INTERGOVERNMENTAL GROUP OF EXPERTS ON FINANCING FOR DEVELOPMENT
Domestic resource mobilization: Fiscal policy challenges

NACIONES UNIDAS

CEPAL

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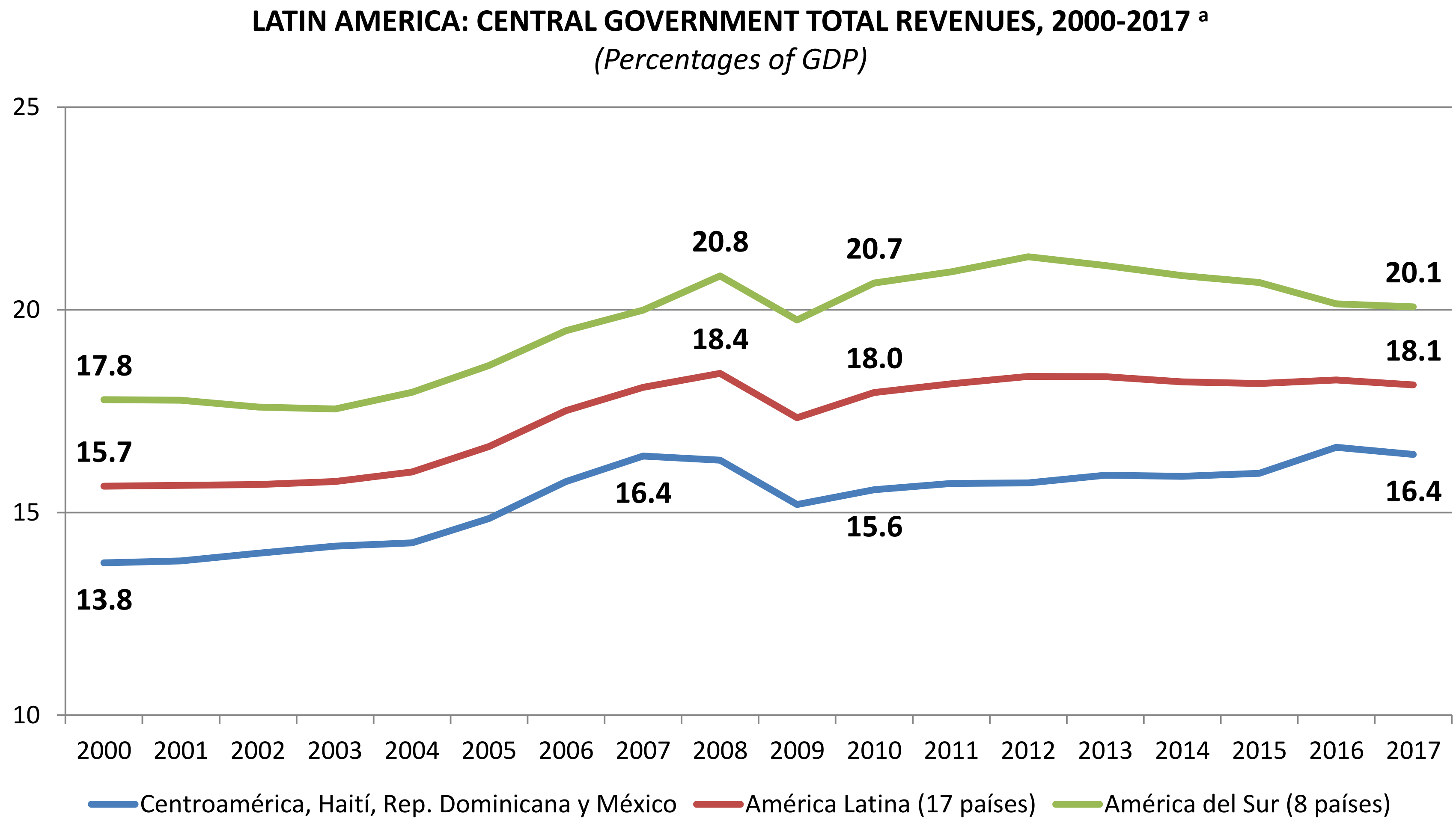
Public revenues have stagnated in the post-crisis period…

