Sięp Società italiana di economia pubblica

XIX CONFERENZA

ECONOMIA DEL CAPITALE UMANO
Istituzioni, incentivi e valutazioni

Pavia, Aule storiche Università, 13 - 14 settembre 2007

AN OUTLINE OF TAX SYSTEMS AND TAX REFORMS IN LATIN AMERICA

FRANCESCO FIGARI AND LUCA GANDULLIA

pubblicazione internet realizzata con contributo della COMPAGNIA di San Paolo

AN OUTLINE OF TAX SYSTEMS AND TAX REFORMS IN LATIN AMERICA

by

Francesco Figari and Luca Gandullia

University of Genova and Essex — University of Genova

Abstract

This paper is part of a wider research on "Tax Systems and Tax Reforms in Latin America", carried out at the Department of Public Economics of the University of Pavia, under the direction of L. Bernardi, A. Barreix, A. Marenzi and P. Profeta, and the supervision of V. Tanzi. The purpose of this paper is to give a brief look at tax systems and tax reforms in some Latin American countries over the last two decades. The paper presents evidences of the structure and evolution of tax systems, focusing on tax ratios and on the allocation of revenues across levels of government; then it illustrates common features of current tax systems. In the 1980s and until the mid-1990s Latin American countries began to implement a set of tax reforms, that were significantly influenced by international financial institutions. The first goal of these reforms was to enhance revenue collection and provide more stability in the revenue systems. Although not fully implemented, these reforms have generally increased the efficiency of tax systems and their revenue raising capacity. However, they have come at a price: other issues have been driven and kept off the tax policy agenda, including mainly considerations of tax equity and redistribution. With few exceptions Latin American countries do not rely widely on direct taxes and social security contributions. At present, after two decades of tax reforms, there is still the issue of raising more tax revenue, but the main challenges for next years seem to be: broadening tax bases, especially in the field of direct taxes, reducing reliance on the more distorting taxes, such as those on financial transactions, foreign trade, enterprise turnover and payroll, and improving tax administration.

Reference Authors: Francesco Figari **f.figari@unige.it**

Luca Gandullia **luca.gandullia@unige.it**

Key words: Tax Systems, Tax Reforms, Latin America

JEL Codes**:** H10, H20, H24, H25

Department of Public and Environmental Economics

University of Pavia - Italy- March 2007

1. Introduction and main conclusions*

In the mid-1970s and until the mid-1990s Latin American countries began to implement a set of tax reforms, involving the simplification of tax structures and the removal of exemptions and special privileges, the replacement of trade taxes by value-added taxes and an emphasis on improved tax administration (Shome 1992; 1995; 1999; Tanzi 2000; Lledo *et al.* 2004). Reforms were significantly influenced by foreign experts and by international financial institutions that promoted a fairly homogeneous set of tax changes, often in the context of macroeconomic stabilization programs. The first goal of these reforms has been to enhance revenue collection and provide more stability in the revenue systems (OECD 2006a).

A number of exogenous determinants influenced tax reforms (Tanzi 2000). A first set of determinants concerned the precarious macroeconomic situations of many countries and the inflationary context that compelled many countries to look for short-term tax measures and to rely more heavily on indirect taxes over direct taxes. A second set of determinants came from trade and capital liberalization; the consequence, similar to what has been experimented elsewhere in the world (Bernardi 2004; Bernardi *et al.* 2006), has been twice: a reduction in revenues from foreign trade taxes and its compensation with other revenue sources (brad-based consumptions taxes and partly also direct taxes); secondly, a rapid reduction in personal income tax rates and in corporate income tax rates. In this context during the 1980s and 1990s all the Latin American countries (following Brazil where valued added taxation dates 1967) introduced the VAT which represents the most important innovation in Latin America's taxation during last decades.

Although not fully implemented, these reforms have generally increased the efficiency of tax systems and their revenue raising capacity (Shome 1995 and 1999). However, they have come at a price: other issues have been driven and kept off the tax policy agenda. One of the main excluded issues deals with considerations of tax equity and redistribution and the financing of social security programs. With few exceptions Latin American countries continue to be allergic in taxing incomes and collecting social security contributions. Thus revenues from income taxes continue to be low compared with international levels. Many

* The authors would like to thank Alberto Barreix and Luigi Bernardi for helpful comments and suggestions. All remaining errors are the responsibility of the authors.

reasons contribute to explain this result (Tanzi 2000): very large personal exemptions and deductions; reluctance to tax financial incomes; falling in tax rates; low efficiency in tax administration. At present, after two decades of tax reforms, there is still the issue of raising more tax revenue (OECD 2006a), but the main challenges for next years seem to be: broadening tax bases, especially in the field of direct taxes, reducing reliance on the more distorting taxes, such as those on financial transactions, foreign trade and enterprise turnover and payroll, and improving tax administration (OECD 2006a).

The paper is organized as follows. Paragraph 2 discusses main issues in tax reforms enacted in the last decade and main perspectives for next years. Paragraph 3 presents some indicators of the macro structure and evolution of the tax systems over the last decade, focusing on tax ratios by legal categories. Paragraph 4 gives an overview of the main institutional features of the present tax systems in Latin American countries, focusing on personal income taxes, corporate income tax and consumption taxes.

2. Tax reforms during the last decade: main issues and perspectives

Over the past two decades, tax reforms in Latin American countries have been significantly influenced by foreign experts and by international financial institutions that have promoted a fairly homogenous set of tax reforms, often as a pre-requisite for the disbursement of loans and in concert with structural adjustment programs (Shome 1992; Tanzi 2000). The reforms have been intended in particular to increase the tax-to-GDP ratio, to make tax systems more neutral and compatible with market economy, international trade integration and financial liberalization (Lledo *et al.*, 2004; Perry and Herrera 1994; IDB 1996; CEPAL 1998; Shome 1999).To provide more stability in the revenue systems (Jenkins 1995) a greater reliance has been placed on value added type taxes and on a reduction in the top statutory income tax rates for individual and corporation income taxes. A necessary, even if not sufficient, condition, to achieve macro-economic stability had been to build a tax system that could be administered and yield an adequate level of revenue to the public sector. This has been the focus of the main tax reforms in most of the countries in the Latin America region during the last two decades (OECD 2006a). Thanks to these reforms since the early 1990's many countries in the region had made substantial progress in consolidating their public finances adversely affected by the financial crises at the end of 1990's. Fiscal adjustment has taken place against a background of volatile growth, continued disinflation and strengthening external positions, facilitated by improvements in the terms of trade in some cases. At the same time, given that in the last two decades many Latin American countries were facing a precarious fiscal situation, policy makers were often deterred from pursuing deep tax reforms in the face of uncertainty about revenues in the short and medium run (IDB 2006; OECD 2006a).

