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Taxation in Latin America From words and data to policy action

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Open data for better policies



Revenue Statistics in Latin America and the Caribbean

1990-2015

*Estadísticas
tributarias
en América Latina
y el Caribe*

1990-2015



ECLAC



OECD



2017



Taxing Wages in Latin America and the Caribbean

SPECIAL FEATURE: A VIEW ON TAXES,
SOCIAL PROTECTION AND INFORMALITY
IN LATIN AMERICA USING TAXING
WAGES MODELLING



OECD



2016



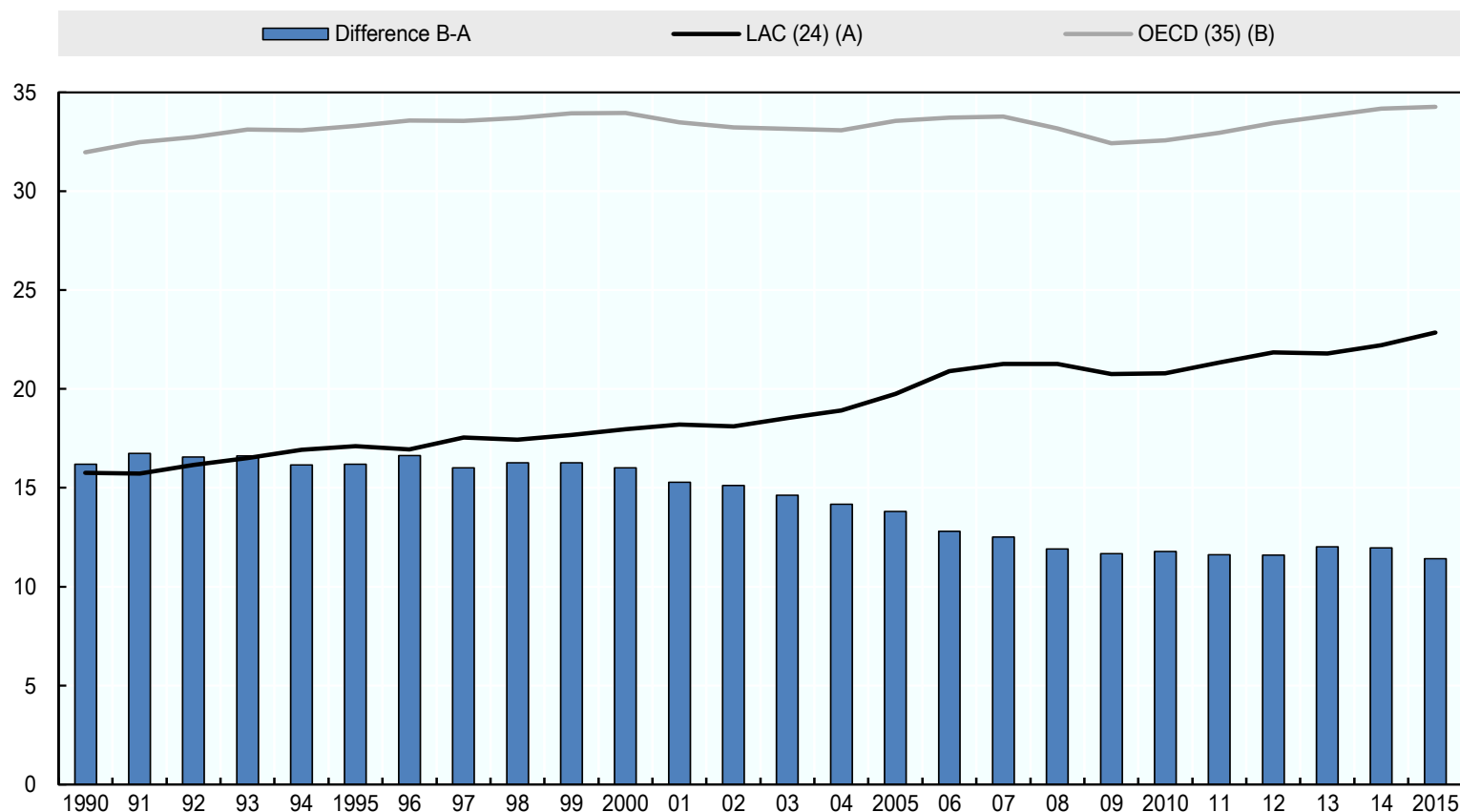
Revenue Statistics and Taxing Wages in LAC

- **Detailed, internationally comparable data** on tax revenues and labour tax laws (including a simulator by income and family composition) in 20+ Latin American and Caribbean (LAC) economies
- Based on **OECD Revenue Statistics** and **OECD Taxing Wages** methodologies, but adapted to Latin America
- **Joint projects** with the Economic Commission for Latin America and the Caribbean (ECLAC), the Inter-American Centre for Tax Administrations (CIAT), and Inter-American Development Bank (IDB)



LAC countries continued their convergence process towards OECD taxation levels, despite the economic slowdown

Total tax revenues in LAC and OECD, 1990-2015
(Percentage of GDP)

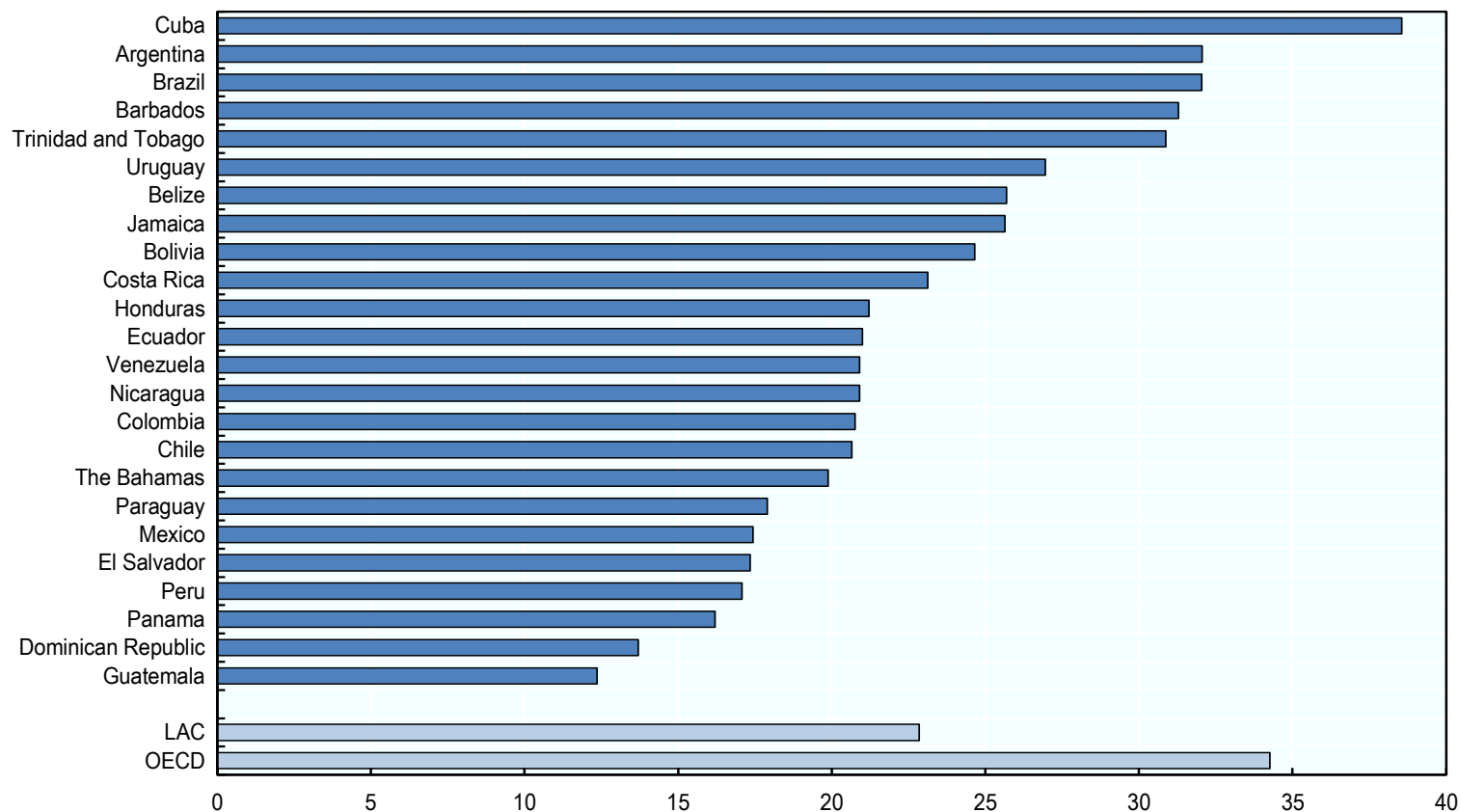


Source: OECD/ECLAC/CIAT/IDB (2017), Revenue Statistics in Latin America and the Caribbean



