



More than revenue:
Taxation as a Development Tool

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Taxation as a Development Tool

Content

– Myths

- Low tax burden
- Regressive taxes
- Rampant evasion

– Essentials—Some policy reforms

Taxation in LAC: Myth vs. Reality

Myths?

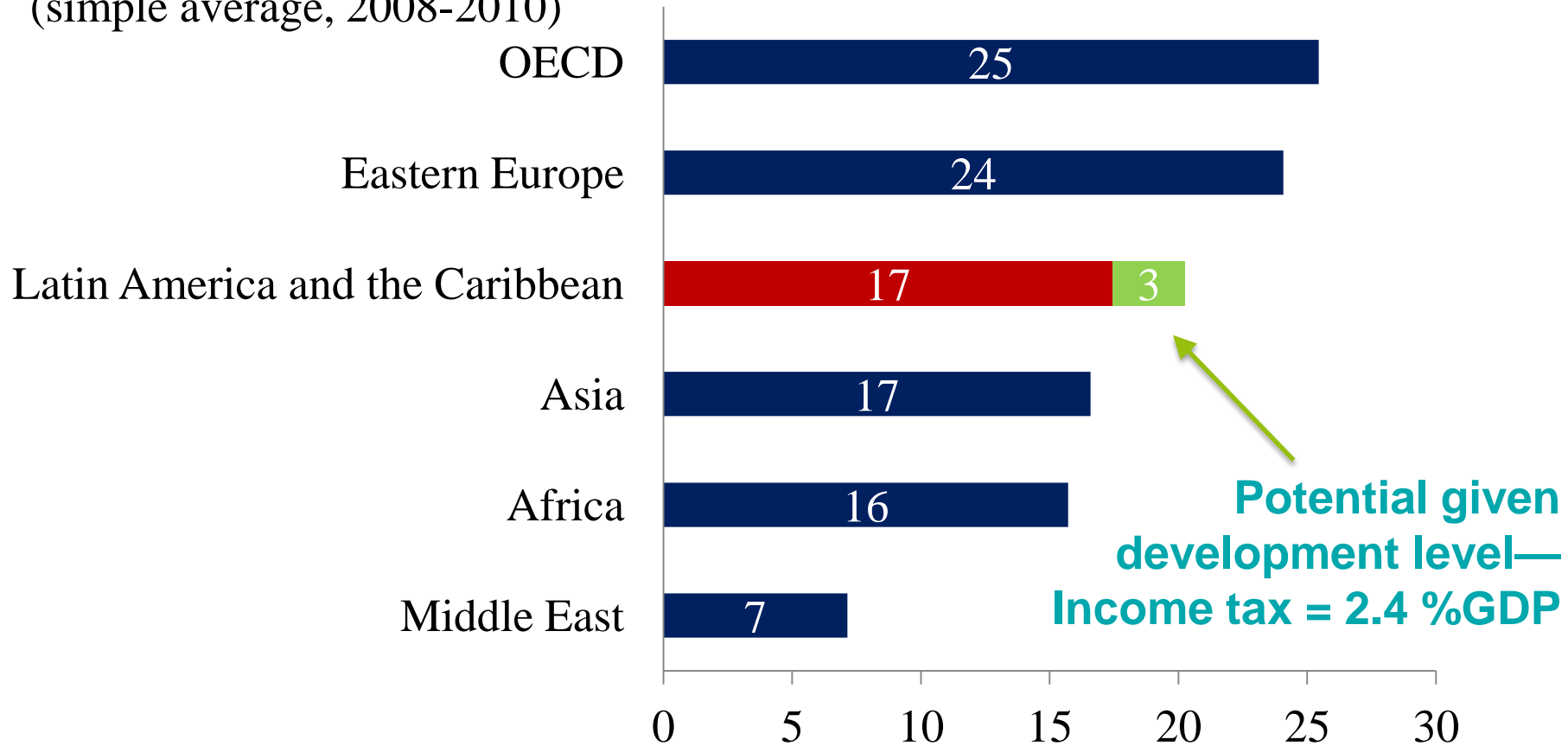
1. Low tax burden

Reality

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

