



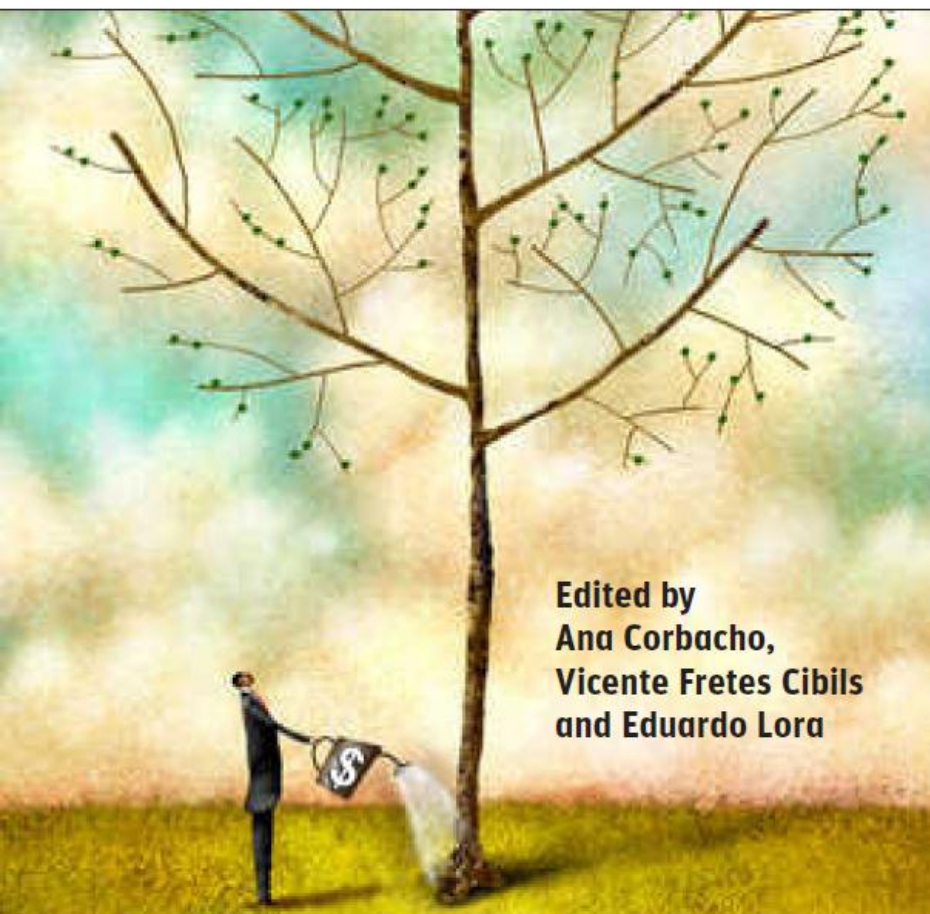
More than revenue: **Taxation as a Development Tool**

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March 7, 2014
Budapest, Hungary



More than Revenue

TAXATION AS A DEVELOPMENT TOOL



Edited by
Ana Corbacho,
Vicente Fretes Cibils
and Eduardo Lora

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The Tax Forest

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Taxation as a Development Tool...

- Fight inequality
- Promote productivity
- Protect the future

Taxation as a Development Tool...

Content

–Myths

–Essentials—Some policy reforms

Taxation in LAC: Myth or Reality

Myths?

1. Low tax burden
2. Regressive taxes
3. Large evasion

Taxation in LAC: Myth or Reality

Myths?

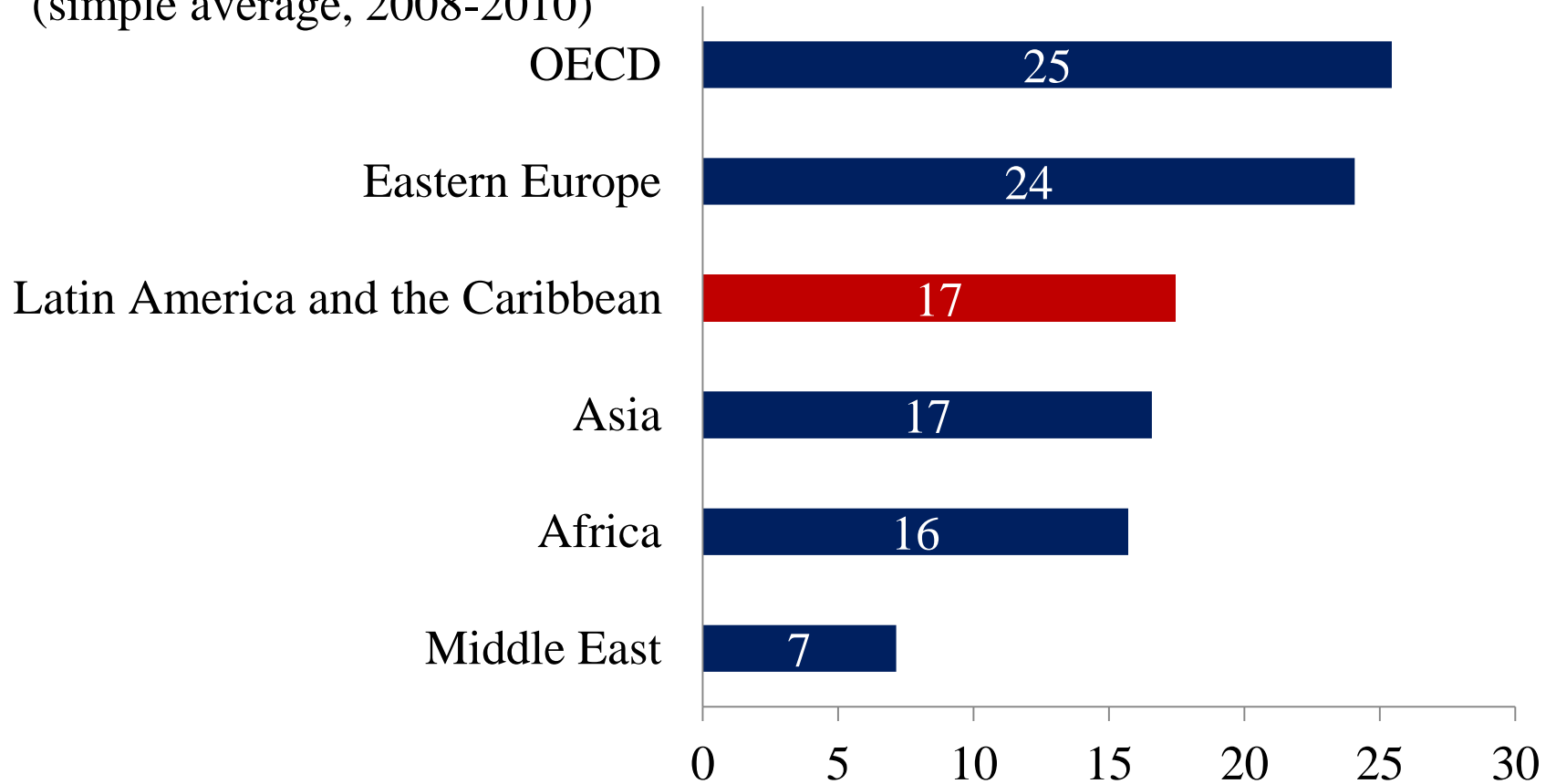
1. Low tax burden

Reality

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

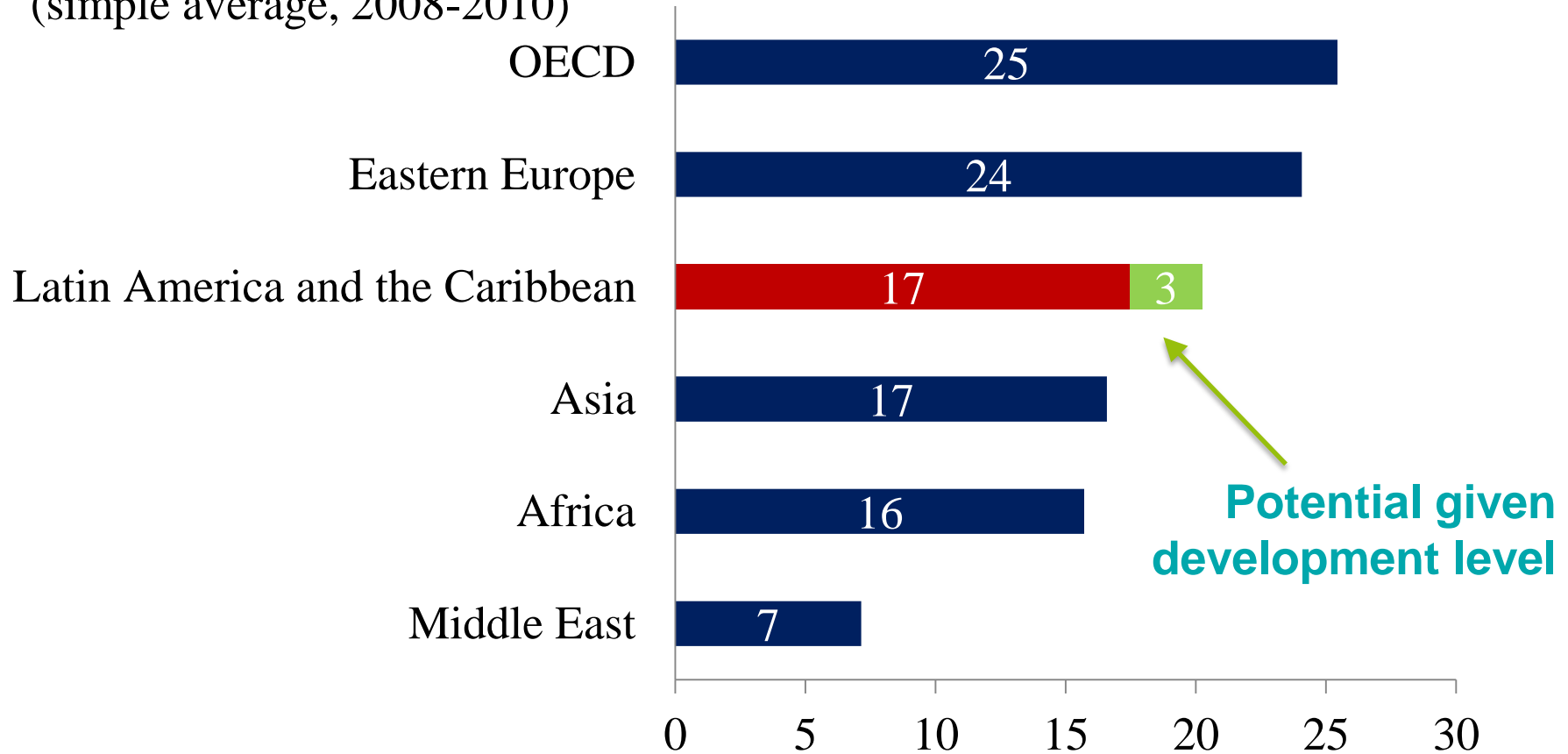
Low tax burden in LAC...

