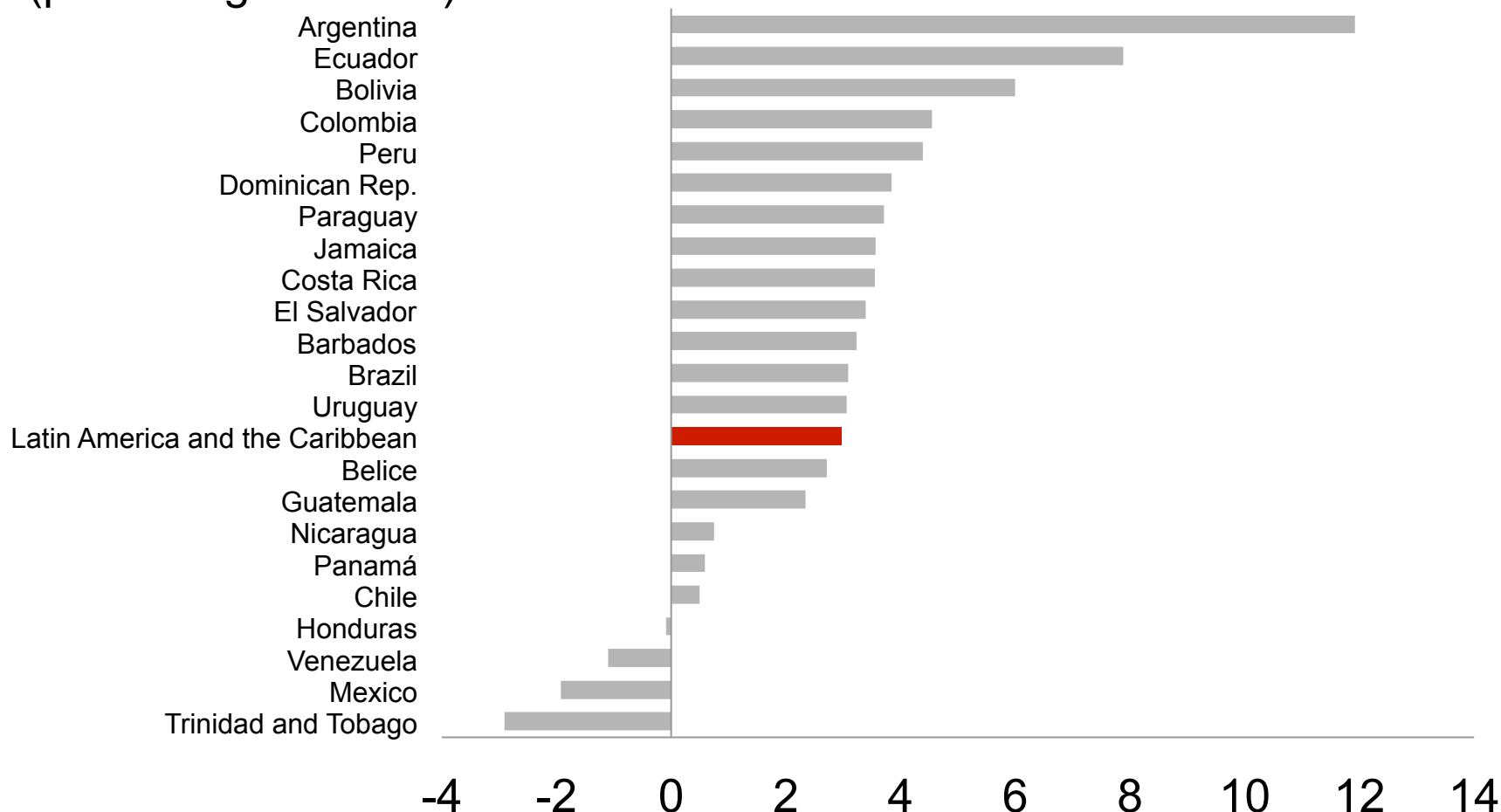
But largest increase in tax burden in the world

Changes in the Tax Burden between 1990 and 2010
(simple average, percentage of GDP)



