

Tax policy challenges for Latin America and the Caribbean

XXXV Regional Seminar on Fiscal Policy

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Key messages

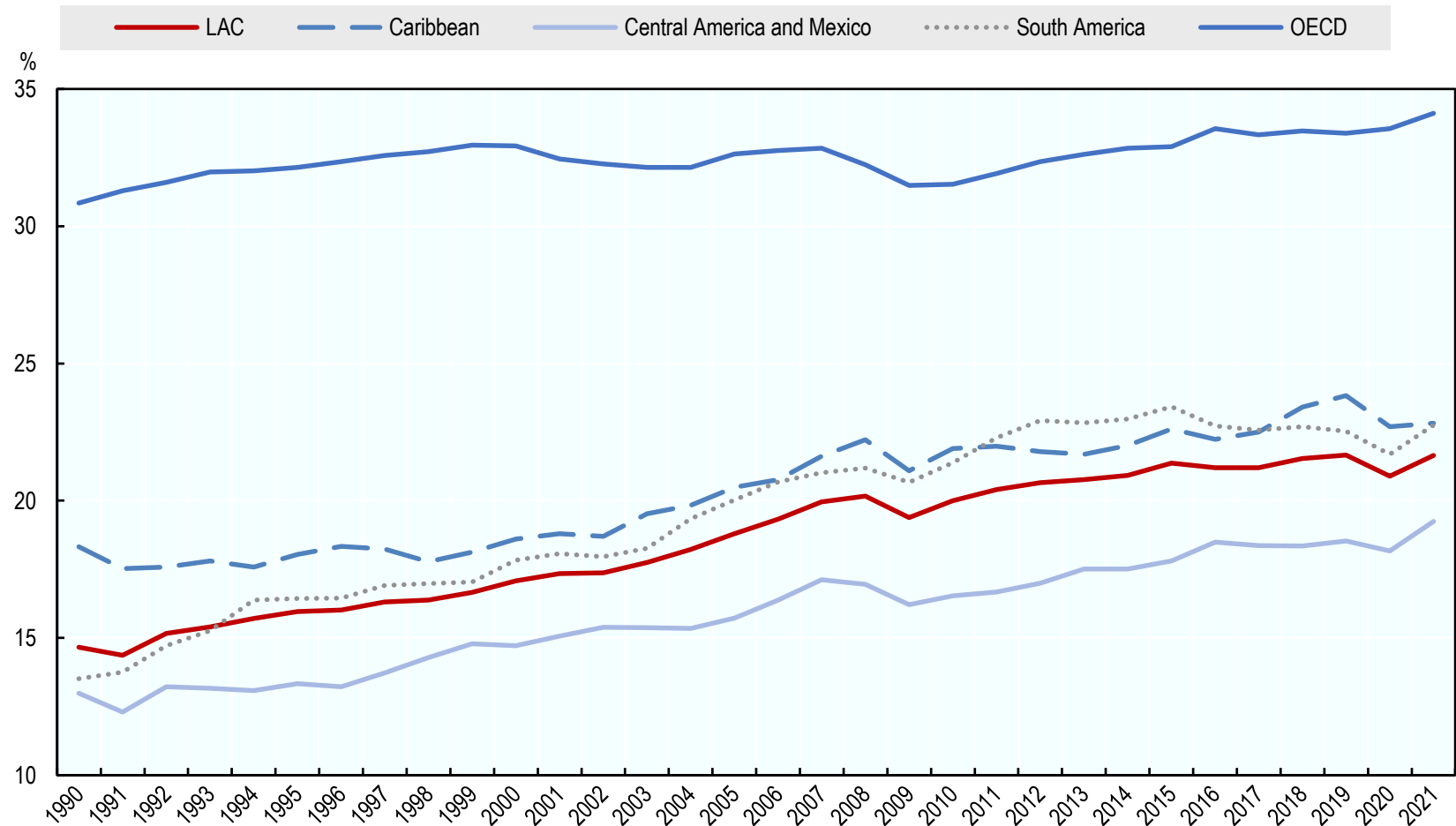
- The average tax-to-GDP ratio in the LAC region has risen significantly since 1990, but it remains below the OECD average
- Enhancing personal income tax (PIT) would generate higher revenues and increase the progressivity of tax systems, but informality and PIT evasion remain a major challenge
- VAT is the largest source of tax revenues on average in the LAC region; rapid growth of the digital economy requires a comprehensive VAT strategy directed at all types of e-commerce
- Revenues from non-renewable natural resources play an important role in the LAC region; careful management important as we undergo the green transition
- Tax policy will be a key tool to realise country commitments to reduce carbon emissions; information-sharing and mutual learning can play a major role