Wide national variations exist across LAC countries (*'Americas Latinas'*)

Total tax revenues in LAC countries and OECD, 2015 (Percentage of GDP)

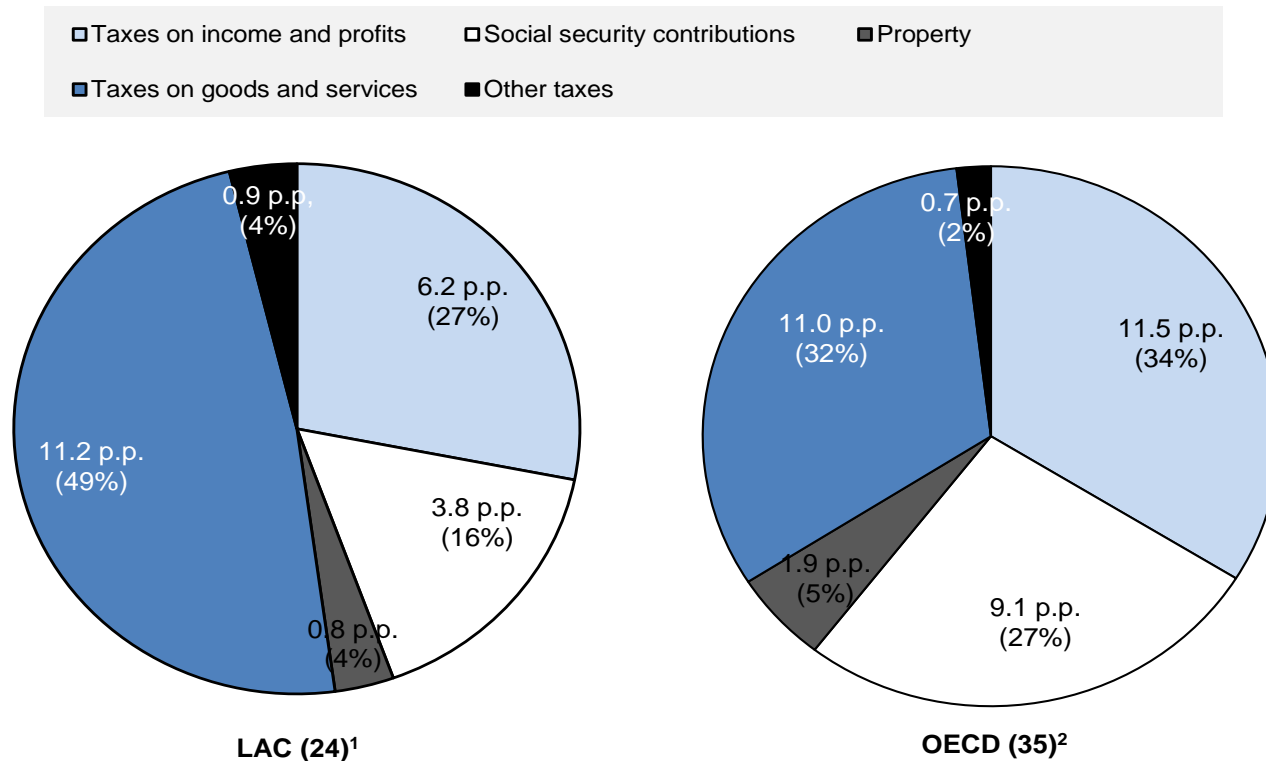


Source: OECD/ECLAC/CIAT/IDB (2017), Revenue Statistics in Latin America and the Caribbean



Tax structures continue to be based on indirect tax receipts (VAT and other taxes on consumption)

Tax revenue composition in LAC and OECD, 2015 (Percentage of GDP and total tax revenues)



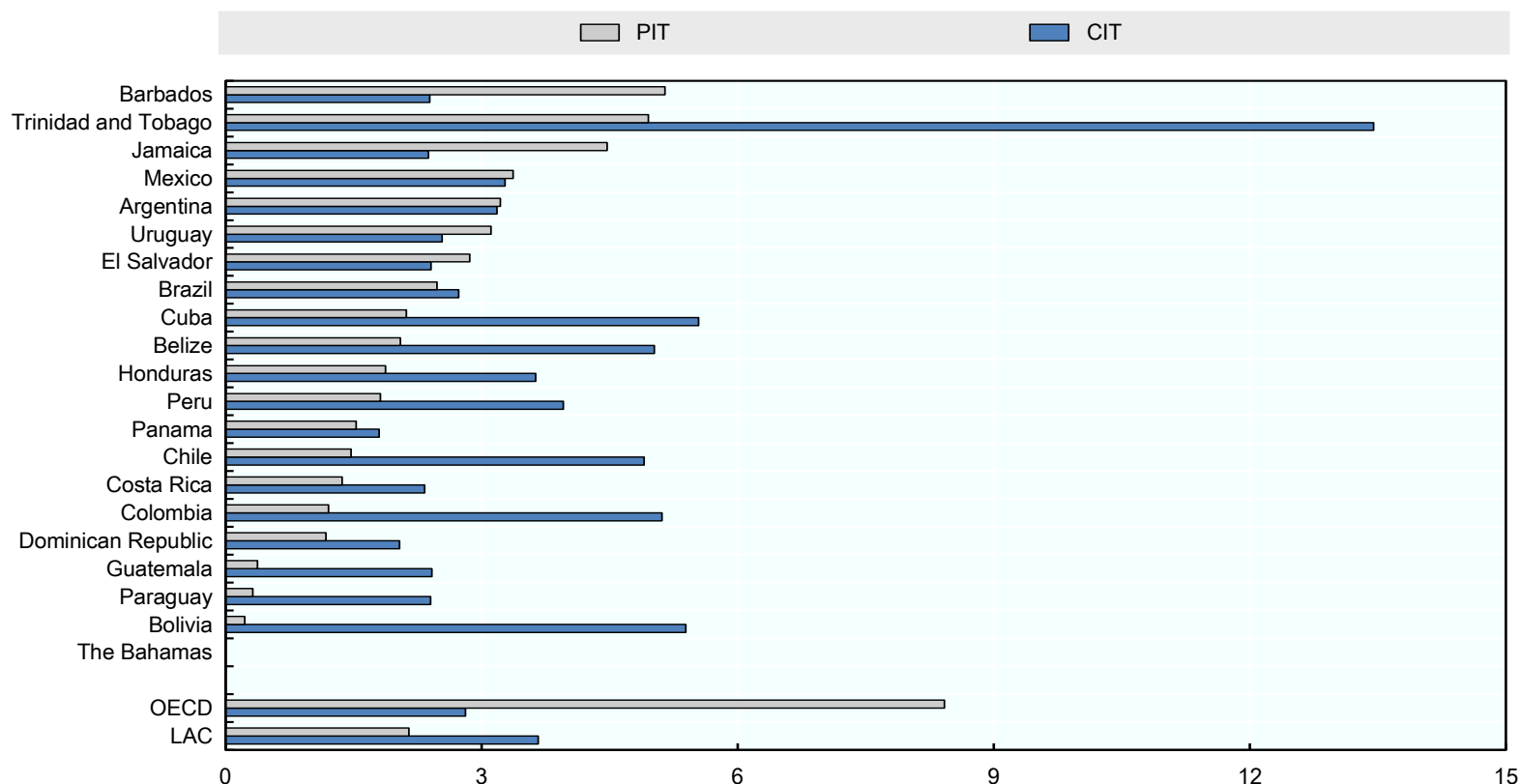
1. Represents a group of 24 Latin American and Caribbean countries. Chile and Mexico are also part of the OECD (35) group.
2. Represents the unweighted average for OECD member countries in the year 2014.

