Fiscal Panorama of Latin America and the Caribbean

2026

Strengthening tax systems to finance more productive, inclusive and sustainable development

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Three dots indicate that data are not available or are not separately reported.
A dash indicates that the amount is nil or negligible.
A full stop is used to indicate decimals.
The word "dollars" refers to United States dollars, unless otherwise specified.
A slash between years (e.g. 2025/2026) indicates a 12-month period falling between the two years.
Individual figures and percentages in tables may not always add up to the corresponding total because of rounding.

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In memoriam

The passing of Oscar Cetrángolo in late December 2025 is an immeasurable loss for regional discussions on fiscal policy in Latin America and the Caribbean.

His outstanding professional career earned him widespread international recognition for his extensive and valuable analytical contributions on various aspects of public expenditure —including social security, health and education— as well as public revenue, notably tax policy and fiscal federalism.

Having graduated with a Master's degree in Development Studies from the University of Sussex, United Kingdom, he led a distinguished career in his native Argentina as an academic and Professor Emeritus of the University of Buenos Aires (UBA), as a researcher at the Interdisciplinary Institute of Political Economy of UBA and at the National Scientific and Technical Research Council (CONICET), and as a public official in senior positions in the Argentine public sector. He served as an advisor to various governments in the region and was a renowned consultant with international organizations such as the International Labour Organization (ILO), the Inter-American Development Bank (IDB), the World Bank and the Economic Commission for Latin America and the Caribbean (ECLAC).

At ECLAC, he authored and co-authored a substantial body of work as an expert on public policy, showing a high level of professionalism and a deep commitment to the institution over the years. He was also one of the economists who participated most frequently in the Regional Seminar on Fiscal Policy throughout its long history, contributing regularly and constructively to the discussions and sharing his vast technical expertise, eminently progressive and democratic ideas, and wealth of experience with great generosity and intellectual humility.

Oscar, as many of his colleagues called him, will be remembered for exceptional personal qualities. He leaves behind a unique legacy that will endure forever and that, as he himself wished, will inspire and provide a foundation for new generations to continue building fairer and more cohesive societies.

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Foreword

Latin America and the Caribbean are ensnared in development traps that hold them back from achieving more productive, inclusive and sustainable growth. The structural transformations that the region needs in order to break free of these traps must be underpinned, among other things, by much stronger fiscal policy. In an international context of uncertainty, macroeconomic volatility and limited fiscal space, progress needs to be made on domestic resource mobilization, and especially on developing stronger tax systems as the basis of public financing. The quality of spending also has to be improved strategically in order to close the development gaps that the countries of the region still grapple with.

Public finances were very uneven across the region in 2025. As discussed in chapter I, Latin America's public revenues held relatively stable, with a slight rise in tax collection. Its primary balance improved and came close to equilibrium, while its average overall deficit narrowed to 2.9% of GDP. Debt levels, however, remain high. In the Caribbean, conversely, the fiscal position deteriorated: the primary balance shifted from a surplus of 0.3% of GDP in 2024 to a deficit of 1.6% of GDP in 2025, as non-tax revenues declined and public spending rose. As a result, the subregion's overall average deficit widened to 4.8% of GDP.

In view of the need to expand fiscal space, this edition of the *Fiscal Panorama* looks in depth at key issues for mobilizing domestic resources. Chapter II addresses non-compliance with personal income tax, one of the main constraints on the collection of a tax that is key for equity and the factor that most sets the region's typical tax structures apart from those of developed countries. A harmonized methodology based on stochastic estimates for five countries is used to quantify the non-compliance tax gap, which is found to be between 0.33% and 0.93% of GDP. Chapter II also examines the strategies that tax administrations have turned to recently to improve compliance, via both auditing technologies and measures to facilitate the taxpayer experience. These efforts must also be accompanied by regulatory reforms and updates to close loopholes for tax evasion.

Chapter III examines the role of tax expenditures for social objectives in 12 Latin American countries. An innovative methodological approach is used to identify, classify and quantify these forgone revenues, by sectoral distribution and type of incidence (direct or indirect). Considerable divergence is found across countries in both magnitude and role. Given that there is little information on how effective these tax expenditures are or what impact they have on distribution, the analysis underscores the need to manage them more comprehensively and transparently, and in particular to evaluate them objectively. This is a prerequisite for improving fiscal and social policies and affording greater legitimacy to tax reforms in the region.

As emphasized in the chapter, stronger fiscal institutions are essential for increasing domestic resource mobilization, in line with the Sevilla Commitment and the necessary reform of the region's fiscal, financial and institutional architecture to make it more equitable, stable and predictable. In this regard, the Economic Commission for Latin America and the Caribbean (ECLAC) identifies three areas of action to strengthen resource mobilization for development financing: (i) renewing international financial architecture and sovereign debt resolution mechanisms; (ii) redefining eligibility criteria for official development assistance and supporting transitions toward graduation; and (iii) promoting private sector investment by strengthening capital markets, foreign direct investment and innovative financial instruments.

It is also essential, as ECLAC has consistently emphasized, to strengthen the technical, operational, political and prospective (TOPP) capabilities of the public sector, in order to ensure that policies are well designed and implemented effectively.