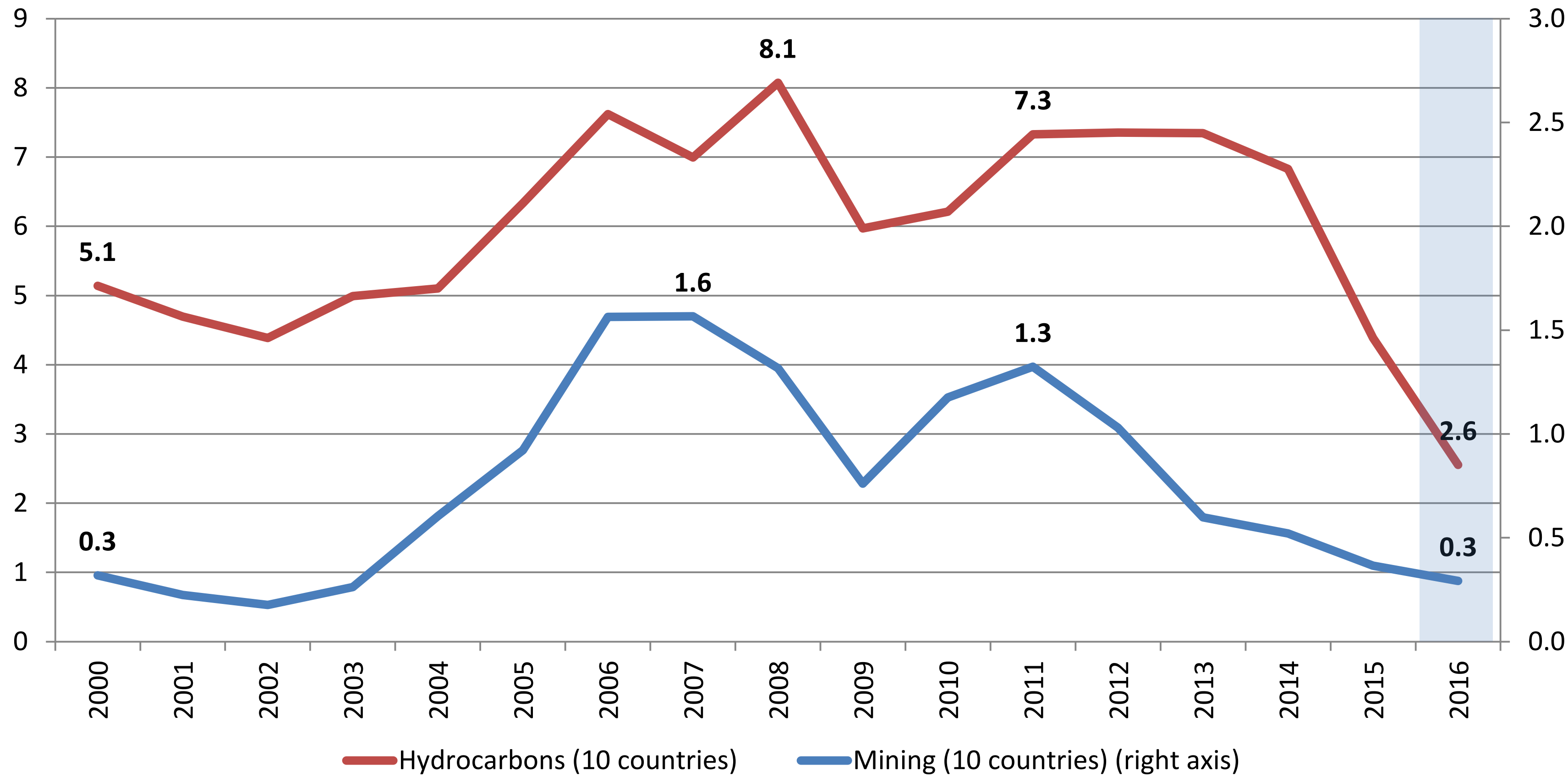


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.
[a] Simple averages.

… reflecting in large part the evolution of fiscal revenues derived from commodities

LATIN AMERICA AND THE CARIBBEAN: FISCAL REVENUES FROM NON-RENEWABLE NATURAL RESOURCES, 2000-2016 [a]

(In percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official information.

[a] Simple averages.

Dependency on commodities related revenues has important implications for domestic resource mobilization

- High volatility creates significant constraints on long-term planning
  - Movements in international prices lead to overall revenues surging or plummeting
  - Volatility reinforces typically pro-cyclical nature of fiscal policies in commodities exporting countries
- Dependence on revenues from commodities has also been associated with weaker mobilization of public revenues from other sources
  - For each additional percentage point increase in revenues from natural resources there is a 0.3 percentage point decline in other revenues (Crivelli and Gupta, 2014)

Key domestic resource mobilization concerns

- Increase tax burden and change tax structure

- Weak direct taxation, high (income/wealth) inequality, and achieving sustained inclusive economic growth
  - Limited automatic stabilizer
  - Negligible redistributive power, allowing inequality to remain entrenched

