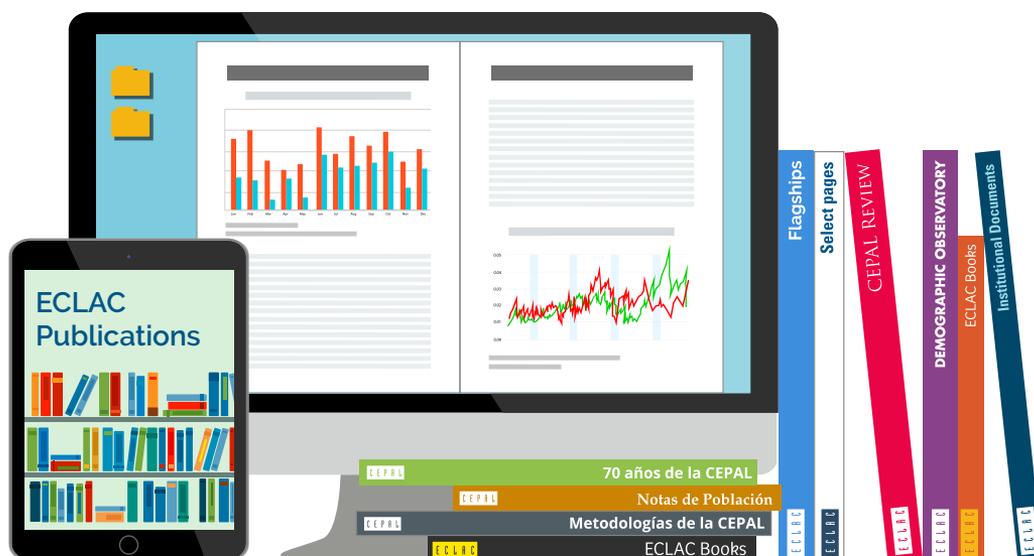


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Tax incentives for businesses in Latin America and the Caribbean



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I. Reviewing and assessing tax expenditures

Preferential tax measures are fiscal policy tools that countries use to promote certain economic, social or environmental policy objectives, such as incentivizing saving and investment, protecting domestic industry, promoting or disincentivizing the production or consumption of certain goods and services, stimulating employment, supporting the most vulnerable sectors of society, and protecting the environment, among others. The use of these tools involves a reduction in tax revenue, which is known as *tax expenditure*.¹

Despite the potential benefits they can generate, tax expenditures result in foregone fiscal resources for states. Between 2016 and 2019, tax expenditures in Latin America represented 3.7% of gross domestic product (GDP) on average, or around 25% of tax revenue, excluding social contributions.²

The scarce resources available to countries for achieving the UN Sustainable Development Goals (SDGs) illustrate the need to review and assess the effectiveness of tax expenditures, in order to fulfil the aims for which they were created and to limit, streamline or eliminate those that are inefficient. Such a review and assessment would make it possible to reinforce the efficient funding of the investments necessary to achieve the SDGs in Latin America and Caribbean.

¹ CIAT (2011).

² ECLAC (2019), p. 121.

II. Tax expenditures in Latin America and the Caribbean

What type of tax expenditures are in place?

Tax expenditures can take different forms, as detailed in table 1.

Table 1
Types of tax expenditure

Type of tax expenditure	Description	Examples
Exemptions	Amounts that are excluded from the tax base	Exemption for educational services (value-added tax – VAT); exemption for income received by civil associations, cooperatives or not-for-profit entities (corporate income tax – CIT)
Deduction	Amounts that can be rebated or deducted from the tax base	Deduction of certain expenses and charitable donations from the calculation of the personal income tax (PIT) or CIT tax base
Credit	Amounts that are deducted from the payment of taxes or make it possible to reduce them	CIT credit for investment in capital goods
Reduced rates	Lower rate applicable to certain taxable transactions or taxpayers	Zero rating of products included in the basic shopping basket (VAT)
Deferral	Postponement of tax payment	Accelerated depreciation for fixed capital investments (CIT)

Source: ECLAC (2019), *Fiscal Panorama of Latin America and the Caribbean 2019: Tax policies for resource mobilization in the framework of the 2030 Agenda for Sustainable Development* (LC/PUB.2019/8-P), Santiago.

