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EQUIVALENT FISCAL PRESSURE IN LATIN AMERICA AND THE CARIBBEAN

An analysis of the stylized facts in the past decade

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IDB

CIAT

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Agnes Rojas and Dalmiro Morán

Executive Summary

This report accompanies an update to the database on Equivalent Fiscal Pressure (EFP) in Latin America and the Caribbean (LAC) for the period 1990–2018, as part of the joint project conducted by the Inter-American Development Bank (IDB) and the Inter-American Center of Tax Administrations (CIAT). EFP, a novel methodology for calculating fiscal pressure in LAC, seeks to measure more precisely the total resources raised by the countries of the region, which tend to be underestimated using traditional methodologies. EFP has four components: i) central government tax revenues, including those from subnational governments; ii) contributions to public social security systems; iii) compulsory contributions to private social security systems; and iv) non-tax revenues derived from the exploitation of natural resources.

The data for 2018 confirm the continuation of an upward trend in the average level of fiscal pressure in LAC. Using the traditional methodology, LAC's fiscal pressure, which includes tax revenues and public social security contributions (SSCs), stood at 23.3% of GDP in 2018, a slight increase on the previous year (23.0% in 2017). Use of the EFP methodology[1] adds 1.9 percentage points of GDP to the tax burden in 2018, bringing it to 25.2% of GDP, with an increase of 0.4 percent of GDP relative to 2017.

The sustained increase in traditional fiscal pressure has rested fundamentally on the region's three fiscal pillars: value added tax (VAT), income tax, and compulsory SSCs to public and private systems. From 1990 to 2018, the fiscal pillars of VAT[2], income tax[3], and public and private SSCs grew by 3.4 percentage points of GDP (+87.0%), 2.7 percentage points of GDP (+77.5%), 1.6 percentage points of GDP (+59.5%) and 0.7 percentage points of GDP (+317.5%), respectively. In the past five-year period (2013–2018), EFP grew by only 1.0% of GDP, equivalent to an increase of 4.1 percent. VAT

1 The regional and subregional averages exclude Venezuela for the most recent years (2016–2018) because of a lack of official data. Given the lack of information, it has been assumed that the GDP data for Cuba in 2018 are equivalent to those recorded in 2017 (the last available year).

2 The "VAT" fiscal pillar mainly refers to tax revenues linked to the tax of the same name. In some cases, however, this item also includes other general taxes on goods and services.

3 The "income tax" fiscal pillar, in addition to net tax revenues related to tax on the income of individuals and corporate bodies, also includes other direct taxes on revenues at the central and subnational levels.

and income tax grew by only 4.8 percent (7.3% of GDP in 2018) and 11.8 percent (6.3% of GDP), while revenues from natural resources declined by 51.9 percent (1.0% of GDP), although a slight recovery in the past two years has helped produce the above-mentioned increase in LAC's EFP.

Among LAC's subregions there are differences in the current level of fiscal resources and in their recent evolution. In terms of traditional fiscal pressure, the Caribbean led the region in 2018 (28.3% of GDP), followed by Mercosur, Chile and Mexico (24.3%), the Andean Community (20.8%), and finally Central America and the Dominican Republic (18.9%). As regards EFP, the ranking does not vary among the subregions. In the past five-year period (2013–2018), the Caribbean countries experienced the greatest increase in their traditional fiscal pressure (4.1 percentage points of GDP), while the other subregions all grew in the range of 0.5–1.4 points of GDP. Performance is similar with regard to EFP: the Caribbean experienced the most growth (3.0 percentage points of GDP), while the total tax burden fell by 0.9 points in the Andean Community and Venezuela.

Noteworthy at the country level are the wide gaps in EFP levels. Cuba has the highest tax burden in the region (42.4% of GDP) and Guatemala has the lowest (11.8%). Analysis of the order of countries according to EFP levels, taking as a reference the most recent update to the database that took it to 2015, reveals that Bolivia, Trinidad and Tobago, Argentina and Paraguay dropped sharply on the regional ranking. By contrast, it is worth noting the progress made by Uruguay in consolidating its position as the country with the highest tax burden in Latin America (surpassed only by Cuba). Additionally, the regional average rose because of the inclusion of countries such as Cuba, Guyana and Jamaica in the EFP database.

Analysis of the tax structures by country groups reveals similarities and differences depending on the tax being examined. As regards the "VAT" fiscal pillar, revenue varies among the countries. In the lead are the Caribbean (8.7% of GDP) and Mercosur, Chile and Mexico (8.3%). They are followed by the Andean Community (7.0%), and Central America and the Dominican Republic (5.4% of GDP). There are also marked differences in the area of income tax. In this category the Caribbean raises 8.0% of GDP, almost three points more than the Andean Community (5.2% of GDP and in last place in the region). As to public SSCs, Mercosur, Chile and Mexico have the most solid revenues in the framework of the public regime (5.3% of GDP) and the private system (1.9% of GDP). All the country groups derive revenue from natural resources; the Andean Community—not including Venezuela—was the subregion that raised most under this heading in 2018 (2.1% of GDP).

These gaps widen when the countries are analyzed separately. The highest revenue figures for the "VAT" fiscal pillar are for Cuba[4] (18.5% of GDP), Brazil[5] (12.5%), and Argentina[6] (11.5%); the lowest figures are for Mexico (3.9% of GDP) and Panama (2.3%). With regard to income tax, Trinidad and Tobago raises 11.3% of GDP, followed by Cuba (10.3%), Guyana (9.9%) and Jamaica (8.7%). In 2018, public SSCs reached 10.1% of GDP in Uruguay and 8.4% in Brazil, while Peru raised just 2.0% of GDP. In private systems, Chile led the regional revenue rankings with 4.7% of GDP. As regards natural resources, 19 countries of the region receive non-tax fiscal revenues from this source. The countries that raised the most from natural resources in 2018[7] were Bolivia (4.5% of GDP), Mexico (4.2%), and Trinidad and Tobago (3.4%). Table 1 at the end of this report provides details of the EFP composition by type of tax and by country in 2018.

The region continues to close the gap with revenue levels in the OECD, albeit with less impetus than in recent years. Since 1990, greater fiscal effort and favorable external contexts have enabled the LAC countries to converge towards the levels of fiscal pressure prevailing in the OECD countries. LAC's EFP stood at 54.9 percent of the tax burden of the OECD in 1990, and at 69.8 percent in 2017. Since 2010, EFP convergence with the OECD has stalled, coinciding with an adverse international environment and a fall in demand for LAC's natural resources. The importance of these resources for the region is apparent if we exclude revenue from them from the comparison, since regional convergence then diminishes.

Measuring convergence with the OECD by type of tax, the results are varied. The greatest convergence is in the "VAT" fiscal pillar, where revenues are at the level of the OECD; indeed, in the Caribbean, and in Mercosur, Chile and Mexico, revenue even surpasses the OECD level. The performance

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4 Refers to the tax on circulation of goods and sales. Data for 2017.

5 Considering the COFINS and PIS/PASEP taxes (federal government), ICMS (state-level) and ISS (municipal).

6 Includes VAT (national) and the tax on gross incomes (provincial).

7 Not including Venezuela, because of a lack of information.

of income tax has been less favorable: revenue amounts to a little more than half the OECD (52.0 percent), and the Caribbean and Mercosur countries have driven this modest convergence. The lower level of income tax convergence stems from the low yield in revenue from personal income tax: in the OECD this stood at an average of 8.6% of GDP in 2017, and in LAC at just 2.1% of GDP. Convergence with the OECD is also modest in the area of SSCs. Considering only public SSCs, the LAC average is equivalent to just 42.3 percent of the average value for the OECD; if LAC's private SSCs are added the figures improve, reaching 51.8 percent of average revenues in the OECD.

The generally favorable tendency in LAC stems from various international trends in tax reform, which LAC countries replicated and implemented during the past decade. Since the mid 2000s there has been a reappraisal of the potential of income tax in the region's tax systems, especially personal income tax. Following the pioneering case of Uruguay in 2006, several countries of the region have adopted a system of dual income taxation with the aim of expanding its tax base and taxing capital gains, which had been exempt in most cases. As regards corporate taxation, attention has focused on overseeing the operations of multinational enterprises. The fiscal planning strategies used by such companies have eroded tax bases and enabled profit shifting abroad. With regard to VAT, recent progress has centered on the challenges posed by the digital economy. Moreover, in recent years a large number of countries in the region have tried and managed to introduce reforms to excise taxes on certain goods whose consumption is considered to be harmful, either for public health or the environment.

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Introduction

This report accompanies an update to the database on **Equivalent Fiscal Pressure (EFP) in Latin America and the Caribbean (LAC) for the period 1990–2018**, as part of the joint project conducted by the Inter-American Development Bank (IDB) and the Inter-American Center of Tax Administrations (CIAT).

Over recent decades it has been possible to identify common traits and trends among the different LAC countries, but in many respects the region is highly diverse. Historically, that circumstance has undermined the comparability of cases examined using conventional standards, and of the economic variables generally used for such purposes. In this regard, EFP is a novel methodology for calculating fiscal pressure in LAC, and for measuring more precisely the total resources collected by the countries of the region—which tend to be underestimated using traditional methodologies. By including structural elements of public financing in the LAC countries, this methodology also makes it possible to standardize fiscal pressure and make it more comparable among countries and regions.

The discussion below defines the concept of EFP and sets out the overall results of the most recent update. It describes trends in the levels and structures of fiscal revenues, making comparisons among LAC subregions and with the countries of the Organization for Economic Cooperation and Development (OECD). Finally, it points out some of the most recent trends in tax reform region-wide.

1 Preliminary definitions: the concept of “Equivalent Fiscal Pressure” (EFP) and its implications

A country’s tax burden or “tax pressure” is a variable determined by the amount of monetary resources that a given country captures when it applies a set of various taxes and other instruments that, in general, comprise the essential basis of State financing. In conventional terms, this indicator is usually expressed relative to each country’s GDP, so as to ensure a comparable unit of measure.

Because of an array of various factors, however, the importance of tax systems can be underrated when there are alternative sources of public revenues or distinct configurations of basic State functions in the different countries. Hence, for example, the widespread availability of renewable or non-renewable natural resources within the geographic and political boundaries of a given territory might allow some of these countries to supplement public financing by implementing tax regimes that enable State appropriation of part of the revenues derived from activities linked to those resources. The best-known case is the economic exploitation of hydrocarbon and mineral deposits that have great commercial value world-wide.

Similarly, extensive public social security systems in certain countries require an abundant supply of tax resources to ensure that such systems function properly and are financially sustainable. This is in contrast, however, to circumstances in other countries that have opted to introduce no less extensive private systems of healthcare and social security based on individual capitalization. These systems may replace, complement or compete with the alternative public system[1].