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

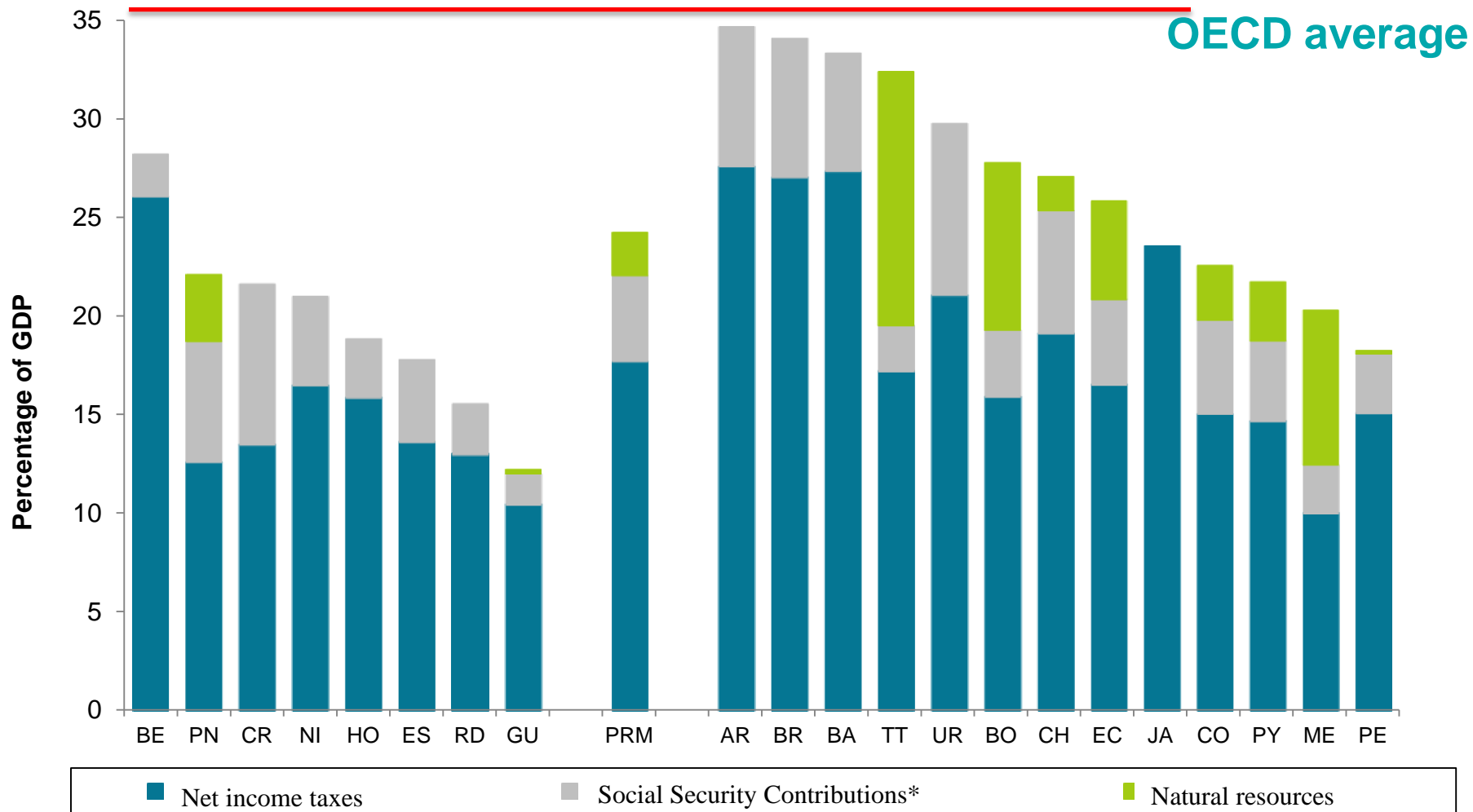


Low tax burden in LAC...

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



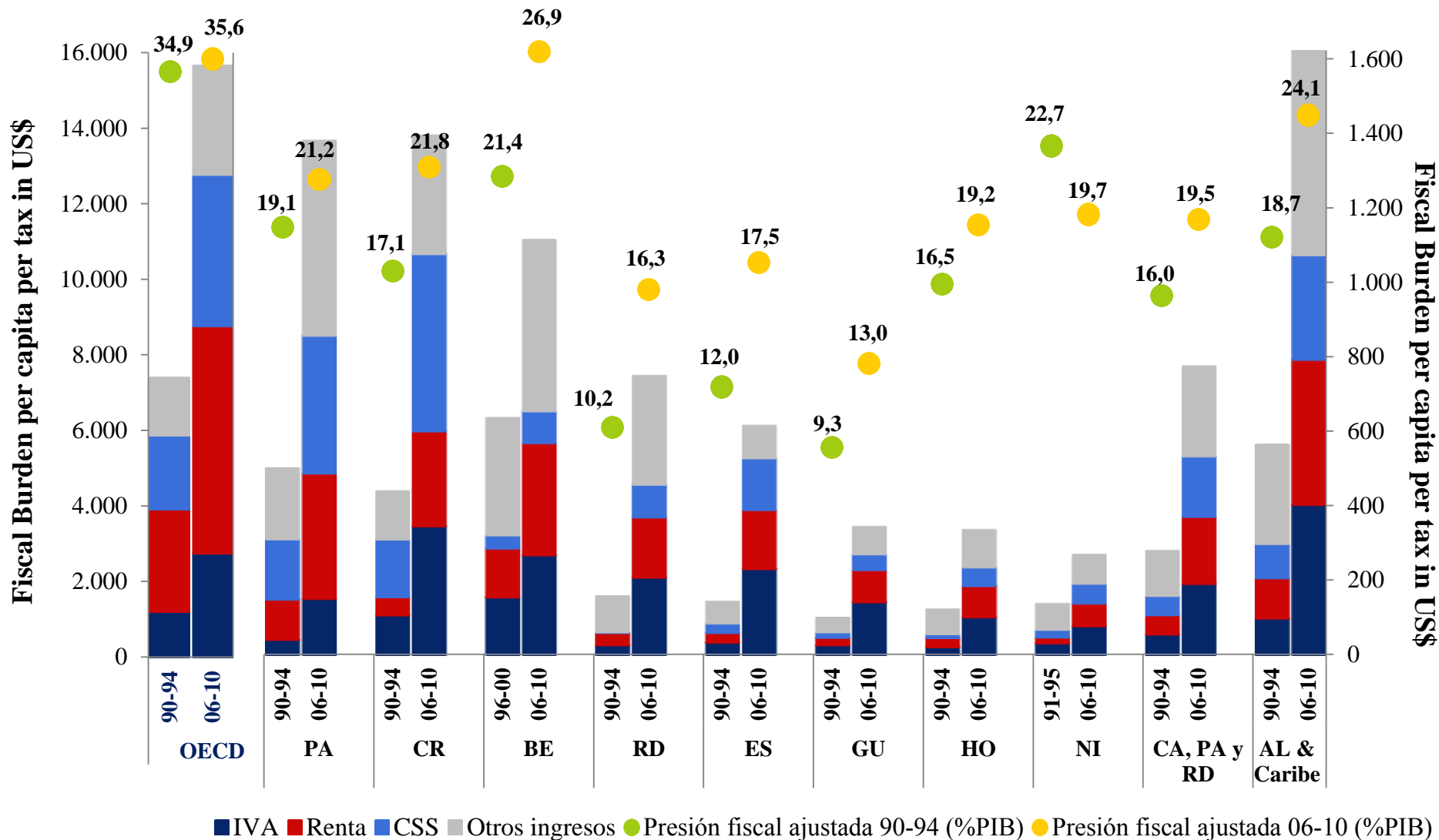
... but not so if considering the Adjusted Fiscal Burden (% GDP), 2010...



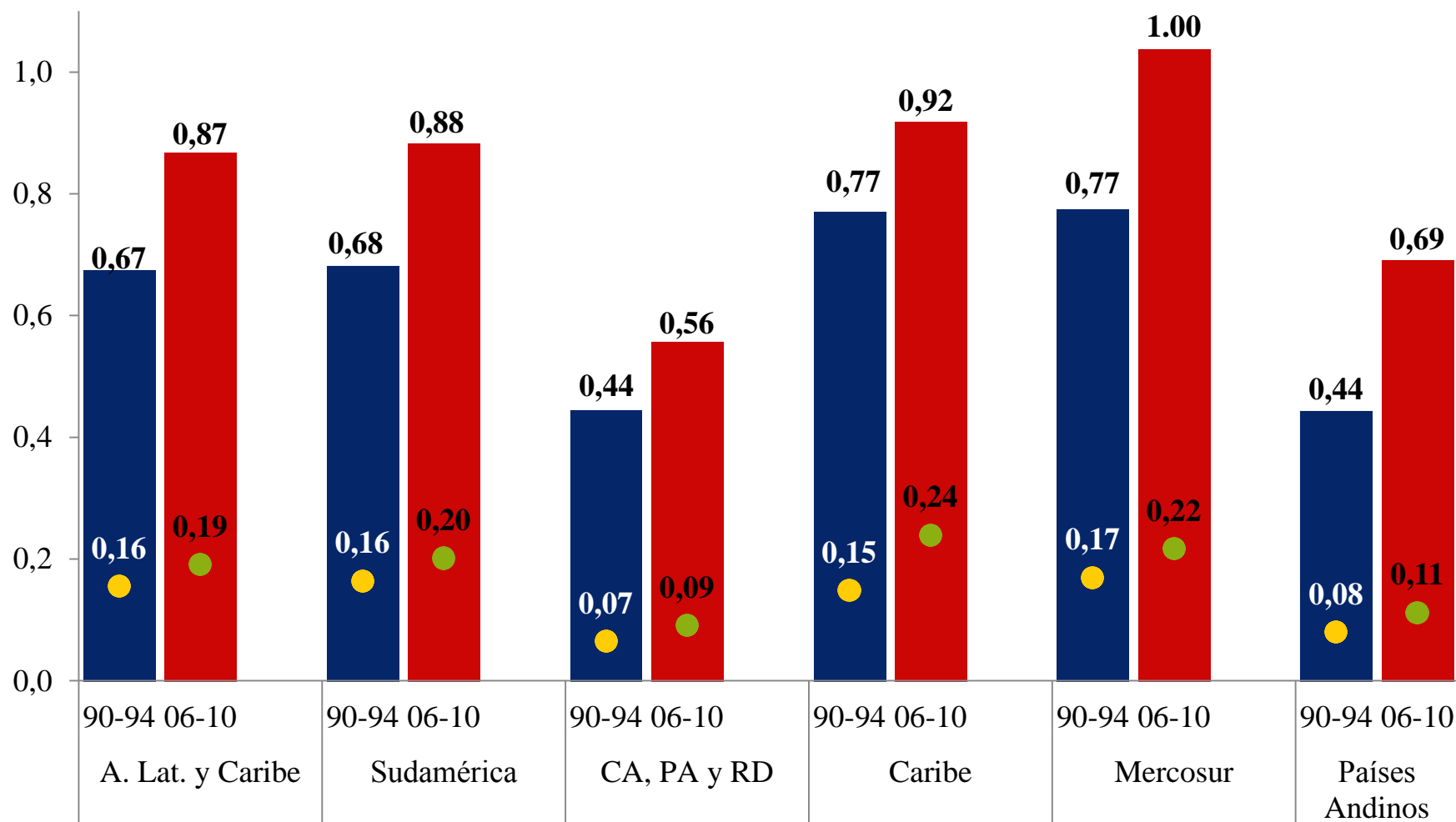
Source: BID-CIAT (2012)

*Social Security Contributions include public and private pensions and health systems

...still the **Adjusted Fiscal Burden** per capita is 10 times less than OECD average...



...but it is converging with OECD...