As a public policy tool, tax incentives are justified if the economic, social and environmental benefits they bring about outweigh the costs they generate. These include fiscal costs, due to loss of revenue, as well as effects on efficiency, equality and transparency.

What is the value of the public resources foregone due to tax expenditures in the countries of Latin America and the Caribbean?

The public resources foregone in Latin America due to the use of tax expenditures are considerable in most countries in the region.

The value of these tax expenditures³ (table 2) is generally around 2% of GDP and may exceed 6% of GDP in some countries. To get an idea of the value of these tax expenditures, we can take the example of public health expenditure, which, on average, rose to 2.2% of GDP in Latin America in 2017.⁴

The analysis by tax type shows that, in almost all the countries analysed, the fiscal cost of the differential measures associated with VAT is greater than that corresponding to income tax, and that the tax expenditure for corporate income tax exceeds that for natural persons.

The evolution of tax expenditures (figure 1) over the last few years has varied depending on the country.⁵

³ There are differences and methodological challenges involved in measuring tax expenditures, which make it difficult to compare figures between countries, and even between years. Thus, table 2 is provided for illustrative purposes and to give an approximate idea of the extent and composition of tax expenditures in the countries of the region, in terms of both GDP and in relation to total tax revenue.

⁴ CEPALSTAT database [online] <https://estadisticas.cepal.org/cepalstat/Portada.html>.

⁵ The information for different years in the same country may present comparison problems due to methodological changes, tax reforms or improvements in the quality of statistical information that make it possible to incorporate new tax expenditures into the calculation. The countries where these factors have been most significant and, therefore, for which special care should be taken, are Guatemala (2013) and the Dominican Republic (2013, 2014 and 2018). Figure 1 gives an approximate idea of how these tax benefits have evolved during the period 2007–2019.

Table 2
Latin America and the Caribbean: tax expenditures by type of tax, around 2016–2019
 (Percentages of GDP)

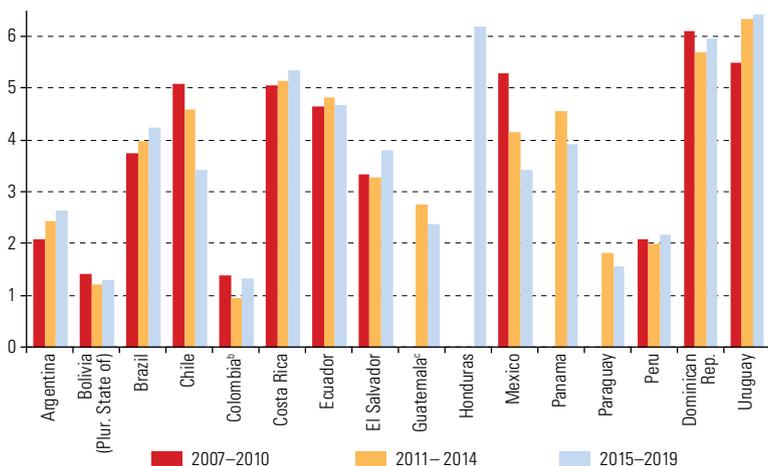
Country	Year	Income tax			VAT and general taxes		Specific taxes	Foreign trade	Social security	Other	Total (percentages of GDP) ^a	Total (percentages of tax revenue)
		Natural persons	Legal persons	No classification	Total	Total						
Argentina	2019	0.10	0.28	...	0.38	1.23	0.28	0.14	0.24	0.06	2.33	8.9
Bolivia (Plurinational State of)	2016	0.01	0.10	...	0.11	0.97	...	0.07	...	0.06	1.20	6.6
Brazil	2019	0.70	0.81	0.13	1.64	1.50	0.02	0.05	0.86	0.04	4.12	21.1
Chile	2019	1.02	1.07	...	2.10	0.81	0.03	...	...	...	2.93	16.6
Colombia	2017	0.60	0.70	...	1.30	... ^b	...	...	...	...	...	...
Costa Rica	2017	0.38	1.26	0.70	2.34	2.89	0.16	0.10	...	...	5.49	41.0
Dominican Republic	2018	0.11	0.58	0.00	0.69	2.68	0.74	0.23	...	0.78	5.12	36.1
Ecuador	2017	0.70	1.30	...	2.00	2.30	...	...	...	0.40	4.70	38.6
El Salvador	2016	0.51	1.02	0.30	1.83	1.94	...	...	...	...	3.76	21.2
Guatemala	2017	0.11	0.64	0.03	0.78	1.44	0.02	0.05	...	...	2.30	22.5
Honduras	2019	0.32	2.04	...	2.36	3.34	0.33	...	...	0.17	6.20	35.0
Mexico	2019	0.92	0.77	...	1.69	1.40	0.06	...	...	...	3.15	23.8
Panama	2016	0.05	1.27	...	1.32	2.30	...	...	...	...	3.62	36.9
Paraguay	2019	0.05	0.21	...	0.26	0.94	...	0.16	...	...	1.36	13.8
Peru	2019	0.20	0.17	...	0.37	1.62	0.03	0.11	...	0.00	2.13	14.6
Uruguay	2017	0.35	1.08	0.07	1.50	3.71	0.05	...	...	1.14	6.39	32.5