1 In legal terms, the social security category is located within the obligations imposed by law that involve a disbursement. For example, these obligations would include the contributions referred to in the US health care reform approved in 2010 by means of the Patient Protection and Affordable Care Act. This law stipulates that health insurance is mandatory and a penalty is due if the obligation is not met, by virtue of the power of Congress to impose taxes. Nonetheless, these kinds of contributions are not accounted for in US fiscal pressure and the OECD countries in general, but fall within their “theoretical” EFP. Additionally, part of EFP are resources raised through the State’s capacity to acquire income from the public domain, such as from natural resources. A theoretical example for the OECD—also unaccounted for in its traditional fiscal pressure—is Norway’s non-tax revenues from exploitation of its oil reserves. For more detail on the methodological and legal foundation of EFP, see Barreix A., F. Velayos, M. Pecho and J. C. Benítez (2013), “Putting Pressure: Estimating the Real Fiscal Burden in Latin America and the Caribbean,” IDB-CIAT-IEF. Available at: https://www.ciat.org/Biblioteca/DocumentosdeTrabajo/2013/2013_Putting_pressure_barreix_bes_velayos_pecho_benitez.pdf

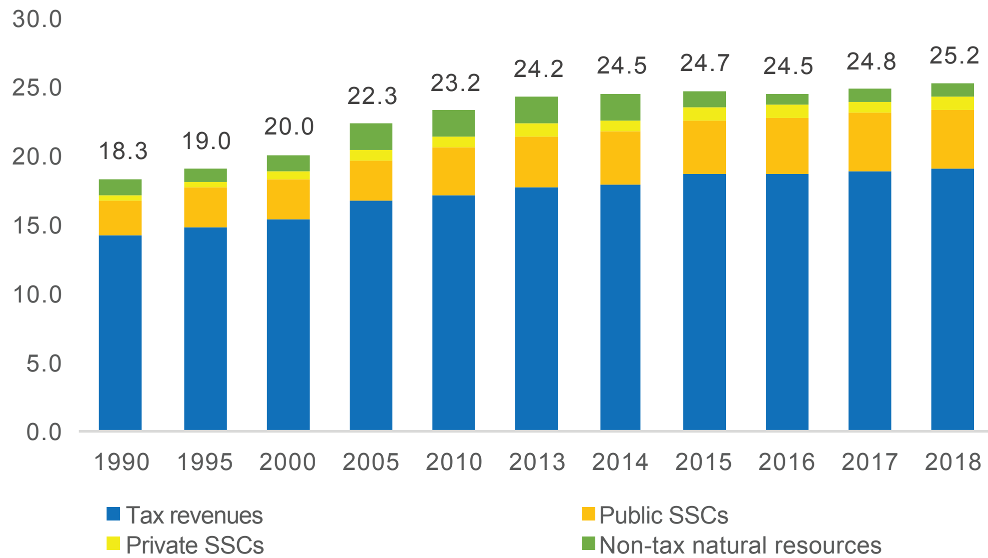
With a view to considering these components of diversity, therefore, the concept of "Equivalent Fiscal Pressure" (EFP) is posed herein. EFP takes account of two other sources of revenue in addition to those traditionally included (tax revenues and public social security contributions), and that amount to a tax effort demanded of taxpayers when payment of them is compulsory: contributions to the private pension system, and non-tax resources (dividends, royalties) derived from the exploitation of natural resources.

EFP = *general government tax revenues + compulsory social security contributions (public and private) + non-tax resources derived from the exploitation of natural resources*

As Figure 1 shows, the traditional methodology indicates that fiscal pressure in LAC, which includes tax revenues and public social security contributions (SSCs), stood at 23.3% of GDP in 2018. Using the EFP methodology, the new resources add 1.9 percentage points of GDP to the tax burden in 2018, bringing the total to 25.2% of GDP and to closer convergence with fiscal burden in the OECD. During mineral price booms, resources from exploitation of the countries' natural wealth alone have managed to contribute with 2.0 percentage points of GDP (2013).

Figure 1. **Equivalent Fiscal Pressure – Latin America and the Caribbean**

Simple average of 25 countries[2] (percentage of GDP)



Source: Prepared by the authors on the basis of data in the IDB-CIAT database.

A comparison of overall fiscal pressure in LAC and the OECD in 2017[3] shows that, as a simple average, tax revenues (including public SSCs) amounted to 23.0% of GDP in LAC and 35.5% of GDP in the OECD. When these figures are weighted by the current GDP of each country[4], they stand at 25.3% of GDP for LAC and 32.2% for the OECD. Nonetheless, when the new resources (private SSCs and natural resources) are taken into account, the simple average EFP in LAC reaches 24.8% of GDP and the weighted average is 27.6%. In other words, the LAC-OECD gaps narrow markedly (from 12.5 to 4.6 percentage points of GDP)[5] when the new resources are considered in weighted averages.

2 Throughout this report, the regional and subregional averages exclude Venezuela for the most recent years (2016–2018) because of a lack of official data, as well as Ecuador (1990–92) and Nicaragua (1990). The 2018 data for Cuba are assumed to be equivalent, relative to percentage of GDP, to those recorded for 2017 (last year available).

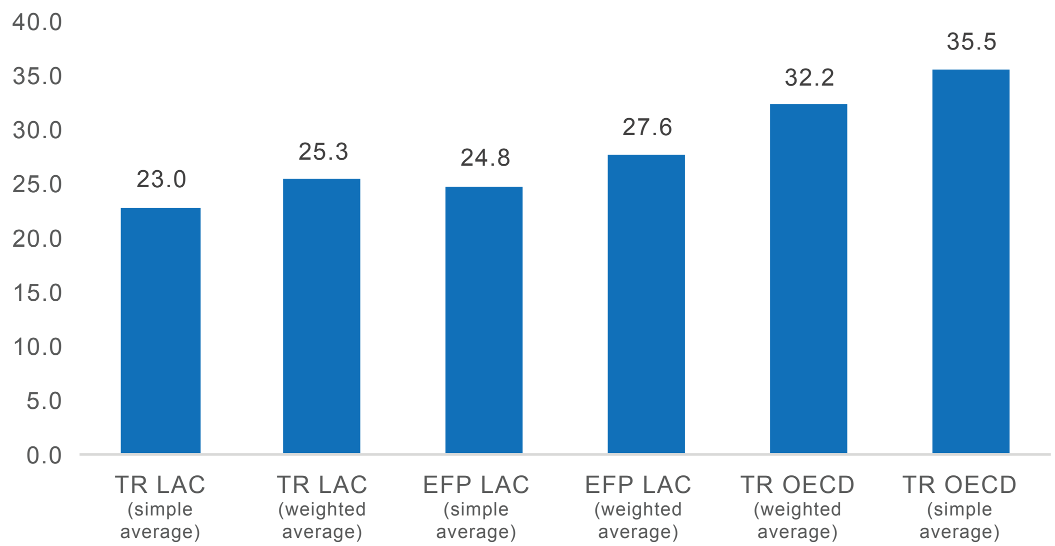
3 Data on the OECD tax burden are available only up to 2017.

4 The World Bank database was used for data on each country's nominal GDP.

5 The gap narrows to 1.8 points (24.8%–23.0%) with the move from "conventional" pressure to EFP; 2.8 points (27.6%–24.8%) with the move from LAC's simple to weighted average; and 3.3 points (35.5%–32.2%) with the move from the OECD's simple to weighted average. Hence, less than 23 percent [1.8/(1.8+2.8+3.3)] of the narrowing of the gap is due strictly to the EFP definition.

Figure 2. **Comparison of Tax Revenues (TR) and Equivalent Fiscal Pressure (EFP) between LAC and the OECD, 2017**

(percentage of GDP)

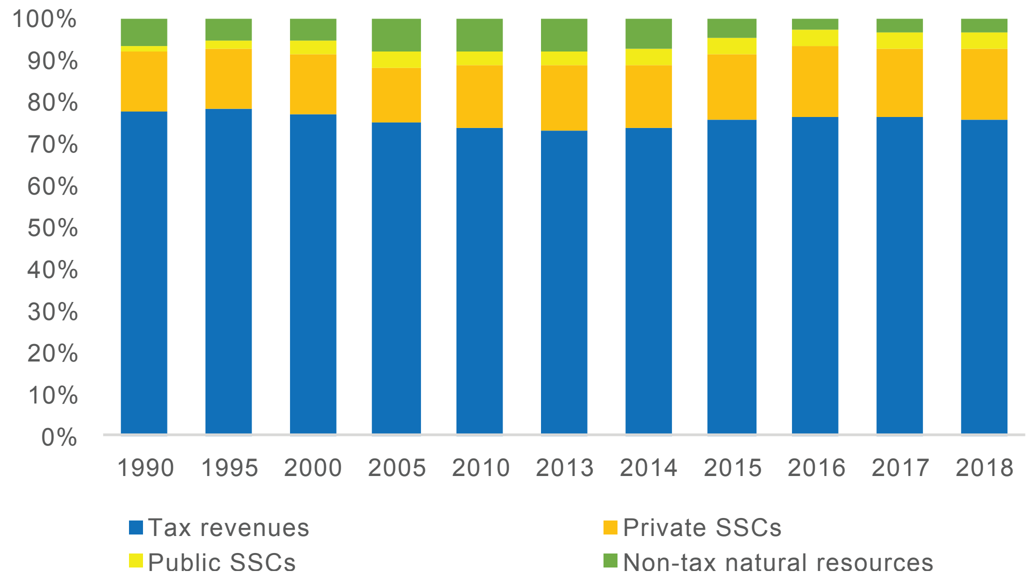


Source: Prepared by the authors on the basis of data in the IDB-CIAT database, OECD and World Bank (for nominal GDP of each country)

As regards the relative percentages of each component of EFP, Figure 3 shows that tax revenues and public social contributions have been relatively stable since 1990, and in 2018 accounted for 92.4% of the total fiscal burden (with tax resources fluctuating around 75%). The share of private social security has increased since its implementation in several countries of the region in the 1990s, and today accounts for 3.8% of the region's fiscal pressure. The share of non-tax revenues from natural resources has been volatile within the structure of EFP, in line with the variable behavior of this source of fiscal revenue.

Figure 3. **Equivalent Fiscal Pressure – Latin America and the Caribbean**

Simple average of 25 countries (percentage of the total)



Source: Prepared by the authors on the basis of data in the IDB-CIAT database.

2 Evolution of EFP level in LAC countries: common achievements and obstacles despite wide regional diversity

Regional evolution 1990-2018

As Figure 4 shows, in 2018 the region reached its highest level of EFP since 1990. This greater revenue was sustained by an increase in the region's fiscal pillars[6]. These pillars, which determine regional fiscal sustainability, are: value added tax (VAT), income tax (IT) and compulsory SSCs in their public and private variants. Non-tax revenues from the exploitation of renewable and non-renewable natural resources are an important income source for the region, but they are not regarded as pillars because of their wide variability.

Figure 4 shows the evolution of the region's tax structure from 1990 to 2018, disaggregated by fiscal pillars, non-tax natural resources, and other taxes. The figure includes the VAT fiscal pillar as part of an aggregate of General Taxes on Goods and Services[7], but in the figure's labels and the description of the regional evolution we refer to this as "VAT" because the latter is its chief component. The income tax pillar presents a similar case: generally, it refers to net tax revenue related to income tax but, in some cases, includes other levies on revenues at the central and subnational levels[8].

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6 A fiscal pillar is one that has a broad base and can generate significant and stable revenues. See Barreix A. and J. Roca (2017), "Strengthening a Fiscal Pillar: The Uruguayan Dual Income Tax," Cepal Review 92. Available at: https://repositorio.cepal.org/bitstream/handle/11362/11216/92121140I_en.pdf?sequence=1&isAllowed=y

7 In general, the "VAT" fiscal pillar refers to tax revenues linked to the tax of the same name. In some cases, however, this item also includes other general taxes on goods and services, namely: in Argentina, it includes net VAT (central government) and the tax on gross incomes (provincial); in Brazil, COFINS and PIS/PASEP (federal government), ICMS (state-level) and ISS (municipal); in Colombia, net VAT (central) and the tax on industry and trade (municipal); in Costa Rica, net VAT (national) and the tax on goods and services (municipal); in Cuba, the tax on circulation of goods and sales (although this is not strictly a VAT); in Nicaragua, net VAT (national) and the tax on goods and services (municipal); in Paraguay, the central government's net VAT and the municipal governments' License for Trade, Industry, Professions and Trades; in Uruguay, net VAT and the Contribution to the Financing of Social Security (COFIS, between 2001 and 2011), both at the central government level; in Barbados and Guyana, VAT replaced a general sales tax in 1997 and 2007, respectively, and thus the revenues from both taxes are considered in a joint series throughout the period 1990–2018.

