

Time to **TAX** for **INCLUSIVE** **GROWTH**



UNITED NATIONS

ECLAC



OXFAM

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This document was prepared by Susana Ruiz Rodríguez, Head of Fiscal Justice, and Rosa Cañete Alonso, Coordinator of the Campaign against Inequality in Latin America and the Caribbean, of Oxfam, and Michael Hanni, Economic Affairs Officer, Ricardo Martner, Chief of the Fiscal Affairs Unit, and Daniel Titelman, Chief of the Economic Development Division of the Economic Commission for Latin America and the Caribbean (ECLAC).

Contents

Foreword	5
A. Tax collection is low in Latin America	7
B. Tax systems have done little to even out income distribution.....	8
C. Despite recent reforms, personal income taxation is particularly weak in Latin America	8
D. Tax avoidance represents a significant challenge to strengthening personal and corporate income tax.....	9
E. The effective tax rates on top incomes are still very low, with limited impact on income inequality.....	10
F. A taxation policy that intensifies gender inequalities	11
G. The long-term performance of corporate income tax will depend on a number of regional and global tax trends	12
H. Initiatives should prioritize the reduction of tax incentives and enhance capacity-building in national tax administrations	15
I. Policy implications for fiscal compacts in Latin America.....	15
Bibliography.....	17

Figures

Figure 1	Latin America (18 countries) and OECD (34 countries): tax collection, 2000 and 2013	7
Figure 2	Latin America and OECD: composition of income tax collection, 2011.....	9
Figure 3	Latin America: actual tax collection and tax evasion gap, 2013.....	10
Figure 4	Selected countries: effective tax rate on personal income tax of the tenth decile, 2011	11
Figure 5	Latin America (16 countries) and the European Union (27 countries): effective rate of personal income tax and reduction in inequality due to personal income tax, 2011	11
Figure 6	Latin America and tax havens: average price per kilo of raw gold exported to the European Union, 2011	13

Foreword

for evidence of the destructive impact that extreme inequality has on sustainable patterns of growth and social cohesion, we need look no further than Latin America and the Caribbean. In 2014, the richest 10% of people in Latin America had amassed 71% of the region's wealth. If this trend continues, according to Oxfam's calculations, in just six years' time the richest 1% in the region will have accumulated more wealth than the remaining 99%.

From 2002 to 2015, the fortunes of Latin America's billionaires grew by an average of 21% per year—an increase that Oxfam estimates is six times greater than the growth of the whole region's GDP. Much of this wealth is held offshore in tax havens, which means that a sizeable portion of the benefits of Latin America's growth are being captured by a small number of very wealthy individuals, at the expense of the poor and the middle class. This extreme income concentration and inequality is also confirmed by analysis of the tax data available on personal income in selected countries of the region.

Safeguarding the advances the continent has already achieved and ensuring inclusive and sustainable growth must be a priority for all the countries in the region. That is why the Economic Commission for Latin America and the Caribbean (ECLAC) and Oxfam are committed to working together in order to promote and build a new consensus against inequality. There is no silver bullet, but there are measures that can be taken, which together can make a big difference—and tax reform is a good place to start.

Poorly designed tax systems, tax evasion and tax avoidance are costing Latin America billions of dollars in unpaid tax revenues—revenues which could and should be invested in tackling poverty and inequality. Additional revenues are key for public investment in reducing some of the region's historical gaps, such as its highly segregated access to quality public goods in education, health, transport and infrastructure.

Many countries' tax systems depend heavily on consumption taxes that place the burden on low- and middle-income groups. In addition, the region's tax systems tend to be biased towards labour income instead of capital gains and usually lack any property and inheritance tax, thus increasing wealth concentration, which is even greater than income concentration. Revenues from personal income tax are relatively low, particularly from the highest-income groups. ECLAC calculates that the average effective tax rate for the richest 10% amounts to only 5% of their disposable income. As a result, the tax systems of Latin America are six times less effective than European systems at redistributing wealth and reducing inequality.

Governments are also letting multinational companies off the hook when it comes to taxes, thanks to overly generous discounts on income tax rates in many countries across the region. By some calculations, the effective tax burden for multinational companies is half that of domestic firms.

Adding to this are the appalling rates of tax avoidance and evasion on the continent, with corporate income tax losses ranging from an estimated 27% of potential corporate income tax revenues in Brazil to roughly 65% in Costa Rica and Ecuador. ECLAC estimates that evasion and avoidance of personal and corporate income tax cost Latin America more than US\$ 190 billion, or 4% of GDP, in 2014.