Prospective capabilities are especially important in the current context, as the armed conflict that has erupted in several Middle Eastern countries has potential implications for global economic growth. The rise in commodity prices —primarily oil, natural gas and fertilizers— and their possible impact on food prices could generate inflationary pressures globally and regionally, as has occurred in previous years. The main implications for fiscal policy, an essential tool for macroeconomic resilience, could manifest as additional pressure for tax relief or public spending measures for the most vulnerable groups amid limited fiscal space. Higher interest rates could affect debt service. Conversely, higher oil prices could boost the revenues of State-owned oil companies in the region's producer countries. It thus becomes crucial to devise strategies to build more robust public finances and support them with resilient fiscal institutions. Shock absorbers, such as sovereign wealth funds, are part of these strategies, as are innovative financing mechanisms to protect investment priorities against external volatility. Through these efforts, fiscal policy can support more productive, inclusive, sustainable and stable economic growth in the countries of the region.

José Manuel Salazar-Xirinachs
Executive Secretary
Economic Commission for
Latin America and the Caribbean (ECLAC)

CHAPTER

Public finance trends in 2025

Introduction

In 2025, Latin America and the Caribbean faced a global context of uncertainty, macroeconomic volatility and challenging international policy that exposed the region's vulnerability to external shocks and that was further complicated by limited fiscal space, underscoring the urgent need for in-depth reforms to overcome the development traps facing the region. Progress in this direction requires, in particular, strengthening tax revenue and ensuring the medium-term sustainability of public finances, as their deterioration limits the State's ability to foster stronger economic growth and more productive, inclusive and sustainable development.

Despite this global backdrop, public revenue in Latin America remained stable at the end of 2025, with a slight increase relative to the previous year, supported by moderate economic growth, favourable terms of trade and improved labour market conditions. Tax revenue edged up overall, driven mainly by value added tax (VAT). On the expenditure side, primary current expenditure remained relatively unchanged, on average, across countries. Meanwhile, interest payments generally declined in Latin America, following three consecutive years of increases. In the Caribbean, average public revenue declined, owing to lower non-tax revenue —particularly from citizenship-by-investment programmes— and reduced tax revenue as a result of tax relief measures in some countries. At the same time, public expenditure generally continued to trend upward, although this outcome was influenced by various exceptional operations.

Although fiscal space remained broadly limited, the primary balance for Latin America as a whole moved closer to equilibrium, reflecting countries' efforts to stabilize public accounts. Consistent with this, the average overall fiscal deficit decreased to 2.9% of GDP at the end of the year. By contrast, the fiscal position in the Caribbean deteriorated relative to the previous year, driven by divergent trends in total revenue and expenditure. The average primary balance shifted from a surplus of 0.3% of GDP to a deficit of 1.6% of GDP between 2024 and 2025. In line with this, the overall deficit widened to 4.8% of GDP, compared with 2.8% of GDP in 2024. Public debt levels remained high across the region —particularly in some Caribbean countries— and increased slightly on average relative to 2024, although they remained below those recorded in 2023. This continues to constrain countries' room for manoeuvre, especially in the current macrofinancial environment characterized by high interest rates, tight financing conditions in international capital markets and the potential effects of the recent armed conflict affecting several countries in the Middle East.

The fiscal accounts of subnational governments deteriorated in 2024, owing mainly to local governments, as spending increased and revenue registered little change. Fiscal balances for intermediate governments remained stable as a fall in revenue was accompanied by lower spending. The contraction in spending for intermediate governments reflected reductions in both current and capital expenditure. At both levels of government, heavy reliance on transfers from central governments constrained fiscal autonomy and limited the capacity to sustain countercyclical spending policies. Although subnational debt appears to have declined towards the end of 2024, the structural dependence on intergovernmental transfers remains one of the main sources of fiscal vulnerability for subnational governments in most countries of the region.

Against that backdrop, and at a time when the region needs to expand fiscal space to address priority areas, the Sevilla Commitment, adopted at the Fourth International Conference on Financing for Development in July 2025, reflects the international community's commitment to achieving sustainable development and mobilizing additional financial resources to that end.

In Latin America and the Caribbean, implementing this initiative requires progress on a range of fiscal policy strategies. First, it is essential to strengthen public resource mobilization by broadening the tax base and streamlining tax expenditures, while redoubling efforts to reduce tax evasion and avoidance, establishing mechanisms to enhance the progressivity of tax structures and leveraging technological advances to facilitate and improve tax compliance. It is also important to promote economic formalization and to incorporate gender and environmental considerations into budget planning. In addition, there is a clear need to strengthen subnational finances by diversifying sources of revenue and public financing.

Lastly, as the Economic Commission for Latin America and the Caribbean (ECLAC) has emphasized, a critical requirement for achieving these objectives is to strengthen the technical, operational, political and prospective (TOPP) capabilities of the public sector, in order to ensure public policy effectiveness and that spending and investment decisions contribute meaningfully to closing the development gaps that persist in the region (Economic Commission for Latin America and the Caribbean [ECLAC], 2025b).