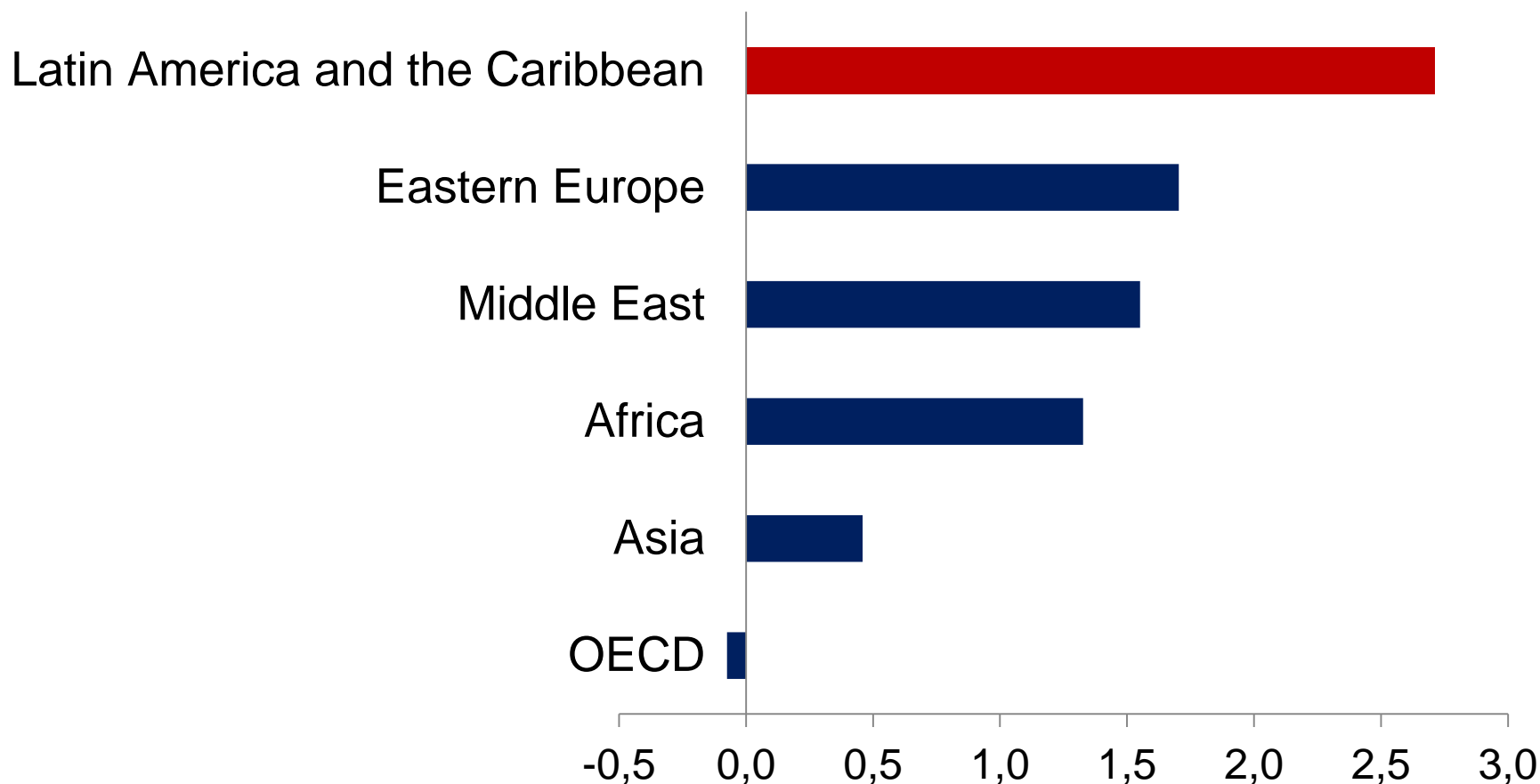


GDP per capita ratio 90-94 GDP per capita ratio 06-10
 ● Ratio PIB per cápita 90-94 ● Ratio PIB per cápita 06-10

...and largest increase in burden...

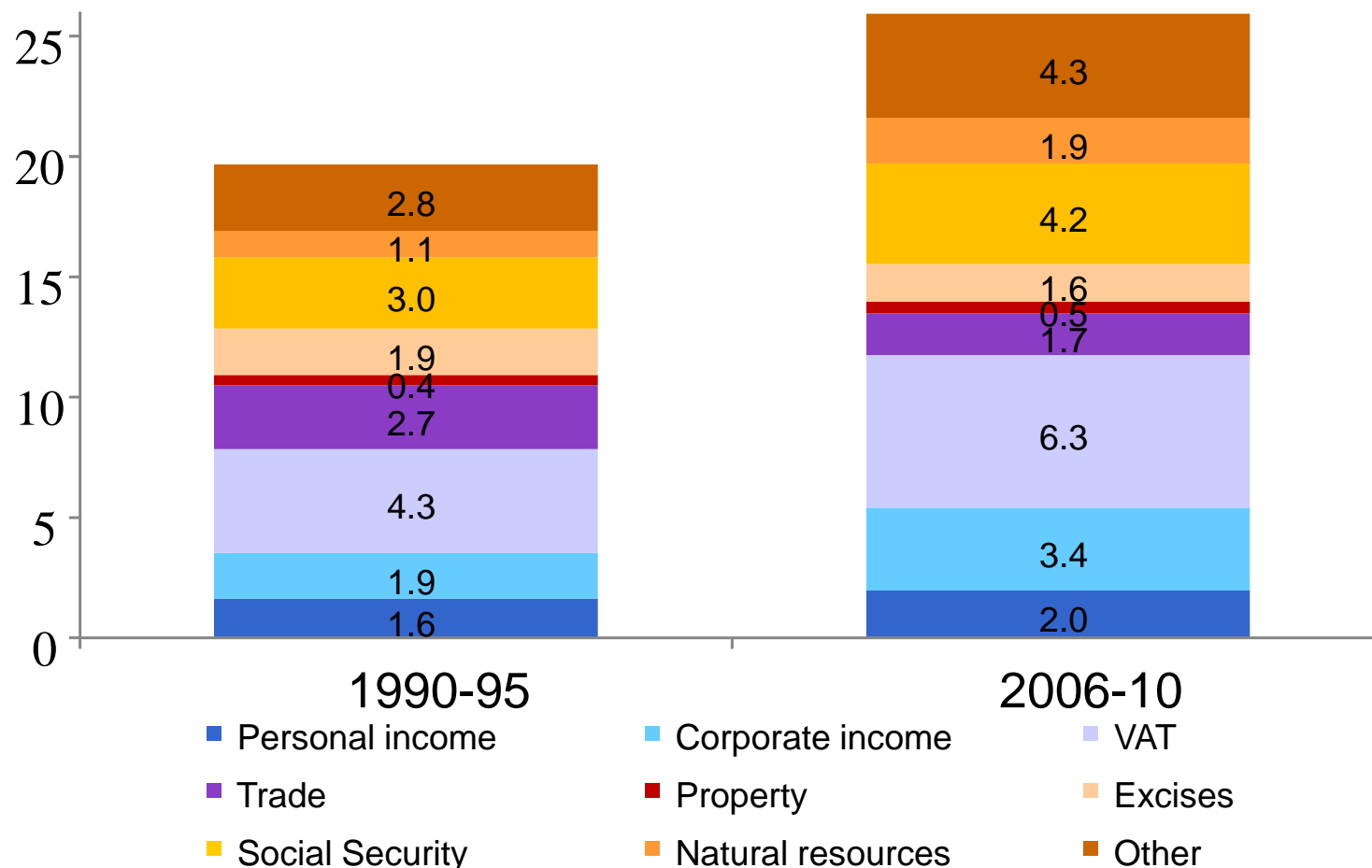
Changes in the Tax Burden between 1990 and 2010

(simple average, percentage of GDP)



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

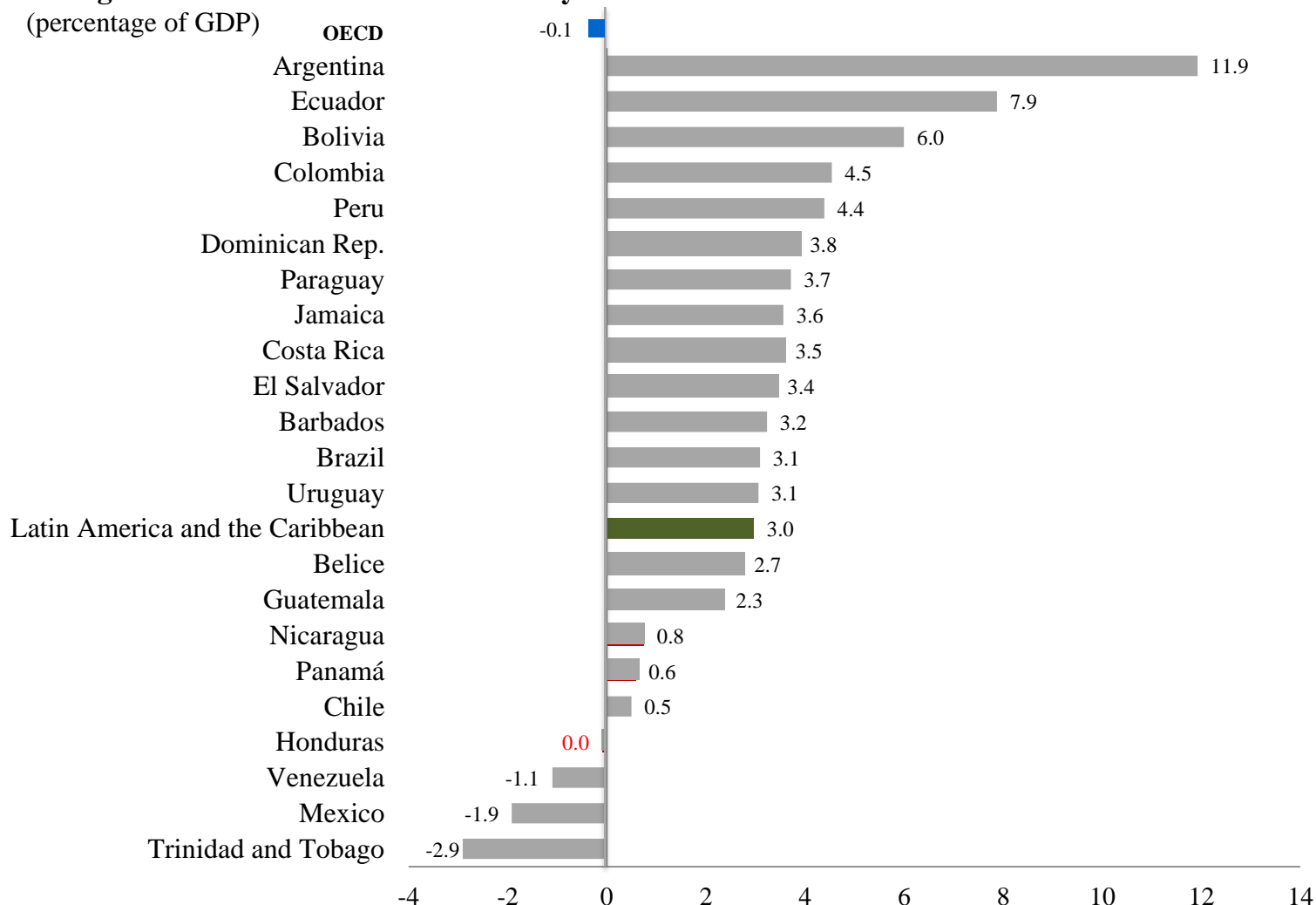
Structure of Fiscal Revenue in Latin America and the Caribbean (percentage of GDP)



...in (almost) all countries in LAC...