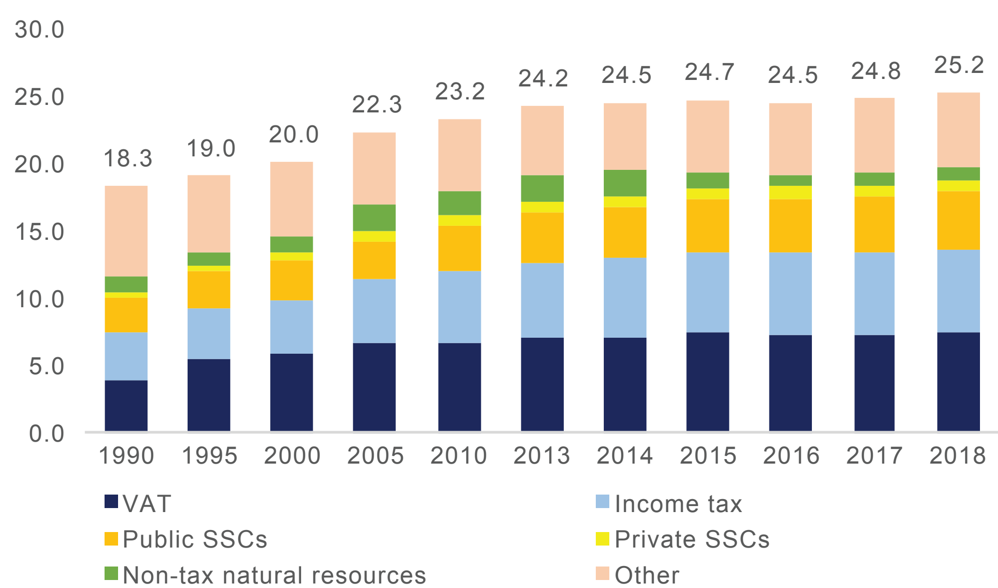
8 In general, the "Income" fiscal pillar refers to net revenues related to income tax (including supplementary rates for certain sectors, as applicable), be they individuals, legal entities, or other non-classifiable categories (for instance, advances withheld at source). In some cases, however, this pillar includes other direct levies on revenues collected by central or subnational governments, whether they apply to a particular sector, have an alternative calculation basis (assets), are temporary and extraordinary, and/or tax capital gains or specific incomes not covered by traditional income tax.

Between 1990 and 2018, VAT, income tax, public SSCs and private SSCs grew, respectively, by 3.4 percentage points of GDP (+87.0%), 2.7 percentage points (+77.5%), 1.6 percentage points (+59.5%) and 0.7 percentage points (+317.5%). These performances were partially offset by lower revenue from natural resources, bringing about an overall EFP increase of 6.9 percentage points of GDP.

In the past five-year period (2013–2018), EFP in the region grew by only 1.0 percentage point of GDP, equivalent to an increase of 4.1%. VAT and income tax grew by only 4.8% and 11.8%, respectively, while revenues from natural resources declined by 51.9%. This slowing of fiscal revenues was brought about mainly by changes in the international context, the overall downturn in economic growth rates and the fall in minerals prices, which significantly affected the region's fiscal accounts. This latter circumstance reflects the region's high degree of fiscal sensitivity to changes in commodities prices.

Figure 4. Fiscal Pillars and Non-Tax Revenues from Natural Resources – Latin America and the Caribbean

Simple average of 25 countries (percentage of GDP)



Source: Prepared by the authors on the basis of data in the IDB-CIAT database.

The structure of EFP in LAC also includes a heading referred to as “Others”. This includes the categories of taxes on property and payroll, excise taxes, levies on international trade and financial transactions, simplified regimes, and most subnational taxes, among others. In 1990 this group of taxes, whose internal composition varies from one country to another, accounted for 37.0 percent of EFP and up to 2018 it was gradually replaced by the fiscal pillars; it now accounts for a much smaller share of total revenues (22.0%). Table 1 in the Annex provides a breakdown by country, with figures on the fiscal pillars for 2018 and other relevant taxes comprising EFP, as well as a brief explanation of the composition.

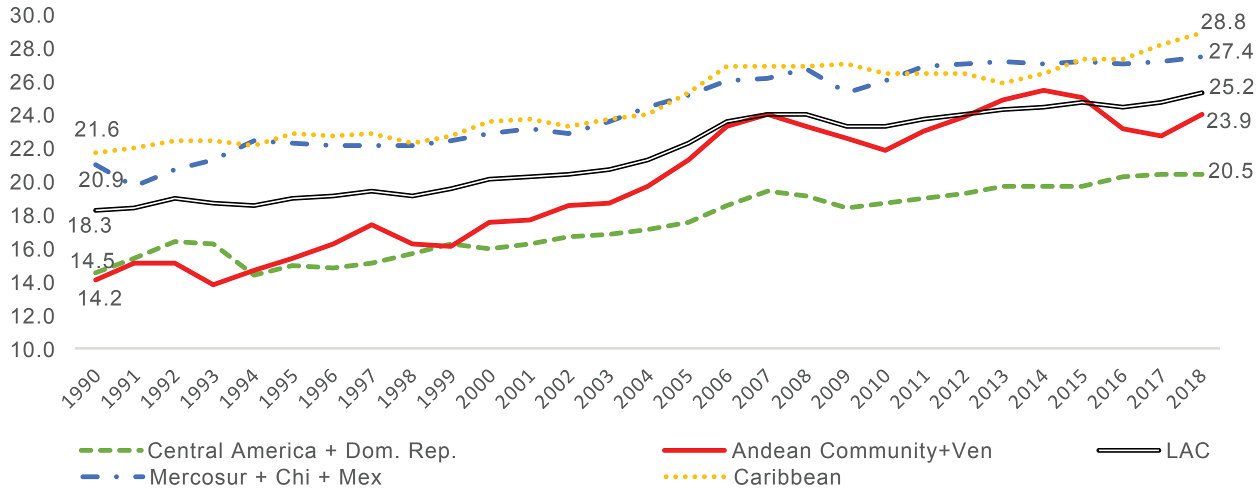
Evolution and level of EFP by countries and country groups 1990-2018

Figure 5 shows that, at the subregional level, the Caribbean has the highest EFP in the region (28.8% of GDP), followed by Mercosur, Chile and Mexico (27.4% of GDP). In third place are the Andean Community countries plus Venezuela (23.9% of GDP), and finally the Central American countries and the Dominican Republic (20.5% of GDP). The Andean Community and Venezuela recorded the highest growth between 1990 and 2018 (9.8 percentage points of GDP), and Central America and the Dominican Republic recorded the lowest (6.0 percentage points of GDP).

In the past two years (2017-2018) the Andean Community and Caribbean countries have experienced an increase in fiscal pressure, which can be explained by a greater fiscal effort made to offset the fall in revenues from the exploitation of natural resources, as well as other reforms that are discussed below.

Figure 5. **Equivalent Fiscal Pressure – Subregions of Latin America and the Caribbean**[9]

Simple averages (percentage of GDP)



Source: Prepared by the authors on the basis of data in the IDB-CIAT database.

Figure 6 shows that the ranges between maximum and minimum EFP levels are significant. Cuba has the highest tax burden in the region (42.4% of GDP in 2017), and Guatemala has the lowest (11.8% of GDP). As mentioned earlier, the regional average is 25.2% of GDP. It is notable that, for the countries whose EFP is around or below the regional average, the tax burden falls substantially when we discount the new resources. This is the case, for example, in Bolivia, Chile, and Trinidad and Tobago.

Analysis of the ranking of the countries according to their EFP levels should point out some important changes that have been apparent over recent years. Taking as a reference the most recent update to the database that took it to 2015[10], the countries that fell the most on the regional EFP ranking are Bolivia, Trinidad and Tobago, Argentina and Paraguay. In Bolivia, this is because of the sharp decline in revenues from natural resources (combined revenue from hydrocarbons and mining royalties, and from the Direct Tax on Hydrocarbons, fell from 8.2 to 4.5 percentage points of GDP between 2015 and 2018). Trinidad

9 "Central America" includes Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama "The Caribbean" includes The Bahamas, Barbados, Belize, Cuba, Guyana, Jamaica, and Trinidad and Tobago. The "Andean Community" includes Bolivia, Colombia, Ecuador and Peru. "Mercosur" includes Argentina, Brazil, Paraguay and Uruguay.

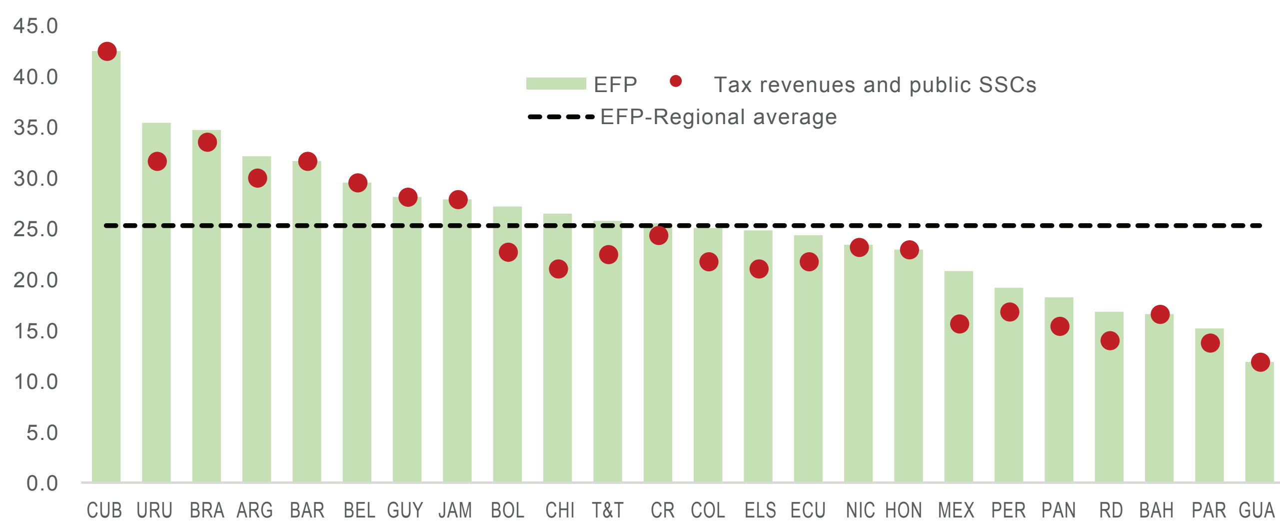
10 Barreix, A., L. F. Corrales, S. Diaz de Sarralde, and C. Garcimartín. (2017), "Updating of Equivalent Fiscal Pressure in Latin America and the Caribbean," IDB/CIAT. Available at: https://publications.iadb.org/es/publicacion/17309/actualizacion-de-la-presion-fiscal-equivalente-en-america-latina-y-el-caribe

and Tobago had a similar experience: its hydrocarbons revenues fell by 4.2 percentage points of GDP in the same period. In Argentina's case, the fall in the ranking stemmed from a series of tax measures that sharply reduced revenues from personal income tax and export duties as of 2016; still to be seen are the effects of the tax reform approved in 2017, which entailed changes to a large number of taxes in force and will tend to further reduce Argentina's total tax burden. In Paraguay, the fall was caused by the statistical effect of the Central Bank's updating of the GDP series.

By contrast, it is worth noting the progress made by Uruguay in consolidating its position as the country with the highest tax burden in Latin America (surpassed only by Cuba), as a result of a substantial increase in income tax revenue, especially personal income tax. The regional average rose, moreover, because of the inclusion of countries such as Cuba, Guyana and Jamaica in the EFP database.

Figure 6. Equivalent Fiscal Pressure and Tax Burden – Latin America and the Caribbean, 2018

24 countries (percentage of GDP)



Source: Prepared by the authors on the basis of data in the IDB-CIAT database.

Note: Data on Cuba are for 2017. Data is unavailable for Venezuela in 2018.

