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

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

2017

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’)
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 GPD 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

Mexico
Brazil
Venezuela
Argentina
Colombia
Ecuador
Bolivia
Chile
Peru
Trinidad and Tobago
Dominican Republic
Suriname
Jamaica

6.1
1.4
6.7
1.7
2.7
6.3
10.9
1.3
1.3
7.7
0.3
0.9
0.2
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)

Source: OECD/CIAT/IDB (2016), *Taxing Wages in Latin America and the Caribbean*
Labour costs are relatively low due to low taxes on wages (22% vs 36%)…

Source: OECD/CIAT/IDB (2016), Taxing Wages in Latin America and the Caribbean
… explained by the personal income tax (average formal worker is exempted)

![Bar chart showing percentage of gross wage earnings paid in income tax and employee social security contributions, 2013.](image)

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

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

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

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)
• **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)*