Tax Evasion in Latin America and the Caribbean: An Urgent Call for Attention in the Most Unequal Region in the World

By:

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November 30, 2020

The primary objective of this post is to highlight the importance and gravity of the existing tax evasion in Latin America and the Caribbean today. A study conducted by Santiago Diaz de Sarralde Miguez[1] reports that Latin America and the Caribbean are characterized by a relatively low tax burden, which averages 22.8% of GDP. That is 11.5% less than the OECD (2015). While it is true that there are large differences between countries, as the tax burden varies from 12.4% in Guatemala to 38.6% in Cuba.

The region has a greater reliance on indirect taxation (almost 50% of the total) and taxation on corporate income than OECD countries. The study highlights also the smaller share of personal income tax (8.8% of the total versus 24% in

OECD) and social security contributions (16.4% versus 26.2% in OECD). The region has a highly unequal income distribution and especially poor redistributive capacity of tax policy. In this regard, the OECD –Gini index of 0.47- is reduced by 36% through the tax policy. However, in LAC, inequality is only reduced by 6% through the tax policy, from a Gini coefficient of 0.5.

Another important feature is the high informality, calculated at 41% compared to 17% in OECD. The work highlights the high evasion, especially in the income tax of legal entities. There is a high impact of the erosion of tax bases and shifting of benefits to avoid taxation. Meanwhile, high tax expenditures are underscored (which represent on average 30% of the potential collection)

In another study by Gomez Sabaini and Moran for ECLAC in 2016[2], it was concluded that tax evasion has been and continues to be one of the main obstacles affecting public finances of countries in the region. Attention was called by saying that there is no institutionalized task of estimating the evasion, with adequate periodicity and publication of the results, in most countries. This was demonstrated because of the scarce and insufficient information available as to the magnitude of the problem. Latinobarometer 2016, an organization that measures various aspects of Latin American reality, emphasizes that the belief that tax evasion is justifiable has recorded steady increases since 2011. In other words, Latin Americans are now more open to tax evasion than 5 years ago. This reflects an oscillating behavior, suggesting that they are sensitive to conditions being experienced by countries or measures taken by governments.

Meanwhile, in the report entitled taxation for an inclusive growth 2016, prepared by ECLAC and OXFAM, concludes that Latin America and the Caribbean show extreme inequality, the proof of this is that in 2014 the richest 10% had amassed 71% of the regional wealth. This situation is confirmed by the analysis of tax data available regarding the personal income in the countries of the region. The study says there are inadequate tax systems totally regressive and high tax evasion and avoidance, costing thousands of dollars that could be invested to combat poverty and inequality. In that document, it is estimated that revenue losses range from 27% to 65% in income tax. The publication suggests various measures to achieve a taxation with inclusive

growth, including tax reforms, improving the capacity of tax administrations and efforts to improve information exchange agreements, among other measures.

In the work entitled “Consensus and Conflict in tax policy in Latin America in 2017[3] it was stated that in the last two decades most Latin American countries have increased their tax revenues. A high level of noncompliance is nevertheless observed in most of the taxes in force. It was said that although there is greater social awareness of the seriousness of the problem, the scarcity and dispersion of specific studies on the subject is surprising, which makes difficult to establish accurate diagnoses on the extent of tax noncompliance. It concludes that Latin America remains the most unequal region in the world with a Gini index of 0.52.

OXFAM, for its part in the 2018 report says that between 2002 and 2015 the fortunes of billionaires in Latin America grew by an average of 21% annually. This growth was 6 times higher than the GDP growth experienced in the region. The output of illicit financial flows and capital flight, product of tax evasion, tax avoidance and tax privileges of multinational corporations to pay fewer taxes, are the main challenges facing the region. Meanwhile ECLAC in 2018[4] again stresses the high tax evasion, both domestically and internationally, and the existence of substantial tax expenditures. It says the personal income tax remains the Achilles heel as it only collects 1.8% of GDP compared with 8.4% in OECD countries for the year 2015.