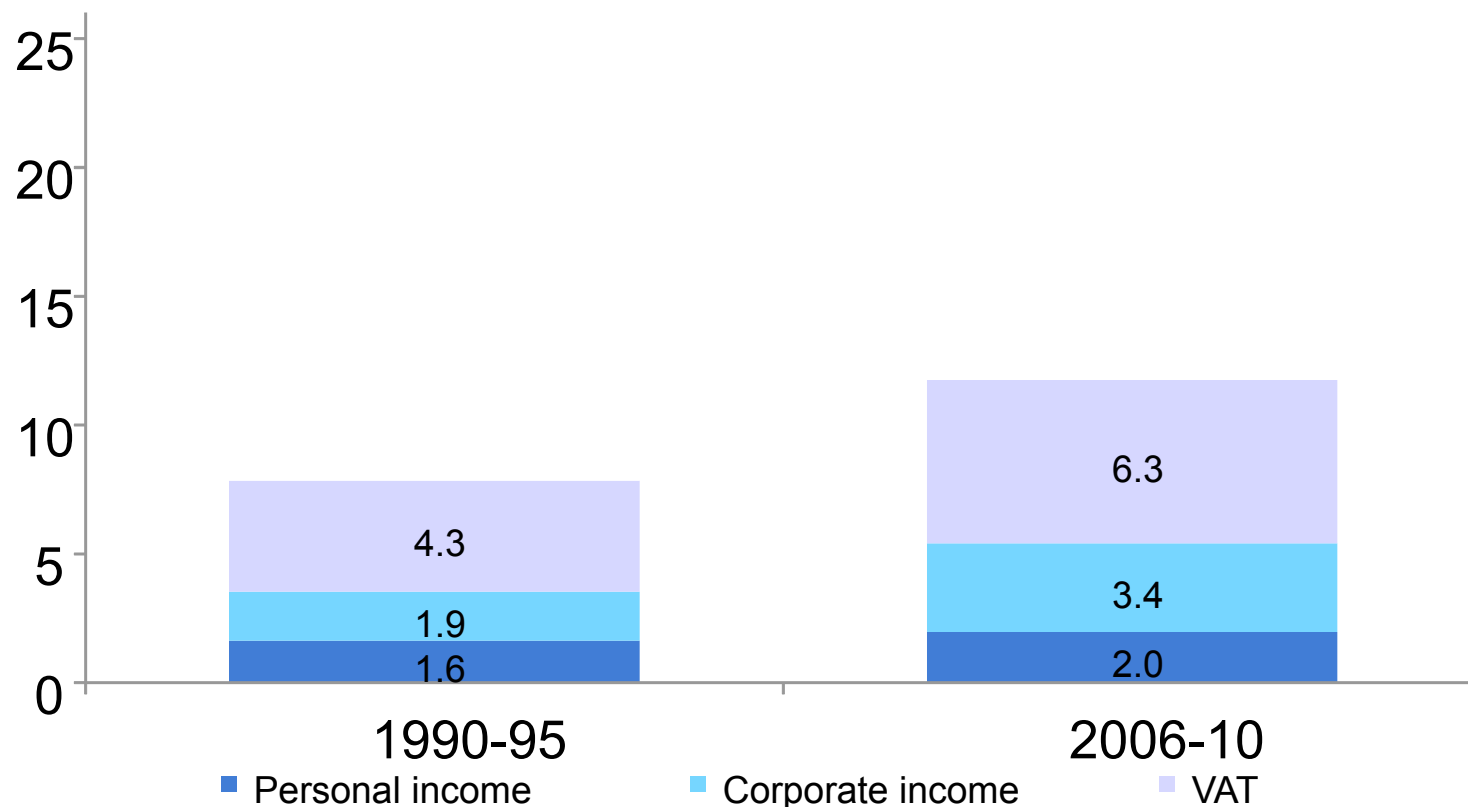
...in (almost) all LAC countries

Changes in the Tax Burden since the Early 1990s (percentage of GDP)