LONG-TERM REVENUE TRENDS IN THE LAC REGION

LAC tax-to-GDP ratios have risen and the gap with the OECD has narrowed since 1990

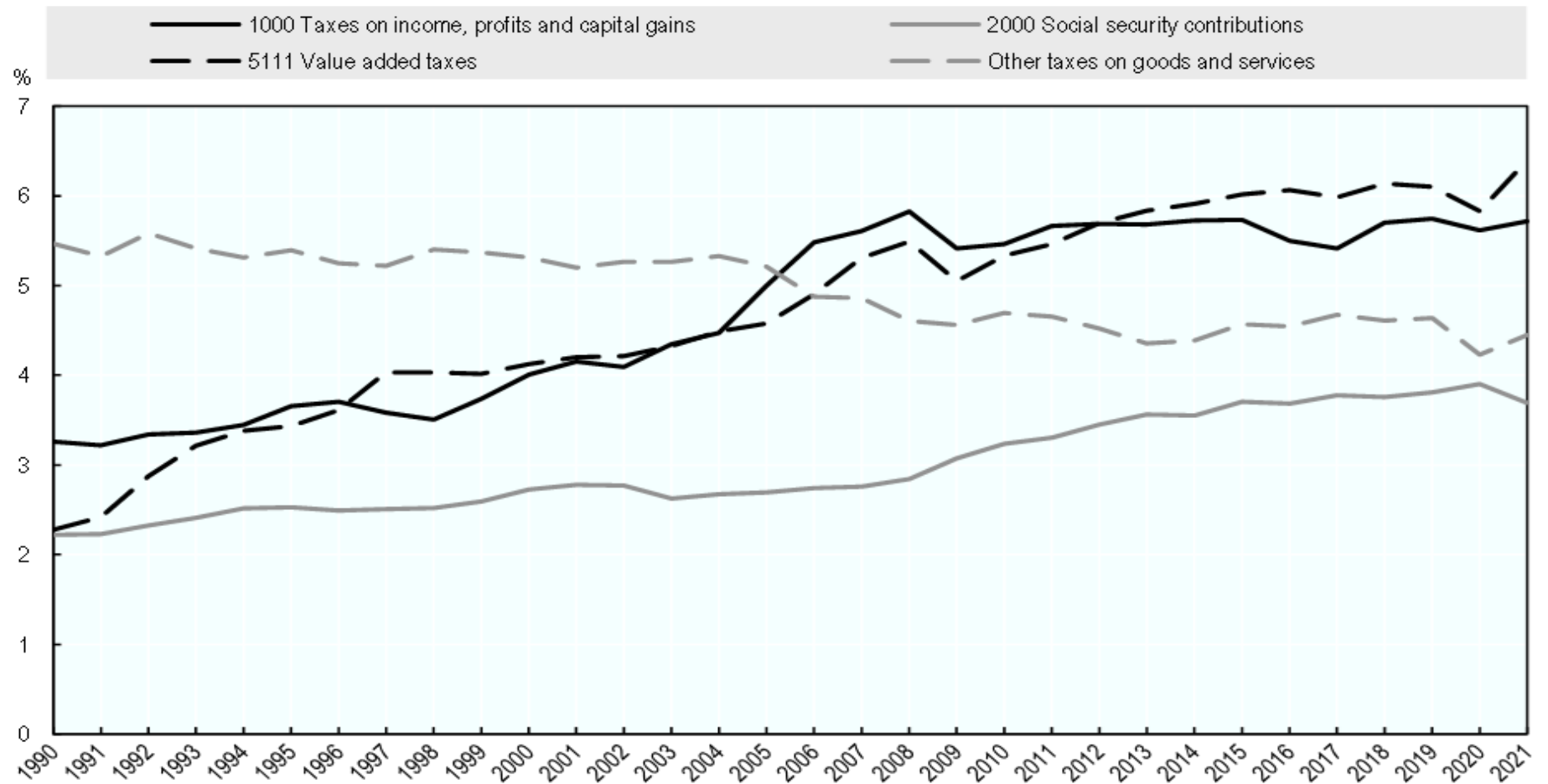
Tax-to-GDP ratio, OECD, LAC and sub-regional avg, 1990-2021



Source: OECD et al. (2023), Revenue Statistics in Latin America and the Caribbean 2023

VAT and income tax have driven the increase in the LAC region's tax-to-GDP ratio since 1990