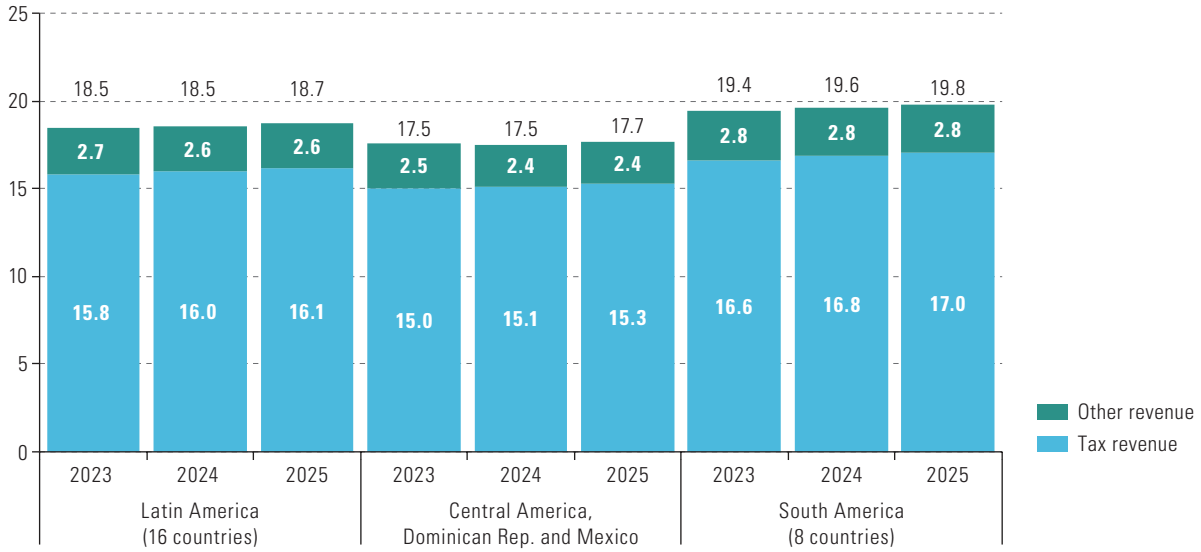
It is also important for the region to make progress on the external dimensions of the Sevilla Commitment related to reforming the global financial architecture, through improved governance, strengthened international cooperation and political leadership committed to the necessary structural transformations. This should include updating the criteria for international assistance to ensure that countries in transition do not lose financial support abruptly as they reach higher income levels. In addition, it calls for exploring ways to attract private capital, strengthen local markets and use innovative financial instruments to channel resources towards strategically significant projects.

A. Total revenue rose slightly in Latin America, while contracting in the Caribbean

Despite the complex global macrofinancial environment in 2025, public revenue in Latin America remained stable, supported by moderate economic growth, favourable terms of trade and improved labour market conditions (ECLAC, 2025a). Total central government revenue stood at 18.7% of GDP, slightly above the levels over the previous two years (see figure I.1). This increase is attributable to higher tax revenue in the countries of Central America, the Dominican Republic and Mexico, as well as in South America. Revenue from other sources (non-tax revenue, capital revenue and grants) remained unchanged, with a decline in oil revenue offset by one-off revenue in other countries.

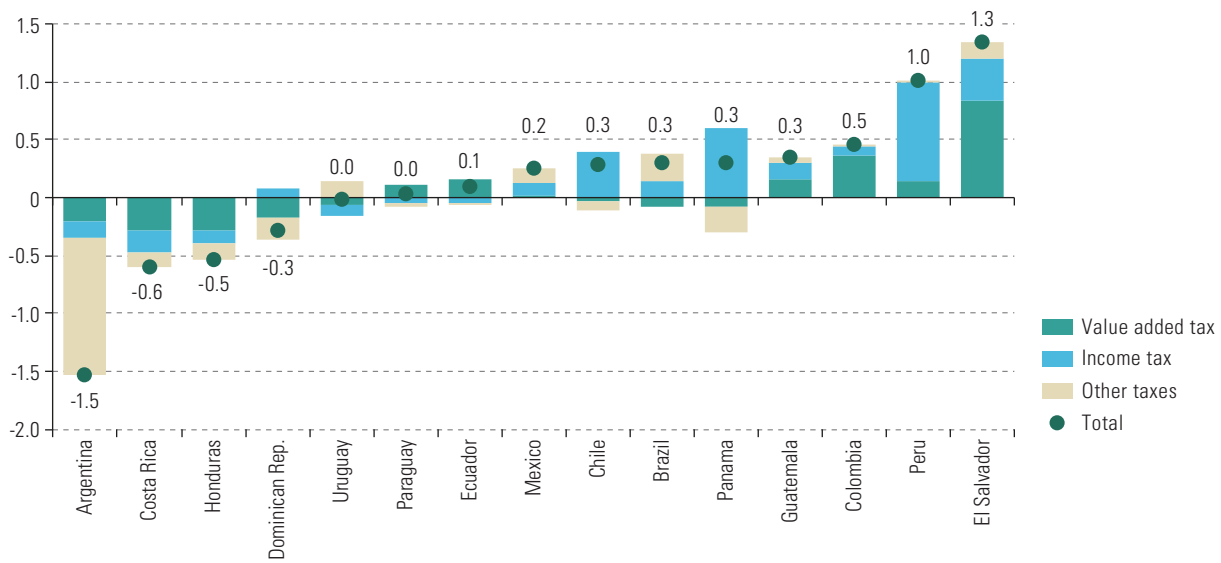
Although tax revenue in Latin America rose, on average, trends across countries were considerably mixed. As shown in figure I.2, year-on-year variations ranged from increases of 1 percentage point of GDP or more to decreases of over 0.5 percentage points of GDP. At the same time, there is no common trend among the different taxes. In most cases, VAT revenue trends were in line with the moderate growth in private consumption; however, in some countries these trends were offset by the impact of national currency appreciation on the value of imports. Meanwhile, income tax revenue trends were mixed, although in some countries that revenue was the main driver of overall tax revenue growth. Regulatory changes also heavily influenced these variations.