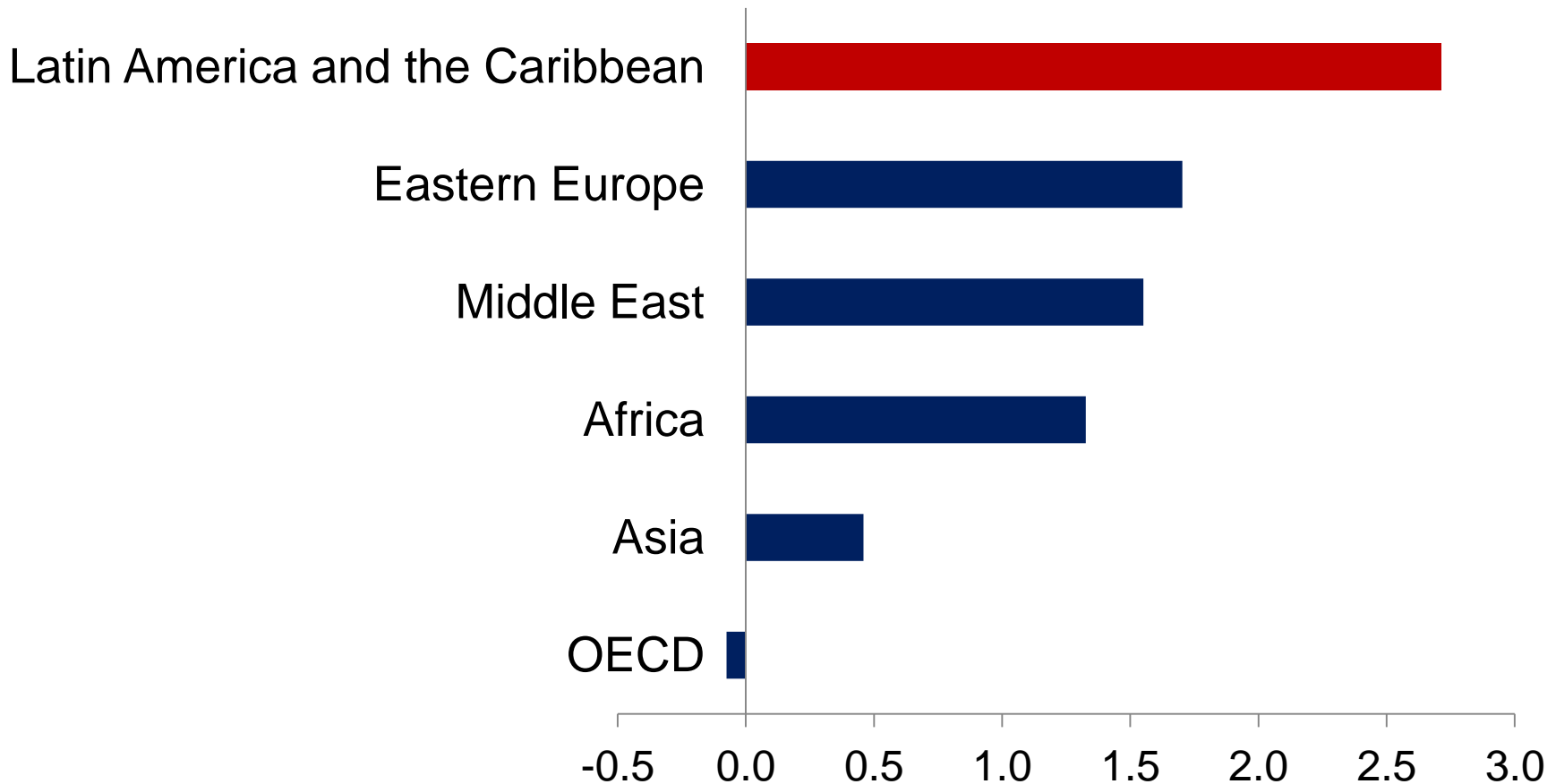
Low tax burden

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



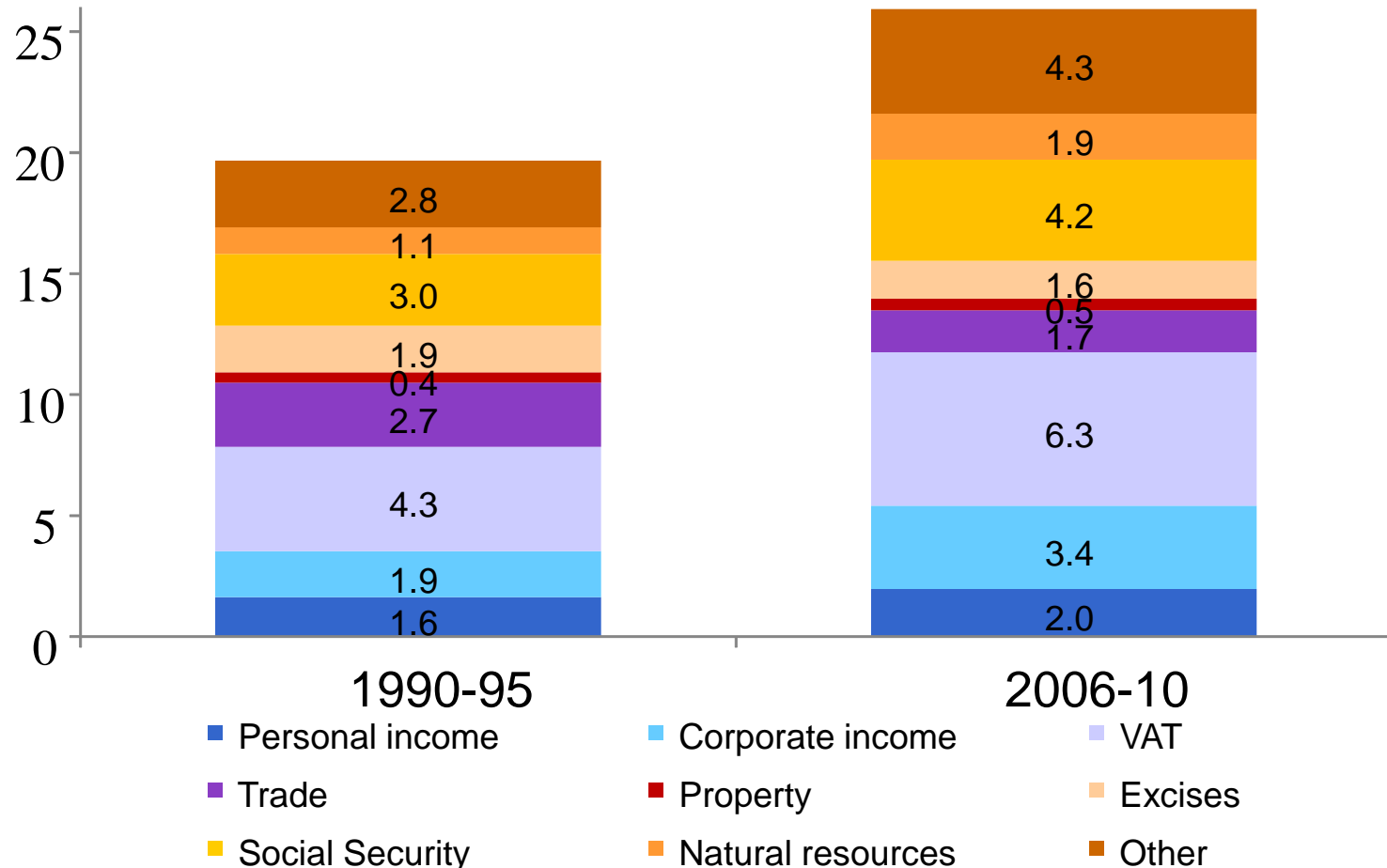
...but largest increase in burden...