An archaic and dysfunctional international tax system also provides wealthy companies and individuals with ample scope and opportunity to avoid paying their fair share of taxes.

With the critical loss of revenues from commodities and many countries' economies now stagnating, the people of Latin America simply cannot afford for such a large proportion of the continent's income and wealth to go untaxed. Ensuring everyone pays their fair share of taxes according to their means is absolutely essential if we are to finance sustainable and inclusive growth, not just in Latin America but across the world.

In order to meet the Sustainable Development Goals, all governments will have to take concerted and coordinated action to build a tax system fit for the twenty-first century. Governments must put in place more progressive tax systems at home, and they must strengthen global and regional cooperation to reduce harmful tax competition between countries and prevent the "race to the bottom". The countries of Latin America and the Caribbean could also strengthen property tax schemes or reintroduce inheritance tax. All nations must also work together, under the auspices of the United Nations, to overhaul the international tax system so that multinational companies and rich individuals can no longer exploit tax loopholes or hide their wealth in tax havens to avoid paying their fair share of tax.

Tackling inequality must be part of a new social compact to improve the state of the world, and building a fairer tax system must be part of any plan to tackle inequality and boost inclusive growth.

This publication has been prepared in the hope that it will contribute to efforts to combat inequality in Latin America, by analysing the fiscal challenges involved and proposing policy guidelines.

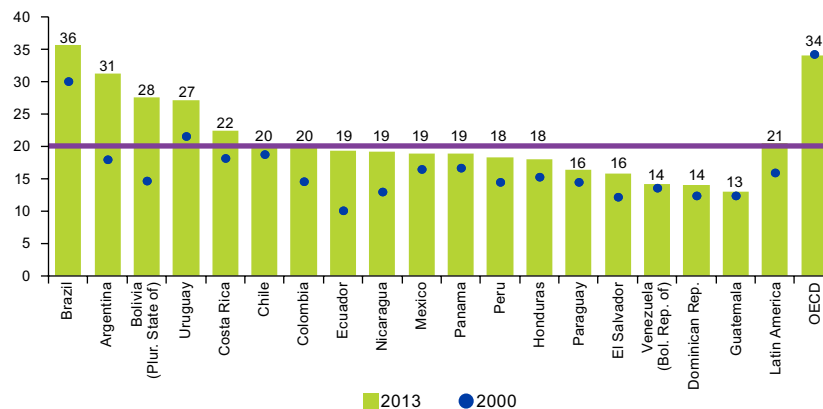
Alicia Bárcena
Executive Secretary
Economic Commission for
Latin America and the Caribbean (ECLAC)

Winnie Byanyima
Executive Director
Oxfam International

A. Tax collection is low in Latin America

Tax collection in Latin America has improved in the recent decade thanks to strong economic growth and policy measures. Between 2000 and 2013, the region's average tax take rose from 16.0% of GDP to 20.6%, although this still falls short of the average for countries in the Organization for Economic Cooperation and Development (OECD) (34.1% of GDP in 2013) (see figure 1).

Figure 1
Latin America (18 countries) and OECD (34 countries): tax collection, 2000 and 2013^a
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of Organization for Economic Cooperation and Development (OECD), *Revenue Statistics in Latin America and the Caribbean 1990-2013*, Paris, 2015.

^a The data for Mexico and the Plurinational State of Bolivia include income from non-renewable natural resources (hydrocarbons royalties and the direct tax on hydrocarbons, respectively) which could be considered non-tax income. The data used here for revenue statistics refer strictly to tax revenues.

The regional average also obscures a significant mixture of outcomes among countries. While Argentina, Brazil, the Plurinational State of Bolivia and Uruguay come close to the OECD average tax take in relation to GDP, most of the countries in the region barely reach the 20% minimum level that would be necessary to achieve the Sustainable Development Goals. Indeed, a number of countries in the region are significantly below this threshold.

Although many factors explain the lower tax pressure in Latin America, a key one is the limited role of direct taxes, with indirect taxes such as value-added tax (VAT) making up the main pillar of the

tax structure. Nevertheless, in the past decade income tax collection has strengthened significantly in a number of countries, with the regional average rising from 3.1% of GDP in 2000 to 5.2% in 2013.¹ While this represents a marked improvement, Latin American countries still lag substantially behind their OECD peers, which registered an income tax take of 11.6% of GDP in 2013.