Figure I.1
Latin America (16 countries):[a] total central government revenue, by component, 2023–2025
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.
Note: Simple averages. The figures for Argentina, Mexico and Peru refer to the national public administration, the federal public sector and the general government, respectively.
[a] Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

Figure I.2
Latin America (15 countries): year-on-year variation in tax revenue,[a] by tax, 2024 and 2025
(Percentage points of GDP)

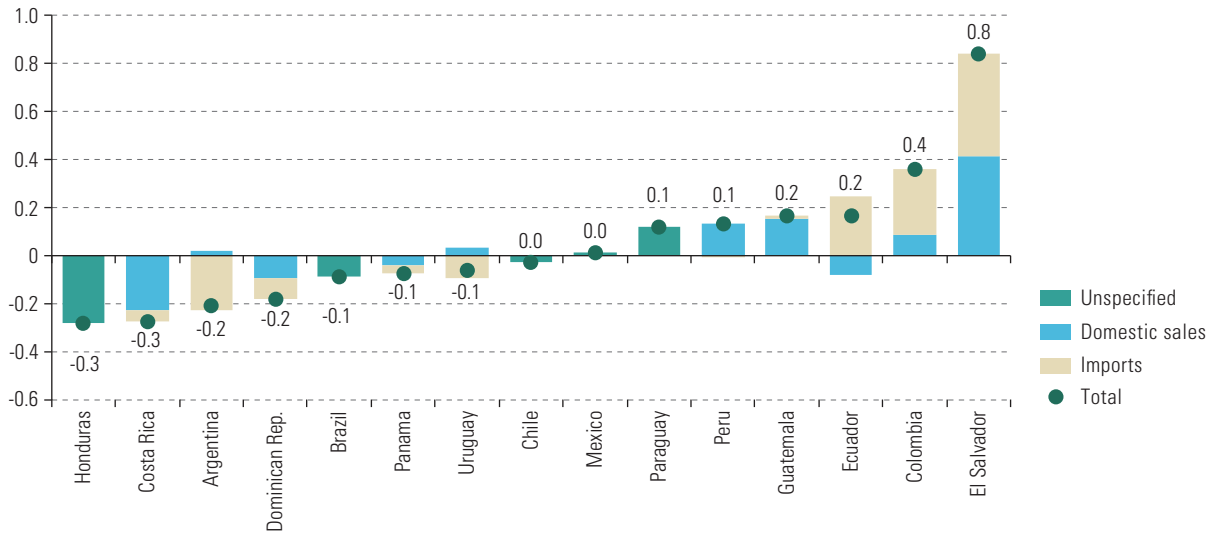


Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.
Note: The figures for Argentina, Mexico and Peru refer to the national public administration, the federal public sector and the general government, respectively.
[a] Does not include social security contributions.

In the countries with the largest increases in VAT revenue in 2025, VAT receipts from imports stood out (see figure I.3). Notably, imports in Ecuador and El Salvador recorded strong growth in value terms. In Ecuador, imports reached a historic level in 2025 (Ministry of Finance of El Salvador, 2025; Central Bank of Ecuador, 2025). In

Colombia, the increase in revenue from VAT on imports is attributable mainly to the decision of the National Directorate of Taxes and Customs to apply a 19% VAT rate to imports of liquid fuels (gasoline and motor fuel oil) on the basis of Act No. 1819 of 2016 (Ministry of Finance and Public Credit of Colombia, 2026). However, in several countries, such as Costa Rica and the Dominican Republic, the decline in international prices of crude oil and liquid fuels resulted in lower revenues from this tax (Ministry of Finance of Costa Rica, 2026; Directorate-General of Customs of the Dominican Republic, 2025).

Figure I.3
Latin America (15 countries): year-on-year variation in central government value added tax revenue, by component, 2024 and 2025
(Percentage points of GDP)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.
Note: The figures for Argentina, Mexico and Peru refer to the national public administration, the federal public sector and the general government, respectively.