Changes in the Tax Burden between 1990 and 2010
(simple average, percentage of GDP)



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

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



Taxation in LAC: Myth vs. Reality

Myths?

1. Low tax burden
2. Regressive taxes

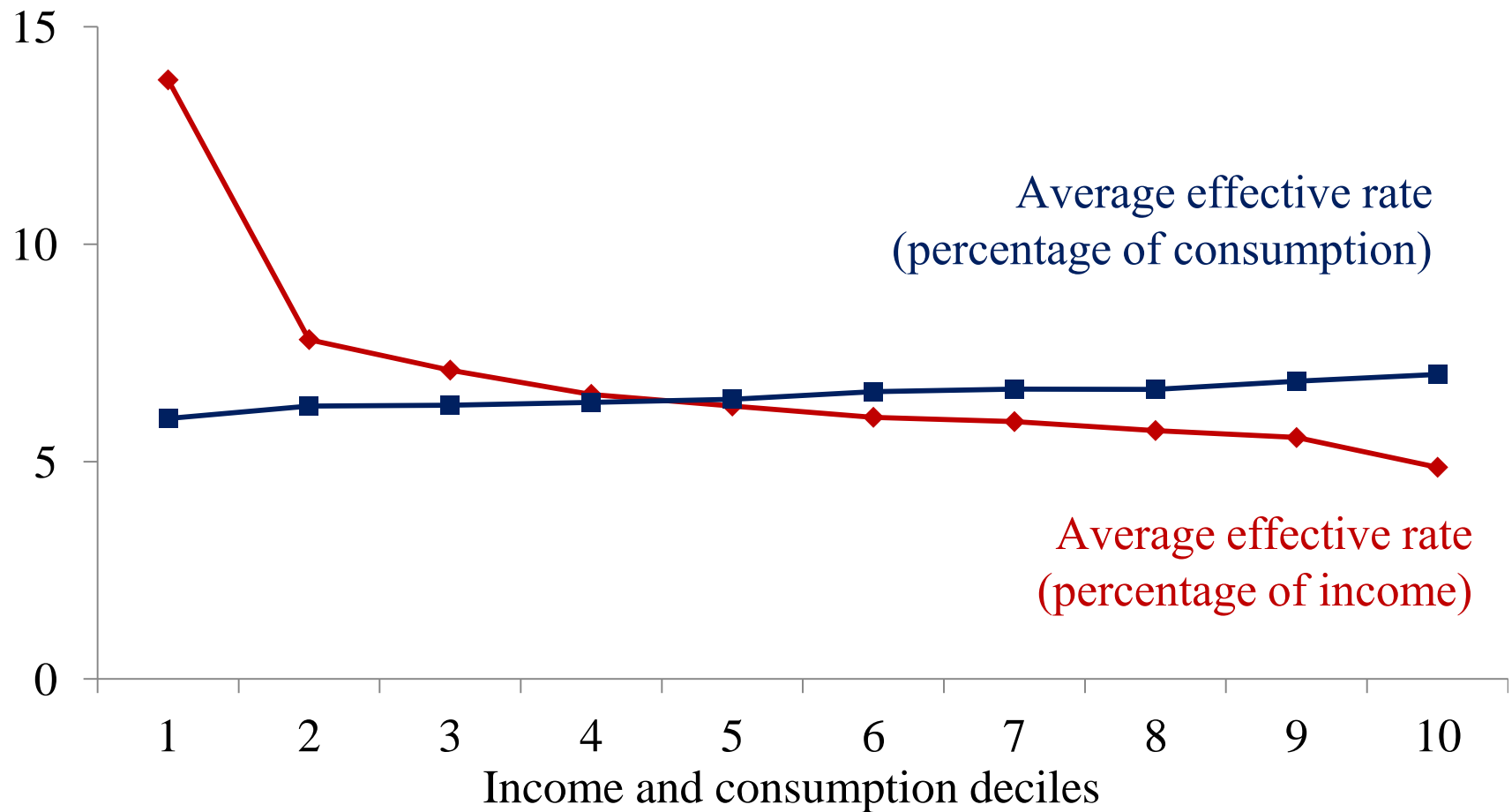
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Yes...in personal income tax
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Maybe...but big losses to avoid VAT regressivity
...and to promote progressivity of personal income taxes

