



Tax expenditures and incentives in Latin America

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Tax expenditures and incentives In GDP percentages

	2008	2009	2010	2011	2012
Argentina 2/	2.11	1.98	2.33	2.46	2.59
Bolivia	-	-	-	-	-
Brazil 3/	2.51	3.15	3.02	2.80	3.32
Chile 4/	5.00	4.83	4.69	5.04	4.46
Colombia	3.12	3.20	3.25	n.d.	n.d.
Costa Rica	-	-	5.54	5.52	5.62
Ecuador	n.d.	4.22	4.17	4.67	4.86
El Salvador	-	n.d.	3.40	n.d.	n.d.
Guatemala	8.01	7.87	7.81	7.54	8.39
Honduras	-	-	-	6.18	6.45
Mexico 5/	4.71	3.80	3.60	3.87	3.82
Nicaragua	n.d.	n.d.	n.d.	n.d.	n.d.
Panama 6/	-	-	-	-	2.27
Paraguay	1.94	1.82	1.90	n.d.	n.d.
Peru	1.96	1.95	2.08	1.84	1.91
Dominican Rep.	6.41	6.24	5.50	5.11	5.13
Uruguay	5.67	5.74	6.31	6.31	6.40
Venezuela	-	-	-	-	-
Simple average	4.14	4.07	4.12	4.67	4.60

Fuente: Pecho (2014)

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Tax expenditures and incentives by tax, 2012

In GDP percentages

	VAT	Income Tax			Others
		CIT	PIT	Total	
Argentina 2/	1.19	0.08	0.52	0.61	0.80
Bolivia	-	-	-	-	-
Brazil 3/	1.12	0.86	0.73	1.59	0.60
Chile 4/	0.88	0.86	2.73	3.58	-
Colombia (2010) 5/	1.68	1.24	0.32	1.56	-
Costa Rica 6/	3.54	0.80	1.02	1.82	0.26
Ecuador	2.09	2.31	0.46	2.77	-
El Salvador (2010)	1.97	n.d.	n.d.	1.42	-
Guatemala	1.96	n.d.	n.d.	5.90	0.54
Honduras	3.63	1.08	0.27	1.35	1.48
Mexico 7/	1.51	0.92	0.83	1.75	0.56
Nicaragua	n.d.	n.d.	n.d.	n.d.	n.d.
Panama 8/	2.27	-	-	-	-
Paraguay (2010)	1.48	0.23	0.20	0.43	-
Peru	1.30	0.21	0.15	0.37	0.24
Dominican Rep.	3.23	0.42	0.10	0.52	1.37
Uruguay	2.95	1.66	0.63	2.29	1.16
Venezuela	-	-	-	-	-
Simple average	2.05	0.89	0.66	1.85	0.78

Fuente: Pecho (2014)

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Tax expenditures and incentives by type, 2012

In percentages of total revenue loss

	Exemptions, Reduced rates and Promotional Regimes	Deductions and Credits	Deferrals, reimbursements and others
Argentina	64.77	0.19	35.04
Bolivia	-	-	-
Brazil	81.48	18.52	0.00
Chile (2008)	13.74	18.27	67.99
Colombia (2010)	23.15	25.00	51.84
Costa Rica	98.39	1.28	0.33
Ecuador	77.80	14.44	7.76
El Salvador (2010)	87.89	12.11	0.00
Guatemala (2008)	40.70	59.30	0.00
Honduras	80.70	-	19.30
Mexico	41.03	23.74	35.24
Nicaragua	n.d.	n.d.	n.d.
Panama	100.00	-	-
Paraguay (2010)	99.23	0.77	0.00
Peru	79.75	3.44	16.81
Dominican Rep.	70.86	2.34	26.79
Uruguay	83.78	15.60	0.62
Venezuela	-	-	-
Simple average	69.55	15.00	18.69

Fuente: Pecho (2014)

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Tax incentives

- Incentives supporting investment (CIT, VAT, excise taxes and import tariffs).
- Incentives supporting employment (PIT, SSC, Payroll taxes)
- Incentives supporting savings (PIT).
- Incentives supporting housing (PIT, Property taxes).
- Environmental tax incentives.

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Types of tax incentives

- Exemptions and exclusions
 - Tax holidays, partial or full exemption from import tariffs, excises and VAT
- Deductions / Credits
 - Investment tax credits (or allowances), CIT extra deductions
- Preferential (reduced) tax rates
 - Including a low statutory tax rate, reduced withholding tax rates (treaty provisions), reduced import tariffs
- Deferrals
 - Capital recovery (accelerated depreciation and initial capital allowance)
- Simplified, promotional or special tax regimes
 - Free-trade Zones (FTZ) and Export Processing Zones (EPZ), SMEs regimes

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Revenue Authorities challenges

- Manipulation of transactions between related companies; manipulation of “internal” transfer pricing (tax holidays, reduced CIT rates).
- False purchasing and re-purchasing of assets; channeling asset purchases through qualifying companies on behalf of non-qualifying partners (Capital recovery - accelerated depreciation and initial capital allowance).
- Taxation in the country of the investor: imputation or exemption system (tax holidays).
- Treaty shopping (reduced withholding tax rates).
- Fiscal dwarfism (SMEs regimes)

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Revenue Authorities challenges (cont'd)

- Qualified purchases can easily be diverted to buyers not intended to receive the incentives (FTZ/EPZ)
- Leakages of goods into the domestic market (FTZ/EPZ).
- Under-invoicing allowing some of the income to stay there, where it is exempt. (FTZ/EPZ).
- Inappropriate refunds (FTZ/EPZ).
- Leakage risks (Tariffs Suspensive Regimes or VAT Suspensive Regime).
- Misclassification of shipments (reduced import duties on capital goods, raw materials and intermediate goods).

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Evaluating tax incentives for investment

- Agostini and Jalile (2009) – LATAM (11): semi-elasticity of FDI to CIT rate between -0.75 y -0.96
- Case-by-case analysis
 - ICEFI (2007) – FTZ/EPZ in Guatemala and Nicaragua
 - Jorratt (2009) – Ecuador: deduction for net increase in jobs, reduced rate for reinvestment of profits and the deferral for accelerated depreciation.
 - World Bank (2012) – Colombia: Special Taxation Regime and EPZ/FTZ.
 - Giuliodori and Giuliodori (2012) – Argentina: R&D tax credit.
 - CEF, IECON, CINVE (2014) – Uruguay: Investment Promotional Regime.
 - Agostini and Jorrat (2014) – Chile: Import tariffs exemption on capital goods and investment tax credits.
 - Artana (2015) – FTZ/EPZ in Costa Rica, El Salvador and Dominican Republic.

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CIAT work monitoring tax expenditures and tax incentives

- Models and databases: CIAT Tax Expenditure Report Model; updated database 2008-2012.
- Research: Use of tax returns for tax incentives analysis; METR/AETR computations (Pecho y Peragón, 2014)
- Training: Microsimulation workshop (Brazil, 2011), OECD-CIAT-IFC course (Mexico, 2014), J-PAL course (October, 2015).
- Technical assistance: Honduras, Paraguay, Ecuador

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