With respect to VAT revenue from domestic sales, increases were concentrated in a limited number of countries. While growth in private consumption contributed positively in some cases, regulatory changes also played an important role. In Colombia, for example, the increase is largely attributable to measures adopted to finance the response to the security situation in the Catatumbo region, including the application of VAT to games of chance and gambling operated exclusively online, either within the country or from abroad. Revenue from this measure amounted to 0.1% of GDP between February and November 2025 (Ministry of Finance and Public Credit of Colombia, 2026; Presidency of the Republic of Colombia, 2025). In El Salvador, the completion of the roll-out of mandatory electronic invoicing, with coverage expanded to include additional taxpayers in 2025, stands out (Ministry of Finance of El Salvador, 2025; Canal 12, 2025). In Peru, the application of VAT to digital services under Legislative Decree No. 1623 of 2024 generated revenue equivalent to 0.1% of GDP in 2025 (National Tax and Customs Administration of Peru, 2026).

Income tax revenue in 2025 reflects both settlement payments and refunds relating to annual returns for the previous fiscal year, as well as advance payments for the current year. As a result, this revenue is determined by both current macroeconomic conditions and those of the previous year. For example, the decline in Argentina is explained largely by the high base effect from the previous year, when corporate income tax revenue increased significantly owing to the depreciation of the national currency

in 2023 (Congressional Budget Office of Argentina, 2026). In Honduras, the reduction in corporate tax revenue reflects lower payments linked to the annual settlement of tax liabilities for fiscal year 2024. Despite these declines, several factors contributed to increases in other countries of the region.

The strength of the formal labour market was key to the growth of personal income tax revenue in several countries. In Brazil, withholding taxes on labour income were particularly significant, driven by the continued improvement of formal employment, growth in the wage bill and the real increase in pensions (National Treasury Secretariat of Brazil, 2026). In Mexico, the growth of income tax revenue was likewise linked to the increase in the wage bill (Ministry of Finance and Public Credit of Mexico, 2026). In Panama, revenue from income tax withheld from employees' wages was notable, owing partly to measures implemented to strengthen oversight of employers (Ministry of Economy and Finance of Panama, 2026).

Income tax revenue linked to the financial sector and financial transactions also stood out. In Brazil, withholding taxes on capital income were boosted by higher revenue from fixed-income funds and investment funds, while withholding taxes on non-residents also increased, partly reflecting higher payments of royalties and interest on equity (National Treasury Secretariat of Brazil, 2026). The revenue from these components could further improve in the coming year, once the major tax reform approved at the end of 2025 enters into force (see box I.1). In Colombia, higher inflows from withholdings on occasional gains from real estate activities stand out, reflecting changes to minimum thresholds and withholding rates established in Decree No. 572 of 2025, as well as developments in financial services (Ministry of Finance and Public Credit of Colombia, 2026). In Panama, capital gains from the sale of securities recorded exceptional growth, associated with significant acquisitions of shares in the financial, industrial and automotive sectors amid intense mergers and acquisitions activity (Ministry of Economy and Finance of Panama, 2026). In Peru, extraordinary revenues were recorded from the sale of an electricity company, equivalent to 0.2% of GDP (Ministry of Economy and Finance of Peru, 2026).

Box I.1
The recent personal income tax reform in Brazil

On 26 November 2025, Act No. 1087 of 2025 was passed following its unanimous approval in the Federal Senate of Brazil and its prior passage through the Chamber of Deputies. The adopted initiative introduces significant changes to personal income tax legislation, with a clear focus on strengthening tax progressivity.

The reform establishes exemptions aimed at reducing the tax burden on lower-income taxpayers. To this end, the tax rate is reduced to zero for individuals with monthly income of up to 5,000 reais (approximately US$ 950). In addition, a partial, gradually decreasing tax reduction is granted to those earning between 5,000.01 and 7,350 reais per month; this also applies to the thirteenth-month salary in the calculation of the tax liability. These measures took effect in January 2026 and are expected to benefit around 15 million individuals.

At the same time, for persons domiciled in Brazil, profits and dividends paid, credited, allocated or otherwise made available to the same person in amounts exceeding 50,000 reais per month will become subject to withholding income tax at a rate of 10% on the total amount, with no deductions. Similarly, for non-resident natural or legal persons, profits remitted abroad will also be subject to a 10% rate, except where such profits and dividends are distributed to foreign governments, provided reciprocal tax treatment applies.

In addition, the approved law introduces a tax on high incomes: natural persons with annual income over 600,000 reais will be subject to a new minimum personal income tax regime for high-income earners. Progressive rates ranging from 0% to 10% are envisaged for annual incomes between 600,000.00 reais and 1,199,999.99 reais (between US$ 114,000 and US$ 228,000) and a minimum effective rate of 10% will apply to incomes above 1.2 million reais per year.

This innovative reform is expected to enhance tax progressivity while remaining fiscally neutral by offsetting the reduced revenue from lower income brackets —which will be fully or partially exempt from personal income tax— with the anticipated increased revenue deriving from strengthened taxation of capital income and the introduction of a new progressive tax on higher incomes. The initiative is part of a broader structural reform, which includes a comprehensive overhaul of indirect taxation on goods and services and the creation of a dual value added tax. The reform aims to reinforce Brazil's tax system by enhancing its progressivity, efficiency and transparency, with a view to increasing revenue from a variety of sources.