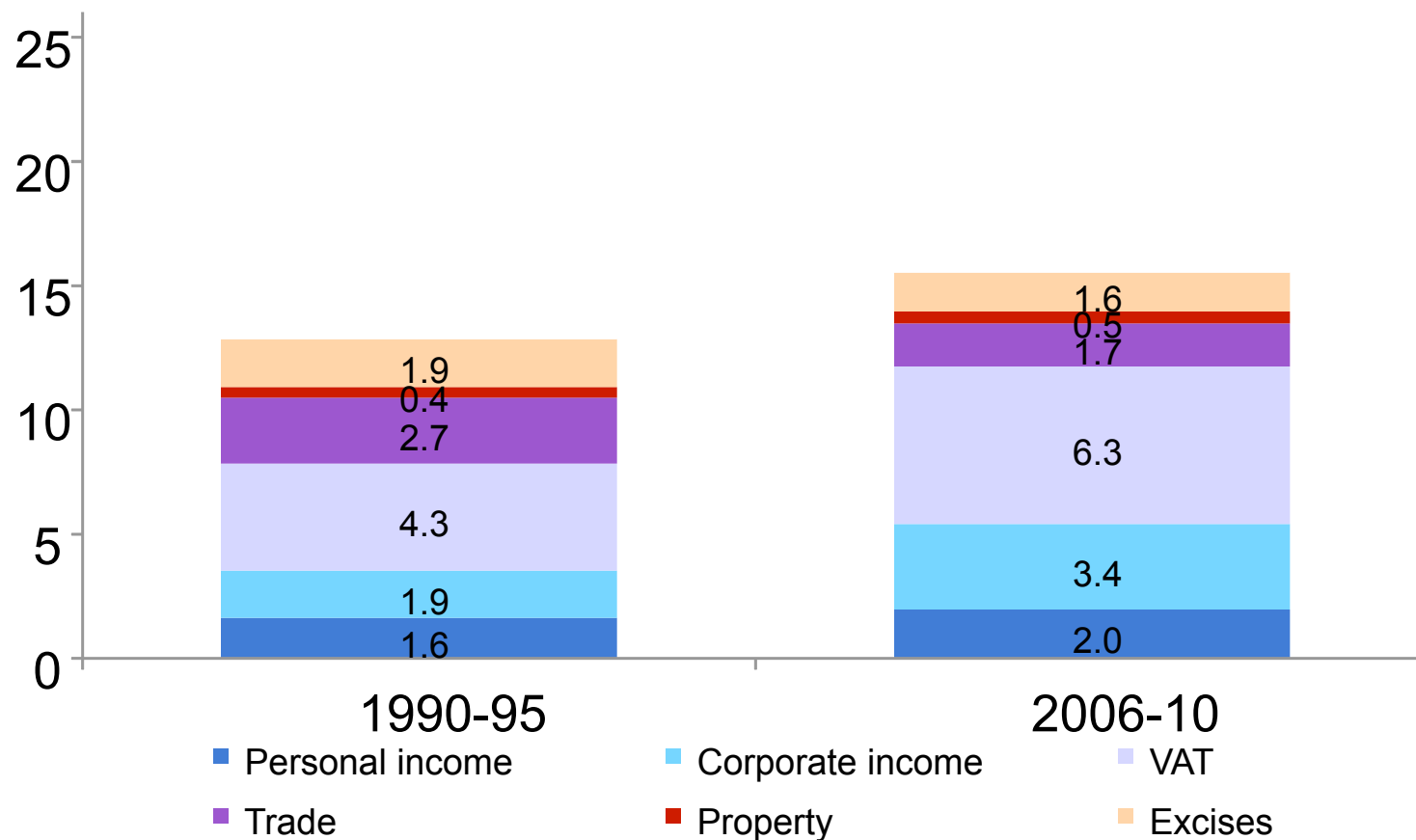
...and in (almost) all taxes

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



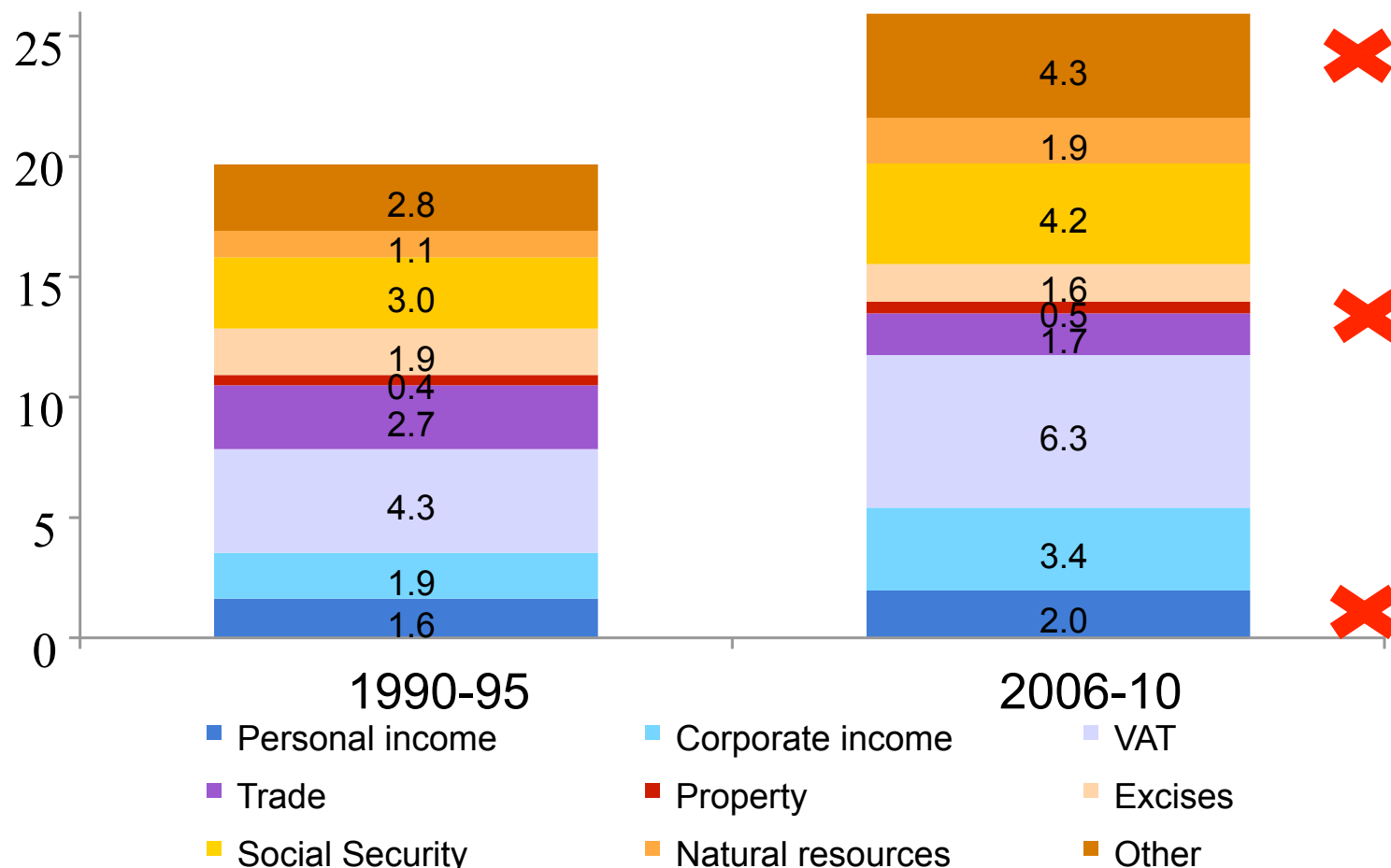
...and in (almost) all taxes

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**