Source: Authors' calculations based on official information.

^a With the exception of Chile, where the total lines incorporate the combined effects or the effects of simultaneous repeal, for the other countries, the totals do not represent an estimate of the tax revenue that could be obtained if all tax expenditures were eliminated. In the reports for Colombia, Mexico and Panama, the results are not presented as totals.

^b Although the official report for Colombia includes estimates of tax expenditures for VAT (expressed only in local currency and not as a percentage of GDP), these are not shown in the table, as the methodology used to calculate them differs from that of the other countries in that it classes as tax expenditures certain exemptions that do not actually generate a loss of revenue, since it would not be possible to apply VAT to certain cases (for example, some products and services are included that feature in the National Accounts and that should not be considered for tax purposes, such as public administration, domestic and non-market services, and the production of coca leaf, opium poppy and marijuana crops, which are not covered by accounts for the formal market).

Figure 1
Latin America and the Caribbean: evolution of tax expenditures, 2007–2019
(Percentages of GDP by country)



Source: Authors' calculations based on official information.

^a In Colombia, the only tax expenditures included are those pertaining to income tax.

^b In Guatemala, the 2011–2014 average takes into account only the years 2013–2014.

In some countries, such as Argentina, Brazil, Costa Rica, El Salvador and Uruguay, we can see an upward trend. Other countries have a fairly marked downward trend, as in Chile and Mexico. This trend also exists in Guatemala, Panama and Paraguay, although it is less pronounced. In Bolivia, Colombia (income tax only), Ecuador, Peru and the Dominican Republic, the fiscal cost of tax benefits remained relatively stable, or without a defined trend, throughout the period.

III. Tax incentives for businesses in the region

The ECLAC/Oxfam report, *Tax Incentives for Businesses in Latin America and the Caribbean* (2019) (the 'Report'), focuses on analysing the part of tax expenditures that benefits businesses, which is usually dedicated to driving investment, economic growth and job creation. *Investment incentives* are defined as quantifiable economic benefits that governments offer to specific businesses or groups of businesses, with the aim of directing investment towards preferred sectors or regions, or influencing the nature of such investments.⁶ These incentives can be tax-based (such as tax exemptions) or non-tax-based (such as grants and loans or reimbursements for supporting business development or improving competitiveness).

What types of business incentive are used in the region and how effective are they?

Theoretical studies suggest that the most effective tax incentives for attracting investment are those that are linked to the scale of the investment made or that reduce the cost of capital, such as deductions, tax credits and accelerated-depreciation schemes.⁷ The best performing incentives are accelerated-depreciation schemes, due to their focus, neutrality and lower fiscal cost. The studies warn that tax incentives that are not based on businesses' investment expenditures, as is the case with tax holidays, other exemptions and reduced rates, are usually less cost effective.

⁶ James (2013).

⁷ Agostini and Jorratt (2013).

According to the detailed study carried out in the Report, less effective tools are predominantly used in Latin America and the Caribbean. Almost all the countries analysed use tax holidays, and some apply reduced income-tax rates for certain sectors or geographical areas.⁸ Thus, they offer more incentives related to businesses' profits, instead of those related to the cost of the investment, as is advisable.

However, the use of more effective incentives to promote investment, such as accelerated depreciation or the application of tax credits or deductions related to the cost of the investment, is still absent in many countries in Latin America and the Caribbean.