Based on these goals, tax reform proposals in the region have tended to include the following elements (Jenkins 1995): (i) Implementation of broad-based and uniform VAT systems to replace taxes on foreign trade and cascading turnover taxes; (ii) Reduction of the highest statutory tax rates and simplification of the personal income tax system; (iii) elimination of preferential treatment for particular sources of corporate income and particular economic sectors; (iv) Modernization and strengthening of the institutions involved in tax administration. The reforms in tax administration that were promoted and supported by international organizations have been implemented more consistently than other reforms (Lledo *et al*. 2004). A proliferation of programs included staff training, introducing modern information technology, and revising procedures and internal organization. Collection of taxes through banks was adopted everywhere, as well as internal organization by functions instead of the traditional tax base by tax base approach (IDB 1997).

In other areas successful reforms were implemented: the reform of foreign trade taxation and the reduction in high marginal income tax rates. During 1980s tax reforms also reflected development policy strategies; the policy of import substituting industrialization, that was common until the early 1980s, implied high tariffs and tax incentives for selected growth-promoting sectors. The latter narrowed the corporate tax base and led to the creation of multiple corporate income tax rates (Perry and Herrera 1994). From the mid 1970's taxes on foreign trade have been replaced by domestic broad base consumption taxes. In this context all the Latin American countries (following Brazil where valued added taxation dates 1967) introduced the VAT which represents the most important innovation in Latin America's taxation during last decades. In the same years the rate of decline in highest marginal PIT rates and corporate income tax rates has been more rapid than in the OECD countries (Shome 1999). Some areas of tax reform in the Latin American region represent interesting examples and experimentations in tax policy and tax institutions (Tanzi 2000). For instance during 1990s several countries in the region introduced business taxes on gross assets that performed well in the inflationary environment (Tanzi 2000). Such a tax was first adopted in Mexico in 1988 and subsequently introduced in Argentina, Colombia, Costa Rica, Paraguay and Uruguay (Shome 1999). The business asset tax has been used as a minimum income tax or sometimes as a complement to it. At present Mexico continues to operate the gross assets tax as a minimum income tax. A second example of experimentation is in the field of small business taxation. Almost all Latin American countries have introduced simplified taxation schemes for small firms. The aim has been twice: reducing the administrative burdens and increasing tax compliance. A third example of tax experimentation is the tax on banking transactions, mainly on debits, that was originally introduced in Argentina in 1983; it was reintroduced there in 1988 and 2001, and implemented in many other countries (for instance in Brazil in 1994 and 1997, in Colombia in 1998). As was the case with other tax policy innovations, governments' urgent revenue needs have been the major reason for the adoption of BDTs in Latin America. The tax has also proved to be very popular and easy to administer given the consolidated and satisfactory role of banks as collection agents (Tanzi 2000). Bank debits are still taxed in Brazil, as well as in several other countries in the region, discouraging financial intermediation in most cases.

At present, after two decades of tax reforms, there is still the issue of raising more tax revenue (OECD 2006a). Brazil's tax-to-GDP ratio is already closer to the OECD average than that of the other Latin American countries. But in some countries, such Mexico and Paraguay, government revenue is much lower. This reflects the inability of the governments to bring the more dynamic sectors of the economy into the tax net. Other than increasing tax revenues, the main challenges for next years seem to be: broadening tax bases, reducing reliance on the more distorting taxes, such as those on financial transactions, foreign trade, enterprise turnover and payroll, and improving tax administration in many countries (OECD 2006a). The reform of foreign trade taxes and their gradual elimination has still to be completed along the progress in regional and international integration (Martner and Tromben 2004); the lost revenues of external commerce have to be recollected with resources mainly from consumption taxes and income taxes. By far Latin American countries need to improve the system of personal income taxation and social contributions. The present pay-as-you-go social security systems in Latin America are basically bankrupt. The high payroll taxes used to finance these schemes create a major distortion in the labor market and are subject to a high degree of evasion. With a few notable exceptions, the income tax has performed badly in Latin America during the last two decades. Income taxes, both personal and corporate, suffer of large erosion of tax bases, mainly as a consequence of generous incentives for investments, favorable treatments of capital income (Shome 1999) and large tax exemptions. The main challenge is thus to broaden tax bases (Tanzi 2000; OECD 2006a), especially in the field of personal income taxation, but also in field of business taxation. Tax evasion in the field of direct taxes shows a decreasing trend in more recent years, even if additional measures seem essential for the effective collection of the income tax.

An additional area that is likely to see increased tax policy activity is the use of taxes to control pollution. Moreover the property tax that has been implemented by some local governments, it is a source of revenues that Latin American countries should consider carefully as a way to finance the maintenance costs of their urban infrastructure. Finally, in the field of banking transactions, there is consensus that despite their revenue raising capacity bank debts taxes have to be reformed because of their inefficiencies: the cumulative and cascading nature of their base; and their potential to cause disarticulation in the banking system, reduce market liquidity, and generate economic distortions (Tanzi 2000).

3. Tax systems: structure and developments

Historically Latin American tax systems have been characterised by (a) a low tax-to-GDP ratio; (b) a tax structure weighted towards indirect taxes with narrow tax bases, multiple rates and many exemptions; (c) under-taxation of income, wealth and property; (d) a limited tax administration capacity; (e) a mild redistributive impact; and (f) a highly centralised tax assignment with tax revenues transferred to sub-national governments in the form of ad-hoc negotiated block grants (Lledo *et al*. 2004; Bird and Oldman 1990; Shome 1992, 1995, 1999; CEPAL 1998). Based on data made available by ILPES-CEPAL (2006), Table 1 provides information on tax revenues as shares of GDP for eight Latin American countries in the last decade (1995-2005). The table gives also some information about the way these countries provide arrangements between the central and the sub-central levels of government. Broadly speaking there are large differences in tax rations between Latin American countries and the OECD or EU countries. In Latin American countries there is considerable diversity in the size and the scope of governments which are typically much smaller than in the OECD or EU area (OECD 2006a). The total fiscal pressure in Latin American countries is less than half than in the OECD countries and even lower than in the EU countries (OECD 2006a and 2006b; Bernardi 2004; Gandullia 2004). Also the composition of tax revenues shows very different approaches, where OECD countries collect a larger share from direct taxes and from social security contributions. In terms of total taxation, but not of revenue composition, Latin

American countries show patterns similar to those of the countries in the South and East Asian area (Bernardi, Fumagalli and Gandullia 2006).

A number of factors help explain the level and structure of Latin American tax systems: for instance, colonial heritage, political institutions and regimes, economic structure and income inequality (Lledo et al. 2004). In particular, historically the region shares a number of characteristics of transition or developing countries: a larger share of agriculture in total output and employment, a large informal sector, and limited technical capacity of the tax administration reduce the feasibility of direct taxes as reliable sources of revenue, and limit the total tax revenues (Tanzi 1993). In Latin America in particular, high income inequality concentrates both political and economic power, and undermines tax capacity and the political feasibility of direct taxation (Lledo *et al*. 2004; IDB 1998). Almost during the 1990s the limited capacity of Latin American tax agencies was reflected in a large tax gap – the difference between what revenue authorities would collect if everyone paid the tax legally due and what is actually collected. The gap can be attributed to avoidance, evasion, and tax expenditures (CEPAL 1998). During the 1990s the share of tax revenues to GDP increased significantly in Latin American countries (Tanzi 2000) as a consequence of economic growth and of the design of more efficient tax systems (Martner and Tromben 2004). Also in more recent years (2000-2005) the tax-to-GDP ration of the region continued to increase on average, by about 1.5 per cent of GDP, reaching the average level of 21.4 per cent.