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

In several countries, corporate income tax revenue increased, in line with commodity price trends and production levels. In Chile, the mining sector played a key role in 2025, owing primarily to the implementation of the Mining Royalty Act (No. 21591 of 2023), which came into force in 2024 and generated revenues equivalent to 0.6% of GDP during the 2025 income tax campaign (Internal Revenue Service of Chile, 2025). Similarly, favourable results from the 2025 income tax campaign in Peru resulted in higher advance payments by the mining sector, as the coefficients used to calculate them are based on the annual tax settlement (Ministry of Economy and Finance of Peru, 2026). The sharp year-on-year increase in the price of gold (62% in December 2025) also boosted revenues from corporate income tax and the mining profits tax in the Dominican Republic (Directorate-General of Internal Revenue of the Dominican Republic, 2025). In Brazil, corporate income tax revenues also recorded strong growth in the oil sector, driven mainly by record-high oil and natural gas production, which offset the decline in international crude oil prices (Secretariat of Federal Revenue of Brazil, 2026; National Agency of Petroleum, Natural Gas and Biofuels of Brazil, 2026).

A number of regulatory changes also had an impact on revenues from other taxes. For example, the decline in revenue in Argentina is largely explained by the expiration of the Tax for an Inclusive and Solidary Argentina, which had generated revenue of around 1.1% of GDP in 2024 (Congressional Budget Office of Argentina, 2026). Conversely, in Brazil, the tax on financial transactions increased significantly, driven by amendments introduced through Decree No. 12499 of 2025, which expanded the tax base to include foreign-currency outflows, lending to legal entities and securities (National Treasury Secretariat of Brazil, 2026). Beyond these specific factors, revenue from excise taxes slowed in several countries, including Costa Rica, the Dominican Republic and Honduras, in line with trends in VAT revenues.

In 2025, several countries in the region introduced significant changes to their tax incentive mechanisms, in line with their respective fiscal policy objectives. In Mexico, for instance, as part of the national strategy *Plan México*, a decree on tax incentives was issued in January to promote productive investment, workforce training and technological innovation. The decree provides for the immediate deduction of investment in new fixed assets acquired between 2025 and 2030, as well as an additional deduction for increases in spending on training and innovation.[1]

Brazil, by contrast, has made progress in streamlining tax expenditures through Complementary Act No. 224 of 26 December 2025, which establishes a linear 10% reduction in federal tax incentives associated with the corporate income tax, the social contributions on net income, the Social Integration Programme and the Contribution to the Financing of the Social Security System, the industrial products tax

[1] https://dof.gob.mx/nota_detalle.php?codigo=5747410&fecha=21/01/2025#gsc.tab=0

and contributions to the social security system.[2] The law also sets an overall ceiling of 2% of GDP on tax expenditures, introduces stricter governance criteria —including a maximum duration of five years and measurable performance targets— and raises the withholding tax rate applied to interest on equity from 15% to 17.5%. Exemptions include the benefits granted under the Manaus Free Trade Zone, the simplified regime and social programmes for housing and education. This illustrates the importance of quantifying and evaluating tax expenditures as a priority area for fiscal policy in the countries of the region (see box I.2).

Box I.2
Fiscal cost and evaluation of tax expenditures in Latin America and the Caribbean

Given the limited fiscal space in the countries of the region, it is especially important to review tax expenditures linked to multiple tax incentives or benefits that lower the tax burden for certain taxpayers. While these instruments are meant to achieve specific policy objectives (economic, social, sectoral, environmental or other), they also significantly limit the ability to mobilize domestic resources that could otherwise be allocated to social spending or strategic public investment. Moreover, the design of tax expenditures is a key consideration, since they can generate externalities that affect the efficiency and equity of the tax system, depending on how well they are targeted and how transparently they are managed.

In terms of magnitude, tax expenditures in Latin America and the Caribbean averaged 4.0% of GDP around 2024. The largest amount of revenue forgone was concentrated in VAT and other general consumption taxes, which accounted for 2.1% of GDP (equivalent to 52.3% of total tax expenditures). These were followed by tax expenditures linked to personal and corporate income taxes, at 1.3% of GDP (32.2% of the total). Other taxes —including specific taxes, external trade taxes and social security contributions— accounted for between 0.1% and 0.3% of GDP.

Latin America and the Caribbean (18 countries):[a] tax expenditures, by type of tax, 2024 or latest year available
(Percentages of GDP and percentages of total)

Type of tax	Percentage of GDP	Percentage of total tax expenditures
Income tax	1.3	32.2
VAT and general consumption taxes	2.1	52.3
Specific taxes	0.1	2.5
External trade	0.1	3.7
Social security contributions	0.1	2.5
Other taxes	0.3	6.9
Total	**4.0**	**100.0**

Source: Economic Commission for Latin America and the Caribbean, on the basis of official country reports.
[a] Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, the Plurinational State of Bolivia and Uruguay.