How do tax incentives for businesses in Latin America differ from those in the rest of the world?

The region stands out for the generosity of the benefits offered to businesses. The average duration of tax holidays in the countries studied is longer than that in other regions of the world (15 years, compared with between five and 10 years in other regions).⁹ Similarly, although the use of reduced corporation tax rates is less frequent in Latin America and the Caribbean than in other developing countries, this benefit is more generous in the countries of the region.

Between 2009 and 2015, 35% of the countries of Latin America and the Caribbean increased incentives in at least one sector, whereas 22% reduced them (figure 2B).¹⁰ Moreover, corporation tax rates in developing countries have been falling (figure 2A).

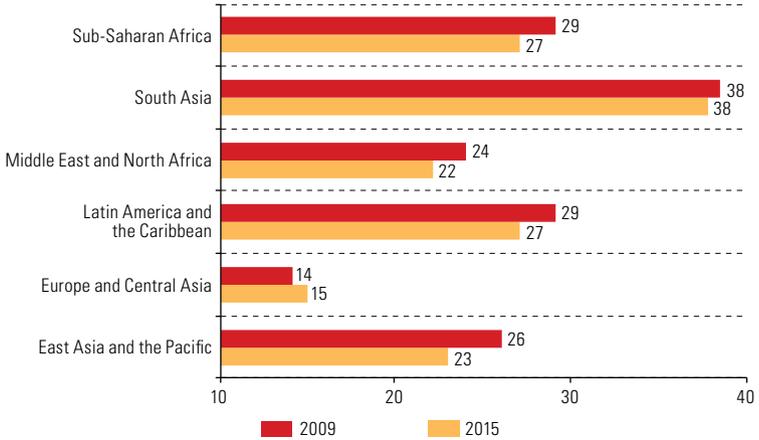
⁸ A detailed list of the types of business incentives used in each country of the region can be found in the full report.

⁹ World Bank (2018).

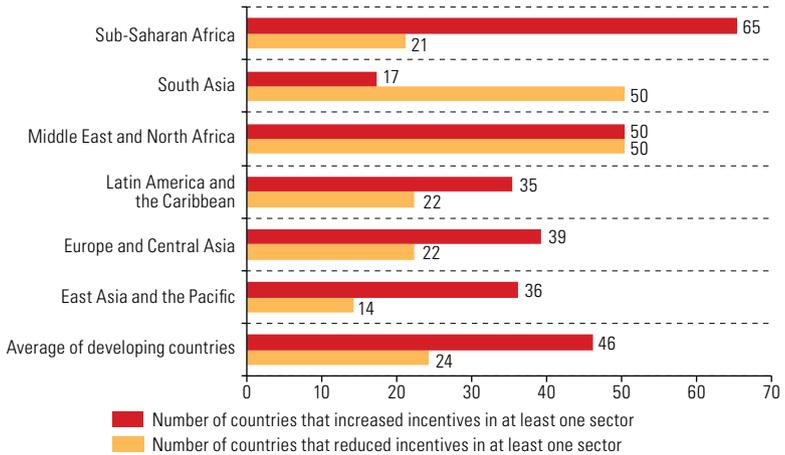
¹⁰ Ibid.

Figure 2
Corporation tax and changes to tax incentives by region, 2009–2015
(Changes in percentage terms)

A. Average corporation tax rate by region



B. Share of countries with changes in use of tax incentives



Source: World Bank (2018).

The reduction in corporation tax rates, the creation of new investment incentives and the offering of more generous incentives highlight the problems of international tax competition and the risk of a 'race to the bottom' in terms of corporate income tax. These measures erode countries' tax bases and hinder the mobilization of domestic resources that are essential for funding the public policies necessary to achieve the SDGs.

What is the fiscal cost of business incentives in the region?

The tax revenue that is foregone as a result of tax incentives to invest is equivalent to around 1% of GDP in several countries (Argentina, Bolivia, Brazil, Ecuador, Mexico, Peru and the Dominican Republic) (table 3). The highest tax expenditures focused on investment and businesses, in terms of GDP, can be found in Chile and Uruguay (around 2.5% of GDP), but these are also considerable in Costa Rica and El Salvador (1.9% and 1.8% of GDP, respectively). The lowest tax expenditures can be found in Guatemala and Paraguay (less than 0.7% of GDP). Moreover, as table 3 shows, the average fiscal cost associated with these incentives represents 9% of total tax revenue and 13% of public spending on health, education and social protection by the central government, though there are differences between countries.