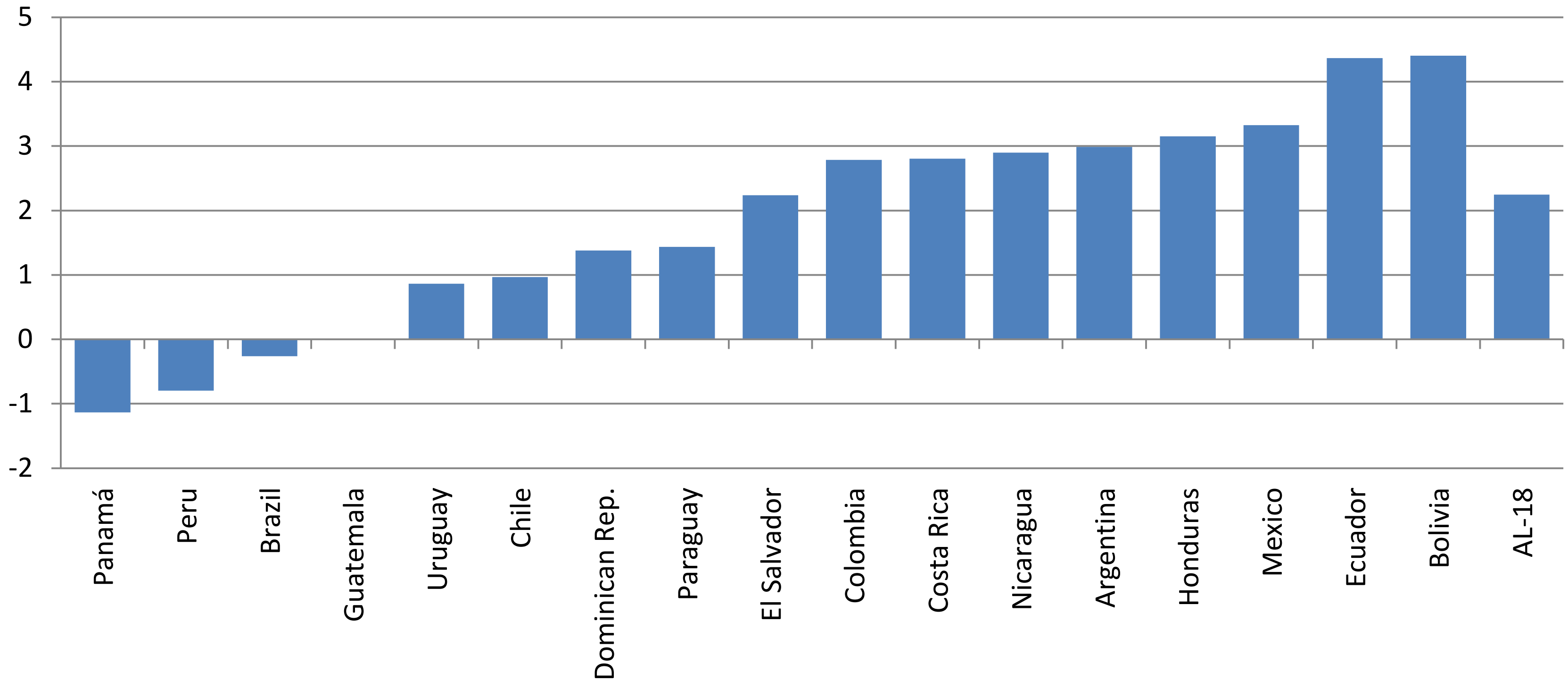
- Tax evasion, tax avoidance and illicit financial flows
  - Widespread in the region among individuals and corporations
  - Growing importance of international taxation concerns:
    - Base erosion and profit shifting (BEPS)
    - Illicit financial flows
    - Undeclared offshore wealth and the income it generates

- Harmful tax competition
  - Widespread use of fiscal incentives, often with little follow-up to determine their cost effectiveness

Efforts to increase tax burden: A wave of reforms increased the tax burden by 2.2 percentage points of GDP on average between 2010 and 2015

LATIN AMERICA: CHANGE IN GENERAL GOVERNMENT TAX REVENUES, 2010 AND 2015

(Percentage points of GDP)