In the last decade the increase in the tax ratio of the eight selected countries reached 2.3 per cent of GDP. The expansion was particularly high in the last few years, when the strengthening of revenues seems to have contributed to significant improvements in the whole fiscal position of the Latin American region (Clements *et al.* 2007). This results from different patterns of individual countries. On the one side in some countries (Argentina, Brazil, Costa Rica and Colombia) the tax burden has increased significantly (6.2 percentage points in Brazil and 6.5 percentage points in Argentina). On the other side in other countries (Chile, Mexico and Paraguay) it has remained quite stable. Uruguay is the only country that in the last decade has registered a decrease (from 25.3 to 23.5 per cent) in the tax –to-GDP ratio. These patterns can be explained by different factors. In Argentina and Colombia the increase in the tax burden has been caused by the expansion of tax revenues (both direct and indirect taxes), partly offset by the reduction in revenues from social security contributions. On the contrary in Brazil the increase in tax burden is mainly explained by the expansion of social security contributions and to a less extent by direct taxes. In general the increase in the tax burden of the region is mainly explained by the expansion of direct taxes and to less extent of indirect taxes and value added taxes, while social security contributions has remained stable on average.

Both at the beginning and at the end of the period Latin American countries show the considerable range in these tax ratios with Brazil collecting around 36 per cent of GDP while Chile and Colombia collecting only around 20 per cent.[1] Taking into consideration only taxes collected by the central government, the highest fiscal pressure is found in Brazil and Uruguay (around 23-26 per cent) and the lowest in Mexico, Paraguay and Costa Rica (around 11-13.6 per cent). Argentina, Chile and Colombia occupy an intermediate position (around 17-19 per cent). At the end of the observed period (2005) the difference between the high fiscal pressure countries (Brazil and Uruguay) and the low fiscal pressure countries (Mexico, Costa Rica and Paraguay) is larger than in the middle of the 1990s. Among the Latin American countries the share of individual taxes in GDP shows large differences. The lower tax burden that can be found in the Latin American countries compared with the international standards is due to the lower incidence of both tax revenues and social security contributions. With the exception of Brazil, which collects from social security contributions a level of revenues as a percentage of GDP comparable with the EU average, in general social security contributions generate less than 6 per cent of GDP and in several countries much less than that (1.2-1.4 per cent in Chile, Mexico and Paraguay).

TABLE 1 HERE

Also the composition of fiscal revenues differs across Latin American countries and in comparison with the OECD area. The tax structure by legal categories, measured as the distribution of tax revenue among major taxes (direct taxes, indirect taxes and social security contributions) has changed over time (see Table 2). In Latin American countries the tax mix shows a general preference for indirect taxes over direct taxes and social security contributions. With the exception of Brazil, that gives the same weight to direct and indirect taxes, about half or more of total fiscal revenues comes from indirect taxes in most part of Latin American countries (Argentina, Chile, Costa Rica, Paraguay and Uruguay). Social security contributions account on average for around 18.9 per cent of total revenues, with Brazil and Costa Rica much over the average (41.2 and 31.1 per cent respectively). During the last decade the tax mix has changed between taxes and social security contributions. In all

[1] Mexico and Paraguay show even lower levels (11 and 13 per cent respectively), but available figures refer only to taxes collected by the central government.

these countries with the exception of Brazil and Uruguay the importance of social contributions has decreased in favor of taxes. In the same period the role of direct taxes has increased, while the incidence of indirect taxes has decreased mainly as a consequence of the reduction in the revenues from import and export duties.

In 1995 the broad fiscal structure of Latin American countries was composed by social security contributions (22.5 percent), indirect taxes (52.8 percent) and direct taxes (24.7 per cent). At the end of the period (2005) the tax mix changed as effect of the reduction in indirect taxes (1.4 percent) and social security contributions (3.6 percent), compensated by the increase in the share of direct taxes (5 percent). The decrease in indirect taxes is due to the large reduction in import and export duties (2.8 percent), partly offset by the increase in revenues from the VAT (1.4 percent).Among individual countries the tax structure is considerably different. At one side Brazil has a tax structure based for about 41 per cent on social contributions and for the remaining 59 per cent on both direct and indirect taxes. In Chile and Paraguay the share of tax revenues is much higher (91-93 per cent), while the share of social contributions is significantly low (7-9 per cent of total revenues). The variation in the share of individual taxes between Latin American countries has continued to be considerable. For instance, in 2005 the share of direct taxes ranged from a low 15.8 percent in Paraguay and 20.3 percent in Uruguay to 41 percent in Colombia and 43.5 per cent in Mexico. The share of personal income tax ranged from 12.6 in Uruguay to 41.9 in Mexico. Among indirect taxes the share of the VAT ranged from 23.3 percent in Brazil to 40 percent in Chile and Paraguay.

In the region revenues from the VAT have grown significantly over the past decade. Argentina, Brazil and Chile collect a large share of their total tax revenues from VAT. In these countries value-added taxes generate revenues levels comparable to those of the European countries. On the other hand, Mexico collects relatively little from the VAT (3.8 per cent on GDP), mainly because of a significant erosion of the tax base.

TABLE 2 HERE

Selected Latin American countries also differ in the way they provide arrangements between the central and the sub-central levels of government. Historically, Latin American governments have been highly centralized, but in the last two decades, several countries have devolved and begun to share important responsibilities with sub-national governments. For most of the region, however, the assignment of tax bases still reflects the former centralized governance pattern. Tax policy, administration and revenue collection are, for the most part, concentrated at the central government. As a result, Latin American sub-national governments widely depend on intergovernmental transfers for their financing, and have little capacity to mobilize their own resources (Lledo *et al.* 2004). Table 2 shows for some of these countries the attribution of tax revenues to the central and sub-central layers of general government. The degree of (tax) decentralization is still very different between selected countries. The share of central government receipts ranges from 64 percent in Argentina to 84.6 per cent in Colombia and 92.9 percent in Chile where almost all taxes are legislated, collected and assessed by the central government. During the last decade the tax structure is not changed on average, with some countries (Chile, Colombia and Costa Rica) increasing their degree of decentralization and other countries (Argentina and above all Brazil) moving in the opposite direction.