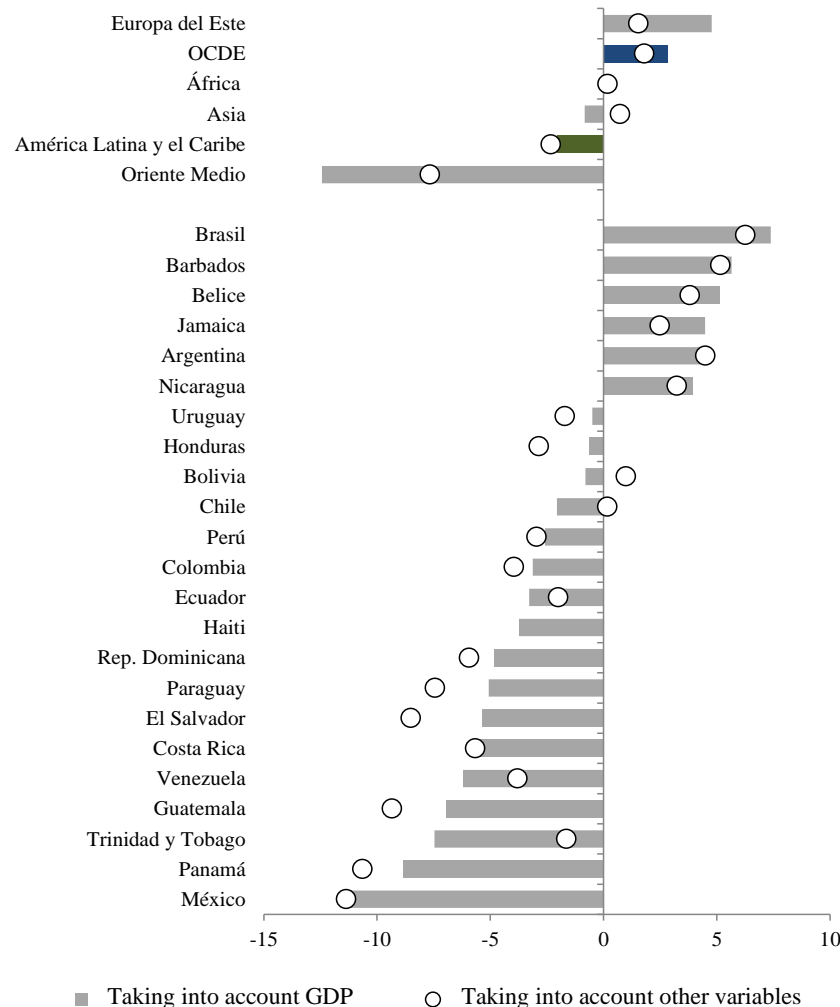
Changes in the Tax Burden since the Early 1990s

(percentage of GDP)

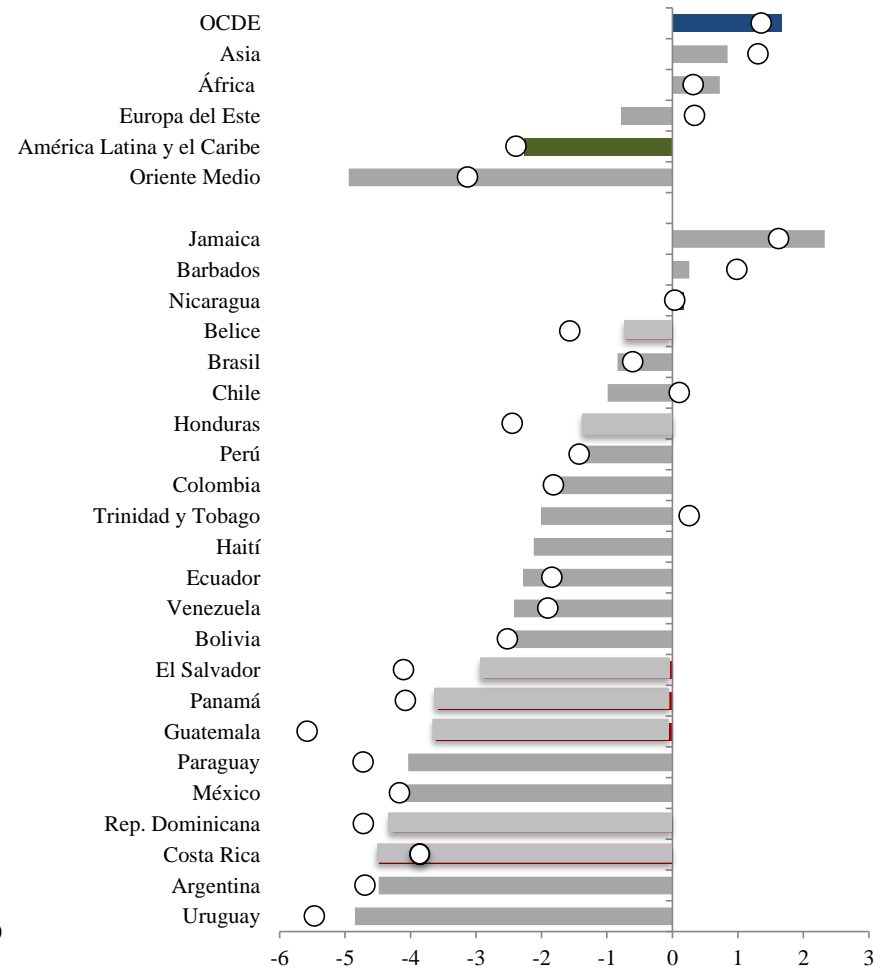


...however the gap continues specially for income taxes

Total Tax Burden Gap, 2007-2009
(Percentage points of GDP)



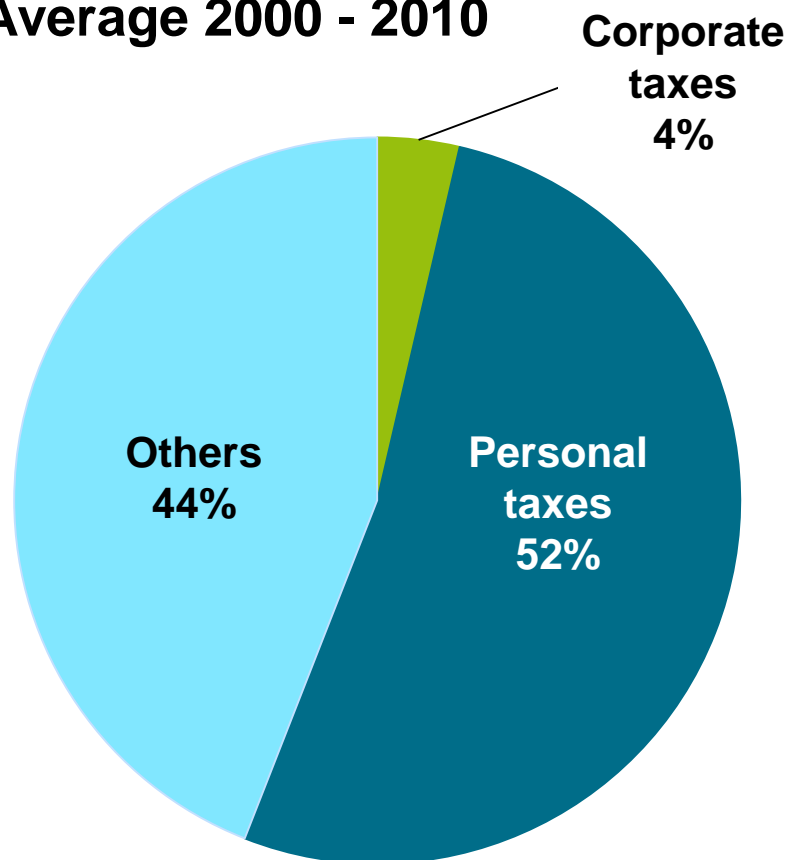
Income Tax Burden Gap, 2007-2009
(Percentage points of GDP)



Where are the differences between LAC y OECD?

Difference LAC with OECD

Average 2000 - 2010



Source: Own calculations: OECD Revenue Statistics, European Commission (Eurostat), DataBase BID-CIAT, IMF-WEO 2012 y World Tax Database (University of Michigan).

Taxation in LAC: Myth vs. Reality

Myths?