Source: OECD/ECLAC/CIAT/IDB (2017), Revenue Statistics in Latin America and the Caribbean



Despite recent increases, personal income tax collection continues to be low (vs CIT)

Personal and Corporate income tax revenues in LAC and OECD, 2015 (Percentage of GDP)



Note: the share on taxes on income and the share on taxes on profits may not add up to the total share on taxes on incomes and profits due to unallocable revenue. Only countries that could allocate 75% or more of revenue of taxes on incomes and profits into the sub categories taxes on income and taxes on profits are shown in the figure above.

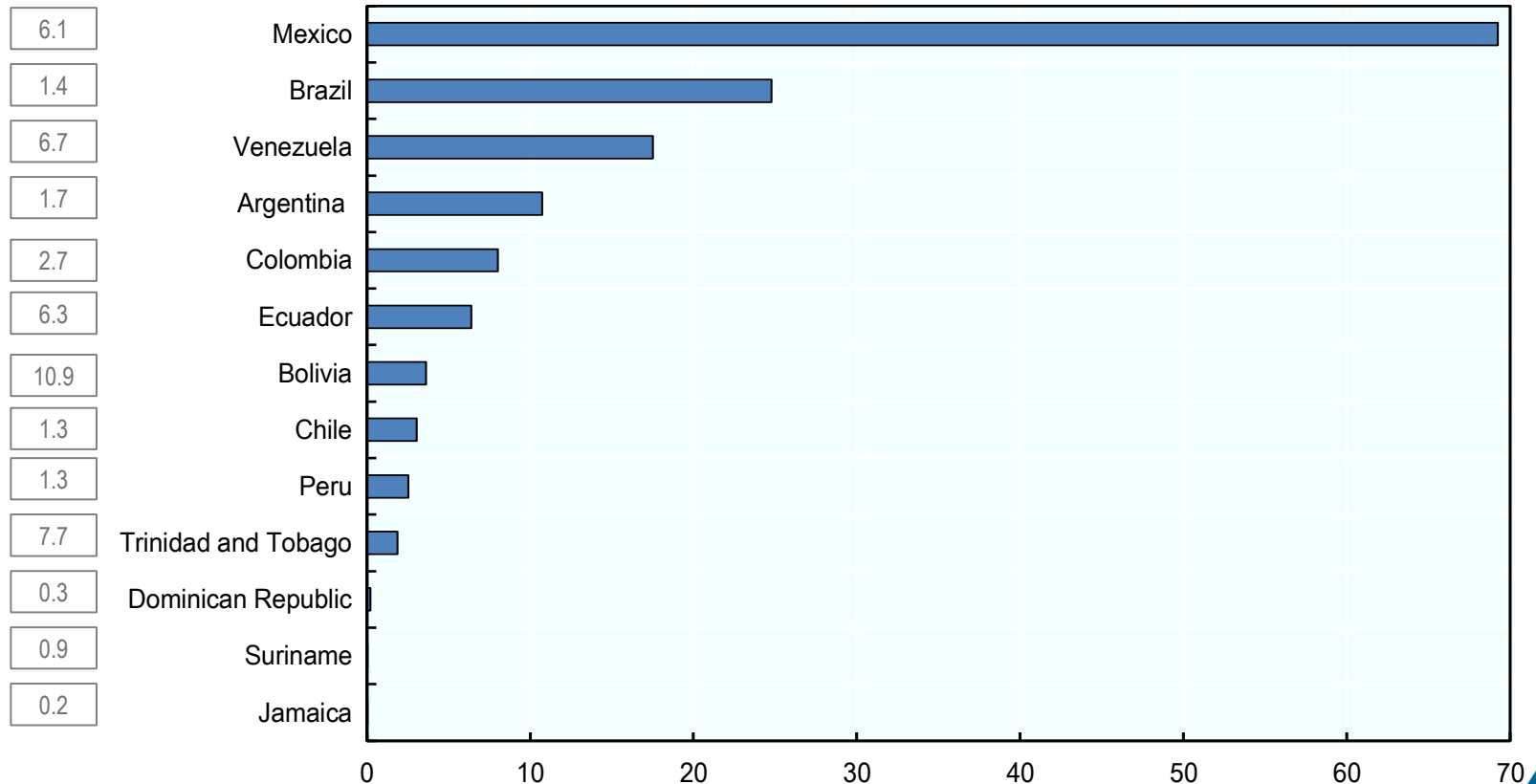
Source: OECD/ECLAC/CIAT/IDB (2017), Revenue Statistics in Latin America and the Caribbean



Fiscal revenues from non-renewable natural resources are (too?) important sources of revenue

Fiscal revenues from non-renewable natural resources, 2015
(in billions of dollars and percentage of GDP)

As % of GDP





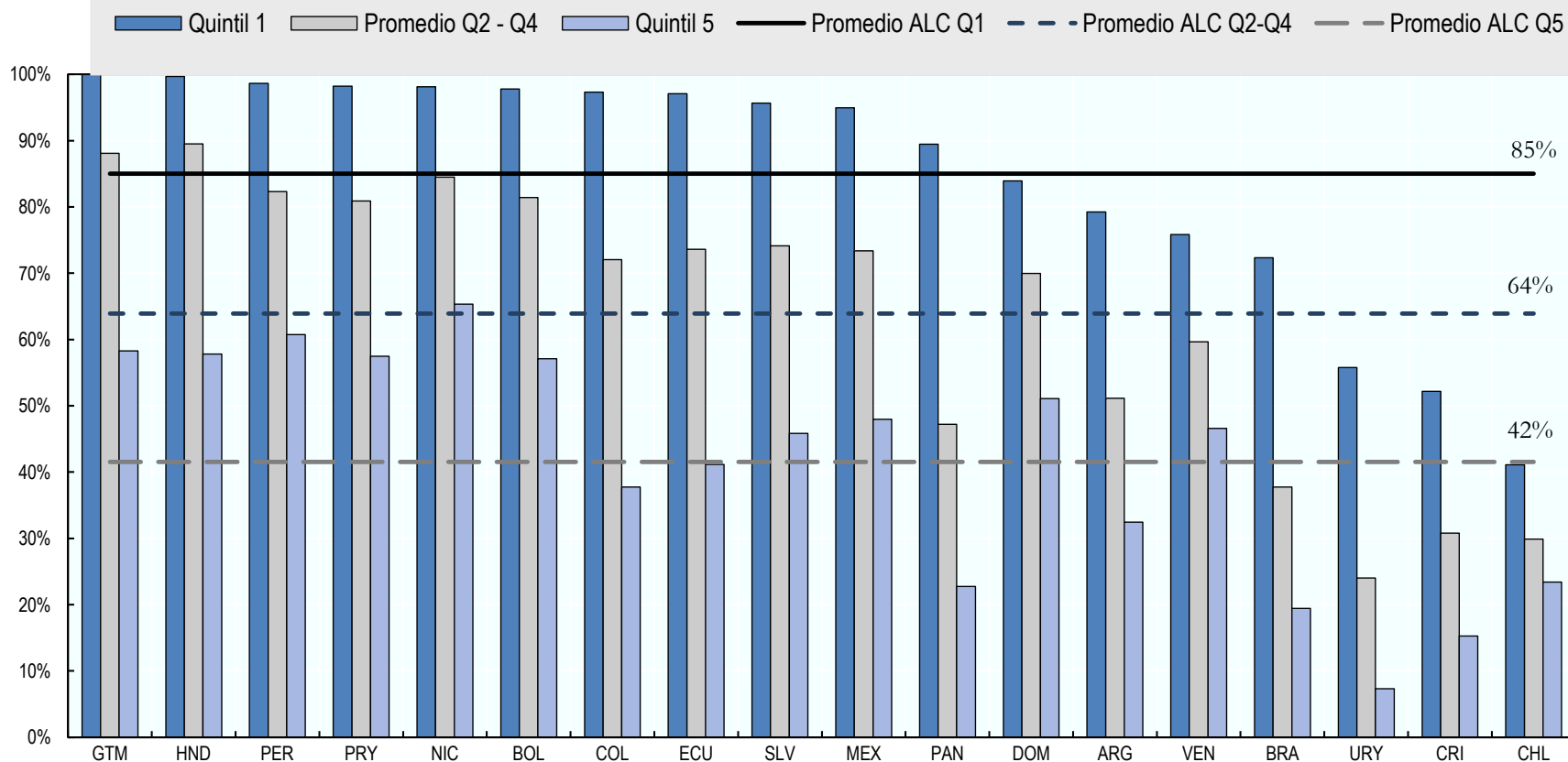
From data to policy action (I)