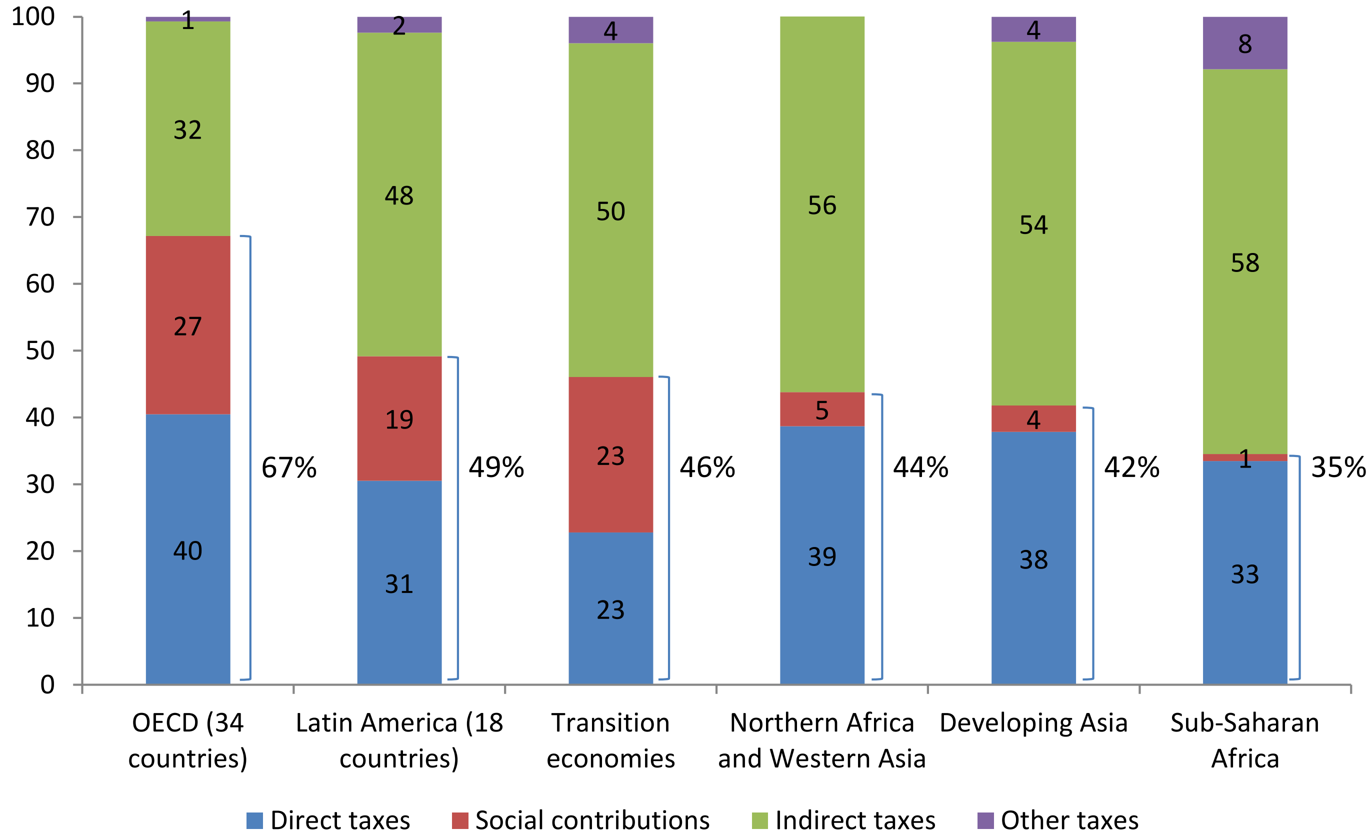
Between 2010 and 2015, 15 countries implemented substantial tax reforms: Brazil (2015), Chile (2014), Colombia (2010, 2012, 2014), Ecuador (2011), El Salvador (2011), Honduras (2010, 2013), Guatemala (2012), Nicaragua (2012), Mexico (2013), Panama (2010), Paraguay (2012), Peru (2012), Dominican Rep. (2012), Venezuela (2014).

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

Direct taxation remains very weak in Latin America and in other developing regions

SELECTED REGIONS: STRUCTURE OF TAX REVENUES, AROUND 2014 [a]