The tax revenue foregone due to the use of business incentives is equivalent to approximately 20% of public spending on health, education and social protection by the central government in El Salvador and the Dominican Republic. At the other end of the scale, at around 8%, Argentina, Bolivia and Brazil sacrifice less tax revenue due to the use of incentives and fund higher social spending.

This highlights how important it is for countries to assess the effectiveness of their incentive policies, so that if they are not effective at promoting investment, job creation and sustainable development, they can be revised or eliminated. Thus, resources can be allocated to, for example, funding social policies or investing in public infrastructure.

Table 3
Latin America: fiscal cost of tax incentives to invest, around 2016–2019
(Percentages of GDP and of total tax expenditures)

Country	Year	Percentages of GDP	Percentages of tax expenditure	Percentages of tax revenue	Percentages of central government spending on health, education and social protection ^a
Argentina	2019	1.2	49.8	4.4	8.1
Bolivia	2016	0.9	73.9	5.0	7.7
Brazil	2019	1.3	31.5	6.6	8.4
Chile	2016	2.4	69.5	13.8	15.6
Costa Rica	2017	1.9	34.2	14.0	15.3
Dominican Republic	2019	1.5	29.8	10.9	19.6
Ecuador	2017	1.4	30.2	11.7	16.0
El Salvador	2016	1.8	48.3	10.3	19.6
Guatemala	2017	0.7	28.5	6.8	13.4
Mexico	2019	0.9	27.4	6.5	11.1
Paraguay	2016	0.6	33.5	5.7	6.6
Peru ^b	2019	0.9	44.2	6.5	10.4
Uruguay	2017	2.5	39.4	12.8	15.5

Source: Authors' calculations based on official information and information from ECLAC.

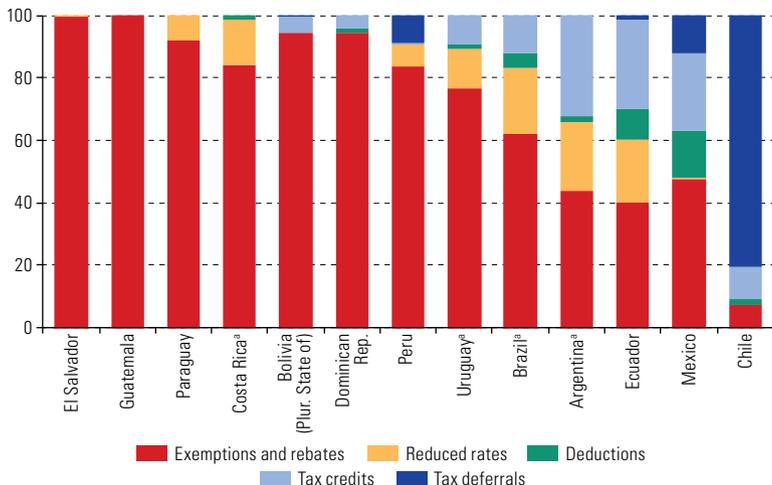
Note: Some countries are not listed, since their official tax expenditure publications do not give the breakdown necessary to be able to detail the part corresponding to investment incentives.

^a The most recent available figures correspond to 2017.

^b In the case of Peru, the figures for spending on health, education and social protection correspond to the general government (includes social security institutions, regional and local governments).

As figure 3 illustrates, in almost all the countries of the region, the largest cost in terms of lost revenue due to the granting of business incentives is the result of preferential tax measures which are not related to the amounts invested, and which are therefore less effective, such as exemptions, tax rebates and reduced rates. In only a few countries is the use of other tools, such as deductions, tax credits and tax deferrals (which are generally more focused on or related to the investment itself and are therefore more effective), more frequent and represent a greater proportion of the fiscal cost of total incentives. Chile and Mexico have made the greatest progress in this regard.

Figure 3
Latin America: tax incentives to invest by type, around 2016–2019
(Percentages of total investment incentives)



Source: Authors' calculations based on official information.

Note: Some countries are not listed, since their official tax expenditure publications do not give the breakdown necessary to be able to detail the type of incentive.