4. Institutional features of current tax systems

4.1 Personal Income Tax

The degree of experience and practice in the field of personal income tax (PIT) varies a great deal across Latin American countries. Income taxes range from relative well-established ones as in Brazil to the last born PIT in Paraguay (2006). The present personal income taxes are the result of tax reforms implemented from the late 1990s with different patterns across countries. On the one hand, in order to reduce the most distortion elements of the tax systems and following a general international trend, the number of tax brackets has been reduced and marginal tax rates have been decreased in some countries such as Argentina, Chile and Mexico (Bès 1996; Boylan 1996; Gil Dìaz 2002). On the other hand, other countries have experienced initial forms of scheduler PIT (Paraguay and Uruguay) and most of them have increased the lowest marginal rates, even if just at a marginal level, as part of broader tax reforms (Martner and Tromben 2004; Shome 1999). As a consequence of still ongoing reforms, the PIT schedule is piecewise-linear in most of the countries (see Table 3) due to the structure of the tax brackets and rates and quite high thresholds of exemption. However, such a structure does not imply that the general effect is necessarily redistributive. Latin American countries collect little from taxes on income due to the structure itself of the PIT, large personal allowances and deductions, limited number of taxpayers and weak tax administration (Shome 1999; Tanzi 2000). Recent evidences show that the PIT in most Latin American countries does not have any significant redistributive effect (Engel *et al.* 1999; Goni *et al*. 2006). Such a little help of the taxation system in reducing inequality is an important shortcoming in an area that shows one of the highest income inequality in the world. Any further reform of the fiscal systems should consider both an increase of the volume of the direct tax revenue (Colombia and Mexico) and a change in the structure of the tax and transfer system (Brazil) to get a more progressive overall fiscal system.

The number of brackets varies from 2 in Paraguay to 8 in Chile. In most of the countries (Brazil, Chile, Colombia, Costa Rica and Uruguay) a zero tax rate has applied to the first tax bracket and it reduces substantially the coverage of the PIT. The exemption thresholds are quite high if compared to the relevant income distribution: in Brazil 90 percent of income reported in a recent national survey is below such a threshold and in Colombia the average per capita employment income is about half of the upper limit of the first bracket. The highest marginal tax rate (40 percent) is applied in Chile: the other top marginal tax rates range from 6 percent in Uruguay to 35 percent in Argentina. Paraguay and Uruguay still apply separate schedules to different sources of income but they seem to represent an exception in the area. Paraguay distinguishes between taxation of farmers income, traders income and a personal income subject to a new PIT from the year 2006. In Uruguay the PIT is an incomplete schedular system with different rates and exemptions applied to wages, pensions and non professional services.

TABLE 3 HERE

In all countries the tax unit is the individual; however in Brazil, Chile and Colombia spouses may file a joint tax return in order to get full benefit of personal and family allowances. Standard personal relief is implemented in most of the countries through tax allowances in the form of fixed deductions from the PIT base. Family allowances can be found for instance in Argentina, Brazil, Costa Rica and Paraguay associated with the presence of spouse and dependent children and the expenses related to the mortgage paid for the taxpayer house (Chile, Colombia and Mexico). Moreover some personal allowances, in particular related to employment status as civil servants and employee have been recently introduced in order to deal with the high degree of informality in the economy in Argentina, Brazil and Mexico. Nevertheless the exclusion of fringe benefit from the PIT tax base in Mexico is one of the main causes of horizontal inequity since these benefits represent about one-third of total earnings for some categories of employees.

Following the most recent reforms, tax bases are quite comprehensive, including worldwide income and, in most countries, capital incomes. The main structural link with the corporate income tax is through the exemption of the domestic-source dividends from the PIT in Argentina, Brazil, Colombia and Mexico; in others countries they are offset against taxes to be paid (Chile) or subject to a 15 percent final withholding tax (Costa Rica). Confirming the peculiarity of Paraguay and Uruguay, in both these countries, only domestic-source income is subject to taxation, a practice not consistent with the ongoing globalization process (Baunsgaard and Keen 2005). In Brazil, Chile, Colombia and Costa Rica the PIT is withheld and employment incomes and other regular sources of income are taxed at source. As a consequence, tax returns have only an adjustment purpose. In countries traditionally subject to high inflation rates, the indexation of tax brackets should play an important role as part of stabilization and equity issues. On the one hand, in order to cope with the fiscal drag, in Chile, Colombia, Paraguay and Uruguay tax brackets are defined in taxation units. It means that the tax structure is expressed in real terms rather than in monetary amounts. On the other hand, in Brazil the monetary readjustment is sporadic and always below the price indices. Finally, there is a high level of centralization of the income tax, in particular in Argentina, Mexico and Paraguay.

4.2 The Corporate Income Tax

A number of approaches to taking company profits may be observed in Latin American countries, especially in the determination of taxable income, in the integration of the corporate and personal income taxes, in the treatment of small firms and finally in the taxation of business gross assets. In general terms, two main trends have characterized the last decade: the reduction in statutory corporate tax rates and the tendency towards unification in the CIT tax rates. The process of reduction in CIT rates started during the 1980's and continued in the following decade. According to Shome (1992 and 1999) during the 1980's the unweighted average of CIT rates in the Latin American area had diminished from 44 per cent to 36 per cent. In our sample of eight Latin American countries the simple average of CIT rates has diminished from 31.25 per cent to 25 per cent in the last 15 years (1990-2005). In four countries (Brazil, Chile, Mexico and Paraguay) the reduction has been quite significant, while two countries (Argentina and Colombia) have moved in the opposite direction. The result of this process has been to move the CIT tax rates on average considerably under the top personal income tax rate (Shome 1999). During the 1980's the most part of selected countries had progressive CIT rates and also different rates depending on the economic sector. The progressivity of the corporate tax was intended to pursue redistributive goals, while the use of a differentiated tax structure for economic sector was intended by governments as a way to influence the resource allocation in the economy. During the last decade the situation has been reverted, with the reduction in the number of rates applied in each countries and a tendency towards unification in CIT rates (Martner and Tromben 2004). At present among the selected countries only Costa Rica continues to keep a differentiated structure of CIT rates (10 and 30 per cent). In the Latin American area the dispersion between the highest and lowest rate continues to be high; at one side Paraguay applies the rate of 10 per cent, while the CIT rate is 35 per cent in Argentina and 34 per cent in Colombia. Present corporate taxes in Latin American countries are mainly linear and centrally collected. As illustrated in Table 4, currently statutory CIT rates are moderate; the statutory average tax rate of the Latin American area is 28.25 per cent, compared with 25.04 per cent in the EU and 29.99 per cent in the Asia and Pacific area (KPMG 2006). Similarly to EU countries, the reduction of corporate tax rates has been particularly relevant during the second half of the 1990s (Shome 1999).

The selected countries apply different systems of integration with the personal income tax. Many countries apply a system of dividend exemption (Brazil, Colombia, Paraguay and Uruguay). Chile and Mexico apply the tax credit method in taxing dividend income. Shareholders may credit a percentage of dividends against their PIT liability. The credit is calculated by applying the rate at which dividends were taxed at the corporate level to dividends paid out of income already subject to the corporate income tax. Taxpayers entitled to the credit must include the credit in their taxable income and in the amount eligible for the credit. In Costa Rica dividends paid to individuals are subject to a 15 per cent final withholding tax. The final withholding tax is levied at a reduced rate of 5 per cent in the case of dividends distributed by stock corporations whose shares are registered on an officially recognized stock exchange, provided the acquisition and subsequent sale of the shares are effected through a stock exchange. In Argentina a different approach is followed. Dividends paid to resident individuals are taxable or not taxable, depending on the amount of distributions by the paying entity. Dividends are normally not taxable in the recipient's hands, provided they are paid out of income that has been reported by the distributing entity.