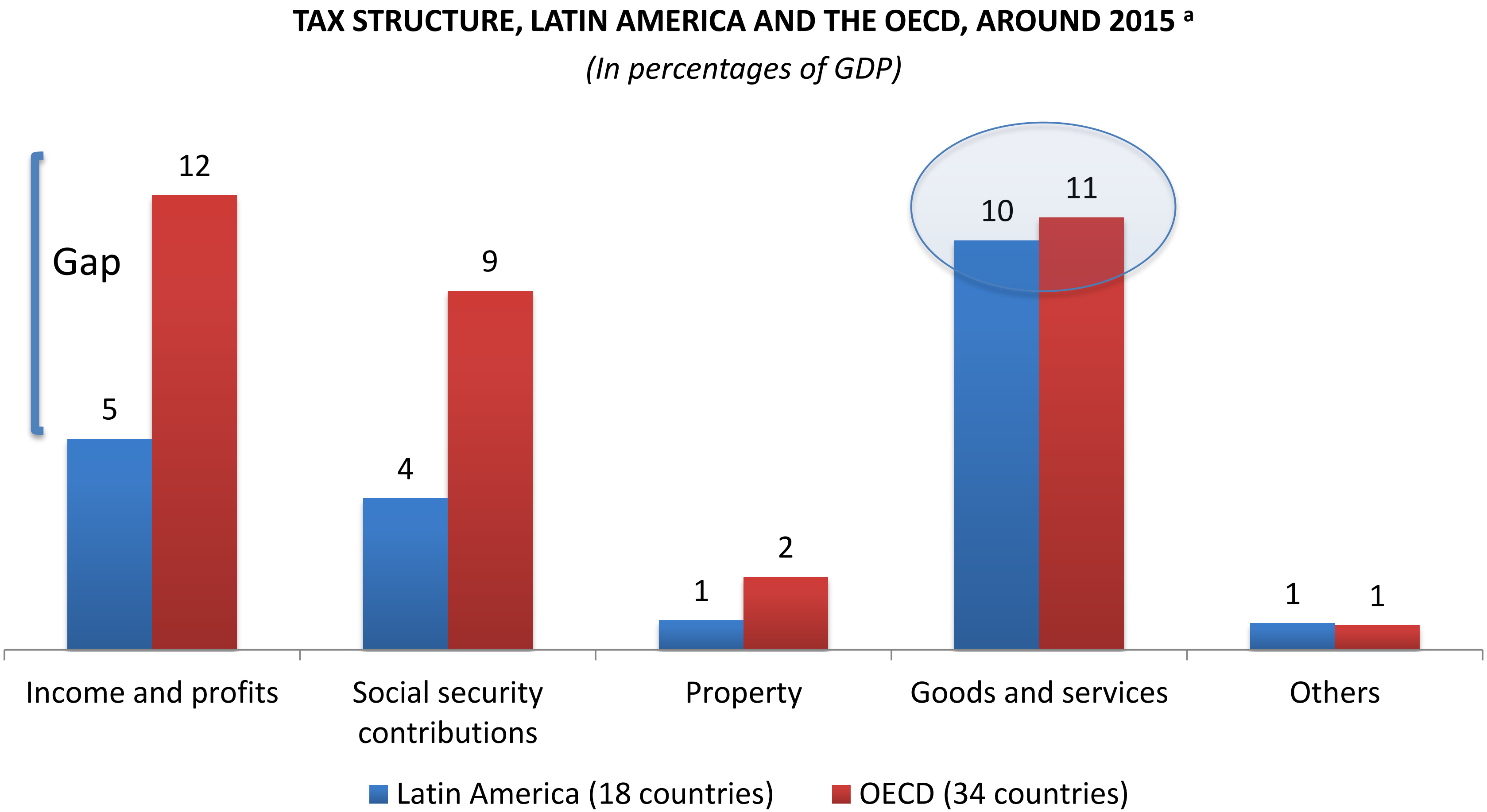
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from World Revenue Longitudinal Dataset (WoRLD) (IMF), OECD/ECLAC/CIAT/IDB (2017) and OECD.Stat.

[a] Simple averages. Values may not sum due to rounding.

Income taxes are particularly weak; taxation of consumption approaches OECD levels