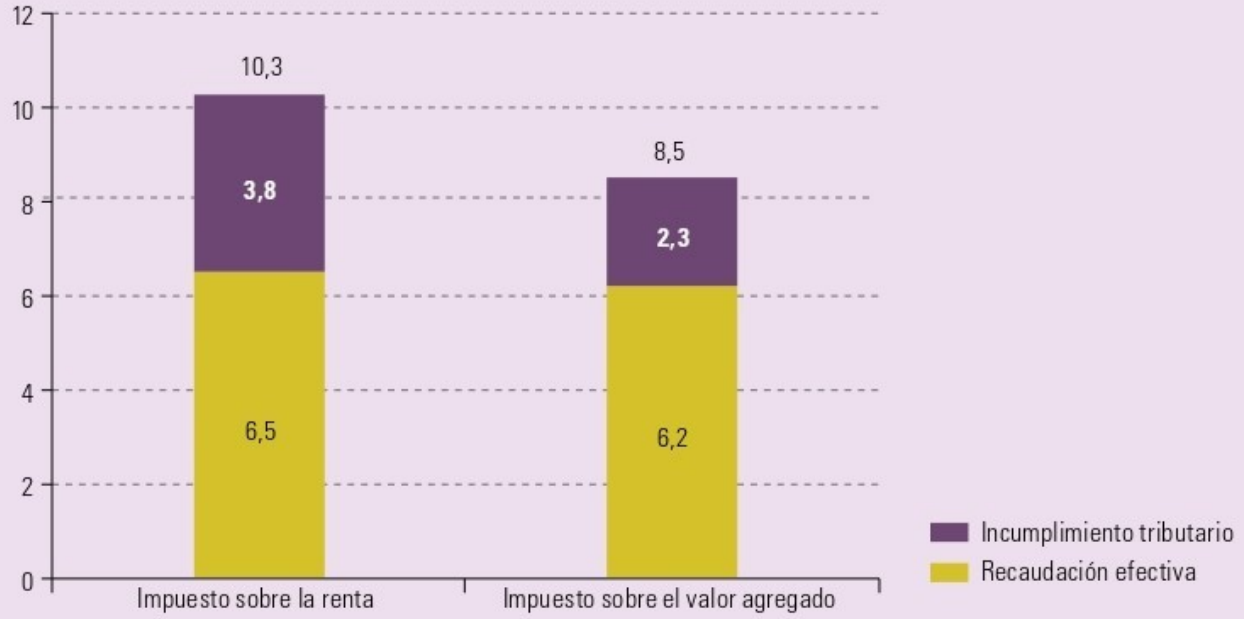
The following measures are said to be key to reducing inequities and achieving inclusive growth in the countries of the region:

- Broaden tax bases.
- Improve the design of the tax system.
- Strengthen the tax administrations.
- Eliminate the tax evasion routes

In this report it was estimated that tax evasion for 2015 amounted to 2.4% of GDP in VAT and 4.3% of the regional GDP in income tax, which together represented 340 billion dollars and 6.7% of GDP. Regarding the evasion from international operations, the report notes that very little is known.

In this regard, ECLAC sought to estimate illicit financial outflows by manipulations of prices in international trade, which would be around 0.5% of GDP or about 31 billion dollars annually, which is equivalent to between 10% and 15% of the revenue from corporate income tax. In 2019, ECLAC[5] says that tax evasion for 2017 amounted to 6.3% of GDP equivalent to 335 billion dollars. In VAT, it stands at 2.3% of GDP and for the income tax at 4.00% of GDP. Recently in 2020, ECLAC[6] says that tax evasion for 2018 amounted to 6.1% of GDP equivalent to 325 billion dollars. In VAT, it stands at 2.3% of GDP and for the income tax at 3,8.00% of GDP.

América Latina: incumplimiento en el pago del impuesto sobre la renta y el impuesto sobre el valor agregado (IVA), 2018
(En porcentajes del PIB)



Fuente: Comisión Económica para América Latina y el Caribe (CEPAL).
Nota: Las estimaciones se basan en estudios nacionales sobre el incumplimiento tributario del impuesto sobre la renta y el impuesto sobre el valor agregado. Las cifras corresponden a un promedio ponderado basado en el producto interno bruto (PIB) a precios corrientes en dólares. Los países incluidos son la Argentina, el Brasil, Chile, Colombia, Costa Rica, el Ecuador, El Salvador, Guatemala, México, Panamá, el Perú, la República Dominicana y el Uruguay, en el caso del impuesto sobre la renta, y la Argentina, Bolivia (Estado Plurinacional de), el Brasil, Chile, Colombia, Costa Rica, el Ecuador, El Salvador, Guatemala, Honduras, México, Nicaragua, Panamá, el Paraguay, el Perú, la República Dominicana y el Uruguay en el caso del IVA.