B. Tax systems have done little to even out income distribution

One of the key features of Latin American tax systems is the high share of general taxes on goods and services in the region's total tax revenue. Following the introduction of VAT in the 1970s and 1980s, most of the increase in the percentage share of taxes of this type occurred in the 1990s, as a result of reforms that expanded the tax base and raised the general rate, particularly in the countries with the lowest tax burdens. The growing significance of VAT made up for the reduction in the relative share of selective taxes and those charged on international trade.

The strengthening of VAT revenue across the region over the past few decades reflects in particular its extension to intermediate and final services (the tax was initially levied almost exclusively on physical goods and a number of final services), as well as a progressive rise in the rate in nearly all countries of the region since the 1980s. Between 2000 and 2014, the VAT take continued to increase, and GDP share of revenue obtained from general goods and services taxes in Latin America is similar to that of OECD (ECLAC, 2013).

The changes introduced over the years in the tax regimes probably made most Latin American countries' tax systems less progressive than they had been. As noted by Tanzi (2014), when taxes are not raised progressively but are raised proportionally with indirect taxes, individuals at the lower end of the income distribution will experience tax increases that can be very painful and may significantly erode their standard of living. VAT tax hikes will make those in the poorer classes even poorer.

In many countries, the tax system has been regressive throughout the past decade, because the weight of indirect taxes (which are highly regressive) is not offset by the progressivity of direct taxes, which do not generate enough tax revenues to have a significant redistributive impact.

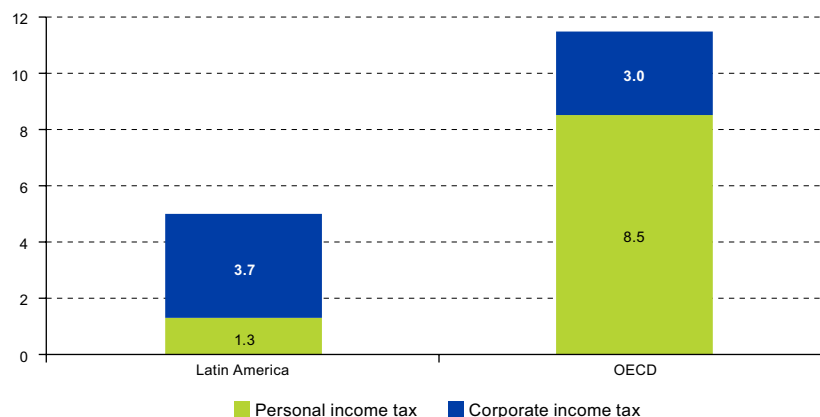
In short, VAT and other excise taxes contribute much to government revenue, but tend to be highly regressive in their primary impact. Income taxes have contributed much less to revenue but are progressive in their primary impact.

C. Despite recent reforms, personal income taxation is particularly weak in Latin America

One of the main factors behind the gap in the tax take between Latin America and OECD is the relatively weak contribution made by personal income tax in the region. While the corporate tax burden in Latin America compares favourably with that of OECD, Latin American countries collect less than one fifth of the average personal income tax collected by OECD countries, measured in terms of GDP share (see figure 2). This poor performance may be attributed in part to large-scale tax avoidance as well as structural deficiencies in the tax code.

¹ During the period corporate income tax receipts rose markedly in countries that benefited from the upswing in international commodity prices, including Chile (up 2.2 percentage points of GDP), Colombia (2.6 GDP points), Peru (3.7 points) and the Plurinational State of Bolivia (3.2 points). Sizeable gains in tax revenues were also registered in a number of Central American countries, including Costa Rica (up by 2.2 GDP points), Honduras (1.3 points) and Panama (1.3 points).

Figure 2
Latin America and OECD: composition of income tax collection, 2011
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

D. Tax avoidance represents a significant challenge to strengthening personal and corporate income tax

Numerous studies have found that the Latin American countries are losing upwards of 50% of expected personal income tax revenues. The figures found include 32.6% in Peru, 36.3% in El Salvador, 38.0% in Mexico, 46.0% in Chile, 49.7% in Argentina, 58.1% in Ecuador and 69.9% in Guatemala (Gómez Sabaini, Jiménez and Podestá, 2010). On the one hand, these results reflect the high level of informality that characterizes the economies of Latin America. However, they can also be linked to a high degree of distrust in governmental institutions and a general absence of a “tax culture”. ECLAC has repeatedly argued for the need to reinvigorate fiscal compacts in the region to jump-start a virtuous cycle between better public services and a greater willingness to pay taxes (ECLAC, 2013).