Beyond forgone fiscal resources, empirical evidence on the benefits of tax expenditures remains limited, as most countries of the region have yet to conduct systematic evaluations of these measures. In this context, both ex ante and ex post evaluations are essential to gauge their potential impact on policy objectives and the economy as a whole. The introduction of new tax expenditures should be supported by ex ante evaluations that clearly establish the causal relationship between the proposed incentive and the expected results, as well as its consistency and interaction with other public policies. At the same time, the continuation of existing tax expenditures requires ex post assessments to analyse their efficiency and effectiveness. These assessments should consider whether expenditures achieve their intended objectives, whether the benefits outweigh their fiscal costs, whether they are the best option compared with other policy instruments and whether they generate externalities that can be measured and, if necessary, corrected.

2 https://www.planalto.gov.br/ccivil_03/leis/lcp/lcp224.htm

To ensure more efficient use of tax expenditures, there is a need to strengthen the institutional capacities of the actors involved. This entails consolidating evaluation and monitoring systems, advancing towards greater transparency in the allocation of these benefits and promoting their integration into the budget process, so that they are subject to the same criteria of efficiency, equity and fiscal sustainability that govern public expenditure.

Source: Economic Commission for Latin America and the Caribbean.

In 2025, several countries of the region continued to operate special regimes designed to facilitate the regularization of outstanding tax obligations. In Argentina, Act No. 27743, passed in 2024, includes two complementary regimes: the Exceptional Regime for the Regularization of Tax, Customs and Social Security Obligations, which offers partial forgiveness of interest and full waiver (100%) of penalties on debts outstanding at 31 March 2024;[3] and the Asset Regularization Regime, which allows natural and legal persons to declare assets —both in the country and abroad, including real estate, financial assets and cryptoassets— that had not been disclosed at 31 December 2023, applying progressive rates of 5%, 10% and 15% depending on the stage of participation, with an exemption for the first US$ 100,000 declared. The deadlines for both regimes were extended until mid-2025 under Decree No. 977 of 2024. As a result of this tax amnesty scheme, a total of 288,769 taxpayers declared assets totalling US$ 35.620 billion (5.2% of GDP), generating approximately US$ 1.570 billion (0.2% of GDP) in special tax revenue (Ministry of Economy of Argentina, 2025b).

Peru had two similar tax regimes in effect in 2025: a special instalment plan for the repayment of tax debt, which also allowed interest and penalties to be reduced by up to 100%, with an extended deadline of February 2025,[4] and the Exceptional Income Tax Regime, adopted in late 2024, which allowed natural persons domiciled in the country to disclose unreported earnings and unexplained increases in net worth up to the close of 2022, taxed at a special 10% rate (reduced to 7% if said income is repatriated and invested in Peru), with amendments fileable up to June 2025.[5]

In Latin America, revenue from other sources (non-tax revenue, capital revenue and grants) was highly variable by country. Several countries recorded significant reductions, associated in many cases with trends in commodity prices and production levels (see figure I.4). In Colombia, Ecopetrol and the National Hydrocarbons Agency made smaller financial surplus transfers to the Treasury (Ministry of Finance and Public Credit of Colombia, 2026). In Brazil, a reduction in Petrobras dividends transferred to the federal government was partially offset by an increase in revenue from oil production in 2025 (National Treasury Secretariat of Brazil, 2026). In Ecuador, while non-tax revenue increased slightly, oil revenue decreased as heavy rains disrupted production and the price of crude oil fell (Ministry of Economy and Finance of Ecuador, 2026). In Argentina, one-off revenue from the transfer of central bank profits —equivalent to 1.4% of GDP— made up for reductions in other line items (Congressional Budget Office of Argentina, 2026). In Mexico, the increase was due primarily to funds raised by the government to support PEMEX debt buybacks (Ministry of Finance and Public Credit of Mexico, 2026).

3 https://servicios.infoleg.gob.ar/infolegInternet/anexos/400000-404999/401268/norma.htm
4 See Legislative Decree No. 1634 (https://busquedas.elperuano.pe/dispositivo/NL/2320348-2).
5 See Act No. 32201 (https://busquedas.elperuano.pe/dispositivo/NL/2355063-1).