^a Although some countries have special accelerated-depreciation regimes, the official methodology has a long-term focus and does not measure tax expenditure resulting from deferrals.

Do business incentives succeed in attracting investment?

The econometric evidence available shows that tax incentives are just one of the factors that can affect investment, job creation and economic growth. This is because there are other elements outside the tax system that have turned out to be more significant, such as the quality of institutions, infrastructure, the size of the market, and economic, political and social stability.¹¹

Below is a summary of the key findings of some of the most recent studies:

- Artana (2015) conducted an econometric study for Costa Rica, El Salvador and the Dominican Republic on free economic zones

¹¹ Annex 3 of the full report proposes an econometric model to assess the impact of tax incentives on different variables, such as GDP growth, foreign direct investment (FDI) and employment.

and concluded that, with the use of tax holidays, there is a high risk of promoting high-profitability projects that would have been carried out even without the incentives. Moreover, in the case of Costa Rica, the study revealed that the level of exemption does not seem to have an impact on investment or employment.

- James (2013) pointed out that the investment climate is particularly crucial in determining the effectiveness of the incentives in terms of attracting foreign direct investment (FDI). The study found that the effect of the reduction in effective tax rates on promoting FDI is eight times higher in countries with a good investment climate, which helps to explain why incentives have encouraged investment in some countries but have been unsuccessful in others.
- Klemm and Van Parys (2009) found evidence of tax competition between countries and that lower corporation tax rates and longer tax holidays are effective at attracting FDI, but not at stimulating gross private fixed capital formation, total investment and economic growth.

As a complement to the econometric studies, research conducted by the World Bank (2018) based on a survey of 750 multinational investors and business executives, shows that political stability and security, together with the presence of a stable legal and regulatory framework in the country, matter much more than low labour costs or tax rates.

Do the benefits of business incentives outweigh the costs?

Studies that include a cost-benefit analysis are very rare in the countries of Latin America and the Caribbean, which is worrying, given the fiscal cost of business incentives. Despite covering a wide area, this research has only been able to collate five cost-benefit analyses of incentives based on public information, in Chile, Colombia, Ecuador and the Dominican Republic. However, there is evidence of the use of a large number of incentives: according to Agostini and Jorratt (2013), following analysis of tax legislation in 10 countries in the region, 337 investment incentives were identified. Despite the recommendations on the need to assess whether or not incentives are efficient with regard to the objectives that were set, such assessments are rarely publicly available.

The results of these cost-benefit studies on tax incentives in countries in the region show that they are not cost effective.¹² The costs they generate in terms of foregone tax revenue or other costs are greater than the benefits they yield, whether in regard to increased investment, economic growth, job creation or other social goals (such as reducing poverty and improving income distribution).

¹² A detailed list of countries, years, sectors and types of incentive analysed, methodologies and key results can be found in the full report.

IV. Governance and the political economy of tax incentives for businesses

Despite the questionable effectiveness of tax incentives for businesses, countries continue to use them as a tool. The loss of tax revenue and other costs they generate, as well as the problems of their effectiveness, are aggravated by non-transparent governance practices in the processes of designing, defining, implementing, managing, monitoring and assessing the tax incentives.

The countries of Latin America and the Caribbean have significant opportunities to improve their governance systems:

- Tax incentives in the region are offered not only through **tax laws**, but also by means of other special laws or via executive decrees or agreements with investors. All the region's countries have multiple laws offering tax incentives in different sectors. This is contrary to best practice, which recommends granting incentives exclusively via tax laws in order to increase transparency and reduce discretion, overlapping or contradictory incentives, and misuse.
- With regard to **transparency of information** about tax incentives, although Latin American and the Caribbean countries publish much legislation online, the objectives pursued by these measures are not always made clear. Countries do not disclose the main beneficiaries of the tax incentives or the amounts received by each of them, as stipulated by international best practices. However, progress has been made and many of the official published documents on tax expenditures include the fiscal cost of the incentives for the main beneficiary sectors (in Bolivia, Brazil, Chile, Colombia, El Salvador, Guatemala, Mexico, Peru and the Dominican Republic).