3 Tax structures in LAC: differences, similarities, and convergence by country groups

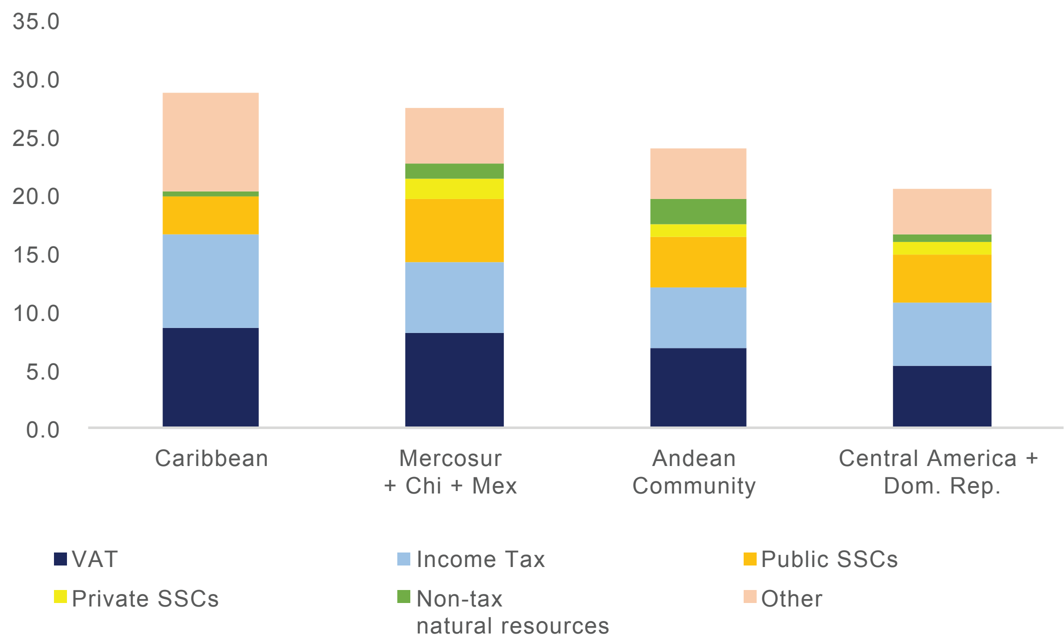
Tax structures by countries and country groups, 2018

Analysis of tax structures by country groups reveals similarities and differences depending on the tax being examined. As regards general taxes on goods and services (which, as mentioned earlier, in practice consist of VAT in most cases), the revenue structures vary by country, headed by the Caribbean (8.7% of GDP) and the Mercosur countries, Chile and Mexico (8.3% of GDP). These are followed by the Andean Community (7.0% of GDP) and, finally, Central America and the Dominican Republic (5.4% of GDP). For Mercosur, Chile and Mexico, this group of taxes comprises the most important category of total fiscal revenues (30.3% in average); for Central America and the Dominican Republic, it is the tax group with the smallest share (26.3%).

There are also marked differences among country groups in the area of income tax. Levels of income tax revenue in the Caribbean, which are far above those in other subregions, amount to 8.0% of GDP. The Caribbean is followed by Mercosur, Chile and Mexico with 6.1% of GDP. Almost 3.0 percentage points below the Caribbean are Central America and the Dominican Republic (5.3% of GDP) and the Andean Community (5.2% of GDP).

Figure 7. **Piscal Pillars and Non-Tax Revenues from Natural Resources – Subregions of Latin America and the Caribbean, 2018**

24 countries (percentage of GDP)



Source: Prepared by the authors on the basis of data in the IDB-CIAT database.

With regard to social security contributions, the Mercosur countries, Chile and Mexico have the most solid revenues in the context of the public regime (5.3% of GDP); this subregion also leads in revenue linked to private systems (1.9% of GDP). Among the Caribbean countries, social security is almost wholly public.

To a greater or lesser extent, all the country groups derive revenue from natural resources[11]. The Andean Community is the group that obtained most income from this category in 2018 (2.1% of GDP), whereas the countries of Central America and the Dominican Republic depend less on such resources (0.5% of GDP).

The "Others" heading accounts for a significant share of revenue in all LAC subregions. In this case, fiscal receipts are quite varied among subregions and mainly comprise a broad set of taxes on international trade and excise taxes, as well as property and payroll taxes, among other taxes levied by the central

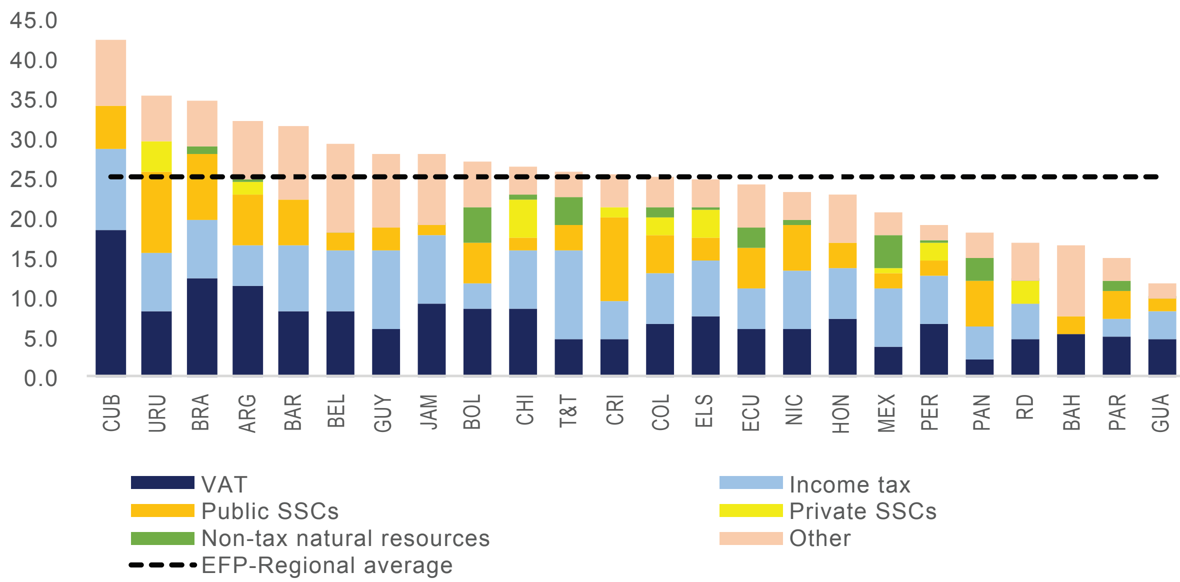
11 Data are available for a set of 19 of the 25 countries in the EFP database.

and subnational governments of each country examined. For the Caribbean, this category stands at 8.5 percent of GDP and is a very substantial part of the subregion's revenue (29.5 percent of total revenue)".

Figure 8 shows the composition of EFP by country. The highest revenue figures for the "VAT" fiscal pillar relate to Cuba (18.5% of GDP)[12], Brazil[13] (12.5% of GDP), Argentina[14] (11.5% of GDP) and Jamaica (9.2% of GDP). As regards the "income tax" fiscal pillar, Trinidad and Tobago has the highest level in the region at 11.3% of GDP, followed by Cuba (10.3% of GDP), Guyana (9.9% of GDP) and Jamaica (8.7% of GDP). In 2018, public SSCs reached 10.1% of GDP in Uruguay and 8.4% of GDP in Brazil[15]. In private systems[16], Chile leads the region in revenue with 4.7% of GDP; also important are Uruguay (3.8% of GDP), El Salvador (3.5% of GDP) and the Dominican Republic (2.8% of GDP).

Figure 8. Fiscal Pillars and Non-Tax Revenues from Natural Resources, 2018

24 countries (percentage of GDP)



Source: Prepared by the authors on the basis of data in the IDB-CIAT database.

Note: Data on Cuba are for 2017. Data is unavailable for Venezuela in 2018.

12 Refers to the tax on circulation of goods and sales. Data for 2017.

13 Considering the COFINS and PIS/PASEP taxes (federal government), ICMS (state-level) and ISS (municipal).

14 Includes VAT (national) and the tax on gross incomes (provincial).

15 In Brazil only, this also includes the social security contributions of subnational governments in the states and municipalities.

16 Data are available for a set of 10 of the 25 countries in the EFP database.

As regards non-tax revenues from natural resources, the countries that secured the most in 2018 were Bolivia (4.5% of GDP), Mexico (4.2% of GDP), and Trinidad and Tobago (3.4% of GDP). As mentioned earlier, there is a striking contrast between revenues in Bolivia and Trinidad and Tobago in the final year of the analysis, and levels in the boom years of mineral and hydrocarbon prices (in 2012, both countries raised about 11% of GDP in this category). Finally, Barbados and Guyana are prominent in the "Others" category, with 7.8% and 7.9% of GDP, respectively, solely from excise and international trade taxes. Belize is an outstanding case, receiving 11.1% of GDP in these same categories.

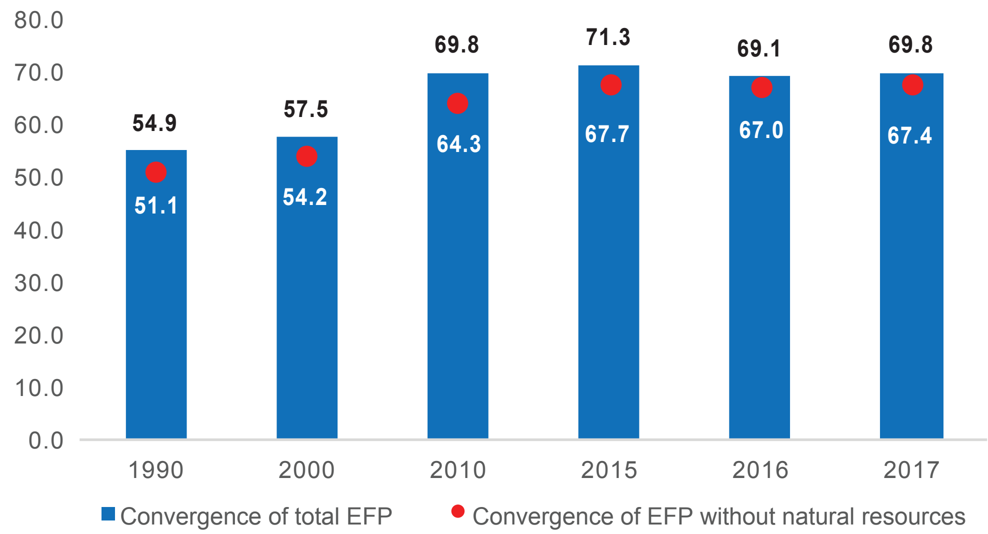
Convergence by country groups and with the OECD

Since 1990, greater fiscal effort, tax reforms and favorable external circumstances have allowed LAC countries to converge towards the fiscal pressure of countries with greater tax development, such as those in the OECD. This convergence with the OECD gathered pace most particularly in the first decade of this century, coinciding with the boom in minerals prices. LAC's EFP stood at 54.9 percent of the average total tax burden of the OECD countries in 1990, at 57.5 percent in 2000, and at 69.8 percent in 2017 (Figure 9).

Since 2010, EFP convergence with fiscal pressure in the OECD has stalled, coinciding with an adverse international environment, a fall in demand for LAC's natural resources, and the consequent decline in minerals prices. The importance of these resources for the region is apparent if we note that regional convergence diminishes when we exclude natural-resource non-tax revenue from the comparison.

Figure 9. **Convergence of LAC's EFP with the OECD, with and without Natural Resources**

(percentage of average OECD total tax revenue)



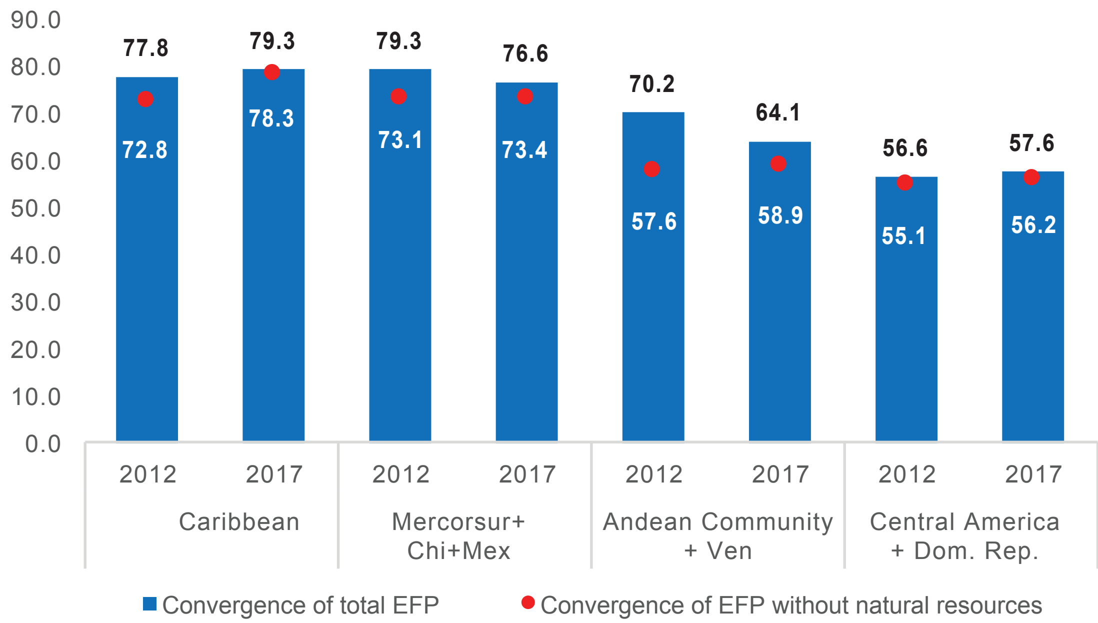
Source: Prepared by the authors on the basis of data in the IDB-CIAT database and OECD.