- Given the economic slowdown and weak commodity prices, a ***no-policy change scenario*** suggests that **tax revenues will not increase**. Key to ensure the financing of education, infrastructure and social programmes.
- Tax reforms have to come, hand in hand, with **improvements in their management**. Latin American governments need to strive for more efficient, transparent and innovative services
- In focus – **tax reform and labour markets**



Informality is pervasive, also within the emerging middle class. *Could tax reform help?*

Labour informality in Latin America (Percentage of workers contributing to pensions, 2013)



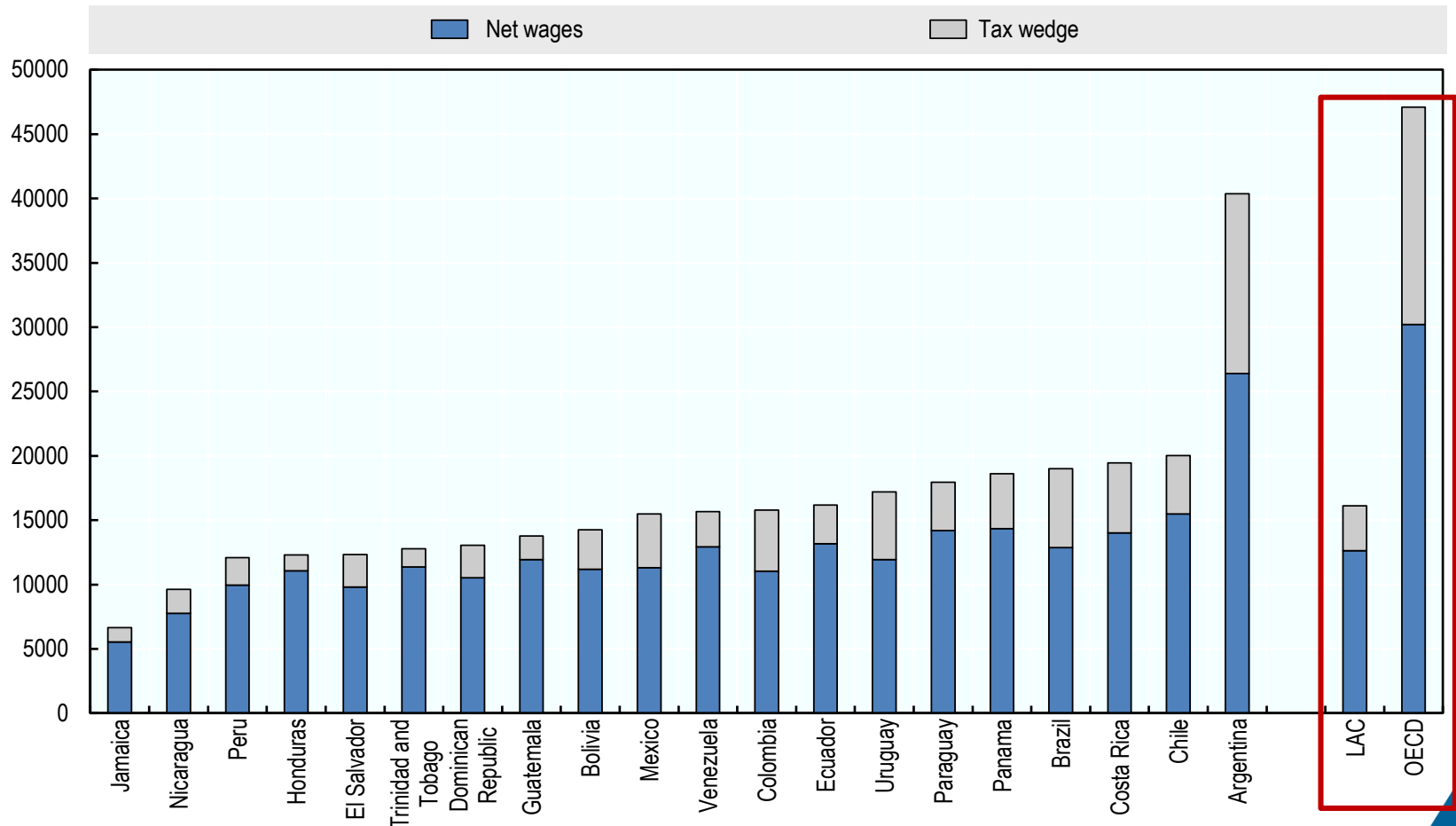
Source: IDB (2015), Sistema de Indicadores de Mercado Laboral y Seguridad Social (SIMS)



Labour costs in LAC are *generally* lower than in OECD (wages & taxes)