Poor 15%

Rich 4%

Tax rate as a percent
of **CONSUMPTION**

Poor 6%

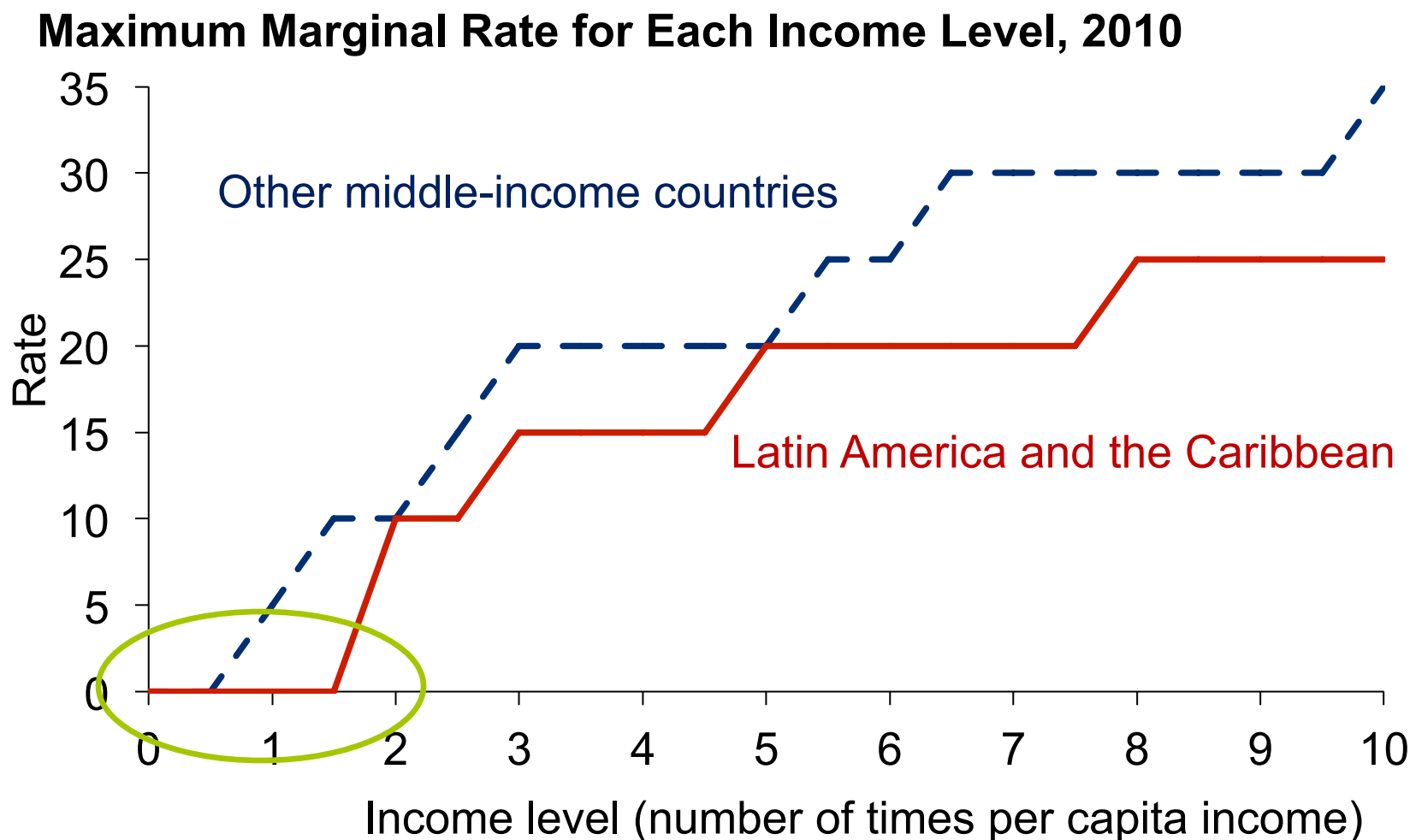
Rich 7%

Tax expenditure is a bad compromise

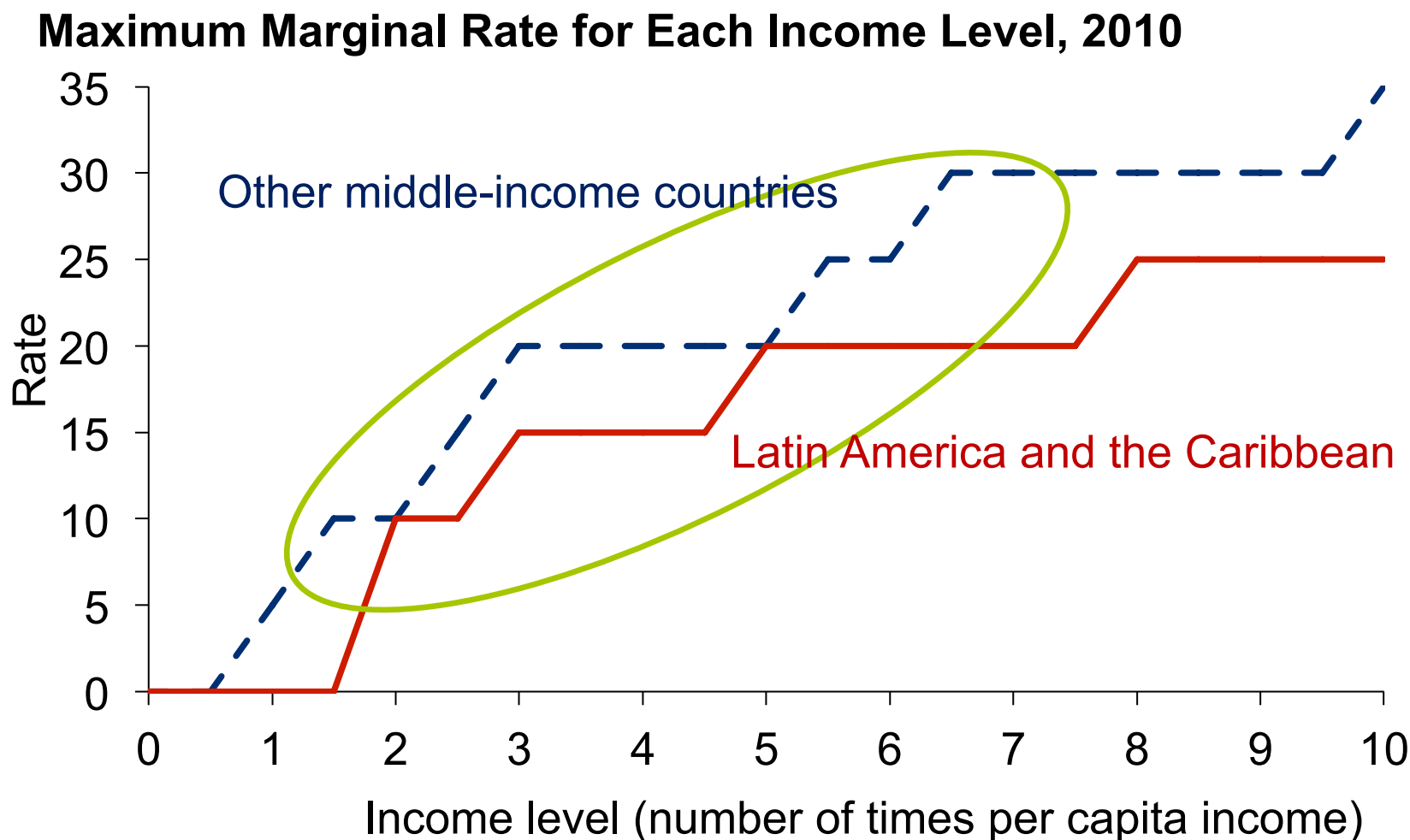
Of \$100 in exemptions, how much benefits the poor?