1. Low tax burden
2. Regressive taxes

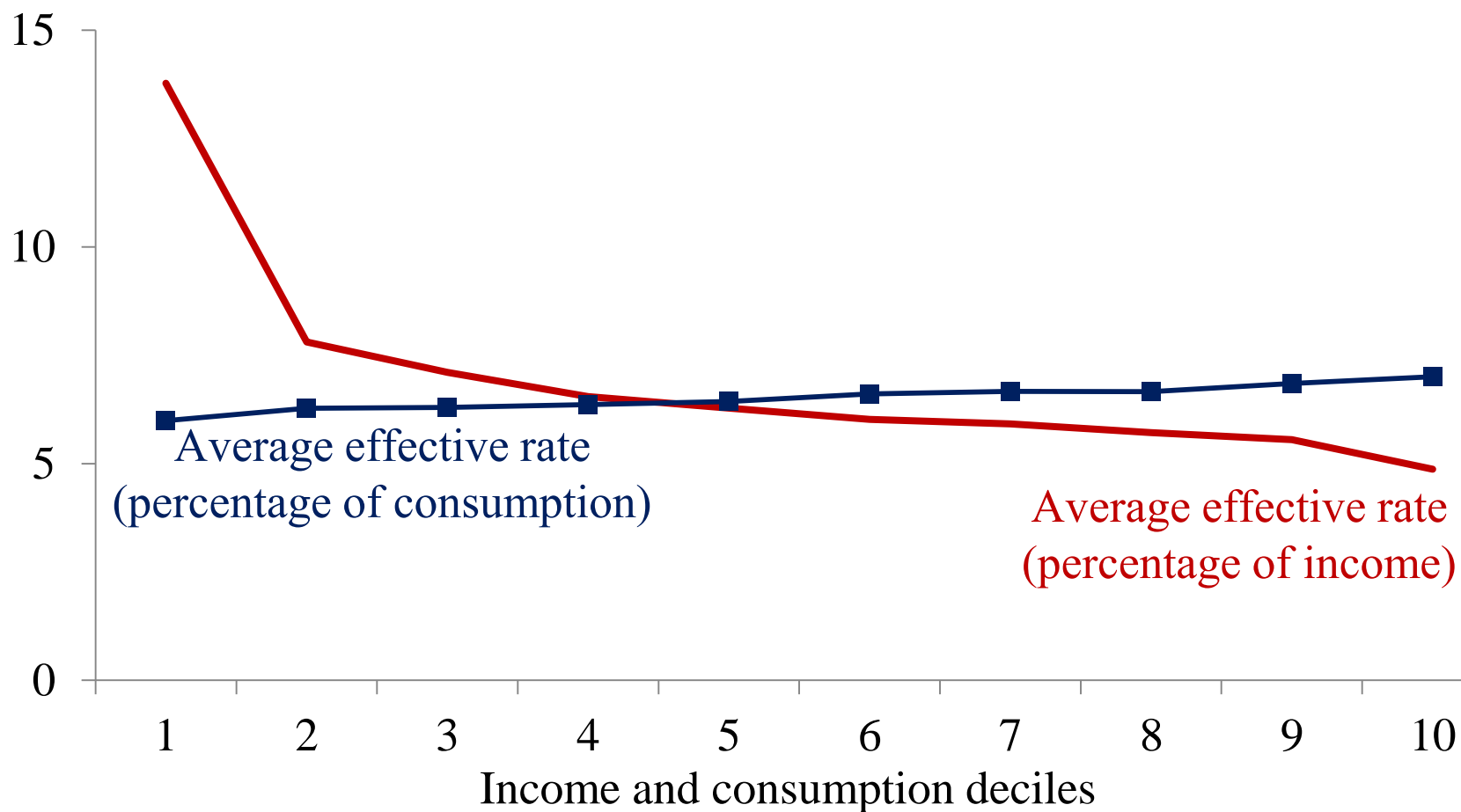
Reality

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

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

Regressive VAT? Measurement matters

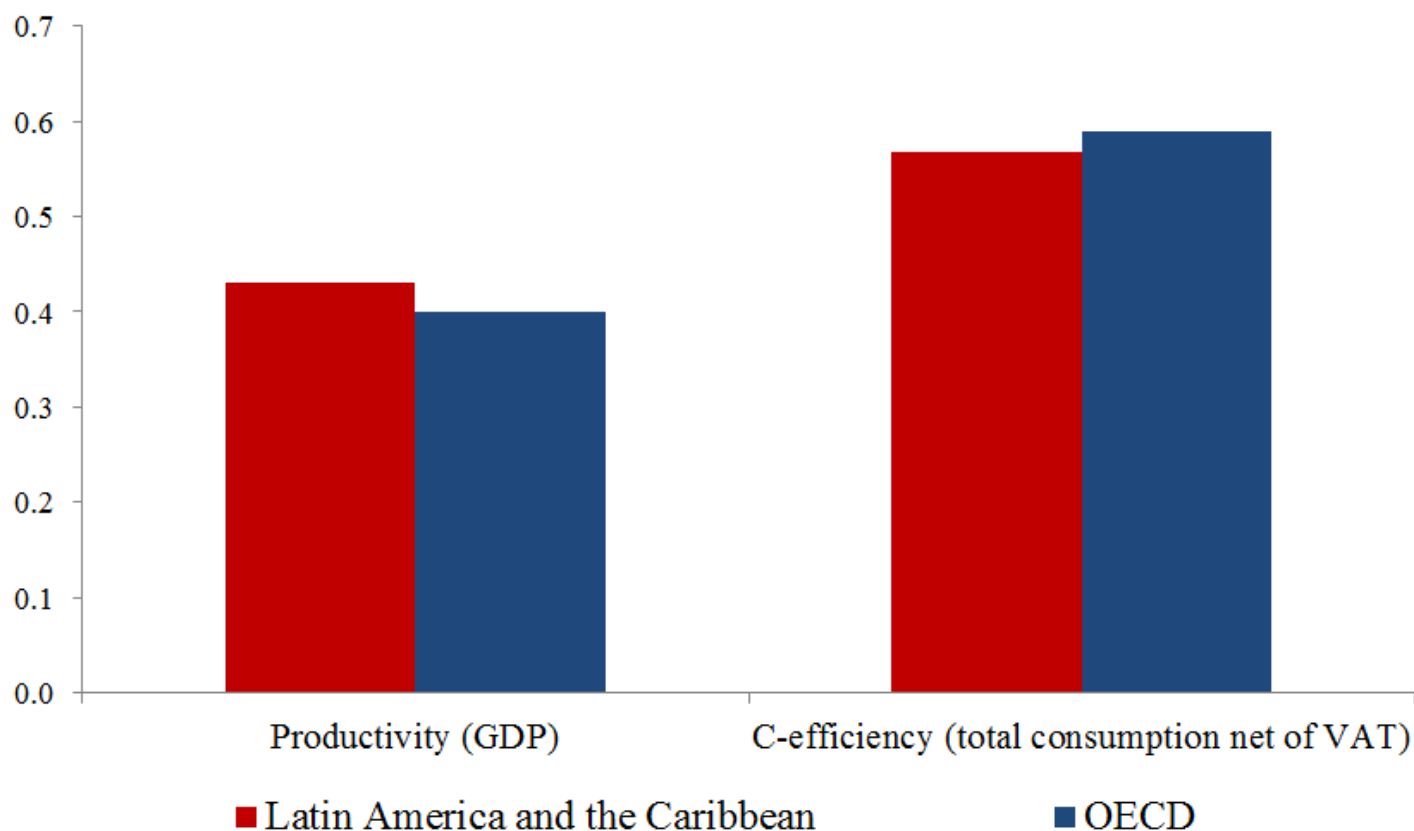
Incidence of VAT by income and consumption deciles



Productivity and efficiency of VAT

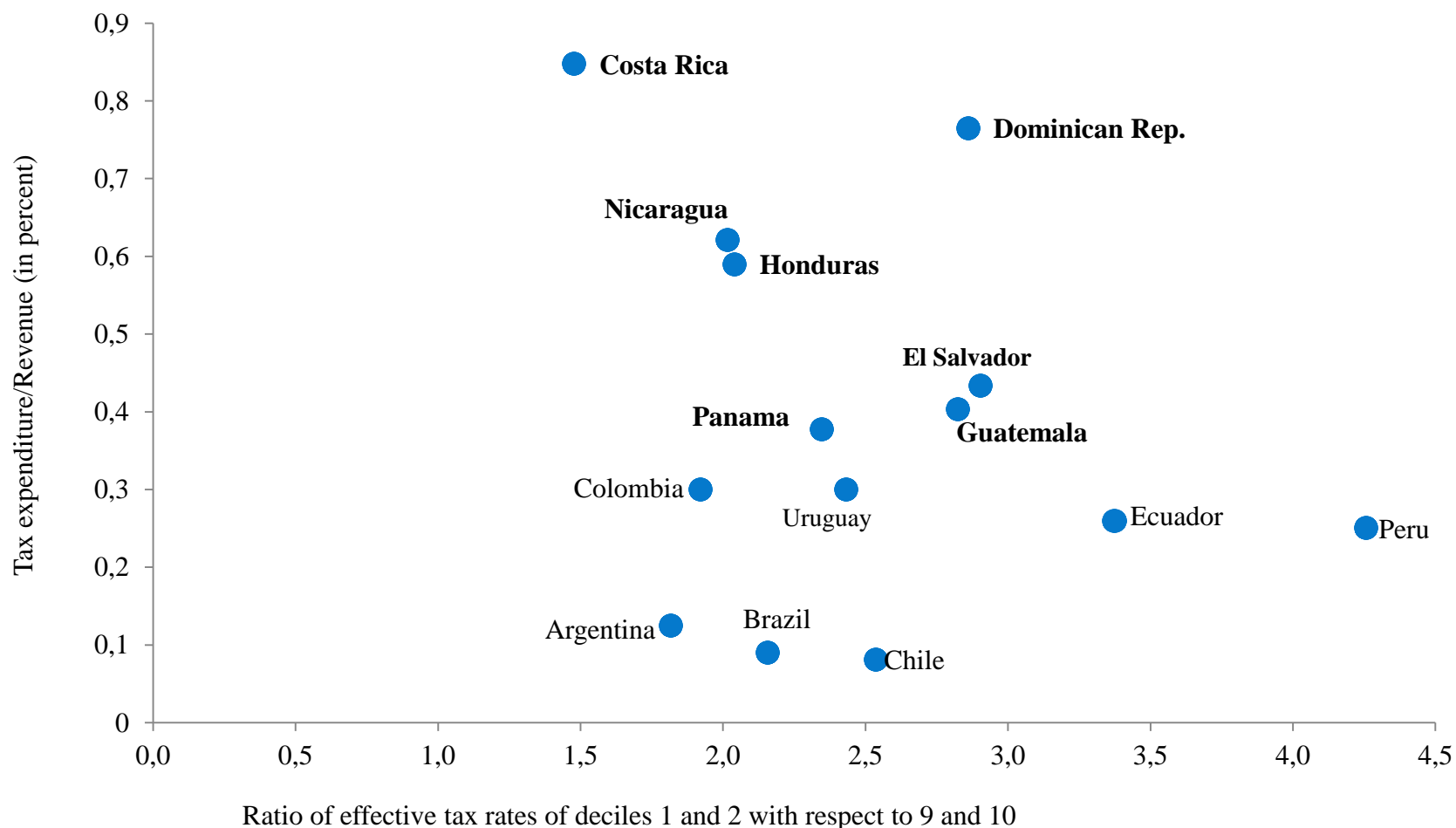
VAT Productivity and Efficiency

(Index=0-1, where 1=maximum productivity)