Labour costs in Latin America and OECD

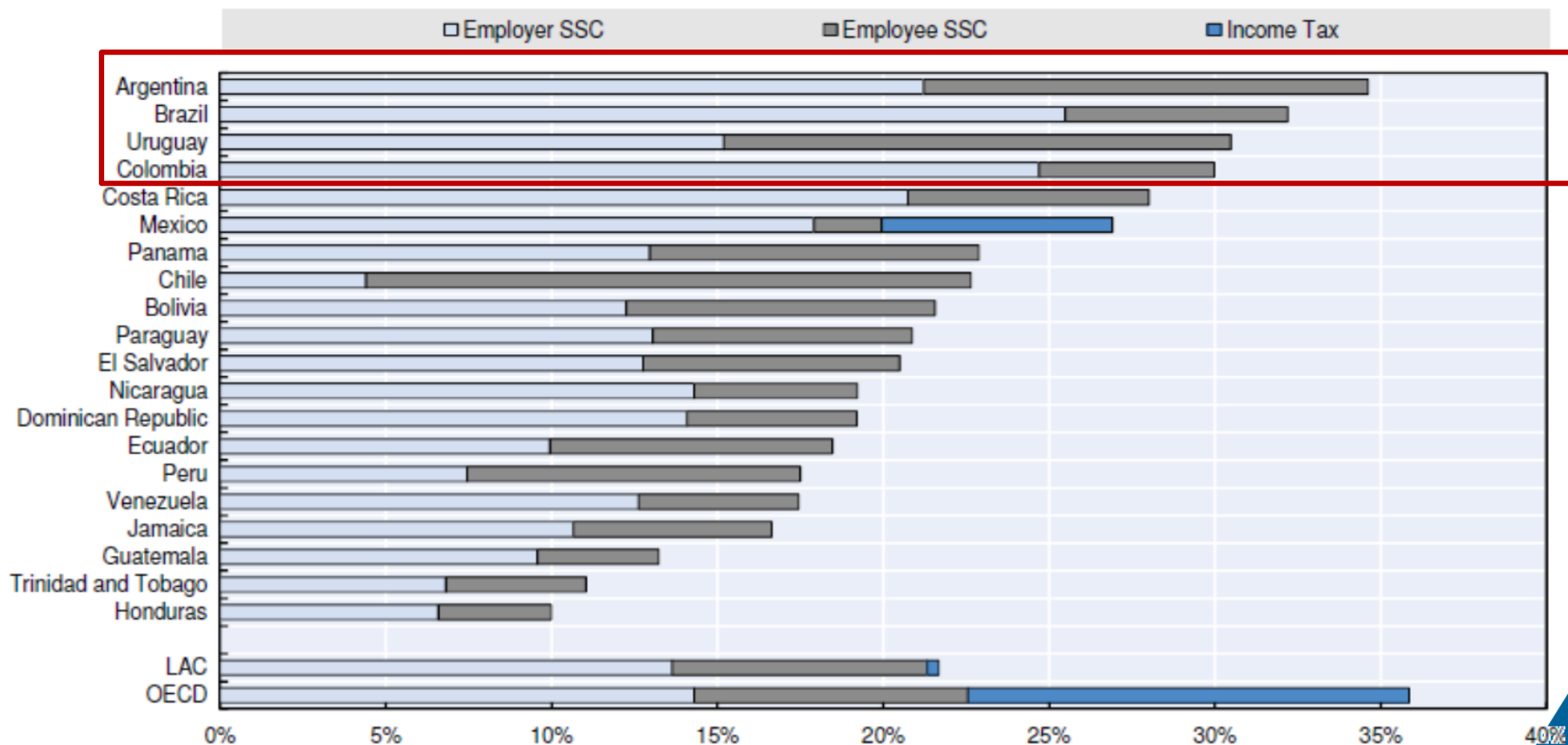
(Average wage earner; social contributions and personal income tax; 2013)





Labour costs are relatively low due to low taxes on wages (22% vs 36%)...

Figure 1.1. Income tax plus employee and employer social security contributions, 2013
As % of labour costs

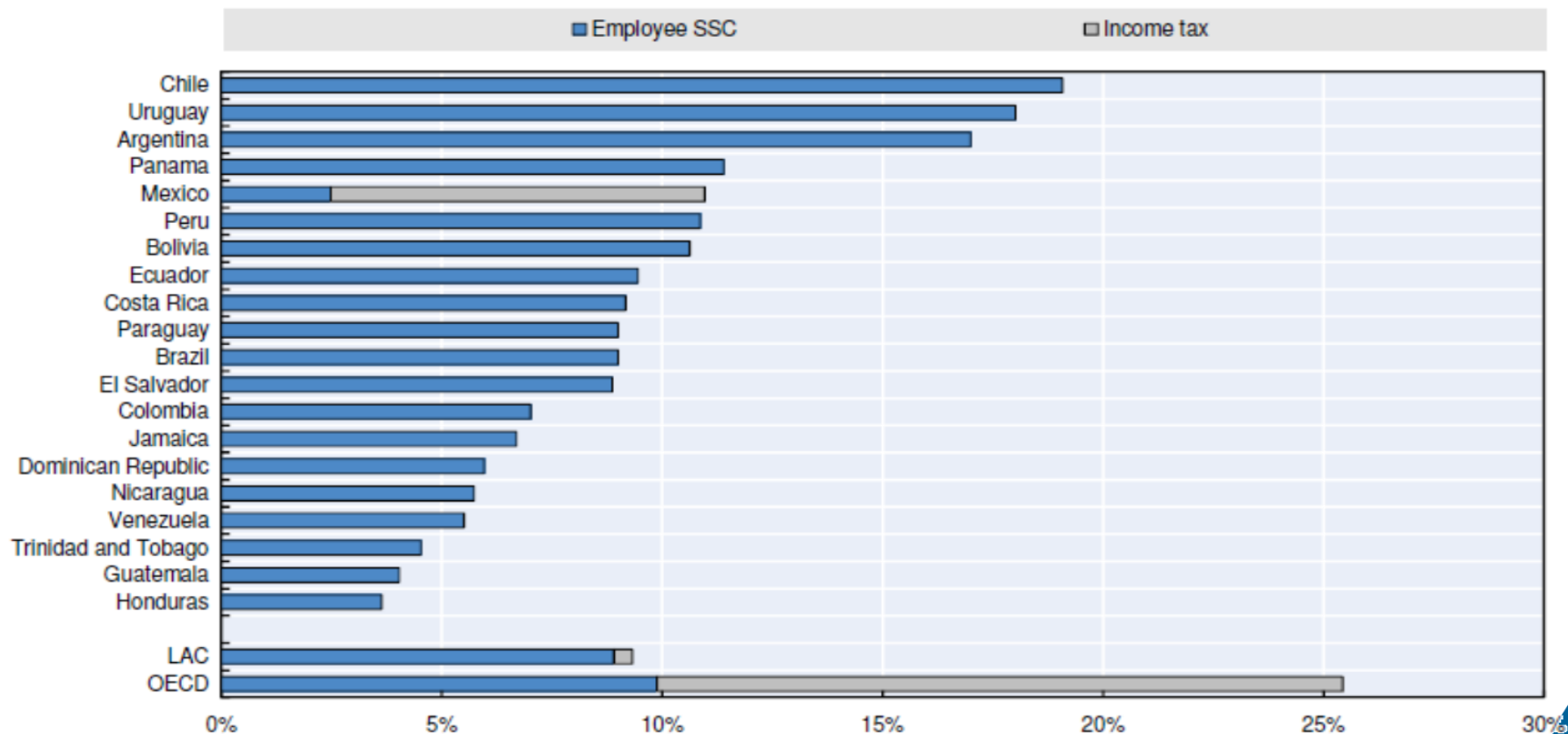


Notes: Single individual without children at the income level of the average worker.
Payroll taxes are included with employer SSCs where applicable.



... explained by the personal income tax (average formal worker is exempted)

Figure 1.2. Percentage of gross wage earnings paid in income tax and employee social security contributions, 2013



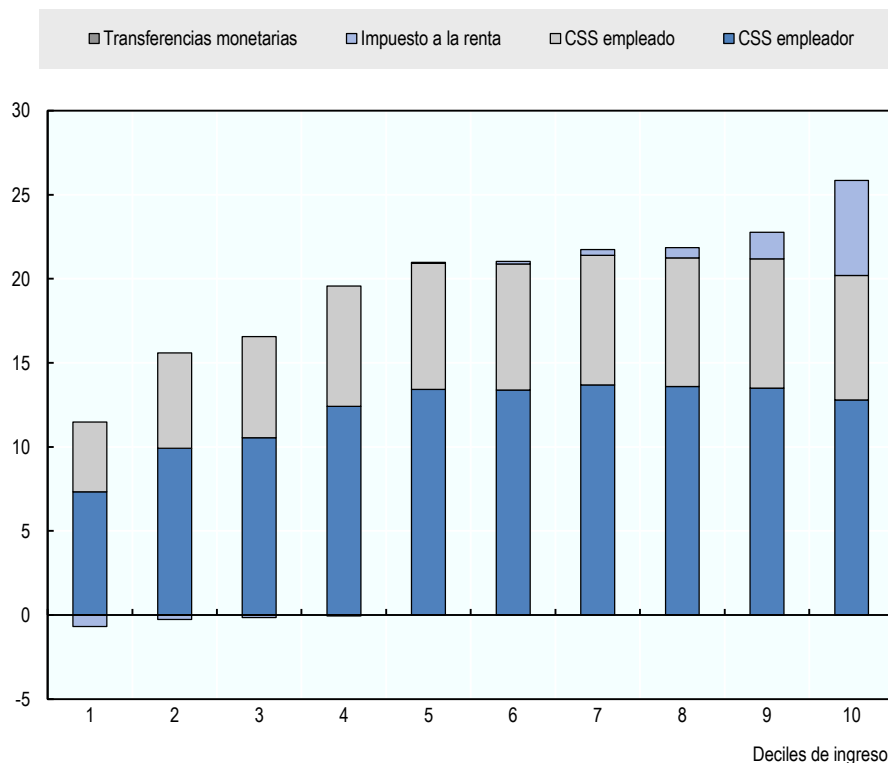
Notes: Countries ranked by decreasing tax burden.
Single worker without children at income level of the average wage.