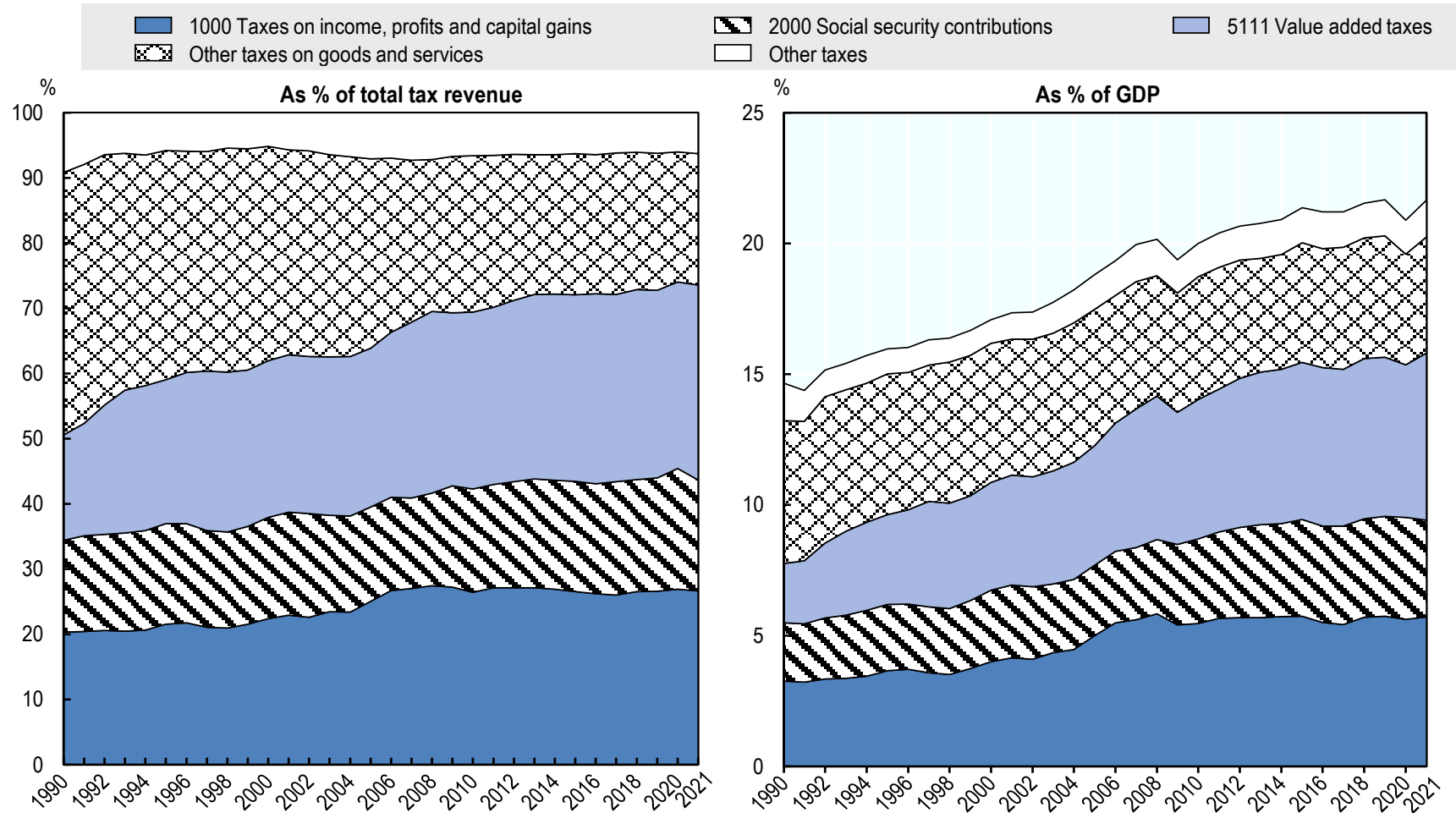
Revenue from selected taxes in the LAC region, 1990-2021



Source: OECD et al. (2023), Revenue Statistics in Latin America and the Caribbean 2023

Consumption taxes remain the main source of tax revenues in the LAC region

Average tax structure in the LAC region, 1990-2021



Source: OECD et al. (2023), Revenue Statistics in Latin America and the Caribbean 2023

Personal income tax has driven the increase in income tax revenues between 2005 and 2021