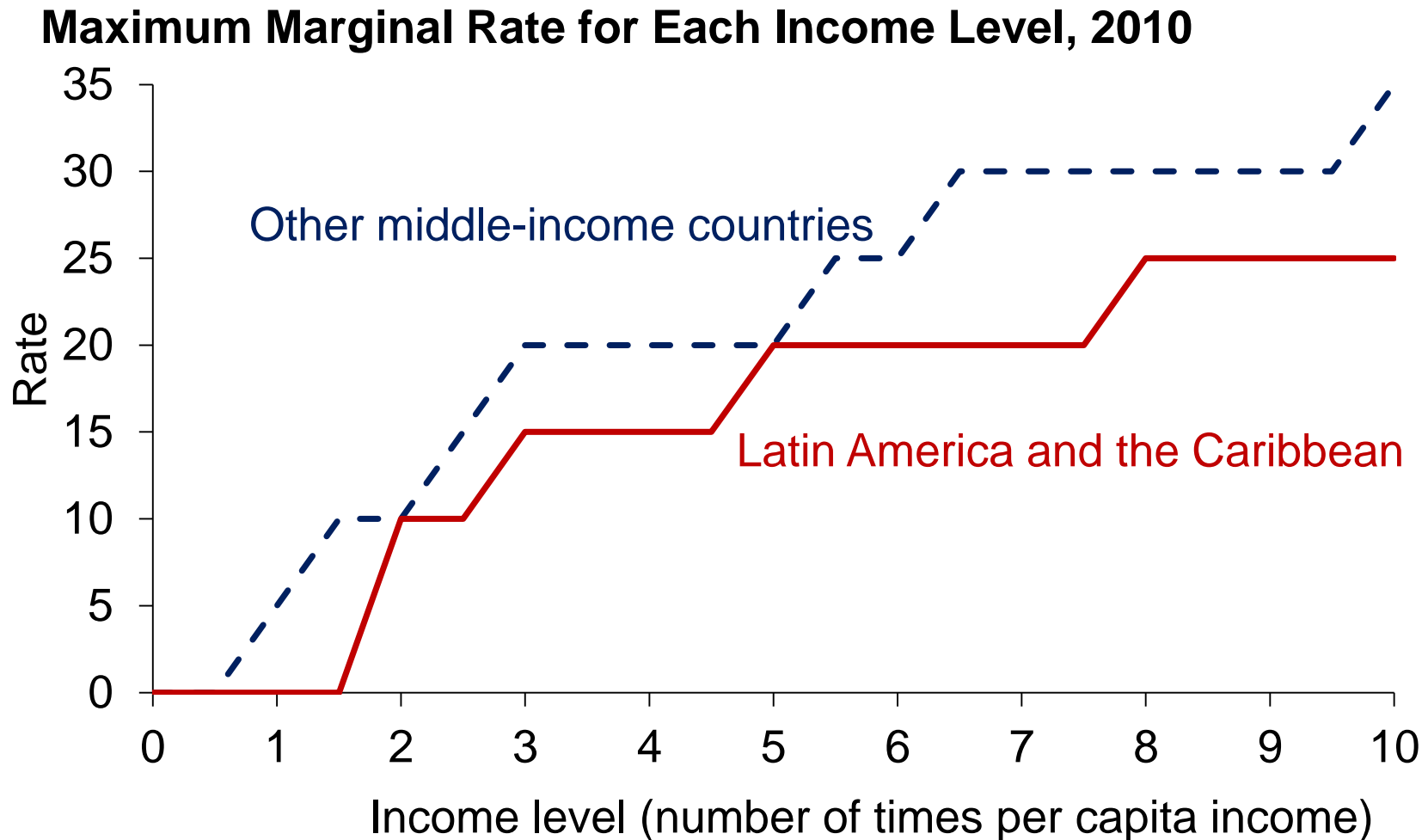


Tax expenditure not always yields progressivity

Tax Expenditure and Progressivity

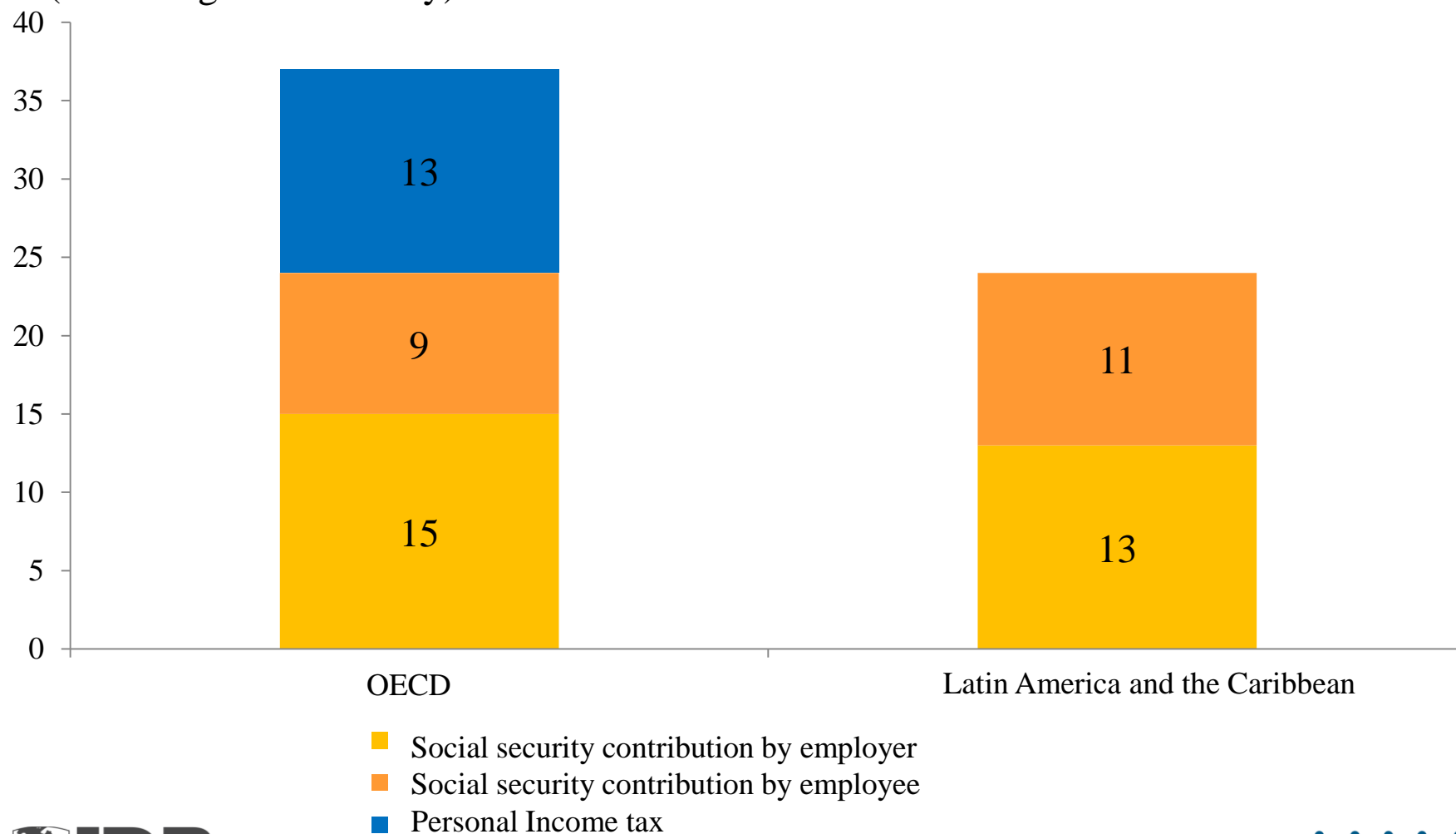


Personal income tax: Design on paper...



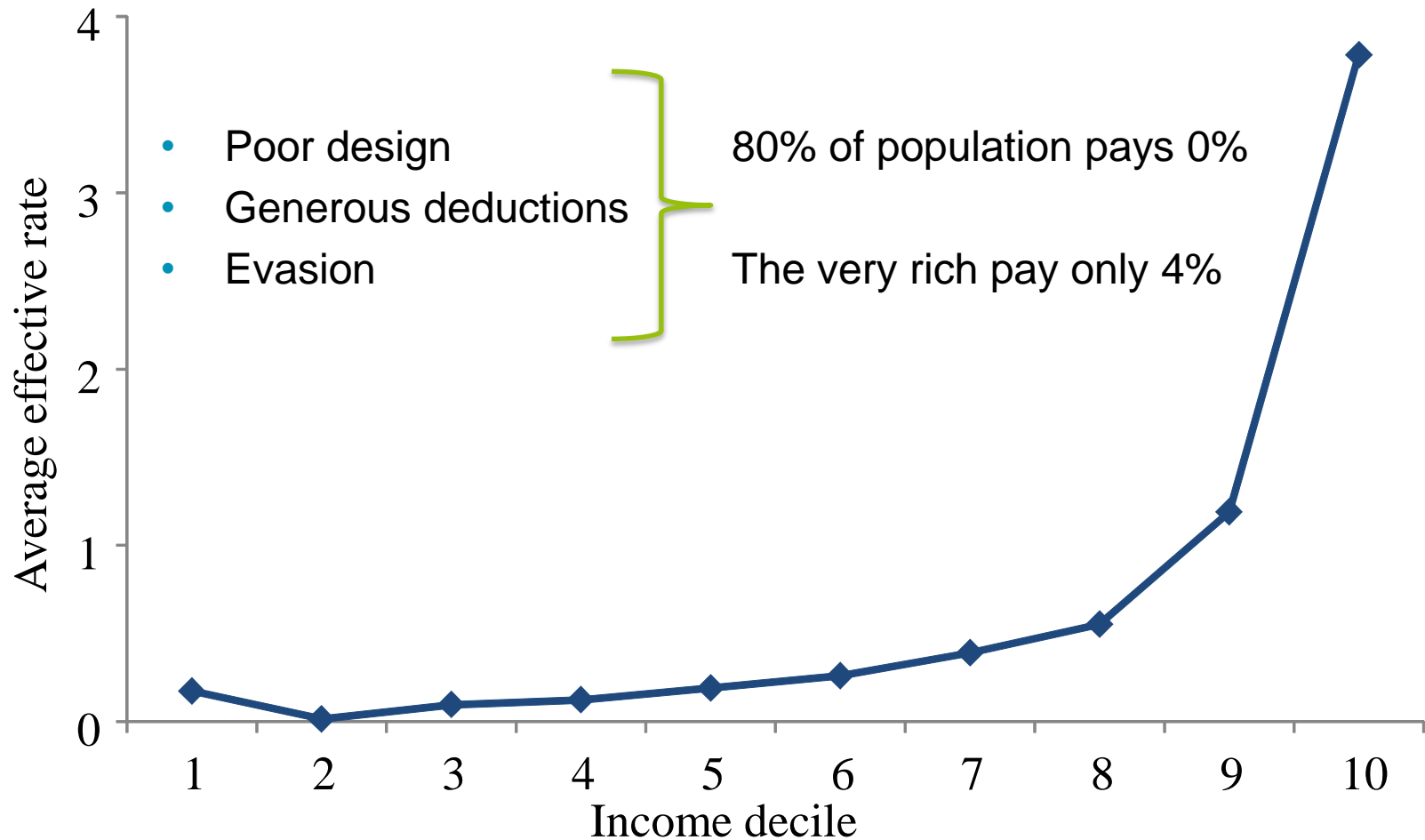
...that barely reaches wealthy households...

Tax Wedge for Employee without Children in Sixth decil
(Percentage of the salary)



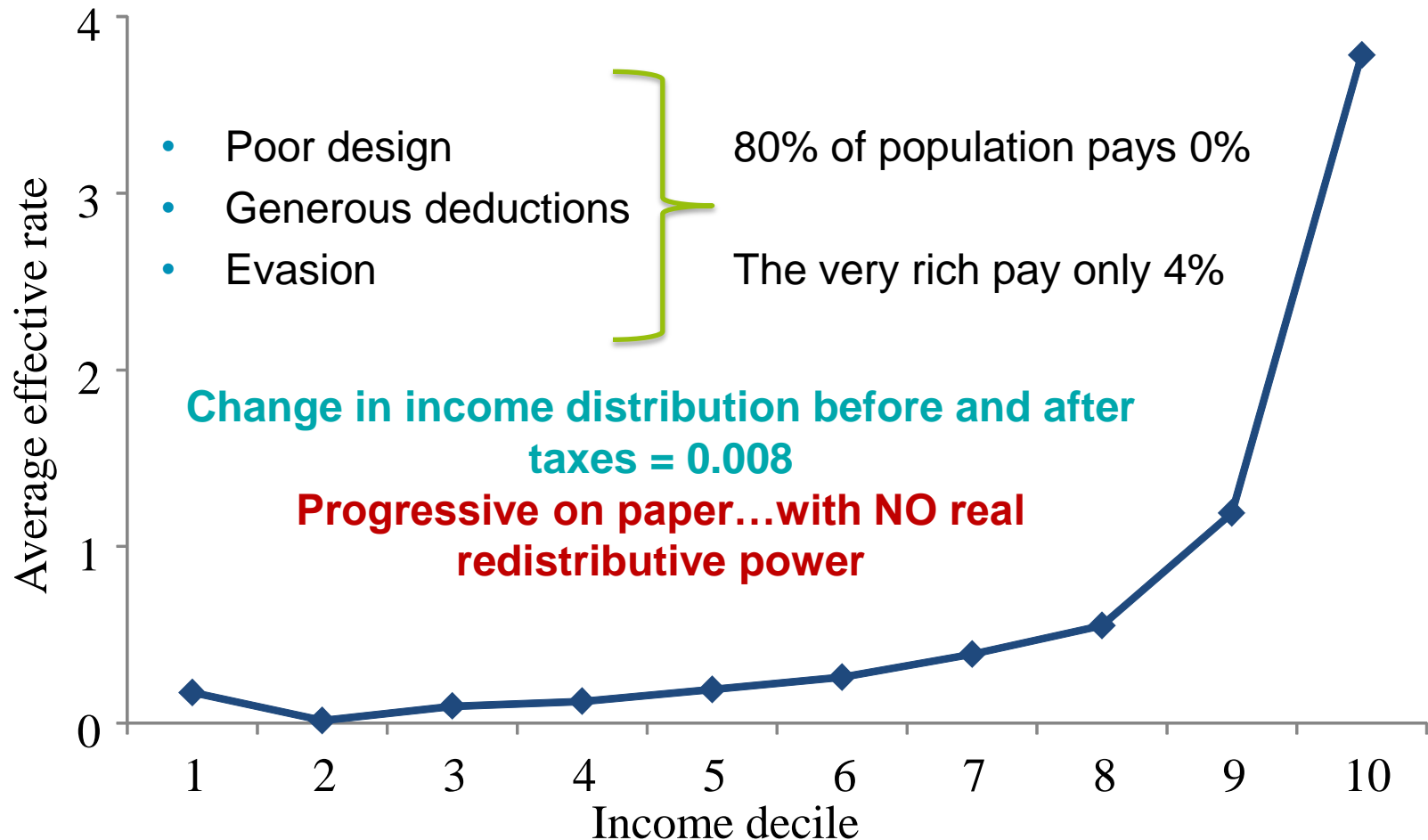
...and ends up an empty shell

Incidence of Personal Income Tax



...and ends up an empty shell

Incidence of Personal Income Tax



Taxation in LAC: Myth vs. Reality

Myth?