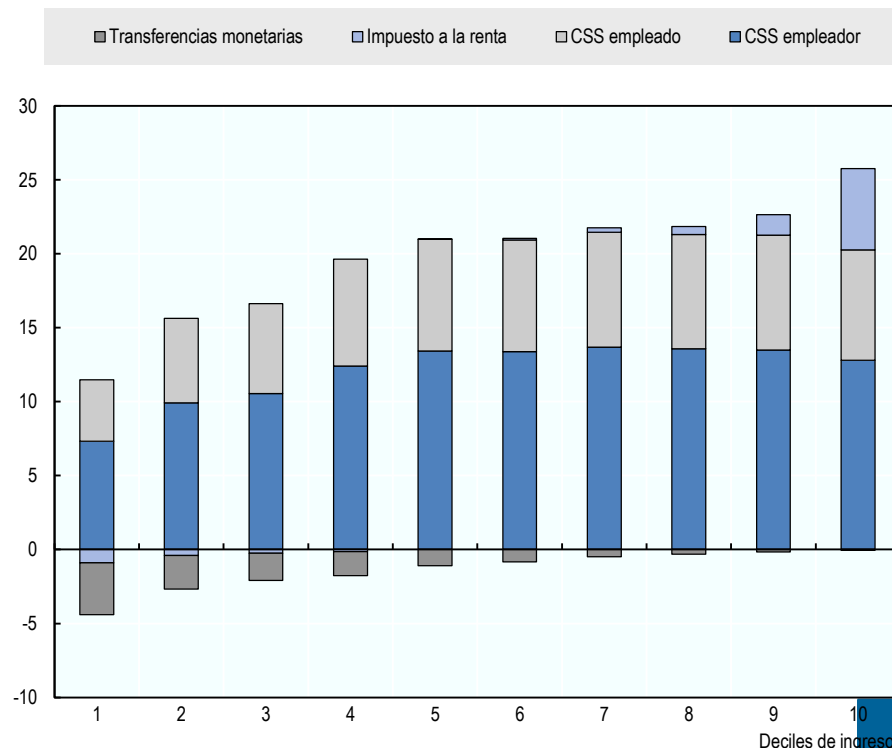
Personal income tax only taxes the top deciles...

Tax wedge by level of income in Latin America (Percentage of labour costs, 2013)

Single worker, no children



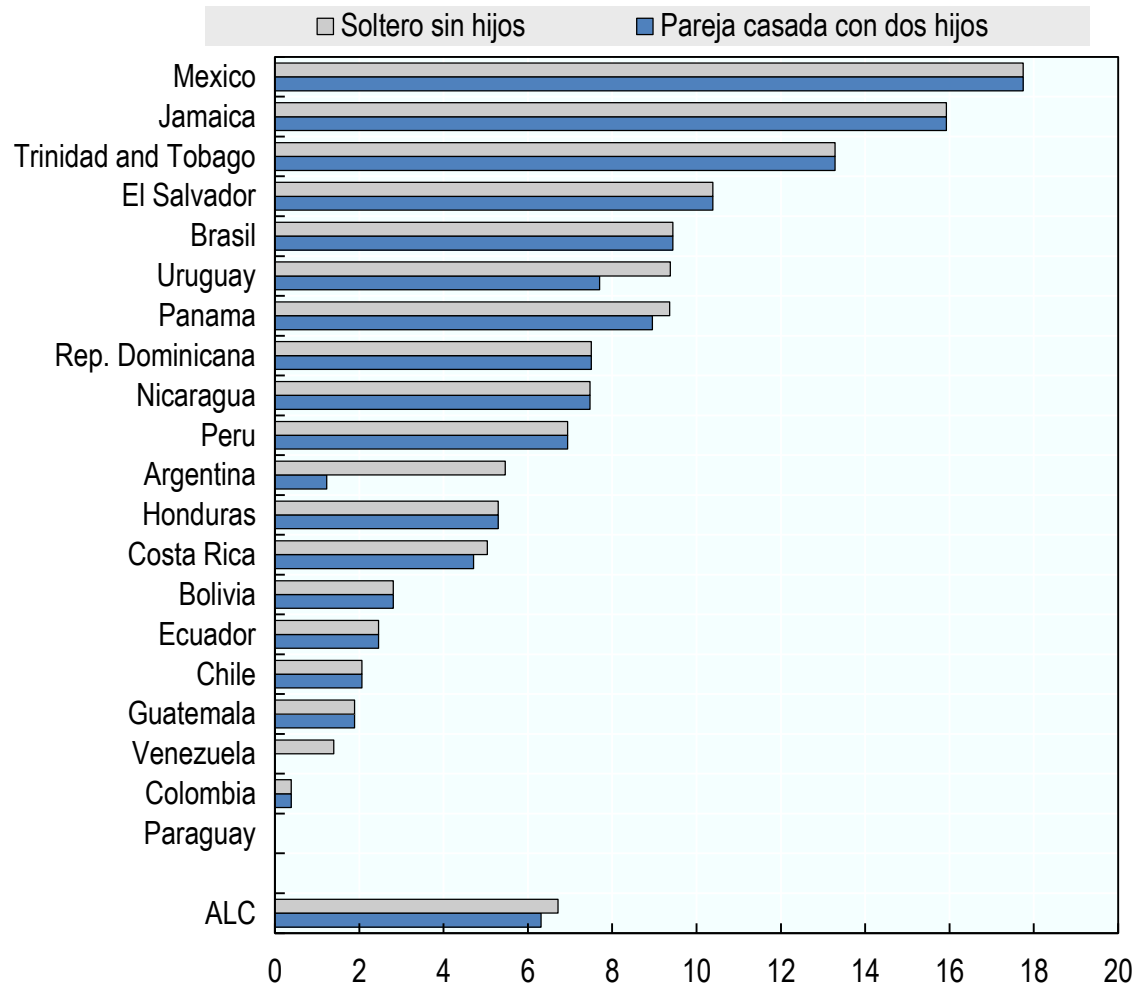
Married couple, two children





... and even up there, average tax rates are modest

Average personal income tax rate on the top decile in Latin America (Percentage of wage, 10th decile, 2013)