Unfortunately, this information has not seen much variation when compared with the estimate for 2016, in which the total evasion was 6.7% of GDP. Meanwhile, the illicit flows of resulting from international manipulation of trade in goods reached US $ 85 billion in 2016, i.e. 1.5% of the regional GDP.

The 2020 ECLAC report presents the following recent studies on tax evasion in different countries.

América Latina: estudios recientes en materia de evasión tributaria en distintos países

Países	Impuestos	Período	Fuente
Argentina	IVA	2001-2007	AFIP (Administración Federal de Ingresos Públicos) (2008), "Estimación del incumplimiento en el IVA: año 2007", Buenos Aires, junio.
		2017	FMI (Fondo Monetario Internacional) (2019), "Argentina: third review under the Stand-by Arrangement, request for waivers of applicability of performance criteria, financing assurances review, and request for modification of performance criteria", *IMF Country Report*, N° 19/99, Washington, D.C., abril.
	Impuesto sobre la renta de las personas físicas – impuesto sobre la renta de las sociedades	2005	Gómez Sabaini, J. C., J. P. Jiménez y A. Podestá (2010), "Evasión y equidad en América Latina", *Documentos de Proyectos*, N° 309 (LC/W.309), Santiago, Comisión Económica para América Latina y el Caribe (CEPAL).
Bolivia (Estado Plurinacional de)	IVA	2005-2015	MEFP (Ministerio de Economía y Finanzas Públicas) (2018), *Boletín Económico*, año 4, N° 8, La Paz.
Chile	IVA	2003-2018	SII (Servicio de Impuestos Internos) (2019), "Serie de evasión de IVA empalmada 2003-2018: base compilación de referencia 2013", Santiago.
	Impuesto sobre la renta de las personas físicas	2009	Pantoja, E. (2012), "Evasión en el impuesto a la renta en Chile", documento presentado en el taller Evasión e Impuesto a la Renta en América Latina, Montevideo, Comisión Económica para América Latina y el Caribe (CEPAL), 22 y 23 de noviembre.
	Impuesto sobre la renta de las sociedades	2009	SII (Servicio de Impuestos Internos) (2012), "Estimación de la evasión en el impuesto a la renta de las empresas. Serie 2003-2009", Santiago, febrero.
Colombia	IVA – impuesto sobre la renta de las sociedades	2000-2012	Ávila, J. y A. Cruz (2015), "Colombia: estimación de la evasión del impuesto de renta de personas jurídicas 2007-2012", *Documento Web*, N° 57, Bogotá, Dirección de Impuestos y Aduanas Nacionales (DIAN).
	IVA	2013-2016	DIAN (Dirección de Impuestos y Aduanas Nacionales) (2019), "Informe de Gestión y Resultados. DIAN 2018", Bogotá, abril.
	Impuesto sobre la renta de las sociedades	2016	DIAN (Dirección de Impuestos y Aduanas Nacionales) (2019), "Informe de Gestión y Resultados. DIAN 2018", Bogotá, abril.
Costa Rica	Impuesto general a las ventas – impuesto sobre la renta de las sociedades	2012-2016	Ueda, J. y M. Pecho (2018), "Costa Rica. Revenue administration gap analysis program: tax gap analysis for general sales tax and corporate income tax", *IMF Country Report*, N° 18/124, Washington, D.C., Fondo Monetario Internacional (FMI), mayo.
	Impuesto sobre la renta de las personas físicas	2010-2013	Villalobos, O. y J. Muñoz (2015), "Incumplimiento tributario en impuestos sobre la renta y ventas 2010-2013", San José, Ministerio de Hacienda, diciembre. (También se estima la evasión del impuesto general a las ventas y del impuesto sobre la renta de las sociedades (ISR))
Ecuador	IVA – impuesto sobre la renta de las sociedades	2003-2005	Andino, M. y J. Parra (2007), "Estimación de la brecha de recaudación del IVA e impuesto a la renta de las sociedades por industria", *Fiscalidad*, N° 1, Quito, Servicio de Rentas Internas (SRI).