This weakening of convergence is most marked in the Andean Community countries (Figure 10), whose fiscal performance is highly dependent on movements in the prices of their natural resources. In the other regions the lessening of convergence is not apparent or is very mild, even though their revenue from natural resources fell drastically, as happened in Mexico (8.8% of GDP in 2012 and 3.8% of GDP in 2017). This might be because these countries made a greater fiscal effort to offset the decline in this source of revenues[17].

17 In 2013, Mexico undertook a series of reforms to reduce dependency on oil revenues. These included changes to the laws on income tax, VAT, the special tax on production and services (IEPS) and duties. In tax management, moreover, there was a push to increase controls against evasion by introducing modern instruments for invoicing and operations control.

Figure 10. **Convergence of LAC Subregions' EFP with the OECD, with and without Natural Resources**

(percentage of average OECD total tax revenue)



Source: Prepared by the authors on the basis of data in the IDB-CIAT database.

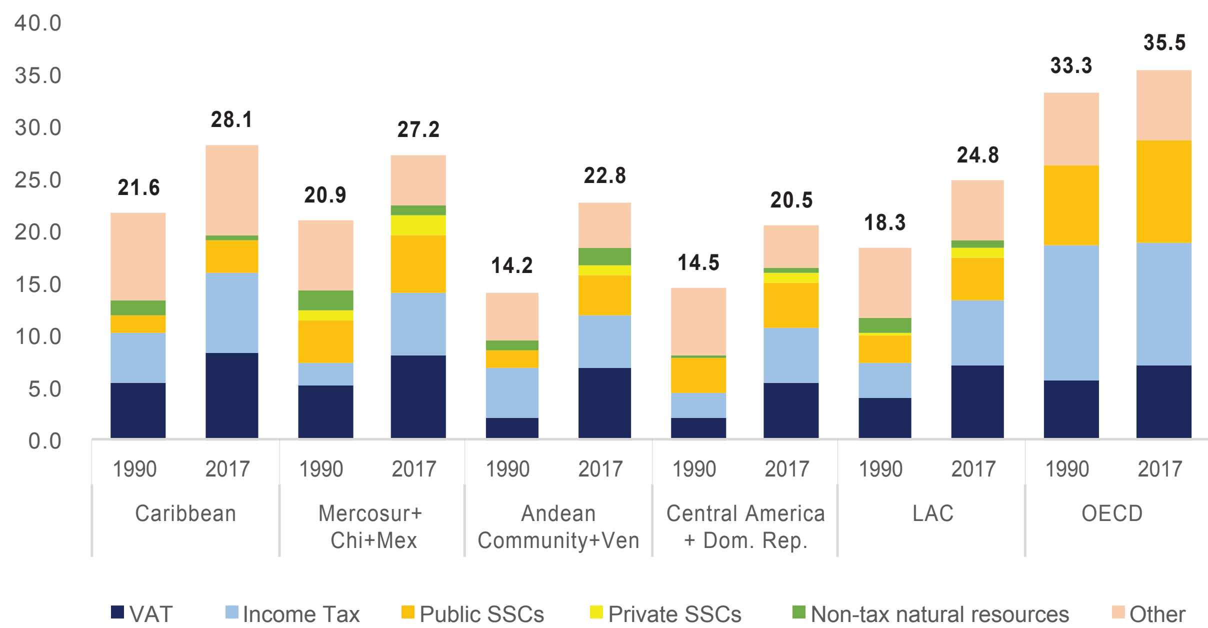
As regards EFP convergence with the OECD by type of tax, LAC and the OECD have moved closest together in the area of general taxes on goods and services, especially VAT. In this field, LAC-wide, revenues are almost at the level of the OECD[18], for the Caribbean and the countries of Mercosur, Chile and Mexico, revenue even surpasses the OECD average level (Figure 11).

By contrast, convergence with the OECD is modest in the area of social security contributions. Considering only public SSCs, the LAC average is equivalent to just 42.3 percent of the average figure for the OECD, mainly because of revenues in Mercosur, Chile and Mexico, whose convergence stands at 55.1 percent. The situation is not substantially better if we add contributions to the private system, since revenues are

18 It is worth noting that, as happened in some LAC countries such as Argentina and Brazil, general taxes on goods and services include not only taxes like VAT but also cover, as a complement or alternative, taxes on final sales from the central or subnational governments (as happens in the United States, for example).

only 51.8 percent of what the OECD receives from its public system. In this respect Mercosur, Chile and Mexico also lead convergence with the OECD (74.4 percent). Prominent in this regard are Uruguay, Brazil and Argentina, where total revenues from public and private systems stand at 13.9%, 8.4% and 8.1% of GDP, respectively.

Figure 11. EFP Structure by LAC Subregions and Type of Tax, and in Comparison with the OECD (percentage of GDP)

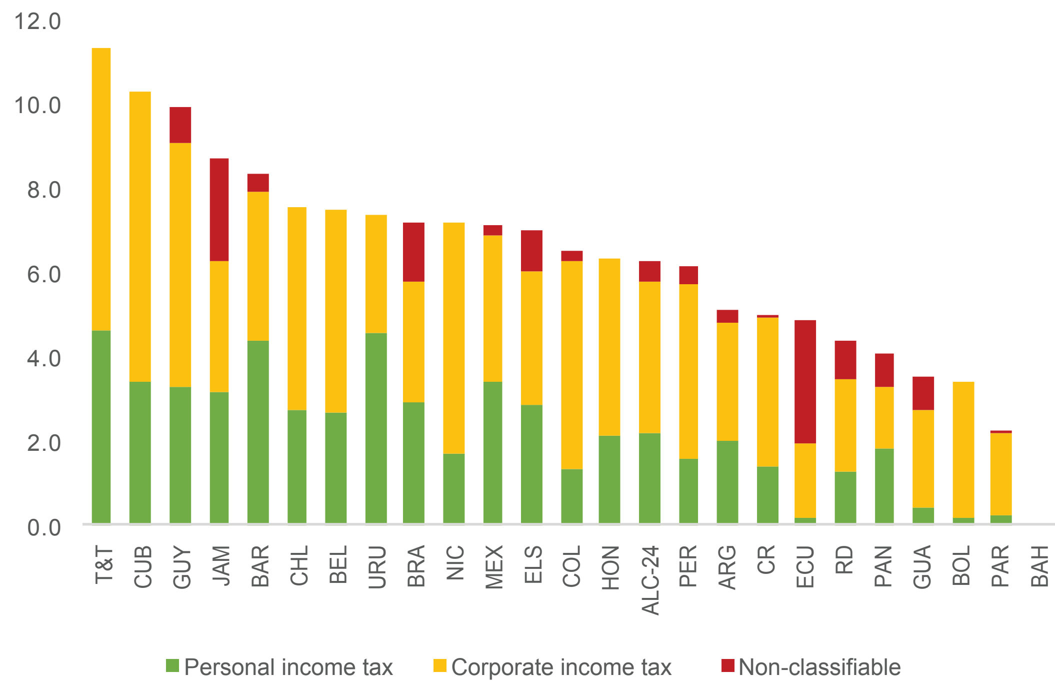


Source: Prepared by the authors on the basis of data in the IDB-CIAT database and OECD.

The performance of income tax has been less favorable: revenue amounts to a little more than half of that in the OECD (52.0%), and the Caribbean and Mercosur countries have driven this modest convergence. The lower level of income tax convergence stems from LAC's low yield in revenue from personal income tax. In fact, LAC countries collect a fairly similar amount of corporate income tax to that of the OECD (2.9% of GDP for the OECD in 2017, and 3.4% of GDP for LAC). The big difference is in revenue from personal income tax: in the OECD this stood at an average of 8.6% of GDP in 2017, while in LAC it was at just 2.1% of GDP in the same year and 2.2% of GDP in 2018[19]. In LAC, personal income tax is paid by individuals in the formal sector who receive high salaries, located in the upper income deciles. It is estimated that 90 percent of LAC's population is exempt from this tax[20]. Because of these factors, the income tax structure is skewed towards legal entities and corporations in most LAC countries (Figure 12).

Figure 12. Structure of Income Tax Revenue in LAC Countries, 2018

(percentage of GDP)



Source: Prepared by the authors on the basis of data in the IDB-CIAT database.

Notes: The Bahamas does not levy this tax; data for Venezuela are unavailable; data on Cuba are for 2017.

19 Average revenue for the LAC countries in the past two years (6.1% of GDP in 2017 and 6.3% of GDP in 2018) is rounded off with an unclassifiable component of about 0.5% of GDP.

20 Certain structural factors affect the collection of personal income tax, such as low per capita GDP and high levels of informality, as well as others connected to the design of the system itself, such as generous tax relief and substantial tax concessions. See: Barreix, A., J. C. Benítez and M. Pecho (2017), "Revisando el impuesto a la renta personal en América Latina: Evolución e impacto", OECD. Available at: https://publications.iadb.org/en/publication/14069/revisando-el-impuesto-a-la-renta-personal-en-america-latina-evolucion-e-impacto

4 Recent trends in tax reform at the regional level: some notable cases

In past decades, tax reforms in LAC countries emphasized the comprehensive expansion and consolidation of VAT as the prime instrument to generate fiscal resources—concomitantly entailing, in most cases, a substantial decline in the number of excise taxes and a significant fall in the relative importance of customs taxes. Reforms in the last decade, however, have tended to concentrate on other components of the region's tax systems.

First, since the middle of the past decade, progress has been made on strengthening the comprehensive taxation of income, especially personal income tax, in response to structural weaknesses that have always been a feature of such taxation region-wide. It has long been pointed out that personal income tax failed to tax all income acquired by individuals and was targeted solely on labor income. Time and again, this characteristic worked against the prospect of expanding the base of the tax, despite its known potential advantages in terms of equity.

In 2006, Uruguay was the pioneer in adopting a system of dual income taxation (an adaptation of the Nordic model) with the aim of expanding the personal income tax base. The country thereby began separately taxing work-related income, with a progressive scale of rates according to income level, and capital income, with a relatively low proportional rate. This approach, with local adaptations, was taken by countries such as Peru in 2009 and several Central American countries between 2009 and 2011: they introduced tax reforms along the same lines in a practical effort to include different forms of capital income in the income tax base. More recently, Mexico and Argentina have joined this trend of dual systems for personal income tax with their own tax reforms geared to that purpose.

As regards corporate income taxation, attention has focused on controlling the operations and income of multinational enterprises in line with governments' growing concern about a series of tax planning strategies that have helped erode domestic tax bases, as well as the transfer of profits beyond the borders of each country in the region. This is reflected in a series of updates to the countries' tax legislation, and in greater international cooperation to respond to such phenomena. Additionally, although with less overall success, some countries have made efforts to limit and rationalize a series of costly fiscal incentives granted as part of economic stimulus regimes (free-trade zones). Albeit not unanimously (Chile is an exception), in recent years there has been some movement towards, and mounting debate about, lowering the general rate for companies (Argentina is one of the most recent cases), in line with international trends and, especially, with the recent tax reform in the United States.

With respect to VAT, several countries of the region seem to have reached a steady state as regards the tax's design, though not as regards its effective operation as the main revenue instrument. With the exception of The Bahamas, where VAT was introduced in 2015, and Costa Rica, where the recent reform made it possible to expand its tax base and improve its overall design, the LAC countries have not shown a clear interest in changing VAT's prevailing structure, possibly because of the difficulty of ensuring approval of such a reform. In a significant number of Latin American countries, however, concrete progress has been made as regards administration of the VAT to combat tax evasion, by implementing specific devices such as electronic invoicing. Several countries have also made progress by implementing mechanisms to facilitate and ensure the proper taxation of operations related to the digital economy and other electronic transactions. In this regard, Argentina, Colombia and Uruguay have recently modified their VAT legislation to ensure that digital services provided from abroad are covered by the tax. Chile, Costa Rica and Paraguay are on track to doing the same. An alternative route is that taken by Trinidad and Tobago, which introduced a specific tax on electronic commerce in 2016.