Corporate tax bases appear lower than their potential because of extensive exemptions and tax incentives (IBFD 2006). Historically special tax treatments and incentives were given to the agricultural sector and to some specific industries (Shome 1999). The degree of tax erosion caused by preferred tax treatments is still considerable, even if decreasing in recent years (CEPAL 1998).In Argentina a number of tax incentive schemes aimed at industrial promotion have been removed during the 1990s. These schemes have be replaced by more efficient ones, targeted for instance to promote R&D projects or investments in new capital assets. R&D projects benefit of a tax credit up to 50 per cent, while investments in real capital may benefit of an anticipated refund of the input VAT or of an accelerated depreciation system. Brazil, Chile, Colombia, Mexico, Paraguay and Uruguay still make an extensive use of tax incentives targeted to promote export-oriented firms or R&D investments or regional development (IBFD 2006). For instance in Brazil several tax incentives are granted to encourage technological qualification of domestic industrial and farming enterprises; these incentives include a tax credit equal to 15 percent of R&D-related expenses and a special depreciation (at twice the normal rate) for new equipment used in the R&D activities. The government has also used incentive programs to stimulate development of the economically less developed areas of the country, namely the north-east and Amazon regions. These programs include a number of tax incentives in both direct and indirect taxes field. Regional incentives have proven to be the most elaborate and successful group. Also in Colombia regional development is promoted through tax incentives (in terms of reduction in the income tax rate) for companies located in certain free zones. Similar schemes are still present in Mexico, Paraguay and Uruguay. Almost all the selected countries make large use of incentives for export promotion. However a gradual elimination of these schemes is expected in all countries in order to comply with WTO rules

As reported in Table 4, in taxing corporate profits a number of approaches can be observed, especially in the determination of taxable income. In the calculation of the tax base buildings may be depreciated in all selected countries. The straight-line system is the compulsory method used in almost all countries. In the evaluation of inventories two main methods are applied. Costa Rica, Mexico, Paraguay and Uruguay permit the last-in, first-out (LIFO) method, while Brazil allows the option for the weighted-average cost method. None of the selected countries allows a carry-back of losses; the carry-forward is allowed in all countries, subjected to restrictions. Losses can be carried forward only for 3 years in Paraguay and Uruguay, for 5 years in Argentina and Costa Rica, and for 10 years in Mexico. The carry-forward is unrestricted in Chile and Colombia. A number of Latin American countries have implemented since many years presumptive taxes for small business taxpayers that (a) are levied on gross corporate revenues and (b) substitute either for VAT or income tax. Other Latin American countries such as Argentina and Brazil went further by creating a unique tax levied on small enterprises that replaces more than one of the major taxes, such as VAT, income and social security taxes (Tanzi 2000). Finally, it should be noted that Latin America countries have a long and sometime successful experience of business taxes on gross assets (Shome 1999). Such a tax has proved to operate well in inflationary environments (Tanzi 2000). It was first adopted in Mexico in 1988 and subsequently introduced in other countries, such as Argentina, Costa Rica, Paraguay and Uruguay (Shome 1999). In Mexico the business tax on gross assets is still in force. It was introduced with the aim of improving the fairness and efficiency of the tax system; it is levied at the rate of 1.8 per cent and operates as a minimum income tax for those enterprises reporting no income tax liability in their annual tax return (IBFD 2006).

TABLE 4 HERE

4.3 Consumption-based taxes

Indirect taxes, in the form of taxes on domestic and internationally traded goods and services, represent the bulk of Latin American tax revenues. The contribution of domestic taxes on consumption has increased in the last two decades. As shown in Table 2, Latin American countries rely heavily on indirect taxes which account for about 50 per cent of total tax revenue (in 2005) with the exceptions of Brazil (30 percent) and Paraguay (75 percent). Value added taxes have been introduced during the 1960s in Brazil and Uuguay followed by the other countries in the 1980s and the 1990s. They have become an important component of consumption taxes, replacing cascading turnover taxes (Martinez-Vazquez and McNab 2000; Shome 1999) and compensating for poor income tax collections and decreasing taxes on foreign trade. VAT revenue covers the main share, ranging from 23 percent on total taxes in Brazil to 40 percent in Paraguay. Over the last decades, the standard rate has increased with few exceptions (Chile and Paraguay) and a remarkable effect on the total revenue in Mexico and Uruguay. However, the increase in the VAT revenue compensate only partially the revenue reduction due to the trade liberalization (Martner and Tromben 2004): trade tariffs and import and export duties decreased by 50 percent in the last ten years, in particular in Argentina, Chile, Colombia, Costa Rica, Mexico and Paraguay (Tanzi 2000). The VAT structure is predominantly dual- or (more frequently) multiple-rates (see Table 5). The standard VAT rate ranges from 10 percent in Paraguay to 23 percent in Uruguay. Most countries apply one or two reduced rates, ranging between 1.6 (Colombia) and 14 percent (Uruguay), and most countries applies a zero-rate on particular goods (or leave they exempt at all). Finally, many countries apply also an increased rate on some goods and services. The reason of multiple-rate structures in the selected countries can be found in the heritage of the past multiple-rate turnover taxes and in the attempt to mitigate the regressive burden distribution of the VAT. The rate differentiation is decreasing over time as a consequence of a simplification process. However, it still appears to be an ineffective and ill-targeted instrument. It causes high administrative costs and incentives tax evasion and elusion phenomena (Martner and Tromben 2004).

The range of activities exempted from VAT or subject to reduced tax rates still appears to be wide and differentiated across countries. However, the observed trend is aimed at getting a wider tax base. In Latin American countries, VAT is generally a national tax with the main exception represented by Brazil whose three government tiers, federal, state and municipal, are granted the right to administer distinctive VATs. As known, independent and simultaneous VATs applied by overlapping jurisdictions have widely been considered to be either undesirable or infeasible (Bird and Gendron 1998). Nevertheless, it has been argued that a dual VAT - with sub-national VATs integrated with a national VAT and a high control over inter-jurisdictional trade - or even two levels of VAT in a single country can be a solution also to the issue of cross-border trade (Bird and Gendron 2001).

In Brazil, the federal and the state taxes are ruled by different legal norms among states (Afonso, 2001). At federal level, only manufactured products are subject to the value-added tax (i.e. IPI). At state level, a value-added tax on goods and selected services (i.e. ICMS) is collected on an origin basis and managed with the invoice-credit mechanism (de Mello 2007). Rules and rates differ from state to state. A number of proposals to reform the VAT system have been discussed in the last years in particular to share the ICMS between federal and state governments, to unify the legislation and standardize the rates and to define the treatment for inter-state transaction (Varsano 1999).