- With regard to **transparency and efficiency in the administration** of incentives, most countries in Latin America and the Caribbean have multiple governmental bodies that are involved in incentive management, such as investment and export agencies and ministries for various sectors. This can make it difficult to achieve a balanced participation that ensures that the public good takes precedence in decision making. Several bodies and experts¹³ point out the need to create spaces for citizen participation and to prevent the interests of the private sector from being overrepresented.
- In order to minimize discretion in the granting of incentives, it is important for the **criteria and conditions for access to incentives to be clearly and objectively stipulated in the legislation**. The criteria applied in the region are usually based on priority sectors or specific activities in certain geographical areas or special zones, and/or include a prerequisite related to the amount of a new investment or the creation of new jobs. When tax incentives are offered or administered discretionally, this opens up a pathway to corruption.
- Once the incentive has been granted, the authorities (preferably the tax authorities) must **monitor the beneficiary businesses and ask them for the information necessary to carry out the corresponding cost-benefit assessments** (such as a description of tax benefits received, jobs created, amounts invested, exports, etc.). For example, in Uruguay, once the proposed investment project is under way, the Commission for the Application of Investment Laws carries out monitoring in the four months following the end of the financial year. The business must present information about the execution of the investment, the tax benefits used and the indicators involved.¹⁴
- With regard to the guidelines for **assessing incentives**, the countries have made significant progress in terms of measuring and publishing the fiscal cost of tax expenditures. A total of 16 countries publish an annual official report on their tax expenditures. Moreover, in the vast majority of countries in the region, there are legal provisions in place requiring the publication of these reports, which generally form part of the supporting documentation for the draft budget. However, studies that assess the effectiveness of incentives—that consider both their costs and their benefits—are very rare in the countries of Latin America and the Caribbean.

¹³ World Bank (2017); Daude, Gutiérrez and Melguizo (2014); Cañete (2018).

¹⁴ See Uruguay XXI (2018).

V. Policy challenges

The existence of multiple policy objectives and limited resources means that countries need to strengthen their tax systems and improve the governance of business incentives in order to ensure that public revenue is used effectively to achieve the SDGs. The following guidelines seek to help in this respect:

- Provide tax incentives exclusively through **tax laws** and/or consolidate all existing incentive regimes in a section of the tax code. This prevents the overlapping of incentives and guarantees that the incentives policy is reviewed, debated and approved by the legislature, is available to all taxpayers in accordance with the established criteria, and is not left to the discretion of public officials, thereby limiting corrupt and abusive practices. It also facilitates citizen participation and ensures that the legislature reviews tax incentives as part of the annual budget process.
- Establish clear, sensible, objective and easily measurable **eligibility criteria** for accessing tax benefits in the legislation, which limits discretion, prevents negotiations with authorities and increases transparency.
- Include in the legislation a **justification** for establishing or maintaining a preferential tax measure and clearly set out the **objectives** pursued. Base this justification on **cost-benefit studies** in order to limit the proliferation of tax incentives and reduce misuse.
- Include a regime **end date** in the legislation and demand that the relevant assessments be carried out in order to decide whether to continue, reform or eliminate the regime.

- **Publish the full and updated legislation** on tax incentives (laws, decrees, regulations, administrative instructions, etc.) and **a list of all tax incentives currently in force**, including the eligibility criteria, amounts granted and procedures for investors to follow in order to obtain them.
- Adopt a **centralized system** for granting and administering all national tax incentives within the **Finance Ministry**. This prevents overlapping and reduces the risk of corruption and rent-seeking. It is very important for the **tax authorities** and the Finance Ministry to be involved throughout the tax incentive process, from design, definition, assessment, administration and information-gathering to oversight and monitoring.
- **Periodically assess the costs and effectiveness** of preferential tax measures in order to determine whether the benefits attributable to the incentive in question outweigh its costs.
- **Evaluate the efficiency of tax incentives relative to other tools**, since they are not the only tool available with which to achieve policy objectives. It is not sufficient for the benefits generated by the incentive to outweigh the costs; the incentive must also be more efficient than other policy alternatives, such as direct spending on infrastructure or on programmes or another type of incentive. Based on these assessments, it will be possible to determine whether there is a justification to establish or maintain the preferential tax measures, or whether they should be replaced by another, more efficient, measure.
- **Set out a strong institutional framework** for the countries to periodically publish a suitable and detailed report on the costs, hoped-for benefits, key beneficiaries and objectives of the tax incentives, as well as cost-benefit assessments. These assessments provide greater transparency in terms of fiscal policy, while also helping to improve the efficiency and fairness of tax systems.
- **Include the reports on tax expenditures in the discussion on the budget** for each year and present them in such a way as to facilitate comparison with other budgetary expenditures. Moreover, progress must be made in the publication of details about the beneficiaries of tax incentives.
- **Carry out cost-benefit assessments based on information from the tax authorities or Finance Ministry**. There should

also be **coordination** with the ministries of the sector concerned and the beneficiary businesses, so that they can provide the necessary information.