Endemic tax avoidance is not limited to personal income tax in the region. Corporate income tax and VAT show high evasion rates as well, though differing from country to country. The level of corporate income tax evasion spans a wide gamut, ranging from an estimated 26.6% in Brazil (SINPROFAZ, 2015) to roughly 65% in Costa Rica (Ministry of Finance, 2014) and Ecuador (Gómez Sabaini, Jiménez and Podestá, 2010). It is important to note that these estimates are based on national accounts data and therefore do not take into account any losses arising from aggressive tax planning or transfer pricing practices that artificially reduce the level of profit reported in the economy.

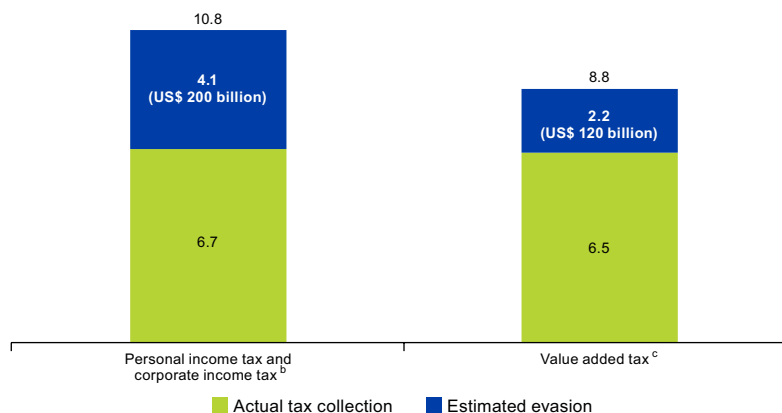
Evasion of VAT is less marked, especially compared to income tax avoidance, but it remains significant with rates ranging from around 20% in Argentina, Chile, Colombia, Ecuador and Mexico to nearly 40% in Guatemala and Nicaragua (Gómez Sabaini and Jiménez, 2011).² Evasion rates have declined in recent decades, largely due to a greater emphasis on control and compliance measures and a general strengthening of tax administration institutions. Changing consumption patterns, associated with the region’s growing middle class, have also served to reduce evasion as purchases are shifted from local markets to big box retailers who are more likely to collect VAT and issue legal receipts.

ECLAC estimates that evasion of personal and corporate income tax and value added tax cost Latin America upwards of US\$ 320 billion, or 6.3% of GDP, in foregone revenues in 2013 (see figure 3). To put that figure in perspective, in 2013 capital expenditures by the region’s central governments averaged 4.5%

² For Chile, see SII (2015).

of GDP, which was the highest level since 1990. Thus, tax avoidance costs Latin America significantly more than the region's entire public investment outlay.

Figure 3
Latin America: actual tax collection and tax evasion gap, 2013^a
(Percentages of GDP and dollars)



Source: Economic Commission for Latin America and the Caribbean (ECLAC).

^a Weighted averages.

^b Estimate based on data from Argentina, Brazil, Chile, Costa Rica, Ecuador, El Salvador, Guatemala, Mexico and Peru.

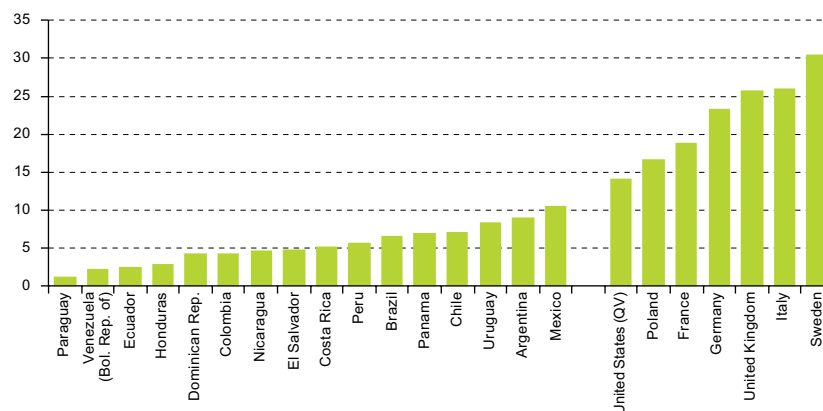
^c Estimate based on data from Argentina, Plurinational State of Bolivia, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Nicaragua, Panama and Uruguay.