1. Low tax burden
2. Regressive taxes
3. Large evasion

Reality

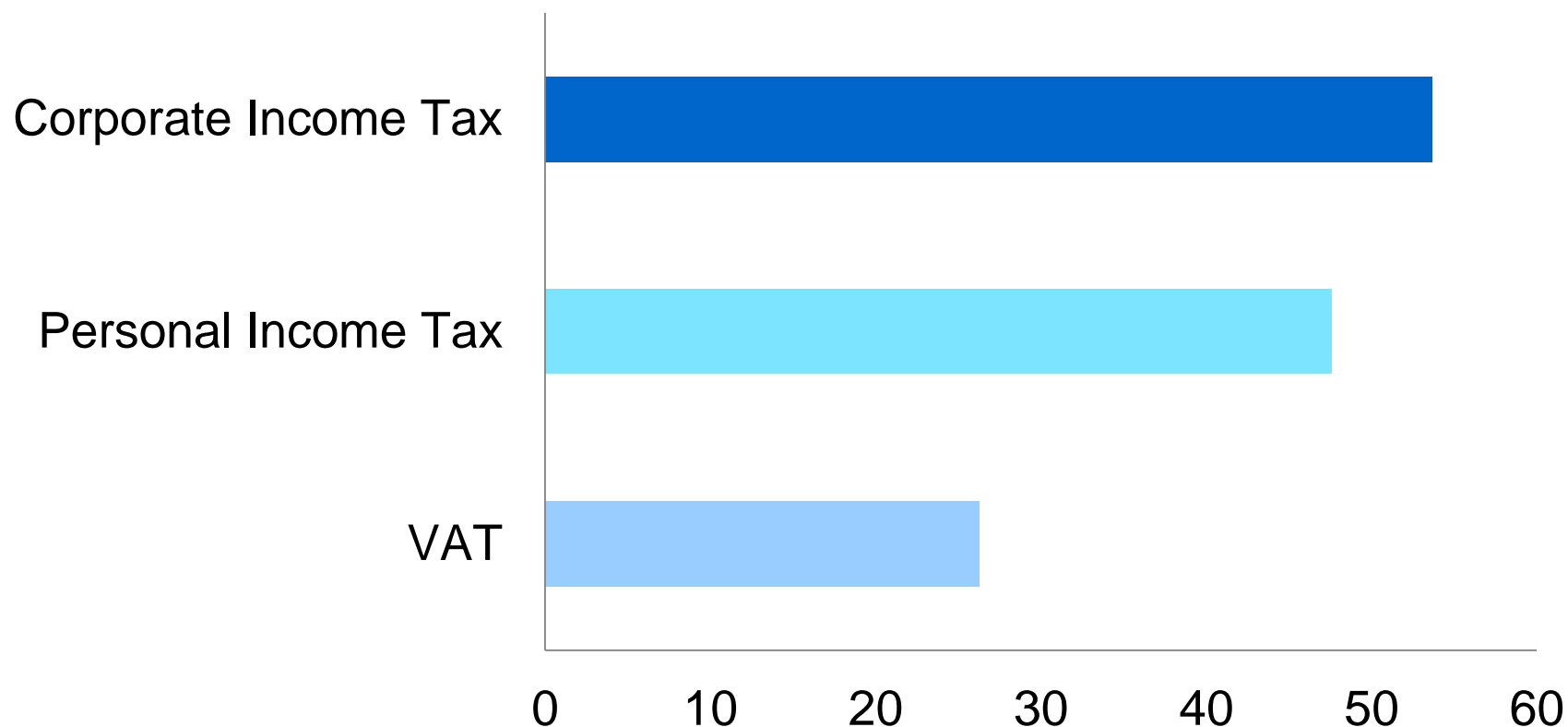
Yes...particularly in personal income tax...but most significant rise in overall tax burden in the world

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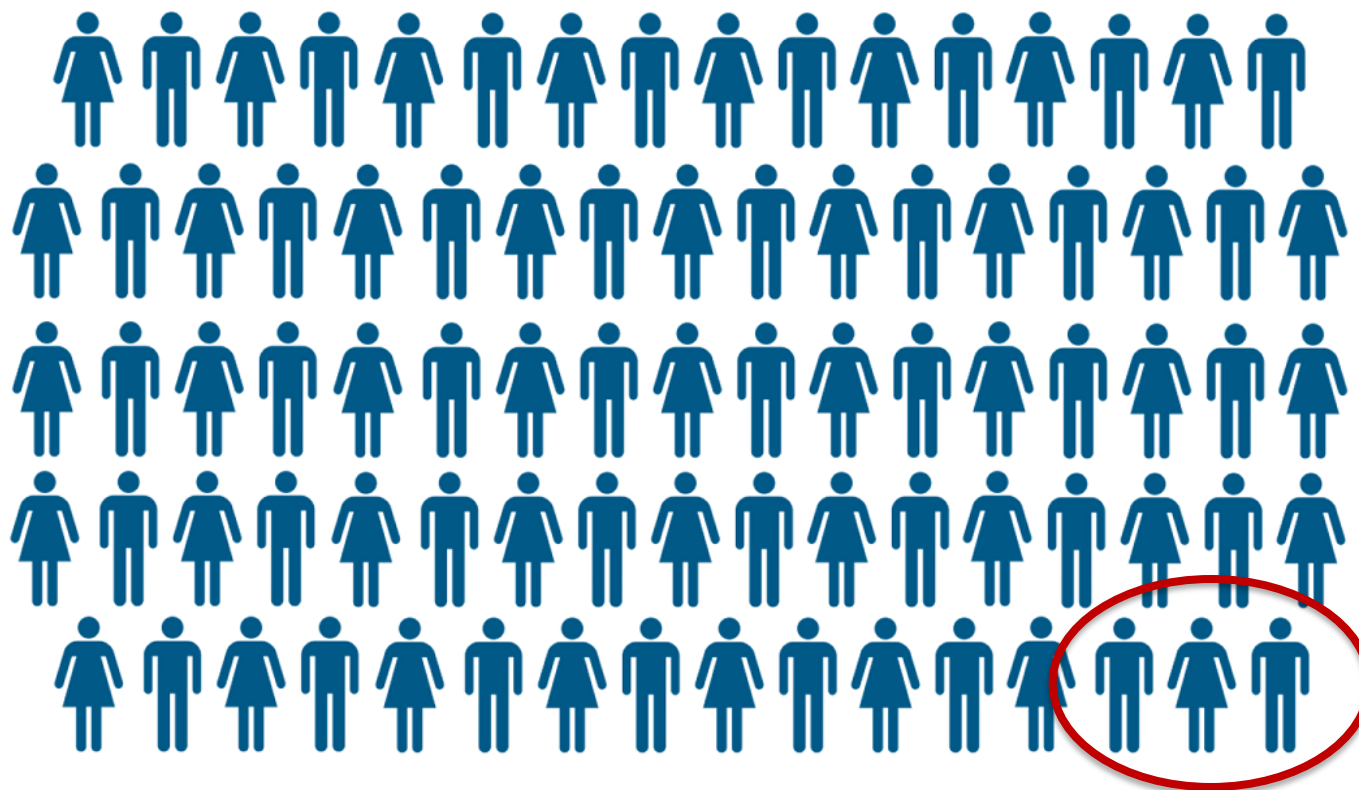
Yes... in income taxes (lower in VAT)
It's easy and risk free to evade

Large evasion: A blow to equality

Tax Evasion Rates (percentage)