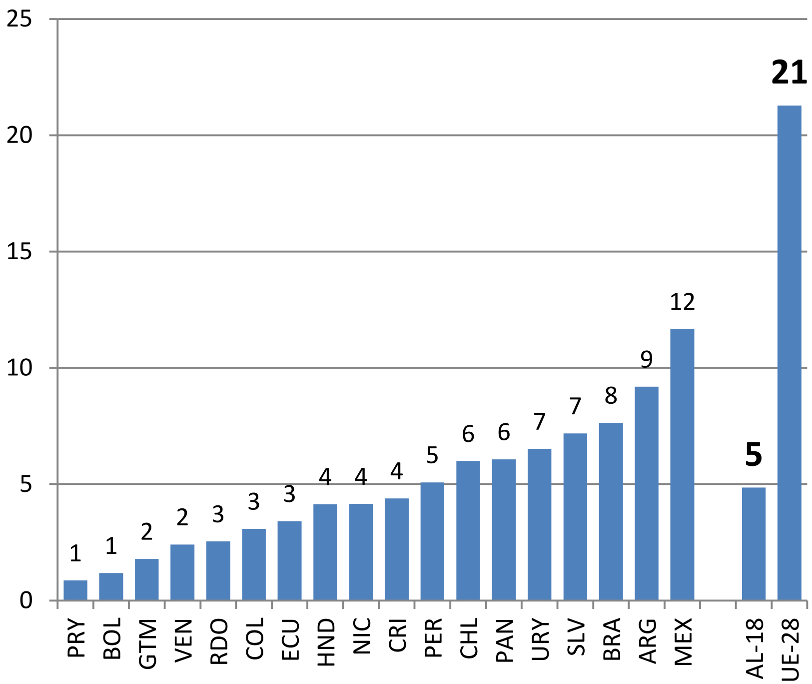


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of information from OECD/ECLAC/CIAT/IDB (2017) and OECD.Stat.
[a] Simple averages. Data for the OECD refer to 2014 due to data availability.

A low average effective personal tax rate results in a mere 2% decrease in the Gini coefficient in Latin America

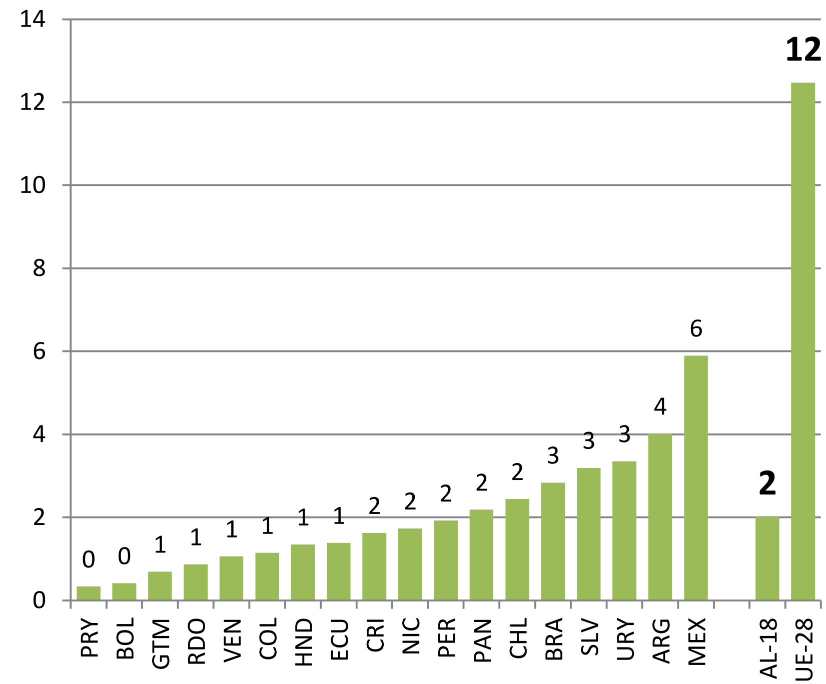
LATIN AMERICA AND EUROPEAN UNION: AVERAGE EFFECTIVE PERSONAL INCOME TAX RATE OF THE 10TH DECILE, AROUND 2014

(In percentages)



LATIN AMERICA AND EUROPEAN UNION: PERCENTAGE REDUCTION IN THE GINI INDEX DUE TO THE PERSONAL INCOME TAX, AROUND 2014

(In percentages)