E. The effective tax rates on top incomes are still very low, with limited impact on income inequality

Another key factor behind the relative weakness of personal income tax receipts in the region is the existence of numerous structural deficiencies in the tax code. These include the widespread use of tax expenditures, relatively high exempt income levels and generally lower top marginal tax rates than in OECD countries. As a result, the top decile of the income distribution in Latin America pays an exceptionally low effective tax rate, compared with countries in North America and Europe (see figure 4). Of the 16 countries under consideration, only 3 (Uruguay, Argentina and Mexico) have effective rates in excess of 8% for the top decile, and only Mexico reaches a rate of 10%. In comparison, in the United States the effective rate for the top quintile is 14.2% and in some European countries this rises to over 20%.

Not surprisingly, the personal income tax is especially weak as a redistributive instrument in Latin America (ECLAC, 2015). In Latin America personal income tax causes a 2.1% decline in inequality on average, as measured by the Gini coefficient, compared to an 11.6% reduction in 27 countries of the European Union (see figure 5). This outcome is driven largely by the lower effective tax rates in Latin America, as in both cases the ratio of Gini reduction to effective tax rate is similar. Estimates from EUROMOD suggest that the effective tax rate in the European Union averages 13.3%. For the 16 Latin American countries under consideration, ECLAC estimates that the average effective rate is around 2.3% and this finding is largely confirmed by national accounts data. A survey of data from eight countries finds an average effective rate of 2.2% with only Brazil (3.7%) and Mexico (3.9%) reporting higher than average rates. Of the remaining countries, Ecuador (2.2%), Peru (2.1%) and Chile (2.0%) were representative of the average, while effective rates were lowest in Colombia (1.6%), Honduras (1.2%) and Nicaragua (0.8%).

Figure 4
Selected countries: effective tax rate on personal income tax of the tenth decile, 2011^{a b}
(Percentages)

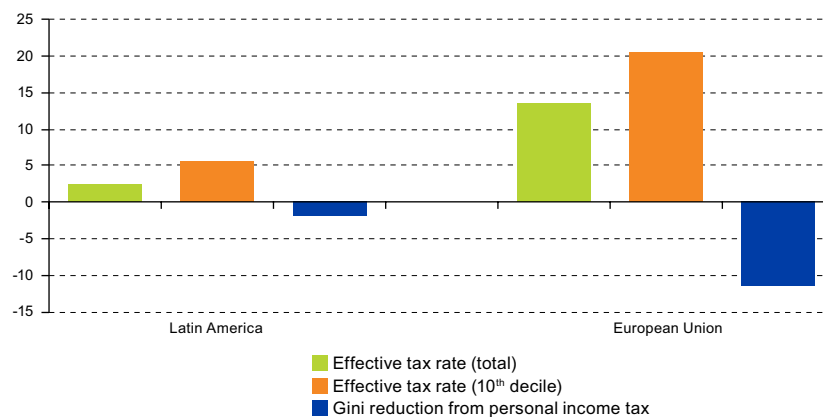


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from the Congressional Budget Office of the United States, 2014; EUROMOD statistics on Distribution and Decomposition of Disposable Income, 2015; and ECLAC.

^a Calculated over gross income (market income plus public and private transfers).

^b Data from EUROMOD include additional direct taxes for some countries, including property taxes and church taxes.

Figure 5
Latin America (16 countries) and the European Union (27 countries): effective rate of personal income tax and reduction in inequality due to personal income tax, 2011^{a b}
(Percentages)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of data from EUROMOD statistics on Distribution and Decomposition of Disposable Income, 2015; and ECLAC.

^a Calculated over gross income (market income plus public and private transfers).

^b Data from EUROMOD include additional direct taxes for some countries, including property taxes and church taxes.

F. A taxation policy that intensifies gender inequalities

An increasing number of studies suggest that the tax design in countries in the region increases gender inequalities by limiting women's economic autonomy and widening equality gaps. These studies also indicate that tax policy is becoming more regressive, costly and inefficient for women compared

to men, given their different patterns of consumption and entry into the labour market, the types of economic activities they tend to engage in, and the differentiated gender roles imposed by the sexual division of labour.

A study conducted by Oxfam (2015) in three countries in Central America and the Caribbean identified examples of gender bias such as:

- The lack of special deductions for independent workers —an area where women are overrepresented— that are allowed in the case of wage workers.
- The existence of lower taxation rates for capital income —women are underrepresented in this group of taxpayers due to the greater obstacles they face in accessing economic assets.
- The failure to take into account projections that to some extent recognize and compensate unremunerated work performed mainly by women, or at least the economic cost of acquiring care services in the light of the insufficient and inadequate public care services.

According to Coello and Fernández (2013) in their study of the Bolivian tax system, given that women tend to take on most reproductive and caregiving tasks, the failure to consider a person's circumstances and their responsibilities (for example family duties, the number of children, the role of the head of household or the degree of a person's disability) worsens gender gaps.