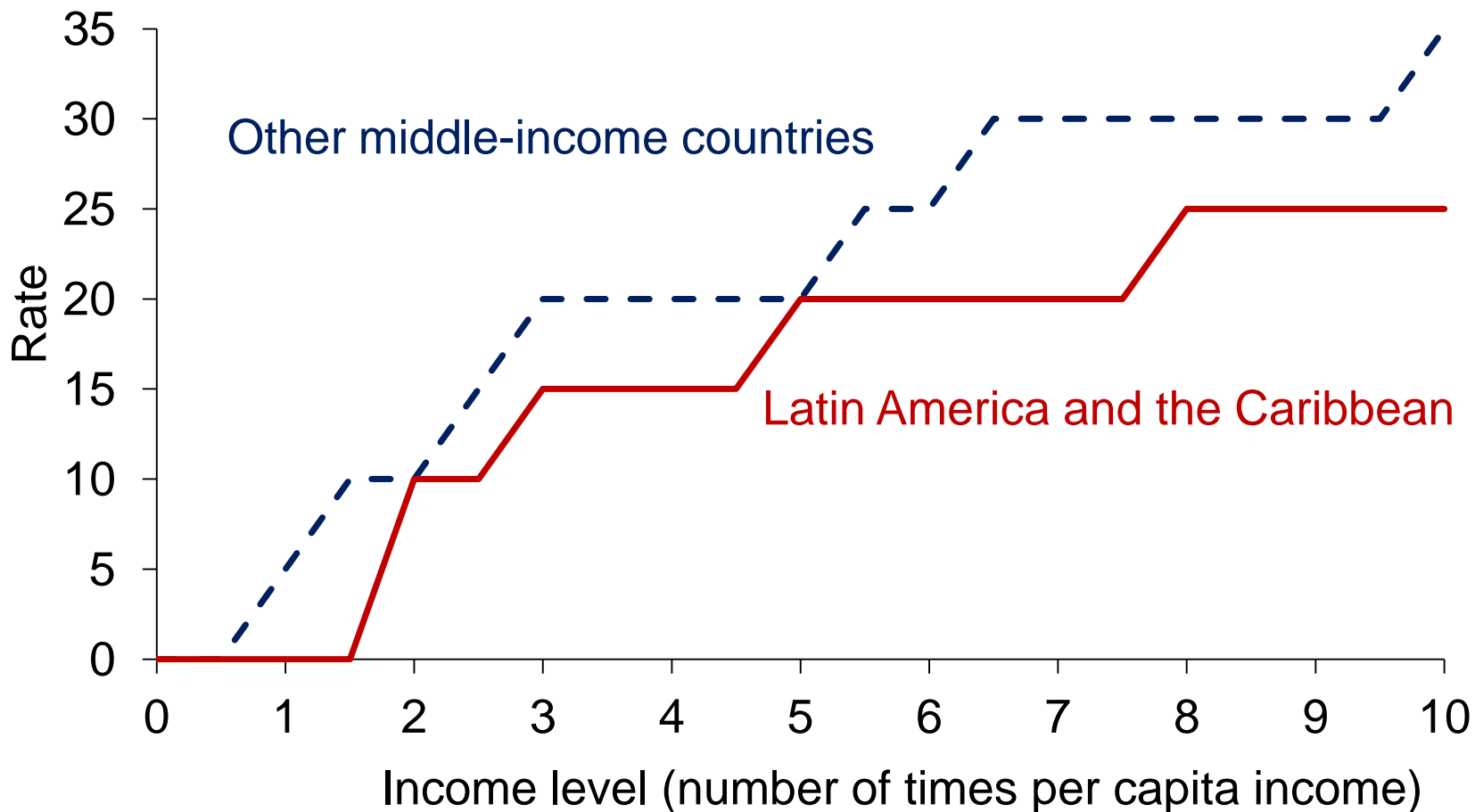
Regressive VAT? Measurement matters

Incidence of VAT by income and consumption deciles



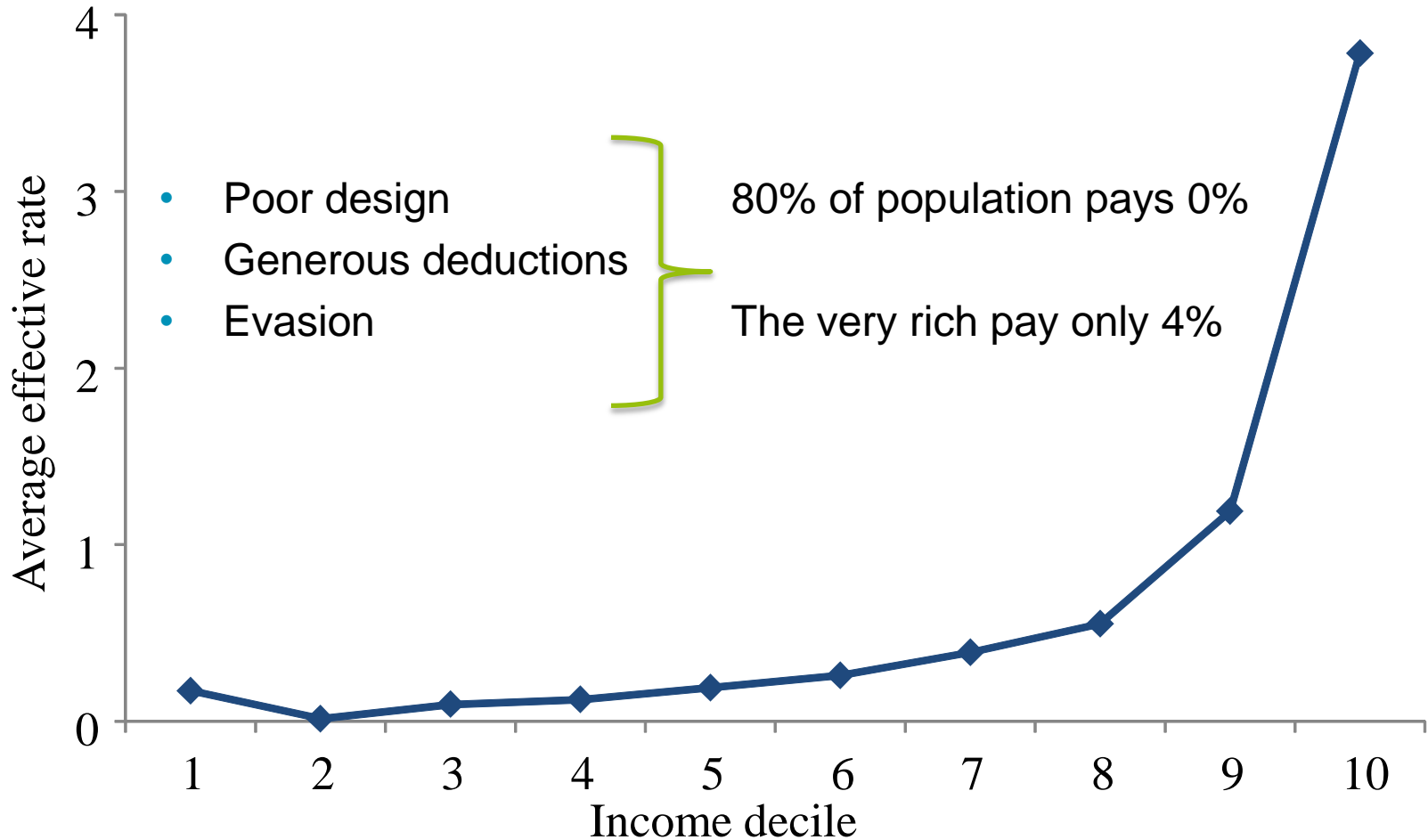
Personal income tax: Design on paper

Maximum Marginal Rate for Each Income Level, 2010



...and ends up an empty shell

Incidence of Personal Income Tax



Change in income distribution before and after taxes = 0.008

Progressive on paper...with NO real redistributive power

Taxation in LAC: Myth vs. Reality

Myth?