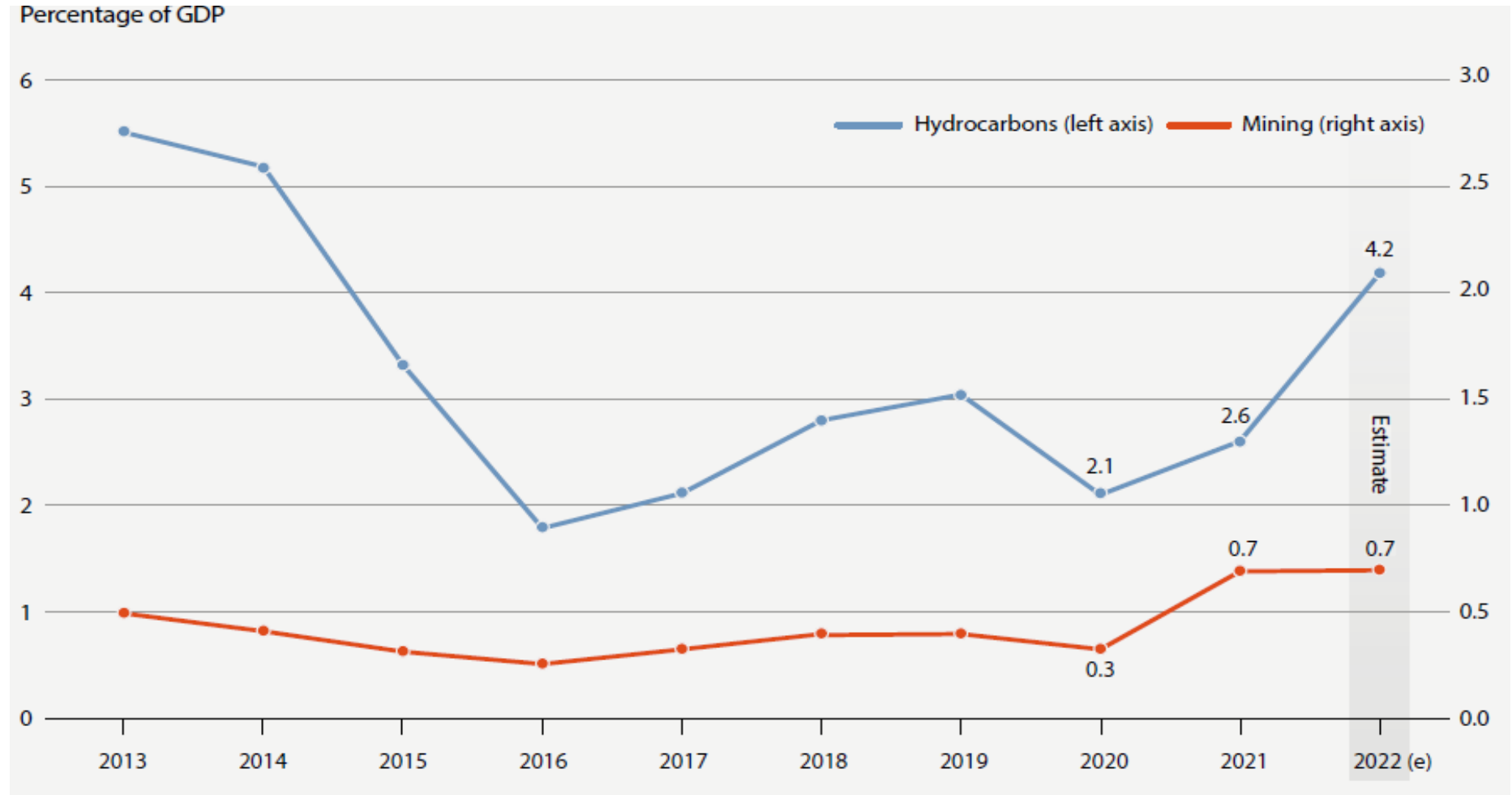
Revenue from taxes on income and profits, CIT and PIT in the LAC region, 2005-21



Source: OECD et al. (2023), Revenue Statistics in Latin America and the Caribbean 2023

Revenues from non-renewable natural resources have fluctuated greatly over the past decade

Revenues from non-renewable natural resources in the LAC region, 2013-2022



Source: OECD et al. (2023), Revenue Statistics in Latin America and the Caribbean 2023



GLOBAL TAX POLICY TRENDS IN 2022

Elevated prices dominated tax policy in 2022

- **Personal income tax/social security contributions:** Affordability concerns led jurisdictions to narrow PIT bases through more generous allowances, increases in earned income and child tax credits
- **Corporate income tax:** Increased generosity of corporate income tax (CIT) incentives to incentivise investment, while temporary windfall taxes were introduced in some countries to raise revenues
- **VAT/GST:** VAT rates on energy and food products were reduced temporarily, mostly in European countries, as price support measures for households
- **Environmentally-related taxes:** Cuts to excise taxes on road transportation fuel were a central component of policy packages to lower costs immediately
- **Property taxes:** Revenue pressures, housing affordability issues and inequality concerns led some jurisdictions to raise net wealth taxes and taxes on immovable property