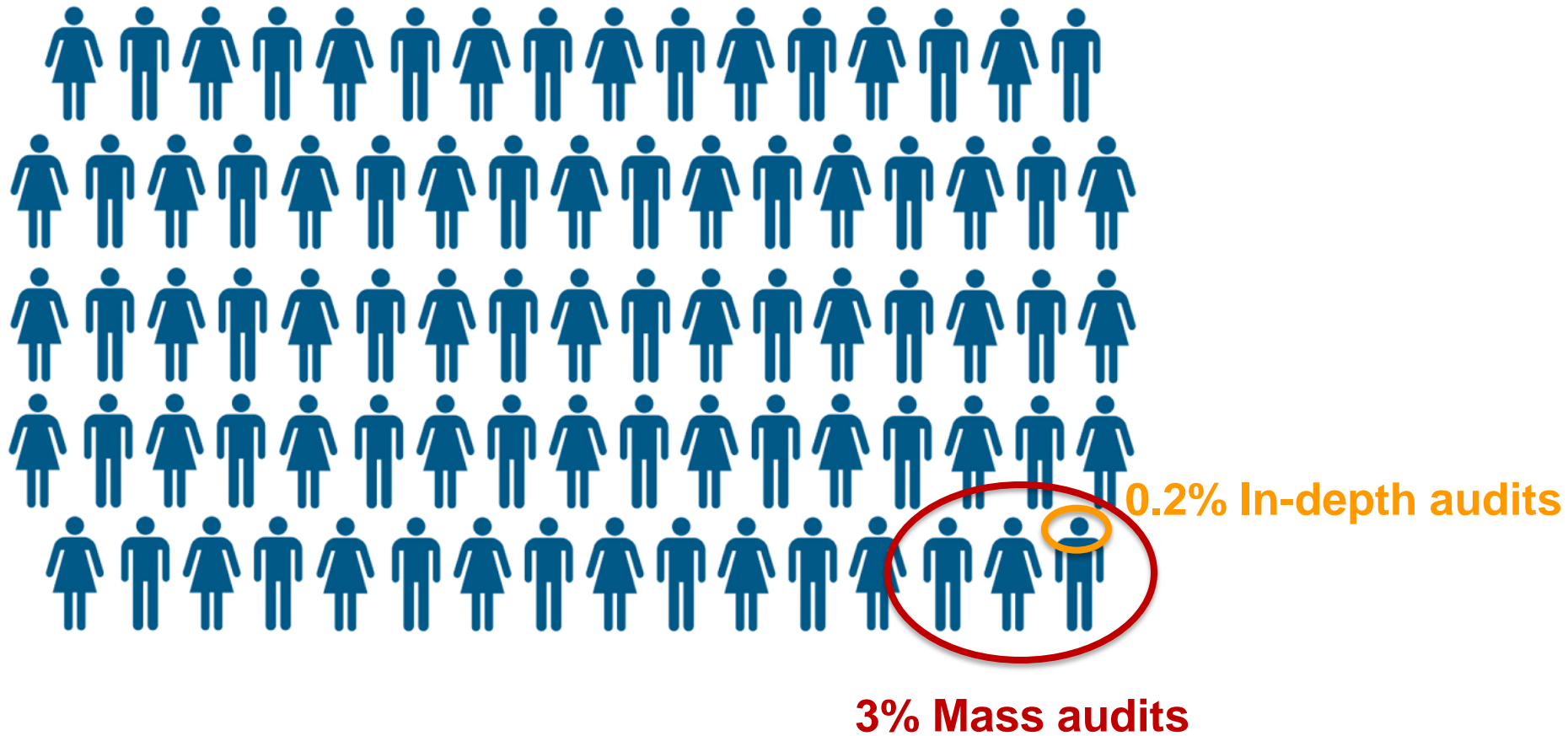


...with minimum chances of being audited



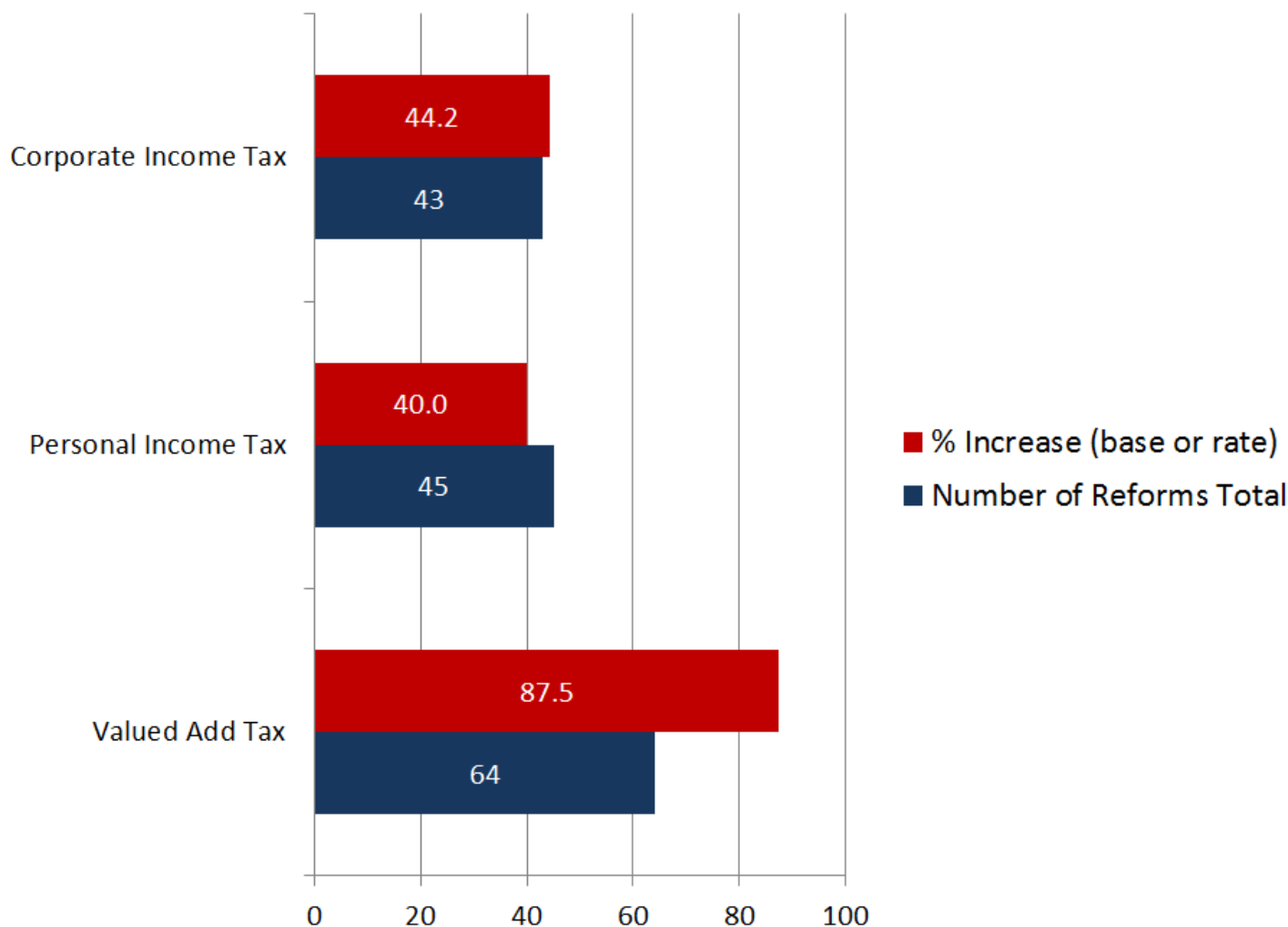
3% Mass audits

...with minimum chances of being audited



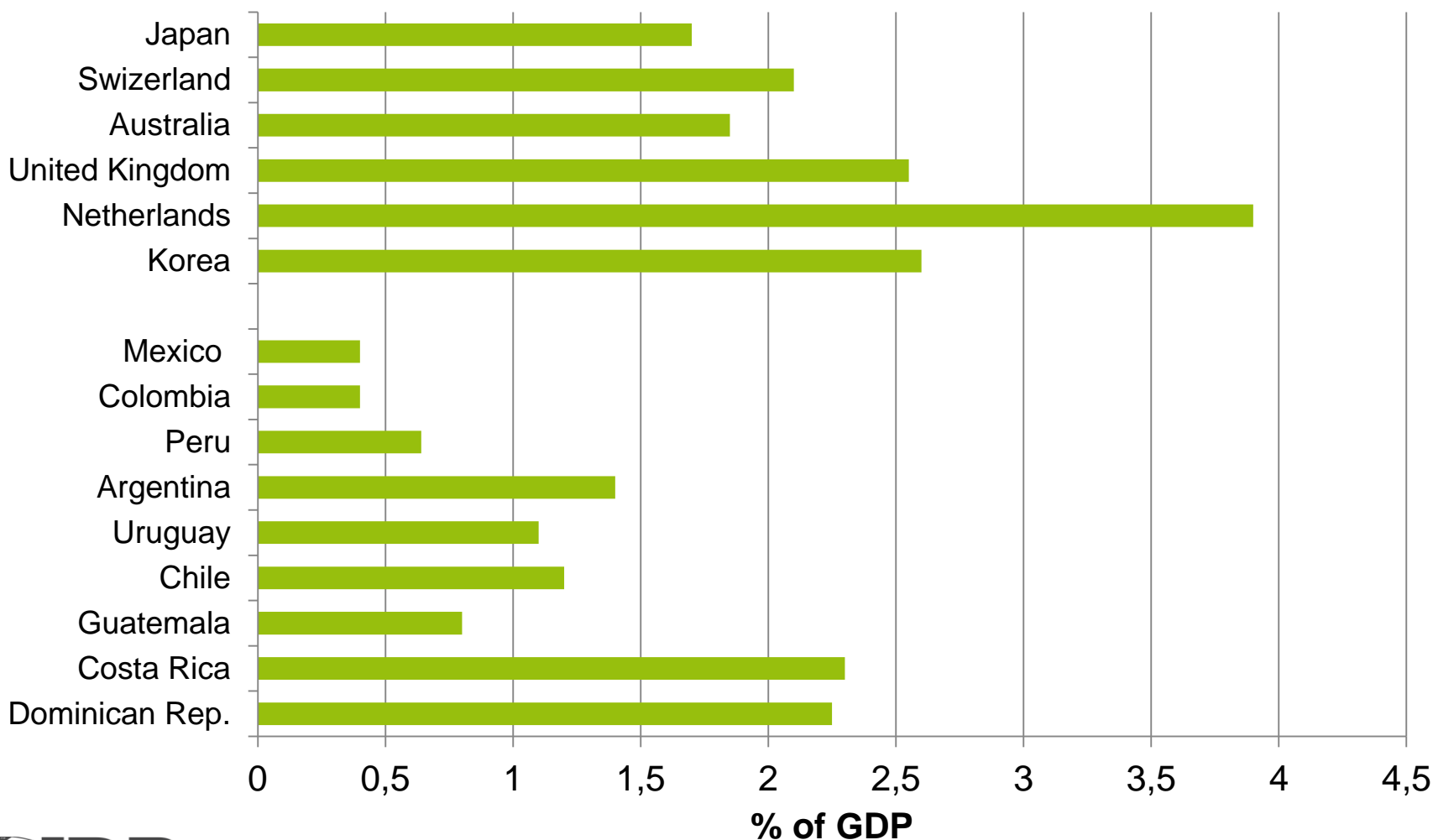
Nonetheless, positive results from reforms...

1990-2004



...with advances on environmental taxes...

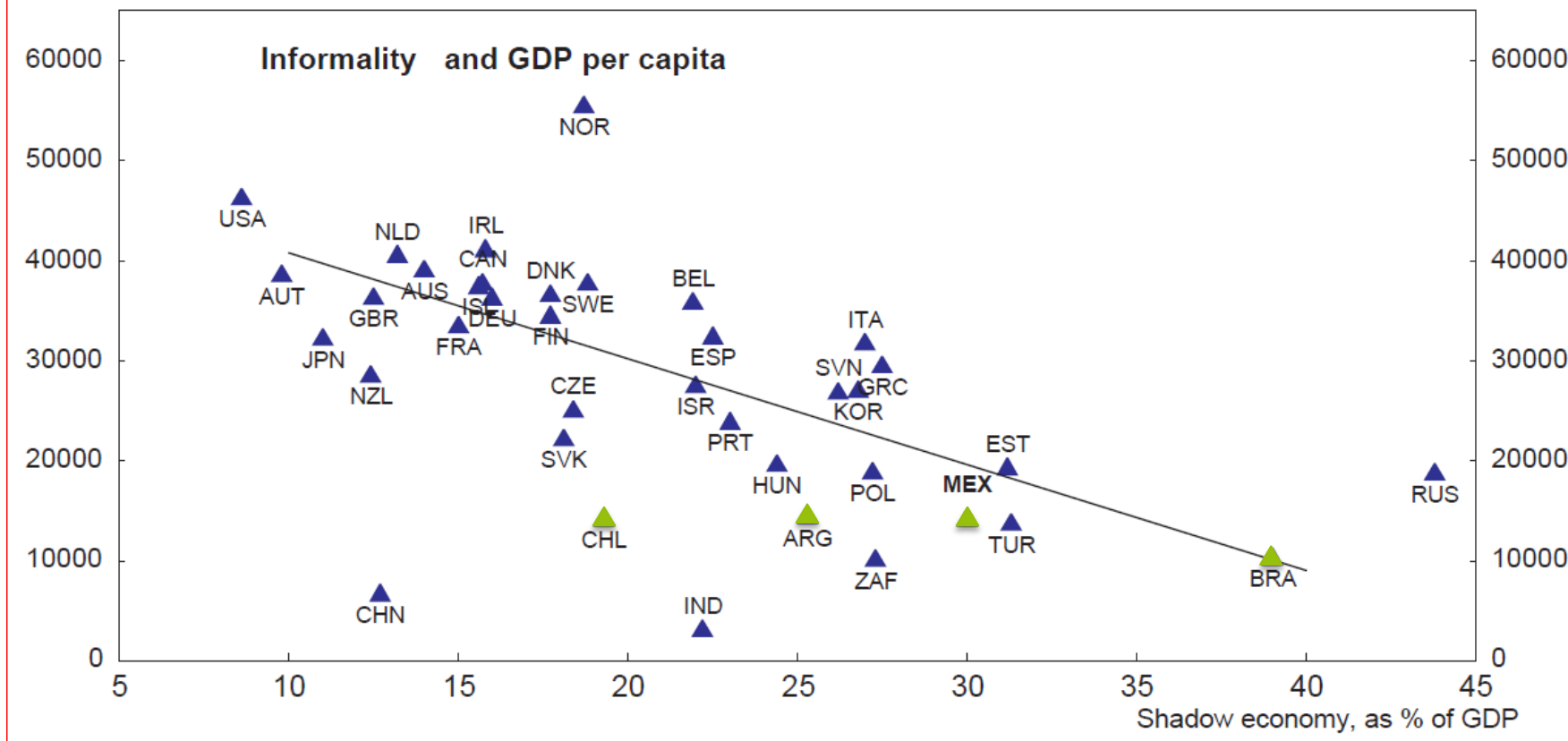
2009



...and with necessity to promote productivity

2009/10

GDP per capita, PPP
(current international \$)



Source: World Bank, World Development Indicators 2009 and Schneider, F., A. Buehn and C. Montenegro (2010), shadow economy uses multiple indicator multiple cause (MIMIC) model to estimate the shadow economy econometrically with a structural equation with one latent variable

To collect is essential but not enough—some policy reforms

- **Personal Income Tax**

Reduce minimum exempt level

Cap deductions progressively

Adopt a dual income tax

- **Corporate Income Tax**

Phase out special regimes

Reduce tax incentives

Decrease rates?

- **VAT**

Eliminate exemptions; unify rates

Compensate poor households

Reduce payroll taxes?

Revenue

Equity

Efficiency



To collect is essential but not enough—some policy reforms

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Reduce payroll taxes?

Revenue	Equity	Efficiency
✓	✓	✓
?	✓	✓
?	✓	✓

Strengthen tax administration and combat evasion

Institutions for People



IDB

Inter-American Development Bank/ www.iadb.org