In coordination with public expenditure policies and other policies, tax policy can promote women's role in the labour market, improve the quality of their employment and protect and promote the consumption of goods and services that are crucial for their development, among other effects. Nonetheless, despite the great potential of tax policy as a tool for challenging inequalities between men and women, it is still underused in the region and suffers from major omissions that could actually be widening gender gaps.

G. The long-term performance of corporate income tax will depend on a number of regional and global tax trends

With regard to corporate income tax in the region, policymakers have repeatedly expressed fears that this major revenue source is being undercut by regional and global trends. Moreover, as time passes, the impact of globalization on tax revenues appears likely to increase and to be reflected in countries' revenue statistics (Tanzi, 2014). Fiscal termites (opportunities that taxpayers who operate globally can use to avoid or evade taxes) are “slowly damaging the very foundation of tax systems and contributing to increasing Gini coefficients.”

On the one hand, the countries of the region have a long history of using tax incentives to attract investment, in particular foreign direct investment. These incentives were often justified on the basis that the country had to “compete” with other potential investment destinations that had already adopted an incentive scheme. Research by ECLAC and others suggests that these tax incentives have largely been ineffectual in attracting investment, which in many cases would have come anyway, responding to other location-based determinants. Unfortunately, these schemes result in a significant loss of fiscal revenues.

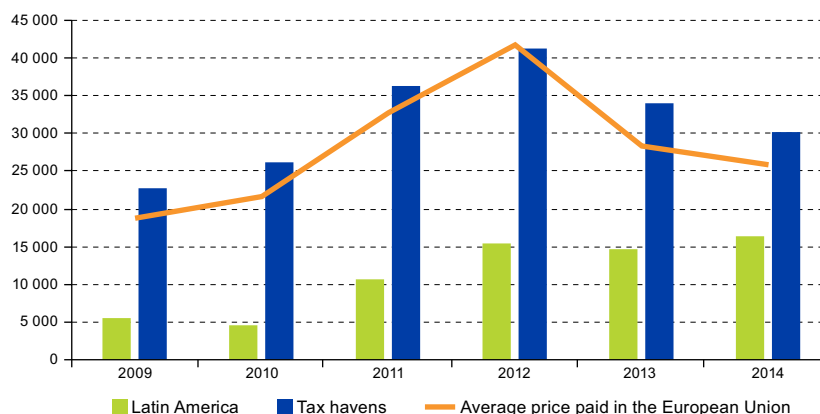
Another area of concern is the taxation of extractive industries, which play a predominant role in a number of countries in the region. For some of them, fiscal revenue from non-renewable natural resources makes up a significant share of total public revenue. For example, between 2010 and 2013 upstream hydrocarbons revenue made up 30% or more of public revenues in the Plurinational State of Bolivia (29.9%), Mexico (34.4%), Ecuador (40.3%), Trinidad and Tobago (40.4%) and the Bolivarian Republic of Venezuela (44.9%) (ECLAC, 2013). Likewise, revenue derived from mining accounted

for 15.3% of total revenue in Chile and 7.4% in Peru (ECLAC, 2013). Given the large sums of money involved in this sector, even one case of aggressive transfer pricing or a regulatory lacuna could result in a large loss of revenue.

Finally, and related to the previous concern, the region's countries are potentially exposed to significant revenue losses owing to tax base erosion and profit shifting (BEPS) by multinational corporations. Foreign investors control a significant share of economic activity in the region and are especially active in leading sectors such as mining and manufacturing. For example, foreign direct investment stock in Latin America, relative to GDP, trebled between 1990 and 2013, rising from roughly 10% of GDP to 32% of GDP in that period. Although the region's countries have made progress in implementing internationally recognized best practices in international taxation, much remains to be done. Brazil, Chile and Mexico have begun to review and implement suggestions arising from the projects led by OECD and the Group of Twenty (G20) on BEPS. Mexico in particular has been active in this arena, with its National Tax Authority (SAT) opening an extensive investigation of the tax planning activities of hundreds of multinational corporations operating in the country.

More needs to be done, however, and the BEPS concept is too narrow and limited to address all the interests and priorities of the region's governments. Transfer mispricing in particular is still draining public budgets, undermining the ability of governments to tackle inequality. Recent calculations still show large disparities between average prices of commodities exported from Latin America and the export prices registered in tax havens (see figure 6). These disparities suggest that Latin America, despite its wealth of resources and position among the world's top producers, is not retaining all the profits of its commodities trade because they are being artificially shifted to low-tax intermediate countries.³

Figure 6
Latin America and tax havens: average price per kilo of raw gold
exported to the European Union, 2011
(Dollars)



Source: Prepared by Oxfam, on the basis of Statistical Office of the European Communities (Eurostat), figures for gold (raw), 2015.