On average, the VAT compliance, given by the ratio between collected and potential VAT where it is the VAT average rate multiplied by final private consumption, is about 53 percent in 2002 and it has not increased significantly over the last decade (Shome 1999;

Martner and Tromben 2004) with very low values in Mexico (34 percent) and Colombia (40 percent).

Focusing on excise taxation, Latin American countries show wide differences in the way they levy excises on alcoholic beverages, on tobacco products and on fuels. Most of the excises rely on *ad valorem* rates with great variability across countries, while in Chile, Colombia and Uruguay fuel and cigarettes (Uruguay) are subject to specific rates. On the other hand, the gradual equalization of rates applied to domestic and imported products is common across countries.

TABLE 5 HERE

References

Afonso, J. R. (2001) *Brazil: Fiscal Federalism, Tax Modernization and Consumption and Production Taxes*, AFE/BNDES.

Baunsgaard, T. and Keen, M. (2005) 'Tax Revenue and (or?) Trade Liberalization', WP05/112, Washington DC: IMF.

Bernardi, L. (2004) 'Rationale and open issues of more radical reforms', in L. Bernardi and P. Profeta, *Tax Systems and Tax Reforms in Europe*, 30-54, London: Routledge.

Bernardi, L., Fumagalli, L. and Gandullia, L. (2006) 'Overview of the tax systems and main tax policy issues', in Bernardi L., Fraschini A. and Shome, P-., *Tax Systems and Tax Reforms in Europe*, 3-34, London: Routledge

Bès, M. (1996), 'Tax Reform, in The Economic and Social Progress report of Latin America and Caribbean', Washington DC: Inter-American Development Bank.

Bird, R.M. and Oldman, O. (Eds), (1990) *Taxation in Developing Countries*, 4th ed., Baltimore and London: Johns Hopkins University Press.

Bird, R.M. and Gendron, P.-P. (1998) 'Dual VATs and Cross-border Trade: Two Problems, One Solution?', *International Tax and Public Finance*, 5: 429-42.

Bird, R.M. and Gendron P.-P. (2001) 'VATs in Federal States: International Experience and Emerging Possibilities', International Centre for Tax Studies, University of Toronto.

Boylan, D. (1996) 'Taxation and Transition: the Politics of the 1990 Chilean Tax Reform'. *Latin American Research Review*, 31(1): 7-31.

CEPAL (1998), *The Fiscal Covenant: Strengths, Weaknesses and Challenges*, Santiago de Chile: CEPAL.

Clements, B., Faircloth, C. and Verhoeven, M. (2007), 'Public Expenditure in Latin America: Trends and Key Policy Issues', IMF Working Paper WP/07/21, Washington DC: IMF.

de Mello, L. (2007) 'The Brazilian 'Tax War': The Case of Value-Added Tax Competition Among the states', OECD Economics Department Working Papers, No. 544, Paris: OECD

Engel E., Galetovic A., and Raddatz, C.E. (1999) 'Taxes and Income Distribution in Chile: Some Unpleasant Redistributive Arithmetic' *Journal of Development Economics*, 59: 155-92.

Gandullia, L. (2004) 'A comparative view of selected European countries', in Bernardi L. and Profeta P., *Tax Systems and Tax Reforms in Europe*, 3-29, London: Routledge.

Gil Dìaz, F. (2002), 'La prolugada reforma fiscal de Mexico', *Gaceta de Economia del ITAM*, 5(9): 7-62.

Goni E., Lopez J. H. and Servén L. (2006), 'Fiscal reform for social equity in Latin America', paper presented at the conference *Politicas Econòmicas para un Nuevo Pacto Social en Amèrica Latina*, Barcelona, October.

IBFD (2006) *Latin America - Taxation & Investment,* Amsterdam: IBDF CD ROM 1/2006.

IDB (1996; 1997; 1998; 2006) *Economic and Social Progress in Latin America*, Inter-American Development Bank, Washington, D.C.: Johns Hopkins University Press.

Jenkins, G.P. (1995) 'Perspectives for Tax Policy Reform in Latin America in the 1990's', *Taxation Research Series* 22, Harvard, Massachusetts: Harvard Institute for International Development.

KPMG (2006), *Corporate Income Tax Rate: a Trend Analysis*, KPMG International

Lledo, V., Schneider A. and Moore, M. (2004) 'Governance, Taxes and Tax reform in Latin America', IDS Working Paper 221, Brighton: Institute of Development Studies.

Martinez-Vazquez, J. (2001) 'Mexico: An Evaluation of the Main Features of the Tax System' Working Paper 01-12, International Studies Program, Andrew Young School of Policy Studies, Georgia State University, November.

Martinez-Vazquez, J. and McNab, R. (2000) 'The Tax Reform Experiment in Transitional Countries', *National Tax Journal*, 53(2): 273-298.

Martner, R. and Tromben, V. (2004) 'Tax reforms and fiscal stabilisation in Latin American countries', Serie Gestión Pública no. 45, Santiago de Chile: CEPAL.

OECD (2006a) *Challenges to Fiscal Adjustment in Latin America: The Cases of Argentina, Brazil, Chile and Mexico*, Paris: OECD.

OECD (2006b) *Revenue Statistics 1965-2005*, Paris: OECD.

Perry, G. and Herrera, A.M. (1994) *Public Finances, Stabilisation and Structural Reform in Latin America*, Washington, D.C.: Inter-American Development Bank.

Shome P. (1992) 'Trends and Future Directions in Tax Policy Reforms: A Latin American Perspective', IMF Working Paper WP/92/43, Washington DC: IMF.

Shome P. (1995) 'Recent Tax Policy Trends and Issues in Latin America', in *Policies for Growth: The Latin America Experience,* Washington DC: IMF.

Shome P. (1999) 'Taxation in Latin America: Structural Trends and Impact of Administration', IMF Working Paper WP/99/19, Washington DC: IMF.

Tanzi, V. (Ed) (1993) *Transition to market. Studies in fiscal reform*, Washington DC: IMF.

Tanzi V. (2000) 'Taxation in Latin America in the Last Decade', paper presented at the conference on *Fiscal and Financial Reforms in Latin America*, Stanford University, November.

Varsano, R. (1999) 'Subnational Taxation and Treatment of Interstate Trade in Brazil: Problems and a Proposed Solution', IPEA.

Web sites:

http://www.eclac.cl/Ilpes/ - ILPES-CEPAL (2006). United Nations Economic Commission for Latin America – Latin American and Caribbean Institute of Economic and Social Planning.