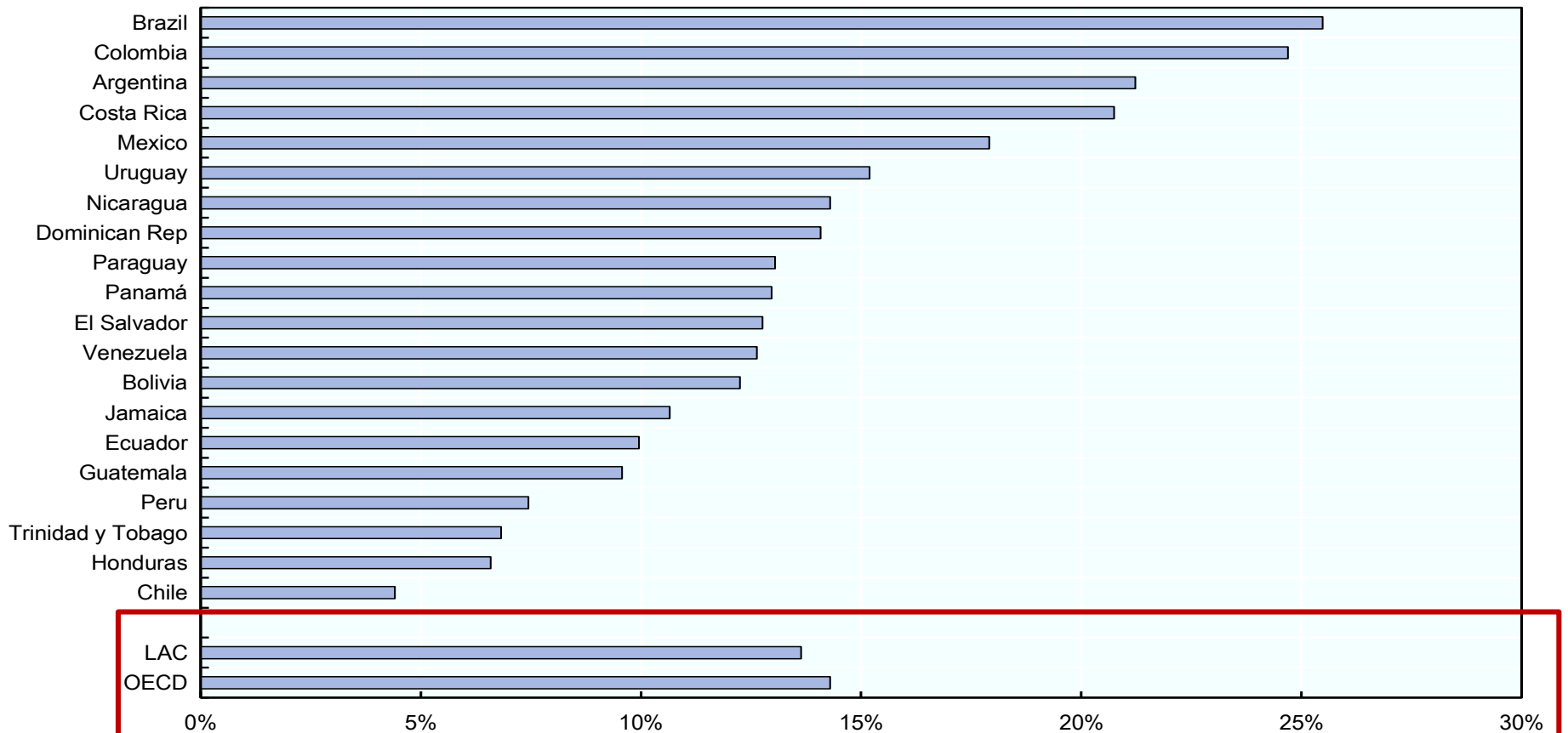
Source:
OECD/CIAT/IDB
(2016), Taxing
Wages in Latin
America and the
Caribbean



Employer contributions are alike in LAC and OECD

Employer social contributions in Latin America and OECD

(Average wage earner; % labour costs; 2013)

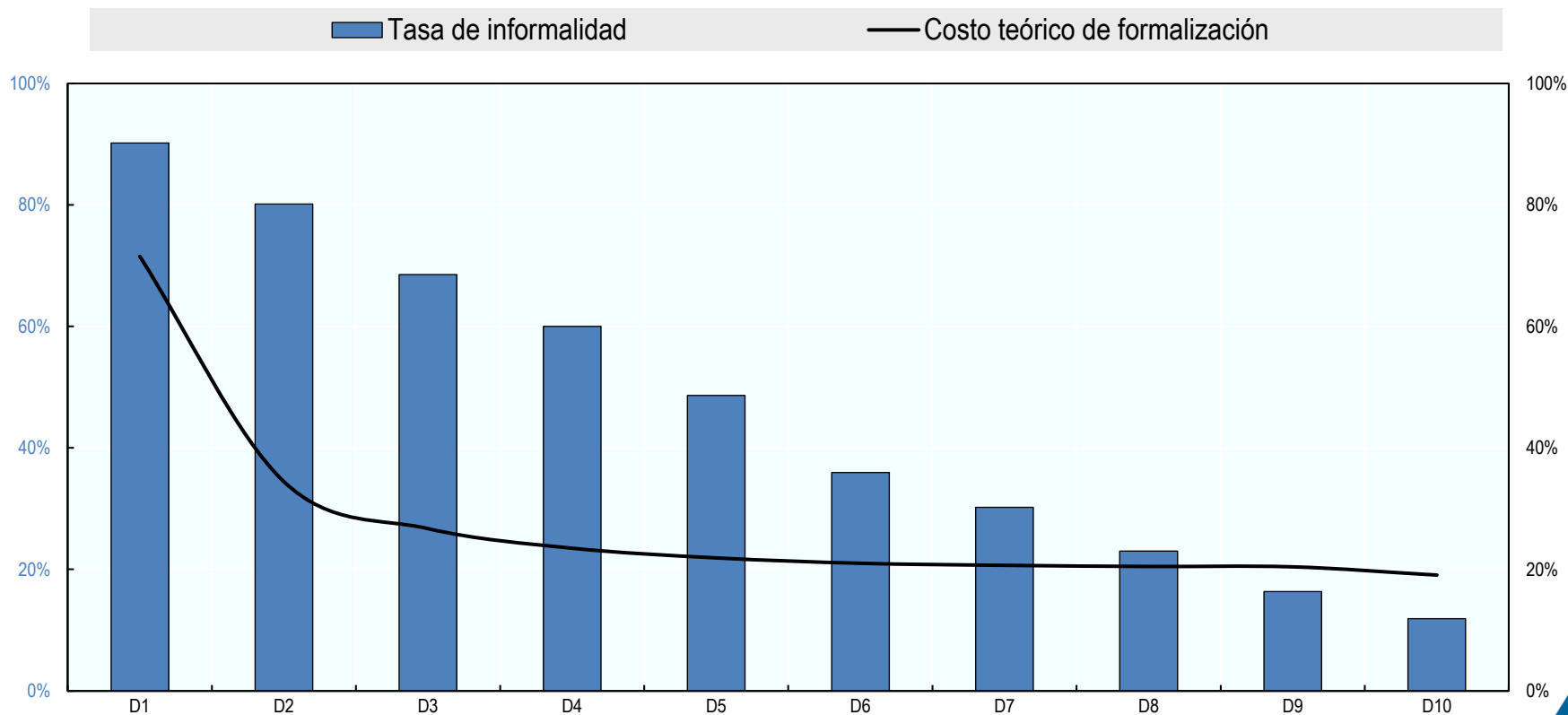




What about those who are informal? Calculating (tax) costs of formalisation

Informality and theoretical tax costs of formalisation in LAC

(Average LAC wage earner by income decile; % wages; 2013)



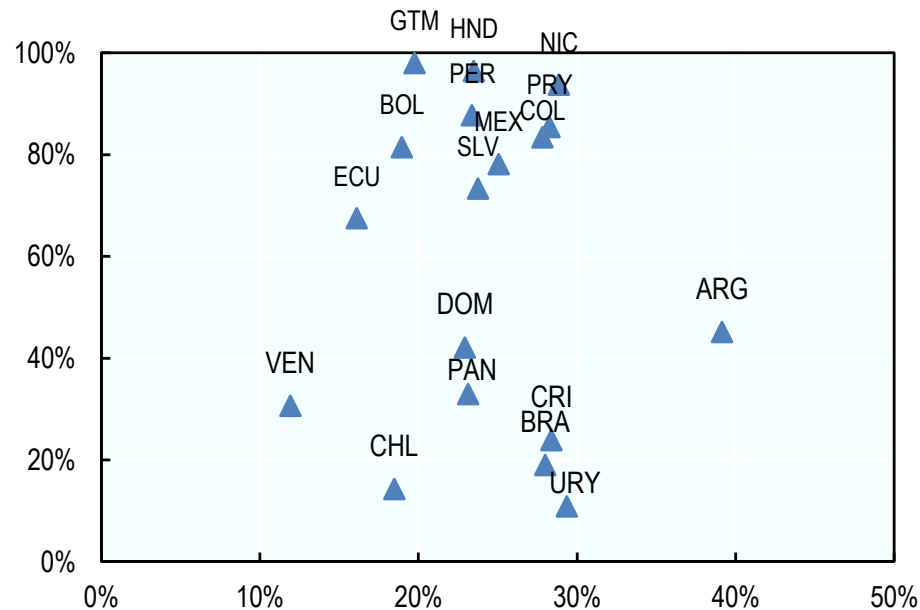
Source: OECD/CIAT/IDB (2016), *Taxing Wages in Latin America and the Caribbean*