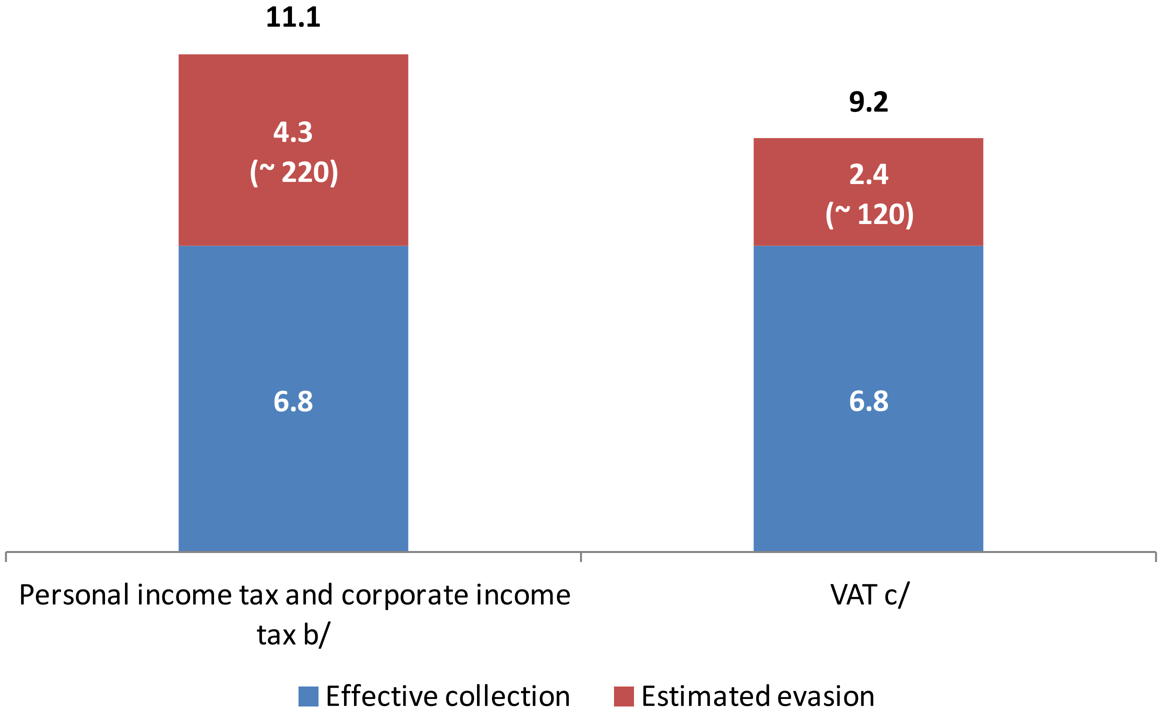


Source: ECLAC and EuroMod G4.0+.

Rampant tax evasion is a key barrier to achieving greater domestic resource mobilization in the region

LATIN AMERICA: TAX REVENUES AND ESTIMATED EVASION, 2015 [a]

(In percentages of GDP and billons of dollars)



Estimated evasion: US$ 340 billion (6.7% of GDP)

Source: ECLAC, on the basis of official figures.

[a] Effective collection and estimated evasion are calculated on the basis of the take for the two taxes expressed in dollars; the sum of this value is presented as a percentage of the GDP of the reporting countries (weighted average). Finally, these percentages are applied to the GDP of Latin America to calculate the regional value in dollars.

[b] Estimate on the basis of data from Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico and Peru.

[c] Estimate on the basis of data from Argentina, Bolivia (Plurinational State of), Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Panama, Peru and Uruguay.

Vast undeclared offshore holdings, and the income they generate, have also limited tax revenues

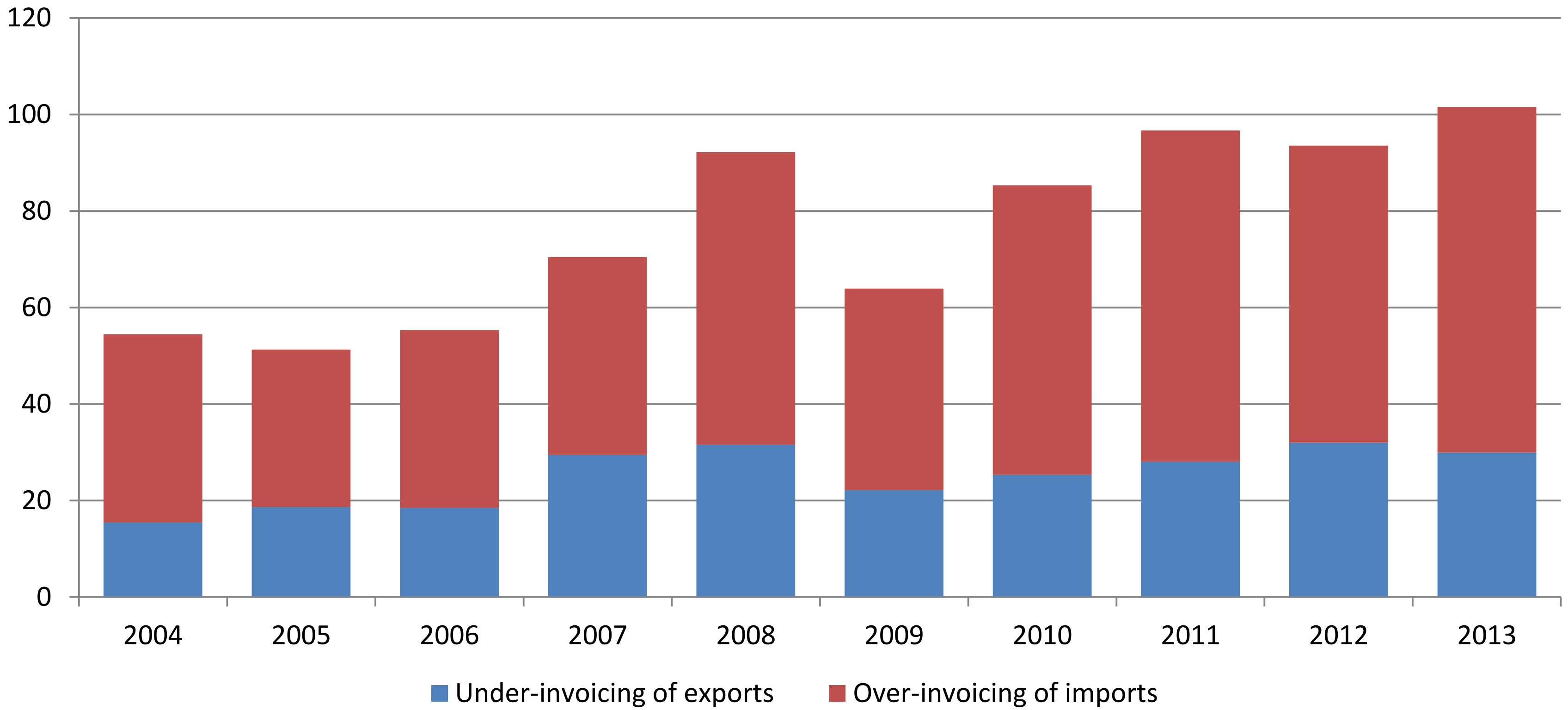
RESULTS OF RECENT TAX AMNESTIES IN LATIN AMERICA
(In billons of dollars)