Table 1 Structure and development of fiscal revenue in selected countries as % of GDP (1995-2005)

	1995								*2000*								*2005 p*							
	AR	*BR*	*CL*	*CO*	*CR*	*MX*	*PY*	*UY*	*AR*	*BR*	*CL*	*CO*	*CR*	*MX*	*PY*	*UY*	*AR*	*BR*	*CL*	*CO*	*CR*	*MX*	*PY*	*UY*
						c	*c*											*2004*		*2004*		*c*	*c*	*c*
Direct Taxes. of which	*3.9*	*8.6*	*5.7*	*4.7*	*2.4*	*4.2*	*2.5*	*5.3*	*5.7*	*9.0*	*6.0*	*5.9*	*3.3*	*4.9*	*2.0*	*6.2*	*8.8*	*10.4*	*7.2*	*8.4*	*4.1*	*4.8*	*2.1*	*4.7*
Income	2.5	4.8	3.9	4.0	2.2	4.0	2.5	1.8	4.0	5.4	4.1	4.3	2.7	4.7	2.0	2.3	5.5	6.2	5.3	6.0	3.4	4.6	2.1	2.9
Personal income	-	3.4	1.0	0.2	-	2.0	-	-	-	3.9	1.2	-	-	1.9	-	-	-	4.1	-	-	-	-	-	-
Corporate income	-	1.4	2.9	3.8	-	2.0	2.5	1.8	-	1.5	2.8	-	-	2.8	2.0	2.3	-	2.1	-	-	-	-	2.1	2.9
Property	1.4	1.5	1.8	0.6	0.2	0.2	0.0	3.5	1.7	1.3	1.9	1.2	0.5	0.2	0.0	3.9	3.3	1.5	1.9	2.0	0.7	0.2	0.0	1.8
Others	0.0	2.3	-	0.1	0.0	0.0	0.0	-	0.0	2.3	-	0.4	0.1	0.0	0.0	-	0.0	2.7	-	0.4	0.0	0.0	0.0	-
Indirect Taxes. of which	*11.6*	*11.2*	*12.8*	*7.1*	*9.6*	*5.1*	*9.9*	*11.5*	*12.4*	*11.0*	*12.0*	*8.0*	*9.2*	*5.8*	*8.9*	*11.4*	*14.6*	*10.7*	*11.5*	*9.2*	*10.1*	*4.9*	*9.8*	*13.1*
VAT	8.8	7.8	8.2	4.1	4.6	2.8	4.9	7.7	8.8	8.0	7.9	4.8	4.9	3.5	4.7	7.9	9.5	8.4	8.2	5.9	5.5	3.8	5.2	8.5
Excise duties	1.8	2.1	1.9	1.7	1.9	1.4	1.3	3.1	2.5	1.7	2.3	1.9	3.2	1.6	1.8	3.2	2.0	1.3	1.9	2.0	3.3	0.7	2.2	2.6
Import and export duties	0.4	0.8	2.1	1.0	3.0	0.6	3.1	0.5	0.5	0.8	1.4	1.0	1.0	0.6	2.0	0.2	2.7	0.5	0.4	0.9	1.2	0.3	1.8	1.4
Others	0.6	0.5	0.6	0.3	0.1	0.3	0.6	0.2	0.6	0.5	0.4	0.3	0.1	0.1	0.4	0.1	0.4	0.5	1.0	0.4	0.1	0.1	0.6	0.6
Total Tax Revenue	15.5	19.8	18.5	11.8	12.0	9.3	12.4	16.8	18.1	20.0	18.0	13.9	12.5	10.7	10.9	17.6	23.4	21.1	18.7	17.6	14.2	9.7	11.9	17.8
Social Contributions	*4.7*	*9.9*	*1.3*	*3.7*	*5.9*	*2.0*	*1.1*	*8.5*	*3.4*	*12.5*	*1.4*	*2.9*	*6.3*	*1.5*	*1.2*	*8.4*	*3.3*	*14.8*	*1.4*	*2.8*	*6.4*	*1.3*	*1.2*	*5.7*
Total Fiscal Revenue	20.2	29.7	19.8	15.5	17.9	11.3	13.5	25.3	21.5	32.5	19.4	16.8	18.8	12.2	12.1	26.0	26.7	35.9	20.1	20.4	20.6	11.0	13.1	23.5
Administrative level																								
Central government	12.9	20.5	18.4	13.4	12.3	11.3	13.5	23.1	13.1	23.0	17.8	14.1	12.3	12.2	12.1	23.6	17.1	25.8	18.8	17.3	13.7	11.0	13.1	23.5
State - local government	7.4	9.3	1.4	2.1	5.7	-	-	2.2	8.3	9.5	1.5	2.7	6.6	-	-	2.4	9.6	10.0	1.4	3.1	6.9	-	-	-

Source: ILPES-CEPAL (2006)
p) preliminar; c) central government

Table 2 Tax mix in selected countries as % of total taxation (1995-2005)

	1995								*2000*								*2005 p*							
	AR	*BR*	*CL*	*CO*	*CR*	*MX*	*PY*	*UY*	*AR*	*BR*	*CL*	*CO*	*CR*	*MX*	*PY*	*UY*	*AR*	*BR*	*CL*	*CO*	*CR*	*MX*	*PY*	*UY*
						c	*c*											*2004*		*2004*		*c*	*c*	*c*
Direct Taxes. of which	*19.5*	*29.0*	*28.6*	*30.2*	*13.4*	*37.1*	*18.9*	*21.0*	*26.2*	*27.7*	*31.1*	*35.0*	*17.7*	*40.2*	*16.5*	*23.9*	*32.8*	*29.0*	*35.7*	*41.0*	*19.7*	*43.5*	*15.8*	*20.3*
Income	12.4	16.2	19.6	25.9	12.4	35.6	18.6	7.2	18.5	16.7	21.1	25.6	14.4	38.9	16.4	9.0	20.6	17.4	26.2	29.3	16.5	41.9	15.8	12.6
Personal income	-	-	4.8	1.4	-	18.0	-	-	-	-	6.4	-	-	15.9	-	-	-	-	-	-	-	-	-	-
Corporate income	-	-	14.7	24.5	-	17.6	18.6	7.2	-	-	14.7	-	-	23.0	16.4	9.0	-	-	-	-	-	-	15.8	12.6
Property	7.1	5.0	9.0	3.6	1.0	1.5	0.2	13.8	7.7	4.0	10.0	7.1	2.8	1.3	0.0	14.9	12.2	4.1	9.5	9.6	3.2	1.6	0.0	7.7
Others	0.0	7.8	-	0.7	0.0	0.0	0.1	-	0.0	7.0	-	2.3	0.5	0.0	0.1	-	0.0	7.5	-	2.1	0.0	0.0	0.0	-
Indirect Taxes. of which	*57.1*	*37.6*	*64.6*	*45.7*	*53.8*	*45.2*	*73.2*	*45.2*	*58.0*	*34.0*	*61.5*	*47.9*	*49.0*	*47.2*	*73.4*	*43.7*	*55.0*	*29.8*	*57.0*	*45.2*	*49.1*	*44.5*	*75.2*	*55.5*
VAT	43.3	26.3	41.7	26.1	25.7	25.0	35.9	30.3	41.1	24.7	41.0	28.8	26.0	28.5	38.6	30.5	35.6	23.3	40.2	28.8	27.0	34.7	40.0	36.2
Excise duties	8.8	7.0	9.4	11.2	10.7	12.3	9.9	12.3	11.6	5.2	11.7	11.2	17.0	12.9	15.0	12.2	7.6	3.6	9.5	10.0	15.9	6.0	17.1	11.0
Imports and export duties	1.9	2.5	10.5	6.7	16.8	5.4	22.9	2.0	2.5	2.4	7.0	5.9	5.4	4.9	16.6	0.7	10.2	1.4	2.2	4.3	5.7	2.9	13.5	5.9
Others	3.1	1.8	3.0	1.7	0.6	2.5	4.5	0.6	2.8	1.7	1.8	2.0	0.6	0.9	3.2	0.3	1.6	1.5	5.1	2.1	0.5	0.9	4.6	2.4
Total Tax Revenue	76.6	66.6	93.2	75.9	67.2	82.3	92.1	66.2	84.2	61.7	92.6	82.9	66.7	87.4	89.9	67.6	87.8	58.8	92.7	86.2	68.8	88.0	91.0	75.8
Social Contributions	*23.4*	*33.4*	*6.8*	*24.1*	*32.7*	*17.7*	*8.0*	*33.7*	*15.8*	*38.4*	*7.4*	*17.0*	*33.2*	*12.6*	*10.1*	*32.3*	*12.3*	*41.2*	*7.1*	*13.8*	*31.1*	*12.0*	*9.0*	*24.4*
Total Fiscal Revenue	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100	100
Administrative level																								
Central government	63.7	68.9	93.2	86.5	68.6	100	100	91.3	61.2	70.7	92.1	84.0	65.2	100	100	90.8	64.0	72.1	92.9	84.6	66.1	100	100	100
State - local government	36.3	31.1	6.8	13.5	31.4	-	-	8.7	38.8	29.3	7.9	16.0	34.8	-	-	9.2	36.0	27.9	7.1	15.4	33.9	-	-	-