RELEVANT AREAS OF OECD WORK

Tobacco taxation in the LAC region

- New project on tobacco tax reform in the LAC region, building on experience of other tobacco taxation partners (including WHO)
- Taking stock of tobacco excise duties, and past reforms, in the LAC region
 - Factors that facilitate/create a hurdle to effective tobacco excise duty policies
 - Three country studies, in collaboration with the Ministries of Finance
 - Country selection is ongoing
 - Countries are invited to reach out if they would like to collaborate
- Workshop on tobacco taxation in LAC region (possibly back-to-back with LAC Fiscal Policy Forum at the end of 2023)

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Financing social protection in developing countries through tax reform

- New project focussing on how to strengthen domestic resources so that countries have sufficient capacity to finance social protection
 - Six country studies over the 2023 – 2025 period; project in collaboration with OECD Development Centre – country selection is ongoing
 - Developing a perspective on financing social protection
 - OECD Social Protection Tax Revenue Framework (based on country benchmarking and indicators)
 - OECD work on informality (based on household budget surveys)



Informality and the design of presumptive tax regimes

- LAC economies are characterised by large informal sectors
- The design of presumptive tax regimes can incentivise informal sector businesses and their workers to enter the formal economy and to grow into the regular economy
- Taxation Working Paper on the design of presumptive tax regimes
 - Objectives, advantages, shortcomings & impacts of presumptive tax regimes
 - Analytical framework to characterise country-specific presumptive tax regimes in a systematic way
 - Best practices in the design & administration of presumptive tax regimes
- Ongoing work on country examples of presumptive tax regimes



INTERNATIONAL COOPERATION ON TAXATION

The Two-Pillar Solution

Amount A

Allocates new taxing rights to market jurisdictions on the profits of the largest and most profitable MNEs

Amount B

Provides for a simplified and streamlined approach to the application of the arm's length principle to in-country baseline marketing and distribution activities



Pillar One



Pillar Two

Global Minimum Tax

Creates a global minimum effective corporate tax rate of 15%. Includes:
Income Inclusion Rule,
UTPR and Qualified Domestic Minimum Top-Up Tax

Subject-to-Tax Rule

A treaty based rule that targets risks to source jurisdictions on a defined set of payments where there are low nominal rates of taxation

Capacity building on the two pillars

- **Outreach**
 - Regional consultations with RTOs (including CIAT and IDB)
 - Technical sessions for IF members
 - Ad hoc bilateral support (particularly to support GloBE peer reviews)
- **Pilot programmes on Pillar Two and tax incentives**
 - Working with 9 countries (including Peru and Jamaica)
 - Analysing impact of GloBE rules on tax incentives
 - Assisting with policy response/drafting legislation
- **Training** (see [GRP website](#))
 - Recorded webinars (including GloBE rules)
 - Live Q&A sessions
 - E-learning resources (Pillar Two module coming out soon)
- **Tax Inspectors Without Borders**
 - Exploring role for TIWB in implementation of the two Pillars
 - Expanding the UNDP Roster of Experts to work on tax incentives from 2023.

Inclusive Forum on Carbon Mitigation Approaches

The Inclusive Forum on Carbon Mitigation Approaches (IFCMA) is designed to help optimise the global impact of efforts in countries around the world to reduce greenhouse gas emissions by:

Facilitating data and information sharing

by **taking stock** of mitigation policy instruments and **estimating their combined effects** on emissions

Enabling evidence-based mutual learning

to **help inform future policy decisions** in countries around the world

Providing a platform for inclusive multilateral dialogue

among countries on an **equal footing** (i.e. all members have the same rights)

The IFCMA is not intended to serve as standard-setting body, nor as a forum to rank country policies



Inaugural IFCMA Meeting

- **First meeting took place on 9-10 February 2023**
 - High-level launch event with Ministers and Senior Government officials, including technical-level discussions on the IFCMA's work
- **Meeting brought together over 600 senior officials representing:**
 - 104 countries, including Cambodia, China, Indonesia, Japan, Korea, Malaysia, Philippines, Singapore, Thailand, Viet Nam
 - **Several International Organisations**, including the UNFCCC, World Bank, IMF, WTO, and IEA
- **Delegates discussed and set out the direction of the IFCMA's work**

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