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

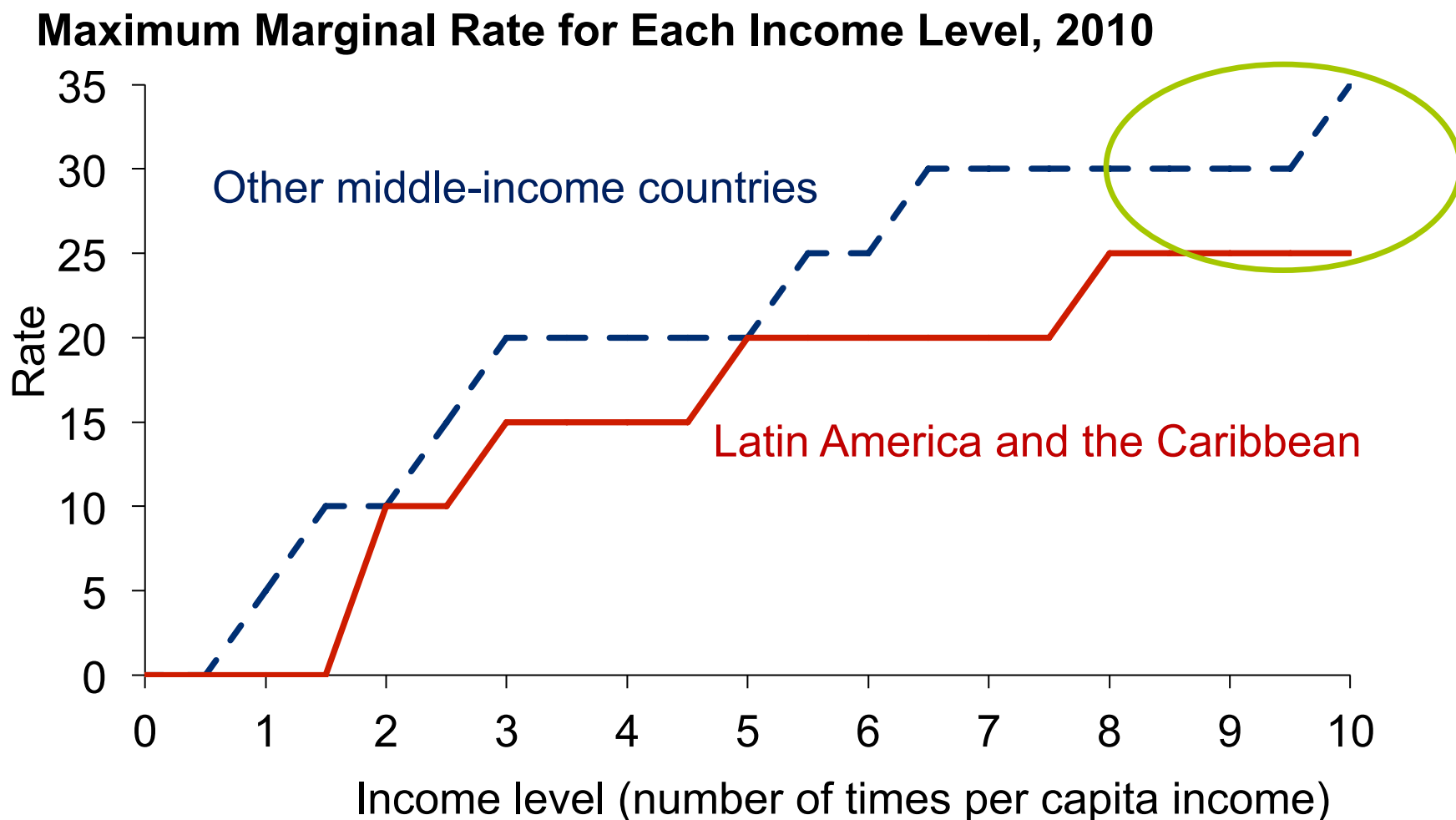
Personal income tax: Design on paper



Personal income tax: Design on paper



Personal income tax: Design on paper



...and ends up an empty shell

- Poor design
- Generous deductions
- Evasion