³ These figures represent a consolidated compilation of regional value that may conceal national disparities. The values of these operations disaggregated by country reflect a greater disparity, specifically in some countries. The analysis is based on the consolidated data provided by the European Union statistical service, which may contain discrepancies in relation to national data. In any case, the data reflect the roles still being played by tax havens in the triangulation of international trade and the vast problem of transfer price manipulation in regional trade, as well as the fact that international efforts have not satisfactorily addressed the need for specific mechanisms adapted to the national context.

Tax havens and corporate tax abuses are destroying the social contract between government and citizen by allowing those most able to contribute to society to opt out of paying their fair share in taxes. The Swissleaks scandal revealed US\$ 52.6 billion in funds of Latin American residents held in HSBC accounts in Switzerland between 2006 and 2007, the equivalent to 26% of total public investment in health in the region.

The current global tax reform agenda will not instigate transformative solutions to ensure that multinationals can be taxed where they conduct economic activities and create value. This agenda does not therefore wholly support the interests and trade structures of the region. In particular, multinationals are still controlling part of their business through sophisticated corporate structures with shell companies in tax havens, acting as empty structures to divert taxes that should be retained in the region. Multinationals can no longer be considered as separate entities for tax purposes.

International tax cooperation within an intergovernmental United Nations body is key to strengthening the domestic collection of corporate income tax, especially from the multinational enterprises.

Jose Antonio Ocampo, Chair of the Independent Commission for the Reform of International Corporate Taxation, noted that the increasing momentum to strengthen international tax cooperation came to an abrupt halt, to the disappointment of many, at the Third International Conference on Financing for Development in Addis Ababa in July 13-16. At that meeting the push to create an intergovernmental tax body within the United Nations to replace the existing Committee of Experts on International Cooperation in Tax Matters was blocked by developed countries, who espoused the view that tax cooperation should take place exclusively under the leadership of OECD, which they control (Ocampo, 2015).

Nonetheless, the importance of raising tax revenues for development, including through international tax cooperation, will continue to feature prominently in the ongoing intergovernmental discussions on a new financing strategy for the post-2015 development agenda.

The Monterrey Consensus on Financing for Development, adopted in 2002, resolved to strengthen international tax cooperation and the United Nations Economic and Social Council upgraded the status of the United Nations Ad-Hoc Group of Experts on International Cooperation in Tax Matters to a regular Committee in 2004. Within the United Nations, the Committee of Experts on International Cooperation in Tax Matters has accordingly been addressing issues in international tax cooperation over the years, giving special attention to developing countries. This has included issues relevant to protecting and broadening the tax base, as well as effectively combating tax evasion and tax avoidance.

In parallel to the efforts of the United Nations Committee, the G20 Finance Ministers have been concerned about base erosion and profit (BEPS) shifting by multinational enterprises engaged in a wide range of cross-border tax planning techniques which allow them to pay little or no tax anywhere in the world. In 2013, following a requirement of the G20 Finance Ministers, OECD presented a report outlining BEPS issues, followed by an action plan intended to address those issues in a coordinated and comprehensive manner. Specifically, the OECD Action Plan on Base Erosion and Profit Shifting was to provide countries with domestic and international instruments that would better align rights to tax with economic activities. The Plan is organized around 15 actions, which are to be implemented by specified deadlines during 2015.

The Committee of Experts on International Cooperation in Tax Matters identified several additional issues that fall short or are not covered within the scope of the OECD Action Plan on BEPS. These include the following: tax challenges of the digital economy; base erosion through interest deductions; tax treaty abuse; profit shifting through supply chain restructuring; transfer pricing; transparency and disclosure; base erosion through payment of service charges, management and technical fees and royalties; taxation of capital gains; wasteful tax incentives; difficulties in obtaining information needed to assess and address BEPS; and the need for risk analysis tools to detect abusive tax practices. Latin American countries have called repeatedly in many international forums and consultation spaces for these issues to be addressed.

Given that the OECD Action Plan on Base Erosion and Profit Shifting does not place enough focus on the development dimension of these issues, the G77 reiterated the call to strengthen the role of the United Nations in promoting international cooperation on tax matters, including by elevating the status of the Committee of Experts to an intergovernmental body with experts representing their respective governments, in a truly global forum with universal relevance and participation. The G77 also noted that this proposal had been brought forward several times by many developing countries.