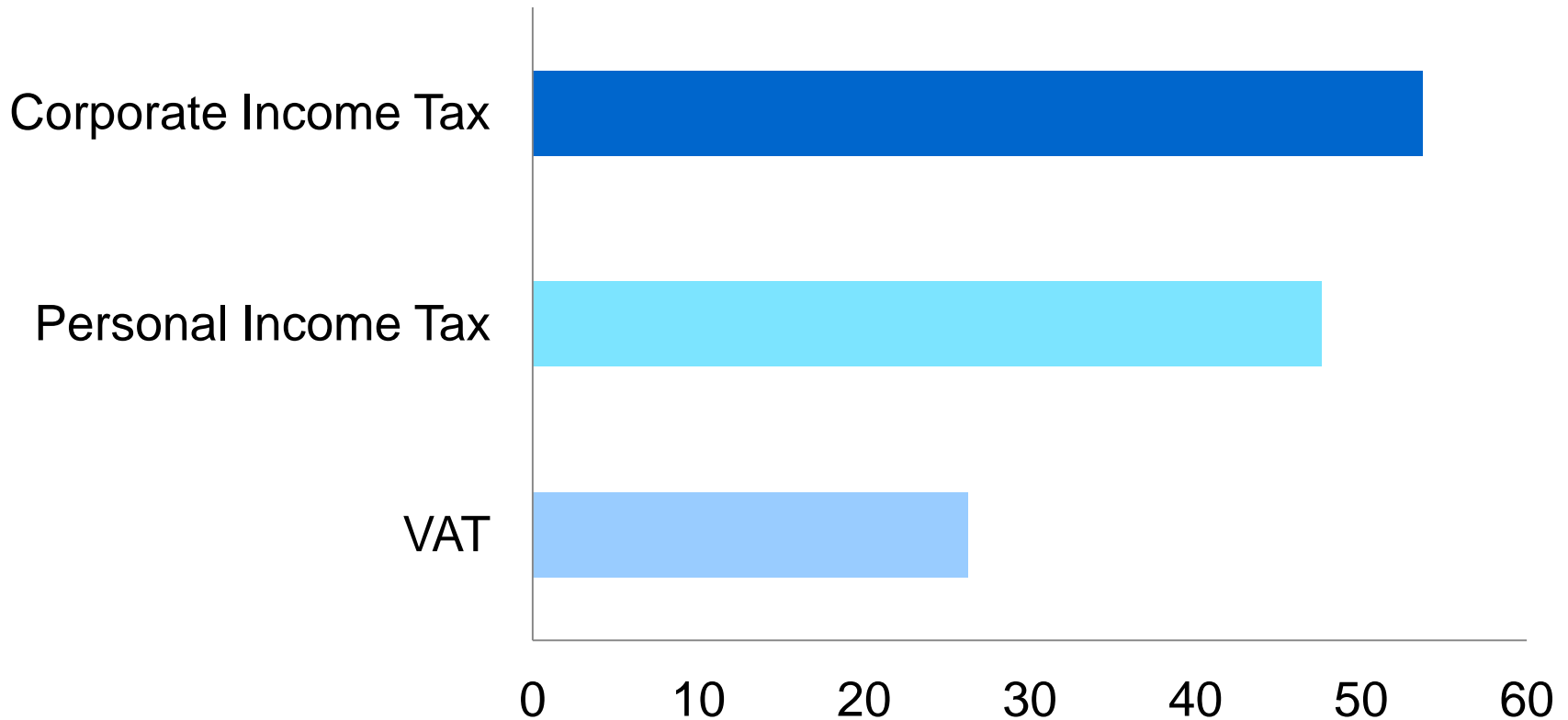
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2. Regressive taxes
3. Rampant evasion