... but tax and informality are correlated for low and middle-income workers

Informality and theoretical formalisation costs for middle-income workers in Latin America

B. Ingresos promedio de los deciles 3 - 5



Costos de teóricos de formalización (como porcentaje del ingreso del individuo)

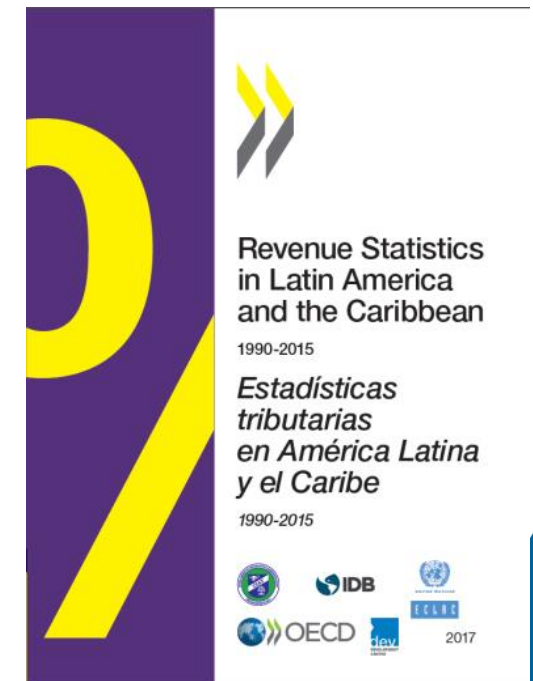
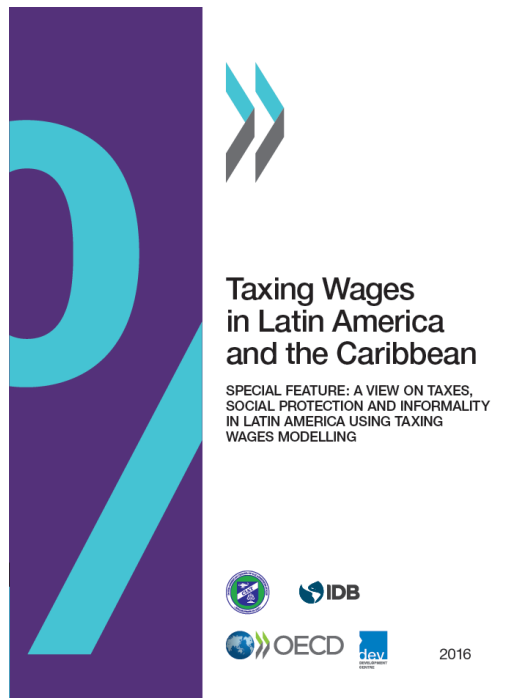


From data to policy action (and II)

- **Boosting good jobs** (protected & productive) should be a central element of the policy (also fiscal) agenda
- **Personal income tax** can be strengthen (revising minimum exempted) and made more progressive (tax deductions, rates?)
- Revision of non-wage labour costs – notably for low- and low-middle income workers should be evaluated. Progressive subsidies on **social contributions**?

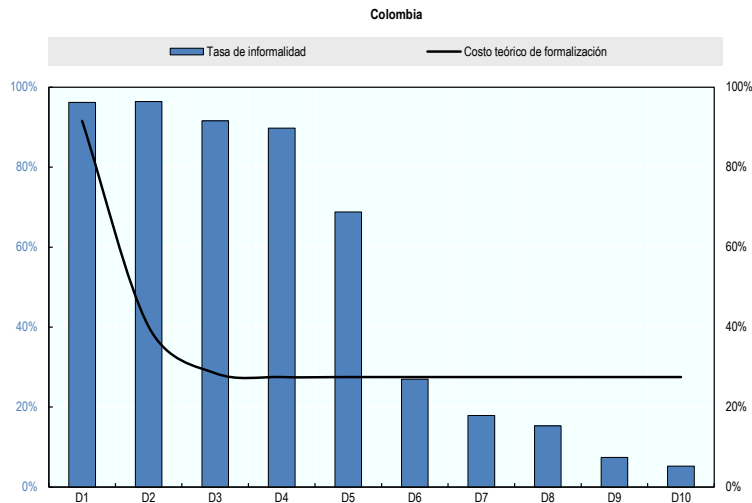
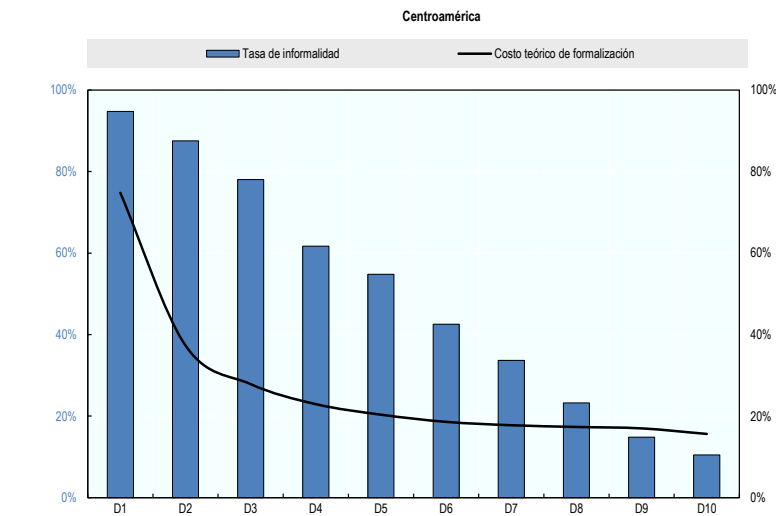
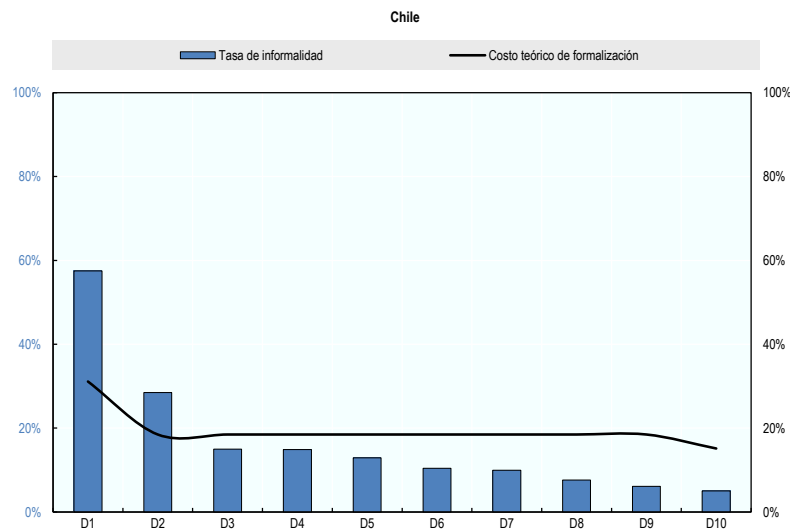


From *data* and words to policy action





Americas Latinas (once again)...



Source: OECD/CIAT/IDB (2016), *Taxing Wages in Latin America and the Caribbean* and IDB (2015), *Sistema de Indicadores de Mercado Laboral y Seguridad Social (SIMS)*