In parallel, but more recently, several countries of the region have replicated tax reforms trends grounded in experiences in developed countries. Unlike other reforms, however, the prime underpinning of these tax innovations is that their goals are different from—though not contrary to—increasing available fiscal resources. It is known that taxes affect decisions on production, consumption and investment, and therefore the final composition of economic agents' demand, by changing the relative price structure of the goods and services available in an economy. Taxes can therefore have a "corrective" purpose when they are used to deter certain economic actions regarded as harmful or undesirable from the viewpoint of society as a whole.

The development of environmental taxation in the past two decades responds to these principles, especially when it is a matter of correcting certain externalities and market failures. Indeed, environmental taxes have been pointed to as one of the most efficient means of correctly internalizing the environmental costs of certain economic activities and actions. There is a vast range of available instruments, but in LAC only a limited number of innovations in this field are apparent.

In recent years, for example, some countries have joined the international trend of imposing carbon taxes, and have introduced novel modifications geared to taxing the most polluting fossil fuels more heavily (Argentina, Colombia, Mexico). Chile is an emblematic case, since it has introduced a tax on air pollution emissions from fixed sources. Other countries such as Ecuador, the Dominican Republic, Peru and Chile have also opted to introduce or reform taxes on transportation, especially on motor vehicles, with the environment-friendly aim of linking the rate of the tax to the level of emissions or type of fuel. Taxes on plastic bags (Colombia, 2017) and on plastic bottles (Ecuador, 2011) have been introduced as a means of discouraging excessive consumption of these products and the undue creation of solid waste. On the basis of similar arguments, but from a different perspective, in recent years there has been an increase in the use of specific taxes to deal with public health issues. Hence the spread of taxes on products that are harmful to human health, such as tobacco, alcoholic beverages, sugary drinks and other unhealthy foodstuffs. In all cases the main aim is to reduce consumption so as to curb the spread of non-communicable diseases globally, reduce the economic costs related to such diseases (in terms of health spending and productivity losses), and avert the large number of deaths associated with individual behaviors[21].

Therefore, several countries of the region (including Argentina, Chile, Colombia, Ecuador, Paraguay and Peru) have recently implemented various reforms to their tax systems for tobacco products, generally to increase the price so as to deter tobacco consumption, as well as for the expected increase in tax revenues. As regards alcohol taxes, several LAC countries have introduced reforms along the same lines—most recently in Argentina (2017), where taxes on beer and high-alcohol beverages were increased; and Peru (2018), where the excise tax on liquors was raised in line with their alcohol content. Finally, it is worth mentioning the novel trend of introducing or reforming taxes on foods that are harmful to health,

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21 CEPAL (2019), "Panorama Fiscal de América Latina y el Caribe: políticas tributarias para la movilización de recursos en el marco de la Agenda 2030 para el Desarrollo Sostenible". Available at: https://www.cepal.org/es/publicaciones/44516-panorama-fiscal-america-latina-caribe-2019-politicas-tributarias-la-movilizacion

specifically sugary drinks. Prominent in this regard are the successful cases of Barbados, Chile, Ecuador, Mexico (which also introduced a tax on junk food) and Peru, as well as others—such as Argentina and Colombia—where similar reforms did not prosper in legislative debate.

ANNEX

Table 1. Structure of EFP - Latin America and the Caribbean, 2018 (percentage of GDP)

COUNTRY	INCOME TAX[1]				PUBLIC SSCs[2]	PAYROLL	PROPERTY	GOODS AND SERVICES				OTHER TAXES[5]	TOTAL TAX BURDEN	PRIVATE SSCs	NON TAX NATURAL RESOURCES	TOTAL EFP
	PERSONAL	CORPORATE	NON CLASSIFIABLE	TOTAL INCOME TAX				GENERAL		EXCISE[4]	INTERNAT. TRADE					
								VAT[3]	OTHER							
Argentina	2.0	2.8	0.3	5.1	6.2	0.0	0.8	7.6	3.9	3.5	1.5	1.2	**29.9**	1.9	0.3	**32.1**
Bahamas	0.0	0.0	0.0	0.0	2.2	0.0	1.0	5.3	0.0	3.7	2.3	2.1	**16.5**	0.0	0.0	**16.5**
Barbados	4.4	3.5	0.4	8.4	5.5	0.0	1.5	8.3	0.0	5.5	2.2	0.1	**31.6**	0.0	0.0	**31.6**
Belize	2.6	4.9	0.0	7.5	2.2	0.0	0.2	8.4	0.0	6.8	4.4	0.0	**29.4**	0.0	0.1	**29.4**
Bolivia	0.2	3.2	0.0	3.4	5.1	0.0	0.0	6.9	1.6	2.3	1.0	2.5	**22.7**	0.0	4.5	**27.2**
Brazil	2.9	2.9	1.4	7.2	8.4	0.6	1.6	7.0	5.5	1.6	0.6	1.1	**33.6**	0.0	1.1	**34.6**
Chile	2.7	4.8	0.0	7.5	1.5	0.0	0.7	8.5	0.0	1.7	0.2	1.0	**21.1**	4.7	0.6	**26.4**
Colombia	1.3	4.9	0.3	6.5	4.8	0.0	0.9	5.7	0.9	1.8	0.4	0.9	**21.7**	2.1	1.3	**25.1**
Costa Rica	1.4	3.5	0.0	4.9	10.4	0.0	1.1	4.3	0.4	2.6	0.5	0.0	**24.2**	1.3	0.0	**25.5**
Cuba[1]	3.4	6.9	0.0	10.3	5.3	1.4	0.0	0.0	18.5	4.2	0.0	2.6	**42.4**	0.0	0.0	**42.4**
Ecuador	0.2	1.8	2.9	4.9	5.2	0.0	0.6	6.2	0.0	2.3	1.5	1.2	**21.8**	0.0	2.5	**24.3**
El Salvador	2.8	3.2	1.0	7.0	2.9	0.0	0.1	7.8	0.0	2.1	0.9	0.3	**21.1**	3.5	0.1	**24.7**
Guatemala	0.4	2.3	0.8	3.5	1.7	0.0	0.3	4.7	0.0	1.0	0.4	0.1	**11.8**	0.0	0.1	**11.8**
Guyana	3.3	5.8	0.9	9.9	2.7	0.0	0.6	6.1	0.0	5.1	2.8	0.7	**28.0**	0.0	0.0	**28.0**
Honduras	2.1	4.2	0.0	6.3	3.4	0.0	0.1	7.3	0.0	4.0	0.8	1.0	**22.9**	0.0	0.0	**22.9**
Jamaica	3.1	3.1	2.4	8.7	1.1	0.0	0.4	9.2	0.0	3.8	3.2	1.5	**27.9**	0.0	0.0	**27.9**
Mexico	3.4	3.5	0.2	7.1	2.0	0.0	0.0	3.9	0.0	1.5	0.3	0.9	**15.6**	0.9	4.2	**20.7**
Nicaragua	1.7	5.5	0.0	7.2	5.9	0.0	0.2	5.3	0.9	2.9	0.5	0.2	**23.1**	0.0	0.4	**23.4**
Panama	1.8	1.5	0.8	4.1	5.8	0.3	0.6	2.3	0.0	1.0	0.5	0.7	**15.3**	0.0	2.7	**18.1**
Paraguay	0.3	1.9	0.0	2.2	3.5	0.0	0.3	5.0	0.1	1.4	1.1	0.2	**13.7**	0.0	1.5	**15.1**
Peru	1.6	4.1	0.4	6.2	2.0	0.0	0.4	6.6	0.0	0.9	0.0	0.6	**16.8**	2.0	0.4	**19.2**
Dominican Rep.	1.3	2.2	0.9	4.4	0.1	0.0	0.4	4.8	0.0	3.4	0.8	0.1	**13.9**	2.8	0.1	**16.8**
Trinidad and Tobago	4.6	6.7	0.0	11.3	3.1	0.0	0.0	4.7	0.0	1.0	1.7	0.6	**22.4**	0.0	3.4	**25.8**
Uruguay	4.6	2.8	0.0	7.4	10.1	0.0	2.1	8.3	0.0	2.7	1.1	0.0	**31.7**	3.8	0.0	**35.4**
Average LAC-24	**2.2**	**3.6**	**0.5**	**6.3**	**4.2**	**0.1**	**0.6**	**6.0**	**1.3**	**2.8**	**1.2**	**0.8**	**23.3**	**1.0**	**1.0**	**25.2**

Source: IDB-CIAT database. [1] Data for 2017.

Notes: (1) In general, the "Income" fiscal pillar refers to net revenues related to income tax (including supplementary rates for certain sectors, as applicable), be they individuals, legal entities, or other non-classifiable categories (for instance, advances withheld at source). In some cases, however, this pillar includes other direct levies on revenues collected by central or subnational governments, whether they apply to a particular sector, have an alternative calculation basis (assets), are temporary and extraordinary, and/or tax capital gains or specific incomes not covered by traditional income tax. (2) Only in the case of Brazil, it also includes the Social Security contributions paid to subnational governments, both states and municipalities. (3) In general, the "VAT" fiscal pillar refers to tax revenues linked to the tax of the same name. In some cases, however, this item also includes other general taxes on goods and services, namely: in Argentina, it includes net VAT (central government) and the tax on gross incomes (provincial); in Brazil, COFINS and PIS/PASEP (federal government), ICMS (state-level) and ISS (municipal); in Colombia, net VAT (central) and the tax on industry and trade (municipal); in Costa Rica, net VAT (national) and the tax on goods and services (municipal); in Cuba, the tax on circulation of goods and sales (although this is not strictly a VAT); in Nicaragua, net VAT (national) and the tax on goods and services (municipal); in Paraguay, the central government's net VAT and the municipal governments' License for Trade, Industry, Professions and Trades; in Uruguay, net VAT and the Contribution to the Financing of Social Security (COFIS, between 2001 and 2011), both at the central government level; in Barbados and Guyana, VAT replaced a general sales tax in 1997 and 2007, respectively, and thus the revenues from both taxes are considered in a joint series throughout the period 1990–2018. (4) Includes excise duties and taxes on financial transactions levied at any level of government when they are effectively assigned to this tax group, net of returns provided that they are properly identified. (5) Includes simplified tax regimes and miscellaneous taxes levied at the central and subnational government level not explicitly classified in other sets, net of returns and refunds not specifically assigned to a given subgroup of taxes

LATIN AMERICA

Argentina

The main information sources consulted are: the Ministry of Finance's (MF) Federal Public Revenue Service (AFIP) and Public Revenue Secretariat, for information on tax and social security contributions (SCCs); and the National Directorate of Fiscal Coordination with the Provinces (MH) to complete the information on the tax and non-tax revenues (hydrocarbons and minerals royalties) of subnational governments.

This update completes quarterly data on tax revenues (national and provincial) and SSCs (national) up to 2018. Annual figures on municipal revenues were also gathered. These include some taxes, and mostly obligatory levies and contributions. The data for 2018 were estimated on the basis of the increase in provincial resources. The series of non-tax resources in the form of royalties were also updated, adding a disaggregation among provinces and municipalities, and estimating the annual data for 2018 as a function of the same share of GDP as in 2017. The GDP series was updated using an official series for the whole period covered by the database (1990–2018).

By the cut-off date (July 31, 2019), complete information was not available on year-to-date revenue under the different headings of internal (excise) taxes for 2018. Taking the year-to-date values up to the third quarter (AFIP), therefore, we estimated the fourth-quarter resources and the annual total for each item, respecting the same proportions of revenue per quarter of the previous year (2017).

Bolivia

The main information source consulted is the Ministry of Economy and Public Finance (MEFP) for the tax component (including subnational) of public and private social security contributions and non-tax revenues. We also used data from the Central Bank of Bolivia for mining royalties.

Most of this update was carried out using annual data. For some items (such as the financial transactions tax, public pensions revenue), we were able to obtain quarterly data for the whole update period.