Reality

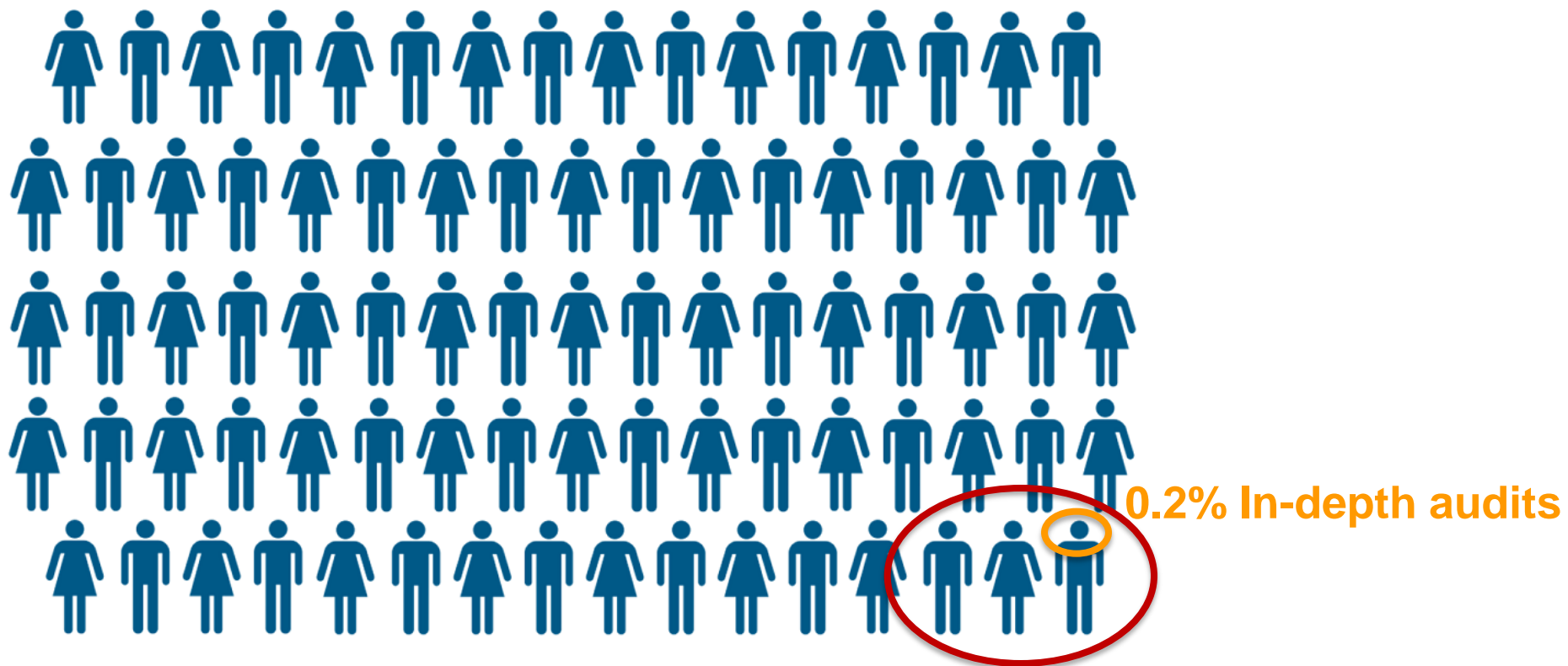
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It's easy and risk free to evade

Rampant evasion: The killer blow to equality

Tax Evasion Rates (percentage)



...with minimum chances of being audited



3% Mass audits

0.2% In-depth audits

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Myth?

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To collect is essential but not enough—some policy reforms

- **Personal Income Tax**

Reduce minimum exempt level
Cap deductions progressively
Adopt a dual income tax

- **Corporate Income Tax**

Phase out special regimes
Reduce tax incentives
Decrease rates?

- **VAT**

Eliminate exemptions; unify rates
Compensate poor households
Reduce payroll taxes?

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

Strengthen tax administration and combat evasion

Institutions for People



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