Stepping up international tax cooperation requires enhancing the involvement of developing countries in relevant international forums. While there is increasing recognition of the central role of tax systems in development, there is still no global, inclusive standard-setting body for international tax cooperation at the intergovernmental level. In the year leading up to the Addis Ababa Conference, the United Nations Secretary-General endorsed the need for “an intergovernmental committee on tax cooperation, under the auspices of the United Nations”.

H. Initiatives should prioritize the reduction of tax incentives and enhance capacity-building in national tax administrations

Strengthening regional and subregional cooperation to reduce wasteful tax incentives will be crucial to protecting the region’s tax base. Multinational enterprises (MNEs) benefit from generous discounts on the income tax rates in many developing countries, including in Latin America and the Caribbean), as a consequence of tax competition and the “race to the bottom” among and within countries. According to some calculations, in the developing countries, the tax burden for MNEs is half that of the domestic firms, owing to tax incentives and other generous treatments.

Capacity building in national tax administrations is one of the main tasks that must be undertaken by the international community in order to avoid transfer pricing, particularly among MNEs. Efforts are also needed to enhance exchange of information agreements, in order to deal with tax planning and estimate and reduce illicit flows, tax avoidance and tax evasion.

I. Policy implications for fiscal compacts in Latin America

ECLAC and Oxfam urge all countries and regional and subregional bodies in Latin America and the Caribbean to:

- Reinvigorate fiscal compacts in the region to jump-start a virtuous cycle between better public services and a greater willingness to pay taxes. Social justice is not achievable without fiscal justice
- Make gender equality a primary priority in the design and implementation of fiscal systems. Gender balance must be achieved in tax codes to address discriminatory impacts, and gender-responsive budgeting tools have to fully interact to ensure the commitment to achieve gender equality.
- Commit to increase their national tax to GDP ratio, moving it closer to their maximum tax capacity. Reaching 20% of tax to GDP (the minimum needed to achieve the Sustainable Development Goals), must be seen just as an initial step, necessary but not sufficient. All countries require an initial assessment to establish their maximum tax capacity and draw a roadmap of 5%-per-year increments. Care must be taken to ensure that efforts to achieve sufficiency do not increase regressivity.

- Launch comprehensive reforms of tax codes to rebalance direct and indirect taxes, shifting the tax burden from labour and consumption to capital, wealth and the related income, through taxes such as those on financial transactions, wealth, inheritance and capital gains. All economic actors should contribute according to their real capacity. Those who have more (wealthy individuals and large companies) need to pay more.
- Work on integrated regional programmes to address harmful tax competition leading to an unproductive “race to the bottom”. Investment climates can be improved through measures other than tax incentives. Decisions must be preceded by cost-benefit analysis to measure the social impact, and full transparency and accountancy in national budgets must be a pre-requisite.
- Prioritize the eradication of tax evasion and tax avoidance, by committing to achieving a 50% reduction within five years, and a 75% reduction within 10 years. Set up an aggressive regional action plan, combining coordinated actions to bring cohesion to national tax legislations and a regional strategy to combat the use of tax havens by adopting a regional blacklist, with automatic sanctions applying to countries, corporations and individuals that use tax havens to reduce their tax bill. Peer review, monitoring and reporting will be critical.
- Compel joint action and partnership with all regional and international institutions to renew the commitment to a new global tax agenda to resolve the incoherence of the international tax systems. It is time for a second generation of global tax reforms that incorporates the key elements still missing: reallocating taxing rights by source and residence, ending the treatment of companies as separate entities for tax purposes, stopping treaty abuse, addressing avoidance of capital gains taxes and halting the race to the bottom.
- Support the establishment of a United Nations intergovernmental tax body, with inclusive norm-setting capacity and universal relevance and participation. A new generation of global tax reforms will never be achieved until those who are involved can be part of the decision. Also intensify tax cooperation in Latin America to respond cohesively to specific regional needs as a way as to have a stronger voice at global level.
- Encourage capacity-building programmes, especially to learn from positive experiences, spearheaded by regional bodies in close coordination with international institutions.
- Strive for effective participation by citizens in tax reforms and develop parliamentary mechanisms to hold governments accountable for setting realistic objectives and monitoring progress.
- Rebuild the “tax morale” by leading by example. To build citizens’ confidence and faith in institutions, tax policies need to be assessed independently and transparently, without disproportionate influence of elites or heavily-resourced and powerful economic groups.

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