A significant modification was made to the social contributions category. The obligatory long-term social security contribution, which remained in the category of the private system until the previous update in 2015, was recategorized in the public system because the constitutional reform of 2009 nationalized the private pensions system. Although to date the resources and administration have not been transferred to the State operator, we chose to make this change because these resources are now in public ownership. This criterion, moreover, is consistent with the approach taken by the OECD.

The direct tax on hydrocarbons was reclassified under non-tax revenues because its tax base is the value of production and, therefore, it has the characteristics of a royalty. This classification is in line with the approach of the OECD and ECLAC.

By the cut-off date (July 31, 2019), complete information was not available on refunds related to the tax refund certificates (CEDEIM) for 2017 and 2018, municipal tax receipts (2018) and hydrocarbons royalties (2018). The CEDEIM are normally published in the MEFP’s Bulletin of Tax Revenues and Expenditures, but this was out of date and thus we chose to report estimated data in the MEFP’s Draft General State Budget for 2017. For municipal receipts and hydrocarbons royalties, the annual data were estimated on the basis of the percentage of GDP of the previous year.

Brazil

For Brazil we decided to make a methodological change in order to bring the figures and criteria closer to the main official sources, as well as to the OECD. To that point, gross data from the RFB's monthly revenue reports had been used; these had some limitations as regards updating them in a way that was comparable with the other countries. On this occasion we decided to use yearly periods, so as to have detailed information from three main sources: the RFB's annual report on the tax burden (to 2017), the database of the Federal Senate's Independent Fiscal Institute (to 2017), and the National Treasury's database (to 2018).

These sources completed the annual data on revenues net of refunds (the series on the latter remain here solely for information purposes) up to 2018. These are provisional figures from the National Treasury, which uses a methodology similar to that of the RFB in its annual report on the tax burden. Moreover, we were able to complete the series for the 1990–1993 period on the basis of annual data shared with the OECD, though it should be noted that the resulting values as percentages of GDP reveal very sharp variations; hence the need for caution in analyzing the complete series.

In general, the presentation and details of the taxes considered have been improved. For example, there is a complete disaggregation of income tax, which allows better analysis of its internal structure (in the previous version, the bulk of the revenue appeared as unclassifiable because this is a tax withheld at source). Some implicit tax denominations were also specified, and the federal SSCs series was corrected with annual data (previously there were quarterly data from the Ministry of Finance but they were not equivalent), so as to make them comparable with the other SSCs. Three taxes previously regarded as non-tax revenues were reclassified. FGTS moved to the social security component and "Education Allowance" and "System S" were included as taxes on payroll in the total tax burden (in line with the official methodology and the OECD approach). Two taxes were added as excises (DPVAT and betting contests), as well as CIDE Remittances, and revenue from the PIS/PASEP component was opened within the set of general taxes on goods and services. The criterion in all cases prioritized the type of levy and not the specific destination of its revenues, as might be the case of the social security system. Finally, the Other Taxes series was revised and updated, and the RFB's administrative taxes were included in this category. The same was done for specific unclassified resources at the subnational level, both for the federal states and the municipalities.

This reclassification prompted some changes in the overall figures: revenues administered by the RFB cover the federal government's gross revenue (including the "Education Allowance" and "System S") and federal government SSCs (including FGTS). The country's tax revenues comprise the federal government's net income plus revenues from taxes and SSCs in the federal states and the municipalities[22]. EFP includes the country's (net) tax revenues plus non-tax income related to the exploitation of hydrocarbons and minerals.

Annual data for the series of tax revenues of the states and municipalities were revised and completed by main taxes, as well as for the fiscal instruments related to non-renewable natural-resource sectors. The GDP series was updated to 2018, the figures were revised backwards, and up to 1990 were all expressed in the prevailing national currency (millions of reals).

Chile

The main information sources consulted are: the Budget Directorate (DIPRES), the Internal Tax Service (SII), the Superintendency of Health (for ISAPRES data), the Superintendency of Pensions (for data on obligatory contributions to the pension fund administrators), and the Central Bank of Chile for the GDP series.

The quarterly and annual figures for all series were completed up to 2018. With the annual SII data, we were able to complete the information on the various categories that involve tax refunds. Additionally, we added the annual series of taxes contained in the "Other" category, such as mining licenses, the gambling tax, and offset debt from previous periods. The stamp duty was reclassified as a tax on financial transactions (separately, not as a property tax as happens in the OECD), and was accounted for in the overall numbers as an excise tax and not among "Other" taxes.

22 Strictly speaking, it is acknowledged that the FGTS System and the "S" System involve resources that feed into obligatory savings funds that are not part of the budget and are private property. Nonetheless, to be in line with the methodological criteria of the OECD and RFB or National Treasury, this revenue is regarded as part of the country's total tax revenues.

As regards the municipal revenues series, the details were completed by instrument for the period 1990–2017 (OECD); for 2018, only the total amount (DIPRES) was available. The public and private social security component was also updated. With regard to obligatory contributions to pension funds, we calculated to overall amount of this category for all the pension fund administrators, but considered only the amounts devoted to the “type C” fund. According to the Superintendency of Pensions, this is the fund that raises the resources distributed to other funds (A, B, D, E), which are yield funds.

To calculate the amount of revenue managed exclusively by SII, we disaggregated gross VAT by components, distinguishing between “internal VAT,” “special rates VAT (beverages, luxury goods, vehicles and others),” and “remaining balances and other VAT,” on the one hand; and, on the other, VAT on imports—which, together with tariffs, are administered by the National Customs Service (SNA). In any case, it was made clear that DIPRES’s net VAT data would continue to be used to calculate the total values of the tax burden and the corresponding EFP. The GDP series was also updated, so as to use the interconnected series 1996–2018 base 2013 (most recent).

Since this information was not available by the cut-off date for this update (July 31, 2019), details of the 2018 tax revenues of the municipal governments were estimated using the same percentage distribution as in the previous year relative to the total amount raised.

Colombia

The main sources of information consulted for this update are: the Directorate of National Taxes and Customs (DIAN) for gross tax revenue; the Ministry of Finance and Public Credit for tax revenue net of refunds, public sector social contributions and Ecopetrol dividends; the National Planning Department (DNP) for subnational revenues; the Financial Superintendency of Colombia for private social contributions; and the Ministry of Mines and Energy and the DNP’s General Royalties System for mining and hydrocarbons royalties.

The update completed quarterly data on tax revenues for the central government, as well as for private social contributions.

Adjustments were made to the revenues of departments and municipalities between 1990 and 1999, so as to correct the gap between the aggregate revenue amounts (departmental and municipal) and individual taxes. This gap was distributed among tax items, taking the proportion apparent in 2000.

Additionally, the new taxes on plastic bags and the consumption of medicinal cannabis, as well as the carbon tax, were included in the database. These taxes came into effect in 2017. With DIAN's support we were able to disaggregate the tax on natural and legal persons (plus an unclassified category) for the period 2000¬–2017. For 2018, this disaggregate was estimated by taking the proportions of the previous year. Refunds continued to be calculated as the difference between revenue reported by DIAN (gross) and that reported by the Ministry of Finance and Public Credit (net).

By the cut-off date (July 31, 2019), information was not available on departmental and municipal revenue for 2018. The DNP is the usual source for these data, but because the institution had not yet published the data for 2018, we estimated the annual data on the basis of the percentage of GDP in the previous year.

Costa Rica

The main information sources consulted are: the Ministry of Finance for central and subnational tax revenue, as well as for non-tax income; and the Costa Rican Social Security Fund (CCSS) for public social contributions. The social contributions of the systems for the judiciary and teachers, the private system, and other regimes (INA, IMAS, family allowances, BP) were provided by the Ministry of Finance's Tax Policy Division.

This update completed quarterly data on tax revenues for the central government, as well as social contributions from the budget. Moreover, very detailed information from the Ministry of Finance allowed us to disaggregate excise taxes according to whether they were raised from domestic sources or from imports. With regard to the inclusion/updating of taxes, we added the tax related to the right to leave the national territory, Law 9154 (by land), which has been in force since 2013.

Differences were noted in social security contributions, relative to data reported by the OECD. The OECD adjusted contributions for IVM and SEM, corresponding to the general government's employer contribution in SSC expenditures. The OECD, moreover, regards the "other contributions (INA, IMAS, family allowance)" category as payroll taxes. In coordination with the Ministry of Finance, we opted to leave the information in the database as it has been reported historically, since it coincides with the Ministry's methodology.

As regards non-tax revenues, and with a view to adapting this update to the methodology of equivalent fiscal pressure (which by definition includes non-tax revenues from the exploitation of natural resources in this category), we chose to eliminate this heading from the datasheet (it includes hunting and fishing licenses, consular fees, and the Migration and Foreign Nationals Act) and reclassify it below the line as a memo item.

Dominican Republic

The main sources of information consulted for this update are: the General Directorate of Internal Taxes (DGII) and the Ministry of Finance, for central-level revenue, public sector social security contributions and non-tax revenues; and the General Directorate of the Budget (DIGEPRES) for local-level revenue.

The data are quarterly, except for information on municipal revenue. In this update, very detailed information from the Ministry of Finance and the DGII enabled us to disaggregate most taxes by collecting agency: DGII, General Directorate of Customs (DGA) and the Treasury. Additionally, a new line was opened with the additional tax of RD$2.0 on consumption of premium-regular gas oil and gasoline, with a view to distinguishing the collecting agency. Until 2017 this tax was within the Specific Excise Tax on Hydrocarbons and was collected by the DGII. Since 2018 it has been collected by the DGA.

As regards consular fees, these are included among non-tax revenues and, to adapt the datasheet methodologically to the guidelines of equivalent fiscal pressure, we chose to eliminate this item from the sheet and classify it below the line as a memo item.

Ecuador

The main information sources consulted are: the Internal Revenue Service (SRI) for the tax revenue series; the Central Bank of Ecuador (BCE) for the figures on GDP and social security contributions; the Ecuadorian Customs Corporation (CAE) for tax resources related to international trade; and the Ecuador Development Bank (BDE) for the resources of the provinces and municipalities.

This update completed quarterly data on tax revenues (central government, provinces and municipalities) and SSCs (national) up to 2018. With regard to the previous edition of the database, we added various special contributions that were introduced in recent years (income, wealth, 2 percent VAT, cancer care), and the IACV environmental tax was reclassified as an excise tax. Moreover, we added details of revenue from internal operations of the ICE levy in its main items for the whole period, at quarterly intervals. Some headings included in income tax were clarified, as was the allocation of similar taxes between natural and legal persons. The tax on inheritances, bequests and gifts was reclassified as a property tax (previously it was categorized with income taxes). Thanks to new information from the BDE, the information on subnational governments was reformulated to provide more detail and to distinguish between provinces and municipalities, as well as between the main kinds of taxes levied. An unsuccessful attempt was made to complete the series for the period 1990–92 with OECD data, but we detected incompatibilities that hampered this task. The GDP series was updated to 2017, and the IMF's WEO projection for 2018 was included.

By the cut-off date (July 31, 2019), complete information was not available for subnational revenues (BDE) for 2018 (this is published in October of each following year). Hence the revenue figures for each heading were estimated on the basis of the corresponding percentage share of GDP for the previous year (2017).

El Salvador

The main sources of information consulted for this update are: the Ministry of Finance, the Fiscal Transparency portal, and the Superintendency of the Financial System for social contributions to the private pensions system.

This update completed quarterly data on tax revenues for the central government. Special contributions to citizen security were disaggregated by their composite taxes: Citizen Security and Coexistence (CESC) and Large Taxpayers for the Citizen Security Plan (CEGC). These two taxes came into effect in 2015.

By the cut-off date (July 31, 2019), information was not available on the breakdown of 2018 revenues from income tax on natural and legal persons or unclassifiable others. We therefore opted to estimate those headings by taking as a reference the proportions of the previous year (2017).

Guatemala

The main sources of information consulted for this update are the Superintendency of Tax Administration and the Guatemalan Social Security Institute.

This update completed quarterly data on tax revenues at the central government level. The update was completed annually for the municipal level and for social security contributions.

Honduras

The main source of information was the Finance Secretariat of the Government of Honduras (SEFIN), although we also obtained data shared by the OECD (municipalities) and figures on internal VAT provided by the Revenue Administration Service (SAR).