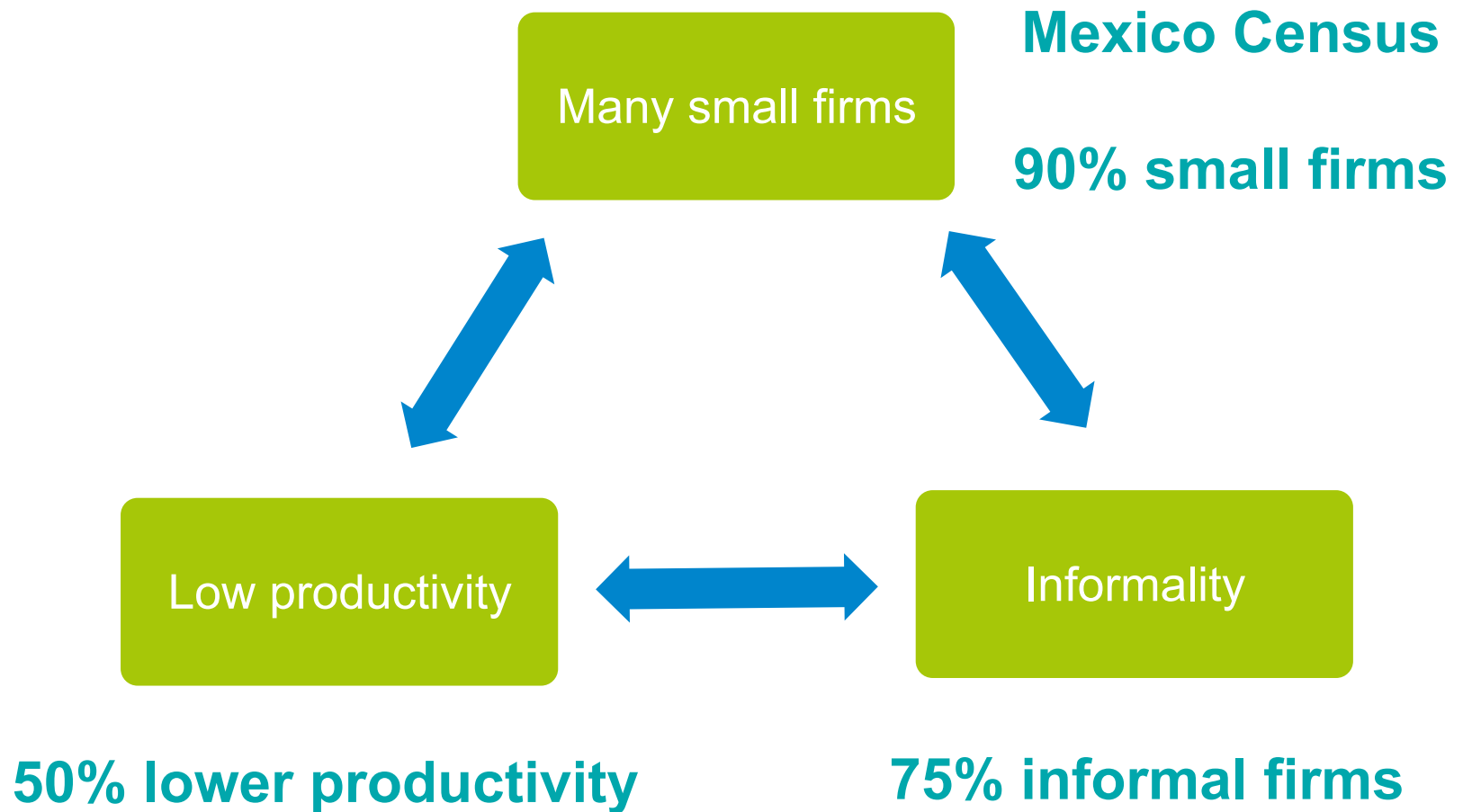
80% of population pays 0%

The very rich pay only 4%

Change in income distribution before and after taxes = 0.008

Progressive on paper...with NO real redistributive power

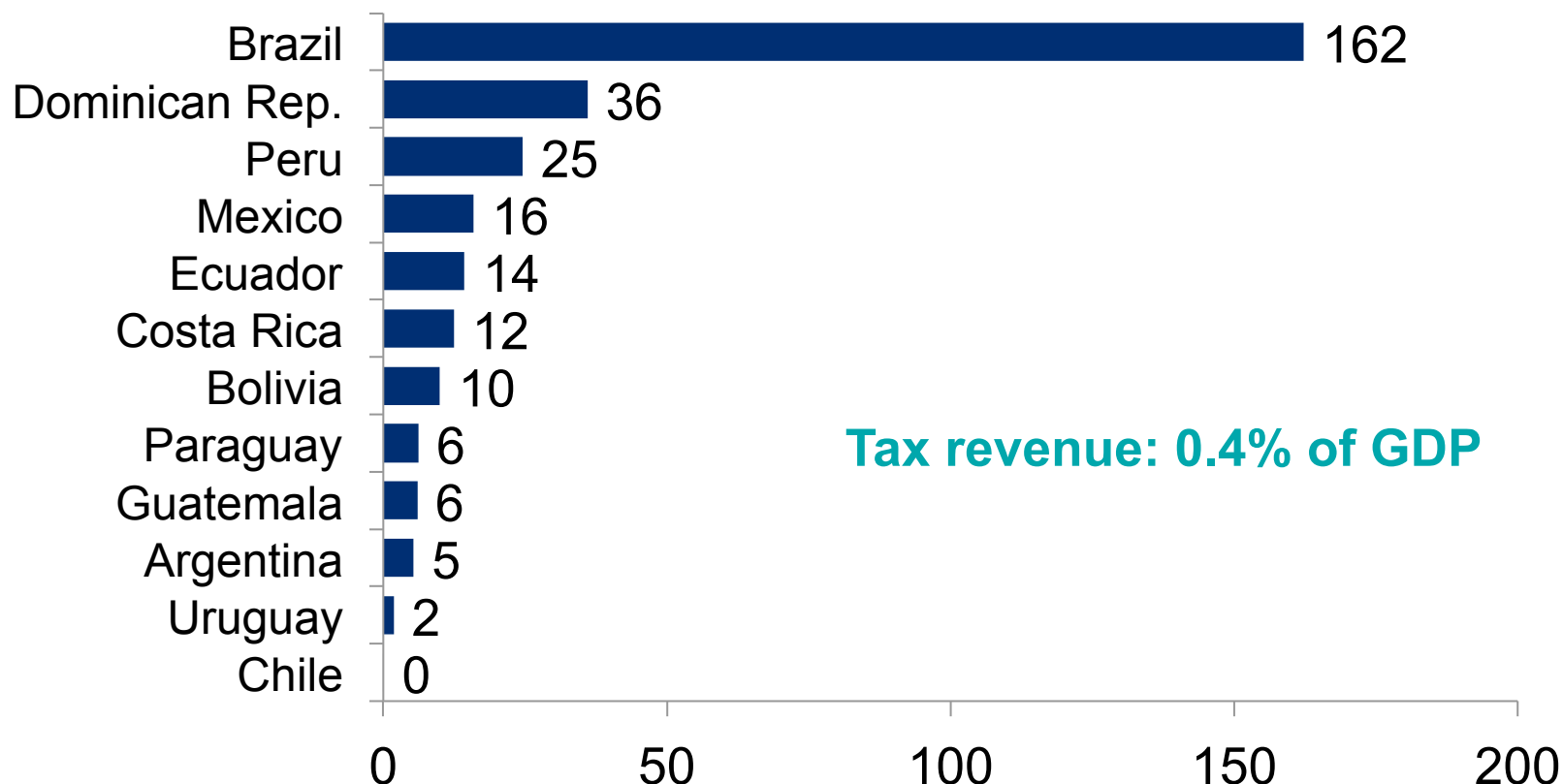
The vicious triangle of the small firms