Source: ILPES-CEPAL (2006)
p) preliminar; c) central government

Table 3 Structure of Personal Income Tax

Country	*Tax unit*	*Number of brackets*	*Minimum tax rate*	*Maximum tax rate*	*Highest rate applies from*	*Tax base*	*Main exemptions*	*Main reliefs*
AR	Individuals and undivided estates. Spouses file a separate tax return	7	9	35	39,215 $	Worldwide income from real estate, capital business income and personal services	Gifts, inheritances and legacies Domestic-source dividends from registered shares Public and private bonds and other financial sources	Family (spouse, dependent, life insurance and private pension contributions) and personal (basic, employment and self-employment) allowances decreasing with income. Deduction of maintenance payment and social security payments.
BR	Individuals. Spouses file a joint tax return if they are not married under a separate property regime	3	0	27.5	12,000 $	Worldwide income from salaries, capital, raffles and personal services	Domestic-source dividends Interest on savings accounts	Family (dependent) and personal (basic; medical and education expenditures) allowances. Deduction of Social security payments
CL	Individuals. Spouses must file a joint tax return in some cases	8	0	40	110,500$ (tax brackets defined in taxation units)	Worldwide income from any source	Domestic-source dividends as tax credit	Deduction of instalments paid for mortgages and gifts
CO	Individuals. Spouses taxed separately	4	0	33	34,750$	Worldwide income from salaries, pensions, capital gains, gift, inheritances and business income	Domestic-source dividends	Deduction of interests paid on loan for the taxpayer home
CR	Individuals	5	0	25	17,890$	Domestic-source income only	Dividends subject to a 15% final withholding tax	Family (spouse, dependent) allowances
MX	Individuals. Spouses taxed separately	5	3	29	9,245$	Worldwide income from any source	Domestic-source dividends Financial interest income, gifts and bequest	Personal (medical) allowances and deduction of charitable contribution, real mortgage interests and contribution to retirement and health accounts. Tax subsidy (i.e. tax credit up to 50% of tax, decreasing with income)

PY	Individuals and individual enterprises (individual farmers are subject to a tax on farming income at the rate of 25%)	2	8	10	Income over 120 monthly minimum wages (23,000$)	Domestic-source income only: employment income, 50% of dividends and the profit distributions from companies subject to CIT, capital gains derived from the transfer of property and interest income	Pensions in general and social security benefits	Personal and family allowances.
UY	Individuals on their units of monthly national minimum salary (NMS)	5	10	25		Domestic-source income only: wages, salaries and pensions	Capital income taxed separately (10%)	In addition a rate of 2% (and a surcharge of 0.25%) is payable by employers

Source: IBFD (2006)

Table 4 Structure of Corporate Income Tax

Country	*Statutory tax rate (%)*	*Treatment of dividends*	*Depreciation of assets*	*Valuation of inventories*	*Carry forward of losses (no of years)*	*Tax incentives*
AR	35	Generally exempt. However they are taxed (35%) when exceeding taxable profits (equalization tax)	Straight-line (different %)	Market cost at the end of the year	5	R&D Tax credit
BR	15 (+ surtax of 10% above 110000$) and 9% of social contributions	Exempt	Straight-line (10%)	Weighted average, FIFO	Unlimited (up to 30% of taxable profits)	R&D Tax credit; export tax credits; regional development tax incentives
CL	17	Taxed with full tax credit	Straight-line (different %)	Earlier direct cost or weighted average	Unlimited	Investment tax credit; export tax incentives; regional development incentives
CO	34	Generally exempt. However they are taxed when exceeding taxable profits	Fixed yearly % (different %)	Average and specific identification methods	Unlimited	Export tax incentives; regional development
CR	10 - 30	15 final withholding tax (reduced to 5% for dividends from quoted companies)	Straight-line (different %)	FIFO or LIFO	3 - 5	Export promotion
MX	29	Taxed with full tax credit	Straight-line (different %)	FIFO, LIFO or weighted average	10	Export promotion; job creation tax credit; R&D tax credit
PY	10	Exempt	Straight-line (different %)	FIFO or LIFO	3	Export promotion; industrial investment; free zone
UY	30	Exempt	Straight-line (different %)	FIFO, LIFO or weighted average	3	Export promotion; free zone

Source: IBFD (2006)

Table 5 Tax rates for selected consumption-based taxes

Country	*VAT*					*Excises*		
	Standard rate (%)	*Increased rate (%)*	*Reduced rate (%)*	*Import*	*Export*	*Cigarettes (%)*	*Unleaded gasoline (%)*	*Diesel fuel (%)*
AR	21	27	10.5	Included	0	60	62 - 70	19
BR	Inter-state: 12 Intra-state: 17	Intra-state: 25-35	Inter-state: 7 Intra-state: 7	Included	0	Federal excise tax (IPI) from 0% to 365%		
CL	19	36		Included	0	60.4	6 tax units per cubic metre	1.5 tax units per cubic metre
CO	16	25 - 45	2 - 10	Included	0	55	0.15$ per gallon	
CR	13		5	Included	0	100	Different %	
MX	15		0 - 10	Included	0	110	Different %	
PY	10		5	Included	0	8	34	34
UY	23		14	Included	0	0.5$ per unit	0.64$ per liter	0.06$ per liter

Source: IBFD (2006)