All the central government's tax information was updated to 2018, thereby completing the internal VAT series for the entire period in the database. Additionally, detailed quarterly information was added for the Population Security Tax by component; these were assigned to different groups of taxes according to their legal character and in line with the OECD's methodology. The entire series (1990–2018) of total municipal tax revenues was updated with data revised by SEFIN (the figures for 2006–2018 were appreciably higher than the previous figures, which are published by the OECD). For GDP data, the complete series contains official data from the Central Bank of Honduras, but for the most recent period (2016–18) we used WEO figures from the International Monetary Fund).

Mexico

The main sources of information consulted for this update are: the Secretariat of Finance and Public Credit (SHCP) for Federal Government tax revenues and public sector social security contributions; the National Institute of Statistics and Geography (INEGI) for state and municipal revenues; and the National Commission of the Retirement Savings System (CONSAR) for contributions to the private pensions regime.

This update completed quarterly data on revenue except for municipal revenues, which is updated by INEGI with annual data. As regards changes made to the datasheet, a line was added to the income tax on legal entities so as to indicate revenue from tax levied on the income of hydrocarbons contractors and assignees, as set out in the Law on Hydrocarbons Revenues approved in August 2014. Similarly, the Tax on Hydrocarbons Exploration and Extraction Activity was added to the general category of income tax, again as set out in the same law since 2014. The “Other Tax Revenues” category was corrected, given that it has included the Oil Yield Tax since 2005. This tax had been considered within income tax. Finally, starting from 2015, Hydrocarbons Duties have included transfers from the Mexican Oil Fund for Stabilization and Development.

By the cut-off point for this update (July 31, 2019), information was not available from INEGI on state and municipal revenue for 2018, since it is published in the second half of the year. Data on state revenues were provided by the Secretariat of Finance and Public Credit, while municipal revenues were estimated by taking as a reference the percentage of GDP in the previous year.

Nicaragua

The main source of information was the Ministry of Finance and Public Credit (MHCP).

All the quarterly and annual data on central government tax revenues were updated to 2018 on the basis of reports on budget settlements. For the first time, we were able to present a distinction between income tax on individuals and that on legal entities. The data on social security contributions and FOMAV (non-tax) were also updated. With regard to municipal resources, the available series was updated to 2018 and then the various instruments were classified according to the OECD methodology, so that they could be included in the different groups of taxes in effect at the national level. GDP was updated using official data up to 2018, in line with the statistical yearbook of the Central Bank of Nicaragua.

Panama

The main sources of information consulted for this update are: the Ministry of Economy and Finance of Panama for central government revenues, including non-tax revenues; General Comptroller of the Republic for municipal revenues; and the Social Security Fund for public social contributions.

The update was completed with quarterly data, except for municipal revenues. By the cut-off point for this update (July 31, 2019), information on municipal revenues for 2018 were not available, and hence this income was estimated taking the percentage of GDP of the previous year as a reference point.

Paraguay

The information sources were, essentially, the State Secretariat for Taxation (SET) for statistics on central government tax resources; the Ministry of Finance for supplementary tax statistics; and the Central Bank of Paraguay for the most up-to-date GDP data.

Thanks to the available information we were able to complete and update the quarterly and annual tax revenue data up to 2018. The collaboration of the Ministry of Finance, moreover, enabled us to complete and update the information on social security, municipalities and non-tax revenues. The components of income tax were reclassified to make it compatible with the overall methodology, distinguishing between individuals and legal entities for the whole 1990–2018 period. Additionally, the GDP series was updated using Central Bank data, correcting backward in order to secure a backward-extrapolated series.

Because information was available only for 2011 and 2012 throughout the whole series, and given the unavailability of more recent data, we decided to disregard the data on refunds to ensure the consistency of the overall revenue figures in the 1990–2018 period. We also disregarded the series related to dividends in IRACIS revenue, since information was available only for the period 2008–2012 and it complicated the presentation of income tax data by component. The distribution of municipal revenues in the various taxes was estimated for 2018 in line with the percentage structure of the previous year and applied on total value (something similar was done for 2011 and 2012, years for which detailed information was not available).

Peru

The main sources of information consulted for this update are: the National Superintendency of Customs and Tax Administration (SUNAT), for central-level revenues and non-tax receipts; the "User-Friendly Consultation" portal of the Ministry of Economy and Finance's Integrated Financial Administration System, for information on municipal revenues; and the Central Reserve Bank of Peru for data on oil royalties.

This update was completed with quarterly data. No significant changes were made to the structure of the datasheet and, as regards new taxes, the new SME tax regime—in effect since 2017—was added to the category of income tax on legal entities.

Uruguay

The information sources are: the General Directorate of Taxation (DGI) for most of the information on central government tax revenue; the Ministry of Economy and Finance (MEF) for certain items such as customs taxes; the Central Bank of Uruguay for GDP data; the National Administration of Public Education (ANEP) for the Primary School Tax up to 2017; the Office of Planning and Budget's Uruguay Territory Observatory, for data on municipal resources; and the National Statistics Institute for public and private social security contributions.

This update completed the quarterly and annual data up to 2018 using information published regularly by the DGI. We also took the opportunity to complete some series backward, such as the Equity Tax on Farming Operations. We updated the series related to the Primary Education Tax, which since 2018 has been administered by the DGI (previously it was ANEP). Additionally, the Minimum VAT was reclassified as a simplified regime (it replaced the Small Enterprise regime in 2007). With regard to municipal tax revenues, the items were reclassified in line with the OECD methodology, grouping by type of tax in a way that is compatible with the central government's instruments. We also reordered and classified the various components of income tax between individuals and legal entities.

By the cut-off date (July 31, 2019), 2018 information was not available for municipal taxes or social security contributions; in both cases we estimated preliminary figures by retaining the same shares of GDP calculated for the previous year (2017). It is not feasible to expect the subnational government data to be available soon, and detailed information is pending on revenue from social security contributions through the National Statistics Institute of Uruguay.

Venezuela

Until the most recent update in 2016, the information sources were essentially the National Integrated Customs and Tax Administration Service (SENIAT) and the Ministry of People's Power for Economy and Finance up to 2009. Unfortunately, there is no information available in these sources, nor access to alternatives.

Consequently, it has not been possible to update the information for the period 2016–2018. The OECD has decided to regard only the data up to 2012 as valid, although the figures (some of them estimated) are maintained up to 2015 on the basis of IDB-CIAT.

CARIBBEAN

Bahamas

The sources of information consulted for this update are: the Central Bank of the Bahamas, to complete the data on tax revenues; and the National Insurance Board, for social contributions.

This update was carried out using annual data. As regards changes to the datasheet, the Business and Professional License category, which had been classified as an income tax, was recategorized under "Other Taxes" because the country does not have an income tax system. Additionally, this same category of business and professional licenses was completed, including the category “other business and professional licenses;” and consumption taxes were reclassified and reassigned more precisely among General Consumption Taxes, Taxes on Specific Goods and Services, and Other Taxes.

With regard to non-tax revenues, since this category does not hold natural-resource revenues, and in order to adapt the update methodologically to the guidelines of equivalent fiscal pressure, we chose to eliminate this item from the sheet and classify it below the line as a memo item. By the cut-off point for this update (July 31, 2019), information was not available on social security contributions for 2017 and 2018. Hence this income was estimated taking the percentage of GDP of the previous year as a reference point.

Barbados

The main information source was the Central Bank of Barbados, although the more recent figures come from budgetary estimates published by the Barbados Parliament.

Tax data were updated to 2018. For 2016 and 2017 we used data on actual estimates of resources (approved, not draft) for fiscal years 2017–18 and 2018–19; for 2018 we used revised data from the Draft Estimates FY 2019–20 (Feb. 2019). Additionally, we reclassified some items to make them compatible with the other countries, separating the taxes on goods between general and specific taxes, in line with the OECD methodology. For social security contributions, given the absence of up-to-date information, we chose to use a series of projections included in the Fifteenth NIS Actuarial Report (2015) to complete the 2016–2018 period. Since non-tax revenues are not linked directly to the exploitation of natural resources (renewable or otherwise), we decided to eliminate the non-tax revenues headings included in previous versions and present them as a memorandum item (without including them in the calculation of total EFP). For the GDP series we took the data expressed in fiscal years (compatible with the tax data presented), which were updated with OECD and IMF data.

Belize

The sources of information consulted for this update are: the Ministry of Finance, to complete the data on central and subnational tax revenues; and the Social Security Board for social contributions.

The update was carried out using annual data. As regards changes to the datasheet, the non-tax revenues category—including receipts from ministerial bodies, licenses and royalties—was eliminated from the sheet and classified below the line as a memo item. This is because, as in other cases, for the most part this category does not hold data on revenues from natural resources. We decided to maintain within EFP—and reassign to the section covering non-tax revenues from natural resources—only the category of licenses, leases and royalties derived solely from oil operations, thereby ensuring the Belize datasheet's methodological consistency with EFP.

In the interests of greater precision in classification, levies in the category of Taxes on Goods, Transactions and Services were reclassified and reassigned to General Consumption Taxes, Taxes on Specific Goods and Services, and Taxes on Financial Transactions.

By the cut-off point for this update (July 31, 2019), information was not available on social security contributions for 2018, and hence this was estimated on the basis of the percentage of GDP in the previous year.

Cuba

Cuba is one of the countries included in the database in this new update. The main information source is the National Office of Statistics and Information (ONEI), although we also consulted the data available on the websites of the Ministry of Finance and Prices, the National Office of Tax Administration (ONAT), and the Central Bank of Cuba.

We created a table with the data for the period 1990–2017 on the basis of the consolidated information from the reports on settlement of the State budget. Unfortunately, it was possible to distinguish neither local government revenues nor non-tax receipts related to natural resources. The data are in line with those published by the OECD in terms of both their scale and their classification.

By the cut-off date (July 31, 2019), official 2018 information was unavailable for the items considered. Completion of the data is pending a future revision, although in calculating average values for Latin America and the Caribbean it will consider maintaining the figures in identical percentages of GDP for the last year mentioned, given the significant relative importance of Cuba at the regional level.

Guyana

This is another country that was included in the IDB-CIAT database in this update. The information in the database comes from the official websites of the Ministry of Finance, the Central Bank of Guyana and the National Insurance Scheme (NIS), while the GDP data (calendar-year series) come from the Bureau of Statistics of Guyana, supplemented by IMF statistics.

The information on tax revenues was completed with annual data up to 2018. It was not possible to obtain municipal-level data by the cut-off point for the update. The OECD has published a series that, because of comparability issues with the other countries analyzed, appears as a memo item in the data table for Guyana. The SSCs data for the period 2016–2018 are from the Budget Estimates 2019 (p. 517). These are a little lower than those published by the OECD, which were estimated on the basis of a fixed growth factor.

Jamaica

The sources used were the Ministry of Finance (MOF), which includes agencies such as Tax Administration Jamaica (TAJ), the Fiscal Policy Management Unit (FPMU), the National Insurance Scheme (NIS), the Department of Local Government (DLG) and the Bank of Jamaica (BOJ).

Annual information was completed up to 2018, ensuring consistency with the OECD data. Additionally, we improved the disaggregation with recent taxes (Quarry Tax), and added non-tax revenues related to bauxite mining (Levy and Royalties). To stay in line with the OECD methodology, we separately reclassified the General Consumption Tax (Domestic and Imports) and the Specific Consumption Tax (Domestic and Imports). The information on municipal revenues and social security contributions for 2018 comes from the Tax Administration of Jamaica in calendar-year format. For the GDP series we used a series that is compatible with the collected tax data and in line with that used by the OECD. This is expressed in fiscal years (April 1 to March 31) for 1990–2003, and then in calendar years (January 1 to December 31) for 2004–2018.

Trinidad and Tobago

The sources of information consulted for this update are: the Ministry of Finance to complete the data on central and subnational tax revenues; and the National Insurance Board for social contributions.

The update was carried out using annual data. As regards changes to the datasheet, in the interests of greater precision, the taxes in the category Taxes on Goods and Services were reclassified and reassigned to General Consumption Taxes and Taxes on Specific Goods and Services. Additionally, we added the Tax on Online Purchases, in force since 2017, to excise taxes.

The category of Other General Government Taxes and Fees was eliminated from the datasheet and classified below the line as a memo item, with a view to standardizing criteria with the other countries included in this update.

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