- **The tax authorities must oversee the beneficiary businesses** and ask them for the information required to carry out cost-benefit assessments. The information should include a description of the tax benefits received, jobs created, amounts invested, exports, and so on.
- Promote **greater citizen participation** and coordination between the different government institutions involved, including coordination between the central and subnational levels of government.
- Progress towards **greater international coordination and cooperation**. Countries can make a combined effort to progress towards the adoption of agreements on best practices in the use of tax incentives, strengthen regional tax cooperation and avoid harmful tax competition between countries, which results in lower tax revenue. Such agreements could establish minimum standards for the transparency and use of incentives, as well as a common framework for reporting and data-gathering. At the same time, they could support the development of capacities and cost-benefit studies and promote the strengthening of institutions related to tax incentives in order to eradicate abusive practices.

The efforts of the international community, primarily through Action 5 of the OECD G20 Base Erosion and Profit Shifting (BEPS) Project (Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance), constitute progress in the fight against international tax competition. The members of the Inclusive Framework on BEPS, which include several Latin American countries,¹⁵ have undertaken to implement the minimum standards of Action 5 and to participate in a peer review. This assessment, conducted by the Forum on Harmful Tax Practices (FHTP), identifies preferential tax regimes that facilitate the erosion of the tax base and the diversion of profits, and which therefore have the potential to unfairly impact the tax base of other countries.¹⁶ Moreover, Action 5 includes a commitment to transparency via the spontaneous and compulsory exchange of

¹⁵ As at March 2019, the following Latin American countries formed part of the Inclusive Framework on BEPS: Argentina, Brazil, Chile, Colombia, Costa Rica, Haiti, Mexico, Panama, Paraguay, Peru, the Dominican Republic and Uruguay.

¹⁶ See OECD (2019), which contains the results of the assessment of preferential tax regimes in the context of Action 5 of the BEPS Project, which comprises more than 120 member jurisdictions of the Inclusive Framework.

relevant information about specific agreements between taxpayers and tax authorities, since a failure to exchange such information could give rise to abusive practices.

Although this is an important step, harmful tax competition continues to take place, which is why the new working plan agreed within the Inclusive Framework on BEPS offers an opportunity to drive a new generation of measures to prevent the loss of public resources as a result of the diversion of profits to no-tax or low-tax jurisdictions, and to expand on coordinated actions between countries in order to prevent tax incentives to invest from being used as tax competition tools. These measures and actions will be essential in reinforcing the mobilization of domestic resources necessary to achieve the SDGs in Latin America and the Caribbean. All the guidelines outlined above are crucial for good governance and streamlining the use of tax expenditures so that countries can focus on the most efficient measures, gradually eliminate the rest and thus boost their tax revenue. This will contribute to the mobilization of resources to fund the actions needed to achieve sustainable development in economic, social and environmental terms.

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This paper analyses tax incentive policies for businesses in Latin American countries to promote the discussion and review of these instruments with the aim of building tax systems that foster investment, while continuing to provide the necessary resources to attain the Sustainable Development Goals (SDGs).

The amount of revenue that is lost because of tax incentives is not insignificant, in terms of both the size of the economy and total government revenues and public spending on health, education and social care. Moreover, the few cost-benefit studies that have been carried out in the region show that these incentives are not cost efficient, so there is ample space to rationalize their use and to improve their design and focus.

The effectiveness of tax incentives depends, to a large extent, on good governance in their design, implementation, monitoring and evaluation, with particular importance given to transparency and accountability. Although the region has made progress in terms of measuring and publishing the fiscal cost of these incentives, there is still a long way to go to improve their governance. This document sets out guidelines in this regard.