El Salvador	IVA – impuesto sobre la renta	2005-2016	Ministerio de Hacienda (2018), *Marco fiscal de mediano y largo plazo 2018-2028*, San Salvador.
	Impuesto sobre la renta de las personas físicas – impuesto sobre la renta de las sociedades	2005	Gómez Sabaini, J. C., J. P. Jiménez y A. Podestá (2010), "Evasión y equidad en América Latina", *Documentos de Proyectos*, N° 309 (LC/W.309), Santiago, Comisión Económica para América Latina y el Caribe (CEPAL).
Guatemala	IVA	2010-2018	SAT (Superintendencia de Administración Tributaria) (2019), "Estimación de la productividad, eficiencia e incumplimiento de pago del IVA en Guatemala". Ciudad de Guatemala.
	Impuesto sobre la renta de las sociedades	2013-2017	SAT (Superintendencia de Administración Tributaria) (2019), "Estimación del incumplimiento de pago del impuesto sobre la renta (actividades lucrativas) en Guatemala", Ciudad de Guatemala.
	Impuesto sobre la renta de las personas físicas	2006	Gómez Sabaini, J.C., J.P. Jiménez y A. Podestá (2010), "Evasión y equidad en América Latina", *Documentos de Proyectos*, N° 309 (LC/W.309), Santiago, Comisión Económica para América Latina y el Caribe (CEPAL).
Honduras	Impuesto general a las ventas	2013-2016	Pineda, D. y P. Zúniga (2019), "Estimación de la evasión en el impuesto sobre ventas (ISV) en Honduras 2013-2016", Tegucigalpa, Servicio de Administración de Rentas (SAR), enero.
Jamaica	IVA	2008-2013	Ueda, J. y M. Thackray (2015), "Jamaica. Revenue Administration Gap Analysis Program: the general consumption tax gap", Washington, D.C., Fondo Monetario Internacional (FMI), abril.
México	IVA – impuesto sobre la renta – Impuesto Especial sobre Producción y Servicios (IEPS) – impuesto general de importación y exportación	2008-2016	San Martín, J. y otros (2017), *Evasión Global 2017*, San Andrés Cholula, Universidad de las Américas Puebla.
Panamá	Impuesto sobre la Transferencia de Bienes Corporales Muebles y la Prestación de Servicios (ITBMS) – impuesto sobre la renta de las sociedades (ISR) – impuesto sobre la renta de las personas físicas	2007-2016	DGI (Dirección General de Ingresos) (2018), *Boletín Estadístico Tributario 2017*, Ciudad de Panamá.
Paraguay	IVA	2005-2014	FMI (Fondo Monetario Internacional) (2016), "El proceso de modernización de la SET (2013-2016)", Washington, D.C., agosto.
Perú	Impuesto general a las ventas	2003-2017	SUNAT (Superintendencia Nacional de Administración Tributaria y Aduanera) (2018), "Informe N° 39-2018-SUNAT/1V3000", Lima.
	Impuesto sobre la renta de las sociedades	2007-2017	SUNAT (Superintendencia Nacional de Administración Tributaria y Aduanera) (2018), "Informe N° 39-2018-SUNAT/1V3000", Lima.
	Impuesto sobre la renta de las personas físicas	2006	Gómez Sabaini, J. C., J. P. Jiménez y A. Podestá (2010), "Evasión y equidad en América Latina", *Documentos de Proyectos*, N° 309 (LC/W.309), Santiago, Comisión Económica para América Latina y el Caribe (CEPAL).
República Dominicana	Impuesto sobre Transferencias de Bienes Industrializados y Servicios (ITBIS) – impuesto sobre la renta de las sociedades (ISR) – impuesto sobre la renta de las personas físicas	2007-2017	DGII (Dirección General de Ingresos Internos) y otros (2018), "Estimación del incumplimiento tributario en la República Dominicana", Santo Domingo, octubre.
Uruguay	IVA	2000-2016	DGI (Dirección General Impositiva) (2019), "Estimación de la evasión en el impuesto al valor agregado mediante el método del consumo 2000-2016", Montevideo.
	Impuesto sobre la renta de las sociedades (ISR)	2013	Olmos, L., E. Reig y F. Peláez (2016), "Estimaciones de incumplimiento tributario", documento presentado en Jornadas Tributarias, Buenos Aires, Dirección General Impositiva/Universidad de la República (DGI/UDELAR), noviembre.