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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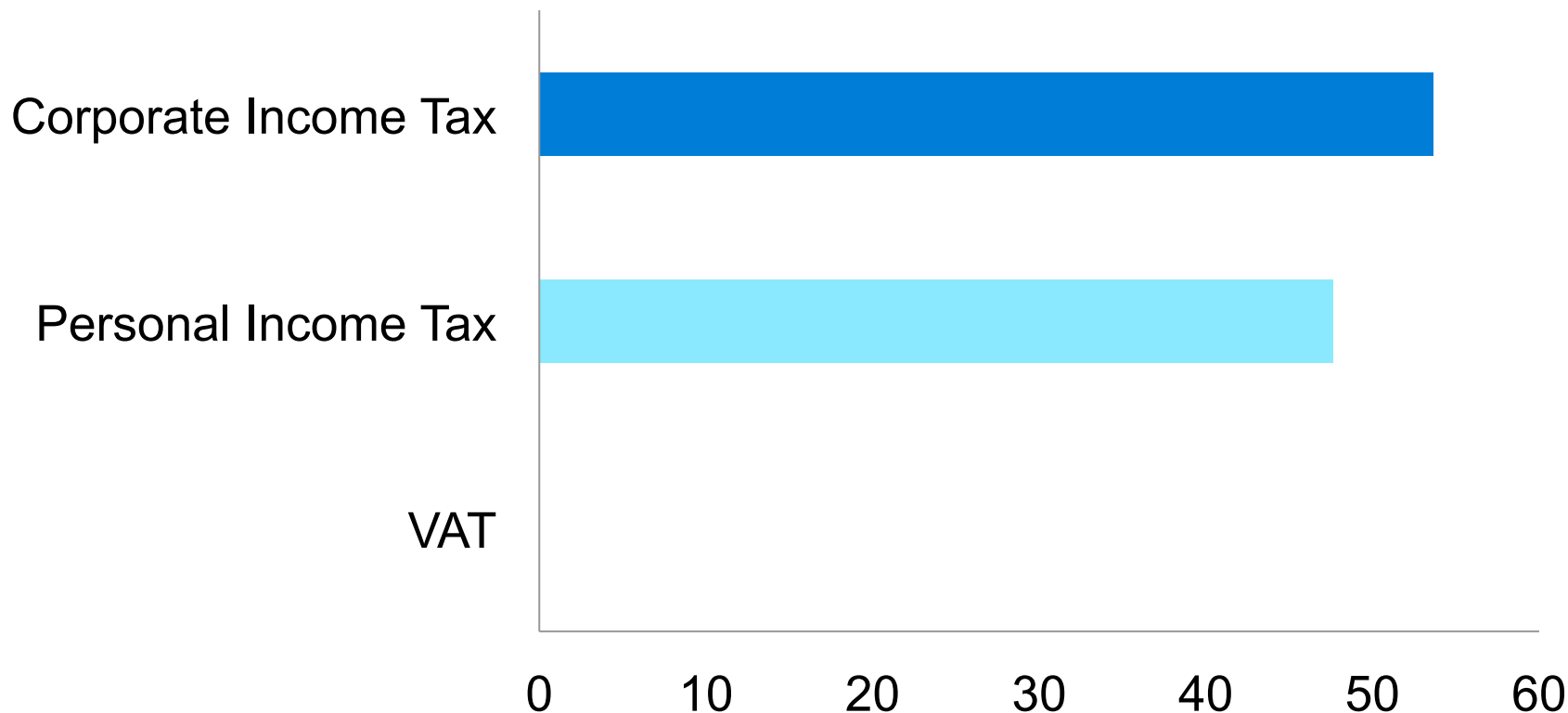
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...and promote progressivity of personal income taxes
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It's easy and risk free to evade