Country / Year(s)	Declarations	Undeclared assets registered	Taxes / fines paid
Argentina (2016-2017)	254,700 (96% natural persons, 4% corporations)	US$ 116.8 billion (21% of GDP) (80% of declared assets were held abroad)	US$ 10.2 billion (1.8% of GDP)
Brazil (2016)	25,114 (99.6% natural persons, 0.4% corporations)	US$ 53.4 billion (3% of GDP)	US$ 16.0 billion (0.8% of GDP)
Chile (2015)	7,832	US$ 19.0 billion (8% of GDP)	US$ 1.5 billion (0.6% of GDP)

ECLAC's work in illicit financial flows flags concerns in the area of tax avoidance by MNEs…

LATIN AMERICA AND THE CARIBBEAN: GROSS TRADE MISINVOICING OUTFLOWS, 2004-2013

(In billons of dollars)



Source: ECLAC, *Economic Survey of Latin America and the Caribbean 2015*.

Harmful tax competition undermines domestic resource mobilization

- Tax incentives for investment are widespread in the region and cover a multitude of sectors and instruments
- Estimates of foregone revenues suggest they come at a considerable cost:
  - Argentina (1.1% of GDP), Colombia (0.8% of GDP), Chile (2.2% of GDP), Ecuador (1.6% of GDP) and Guatemala (0.9% of GDP)

LATIN AMERICA (10 COUNTRIES): NUMBER OF FISCAL INCENTIVES FOR INVESTMENT BY TAX INSTRUMENT AND TYPE OF INCENTIVE

Type of incentive	Tariffs	CIT	VAT	Other	Total
Credit		12			12
Deduction		24			24
Deferral		16	7		23
Stability	3	6	2	3	14
Exemption (Tax holiday)	**62**	**102**	**63**	**29**	**256**
Reduced rate		7	1		8
Total	65	167	73	32	337

Source: Agostini and Jorrat (2013).
Note: Covers Argentina, Chile, Colombia, Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Nicaragua and Peru.

Tackling these challenges will require a level of international cooperation in the area of fiscal affairs that currently does not exist

Global

- Create an intergovernmental organ within the United Nations with a strong mandate in the area of international fiscal cooperation
- Promote the rapid adoption transparency measures such as automatic exchange of financial and fiscal information
- Push for the adoption of multilateral instruments to tackle double no taxation and aggressive tax planning in developing countries (including a review of all tax related provisions in double taxation treaties and bilateral investment treaties)

Regional

- Across the board review of the use of fiscal incentives for investment
- Explore other manners to reduce harmful fiscal competition (for example, harmonization of CIT rates/systems)
- Create a regional working group on international taxation issues to facilitate the exchange of information and best practices
- Create regional tools to facilitate analysis of international transactions (a regional database of arm's length pricing information, etc)

Country

- Raise awareness among all relevant economic authorities of the crucial importance of greater cooperation in tax affairs, including between countries as well as between ministries in countries
- Adapt tax frameworks to incorporate newly established best practices in international taxation (BEPS)
- Strengthen tax administrations, especially in the area of international taxation
- Adopt continuous processes of cost-benefit analysis for all fiscal incentives