Fuente: Comisión Económica para América Latina y el Caribe (CEPAL).

Increasing public revenues is key to strengthening the ability of the tax policy

action and support in mobilizing resources to finance the 2030 schedule. ECLAC reiterates the importance of reducing the high level of tax evasion and illicit financial flows to increase the tax space in the region.

Regarding the reduction of inequality through transfers from direct taxes the report notes that Latin America only achieved 4.7% compared to 38% of the OECD, meaning that OECD countries reduce their inequality by 8 times more than LAC, through their tax policy. This is not a minor data and it conclusively means that tax policy is failing to reduce inequalities, or worse – in many cases, it is contributing to their increase.

The 2019 ECLAC report proposes five instruments to expand fiscal space and enhance the agenda 2030:

- Reduce tax evasion and illicit financial flows.
- Promote the adoption of taxes to the digital economy.
- Create environmental taxes to move towards the de-carbonization of the economy and the productive reconversion.
- Review the tax expenditures.
- Strengthen the personal income tax and taxes on real estate.

Furthermore, the 2020 ECLAC report proposes a a road map to tackle tax evasion and foster national resource mobilization in the region as a current strategy to tackle tax evasion. It is very important quantification of tax evasion as a diagnostic tool:

- Development and consolidation of methodologies (bottom-up and top-down)
- Incorporation of best practices implemented in developed countries
- Broadening the scope of estimates to include main taxes (especially income tax and social security contributions)
- Institutionalization of studies and the pursuit of methodological consensus

It will be necessary a national an international aproach. The National approach includes:

- Mass use of e-invoicing.
- Segmentation of taxpayers.

- Simplified regimes for small taxpayers.
- Withholding at source .
- Automation of registry operations (e.g. tax returns and payments).
- Data cross-checking (big data).
- Facilitation of compliance through digital media.

The International approach includes unilateral measures (Transfer pricing, Anti-abuse rules, Monitoring of foreign assets) and cooperation measures (Automatic exchange of tax information, Coordinate actions within the BEPS framework, OECD tax pillars 1 and 2).

Its vital for the region a comprehensive coherence of the tax system, it is the fundamental basis of financing for the 2030 Agenda for Sustainable Development:

- Building up the level of available fiscal resources.
- Strengthening personal income tax.
- Streamlining and evaluating tax expenditure.
- Avoiding distortions in consumption and production.
- Prioritizing equity (vertical and horizontal) and simplicity in tax design.
- Ensuring the feasibility of the transition from informality to general tax regimes.

It is very important for every country to be aware of the causes of a phenomenon as complex as tax evasion, since it is the only way to find a strategy for combatting it. The issue is extremely complex, but undoubtedly, it is an exercise, which all countries must undertake.

Tax evasion is a global challenge that requires a global response. International tax cooperation must be part and parcel of a set of effective and well-coordinated multilateral actions to respond to the crisis. In order to expand the fiscal space, it is more urgent than ever to work together to fight tax evasion and tax avoidance, including illicit financial flows. I think international tax

cooperation should be scaled up in a way that is universal in approach and scope and fully takes into account the different needs and capacities of all countries.

This article has highlighted the importance of the phenomenon of evasion for the region, which is why all countries should urgently analyze internally the magnitude of the phenomenon, its causes and design state policies to fight it. Latin America is the most unequal region in the world with extreme poverty and informality requires that combating tax evasion be a priority for the region. The road is not easy, but certainly, we have to go through it.

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[1] CIAT – Diagnosis Latin America and the Caribbean 2017.

[2] Tax evasion in Latin America. Juan Carlos Gomez Sabaini and Dalmiro Moran. ECLAC. 2016.

[3] ECLAC – Juan Carlos Gomez Sabaini, Juan Pablo Jimenez and Ricardo Martner. 2017.

[4] Fiscal Panorama of Latin America and the Caribbean 2018 – ECLAC

[5] Fiscal Panorama of Latin America and the Caribbean 2019 – ECLAC

[6] Fiscal Panorama of Latin America and the Caribbean 2020 – ECLAC.

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