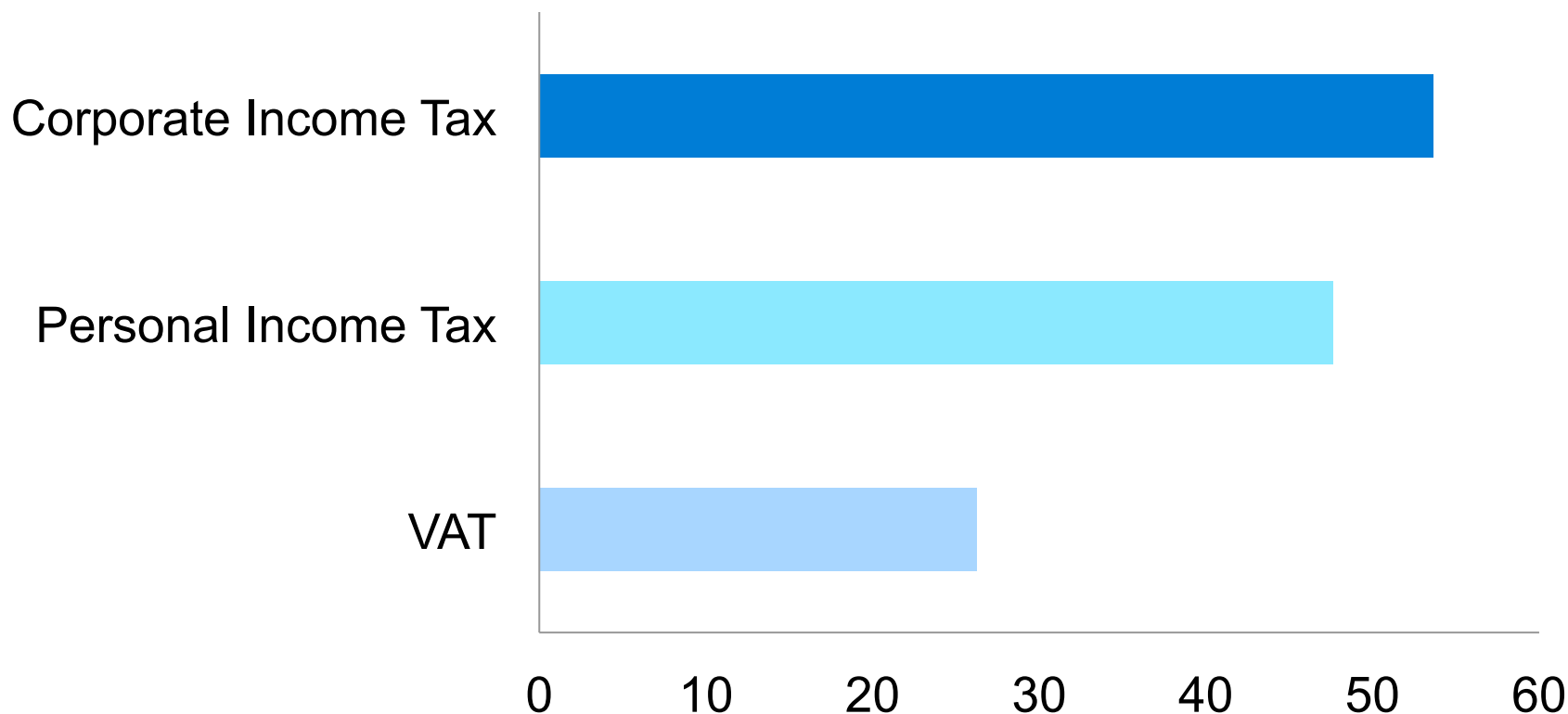
Generalized evasion in income taxes

Tax Evasion Rates (percentage)



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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