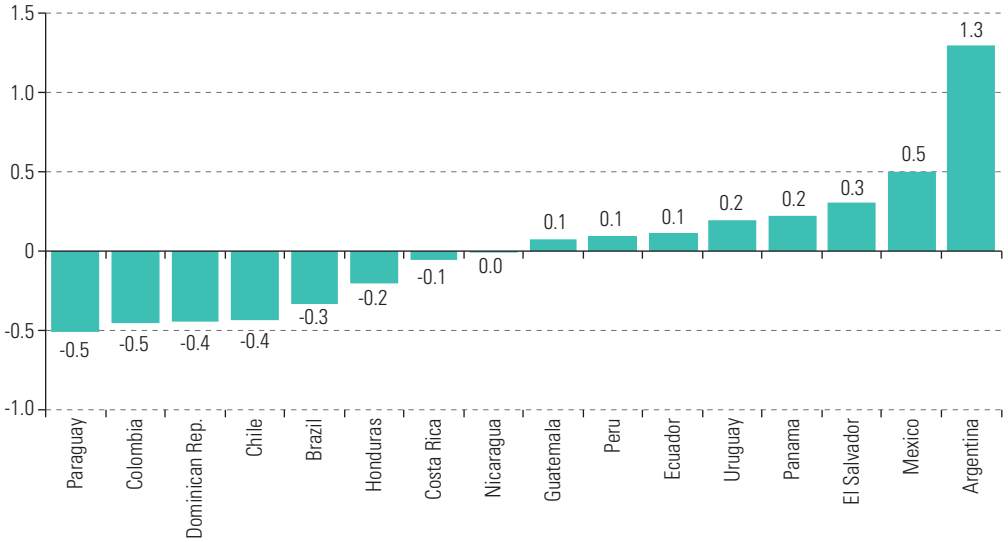
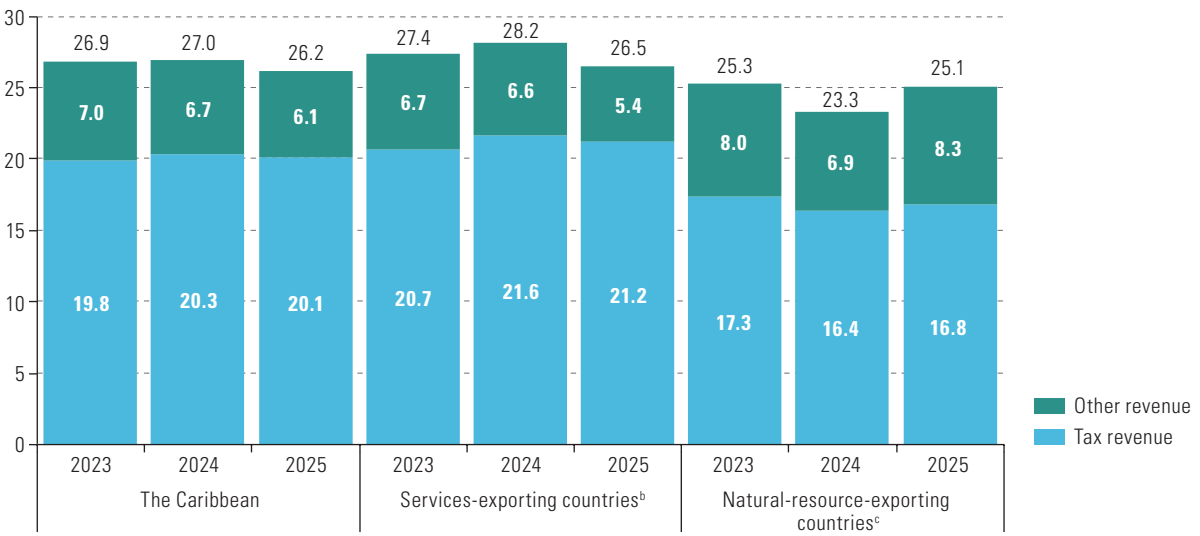


Figure I.4
Latin America (16 countries): year-on-year variation in other central government revenue, 2024 and 2025
(Percentage points of GDP)

Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.
Note: The figures for Argentina, Mexico and Peru refer to the national public administration, the federal public sector and the general government, respectively.

In the Caribbean, the impact of Hurricane Beryl and Hurricane Melissa, together with declining inflows from those sources which tend to be more volatile, explained the falling trend in public revenue. These factors were especially salient in services-exporting countries, which registered steep declines in revenue from citizenship-by-investment programmes: between 2024 and 2025, this revenue source fell in GDP terms from 14.7% to 4.2% in Grenada and from 8.4% to 4.0% in Saint Kitts and Nevis (see figure I.5) (Ministry of Finance of Grenada, 2026; Ministry of Finance of Saint Kitts and Nevis, 2025).

Figure I.5
The Caribbean (12 countries):[a] total central government revenue, by component, 2023–2025
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.
Note: Simple averages. The figures for Barbados and Saint Kitts and Nevis refer to the non-financial public sector and the federal government, respectively.
[a] Antigua and Barbuda, The Bahamas, Barbados, Belize, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago.
[b] Antigua and Barbuda, The Bahamas, Barbados, Belize, Grenada, Jamaica, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.
[c] Guyana, Suriname, and Trinidad and Tobago.

By and large, the drop in tax revenue resulted from various tax relief measures implemented in 2025. In Jamaica, for example, a package of response measures in the wake of Hurricane Melissa included an income tax payment deferral to the next fiscal year (Ministry of Finance and the Public Service of Jamaica, 2026). In Saint Kitts and Nevis, the decline in tax revenue was due in considerable measure to the VAT Relief Holiday, which reduced the VAT rate from 17% to 13% for a period of six months in an effort to boost economic growth (Inland Revenue Department of Saint Kitts and Nevis, 2025).

In Antigua and Barbuda and The Bahamas, meanwhile, tax revenue rose thanks to a stronger performance from the tourism sector (Central Bank of The Bahamas, 2025). In the case of Antigua and Barbuda, corporate income tax revenue also increased following the termination of all existing tax concessions; any companies wishing to continue receiving benefits must reapply (KPMG, 2025).

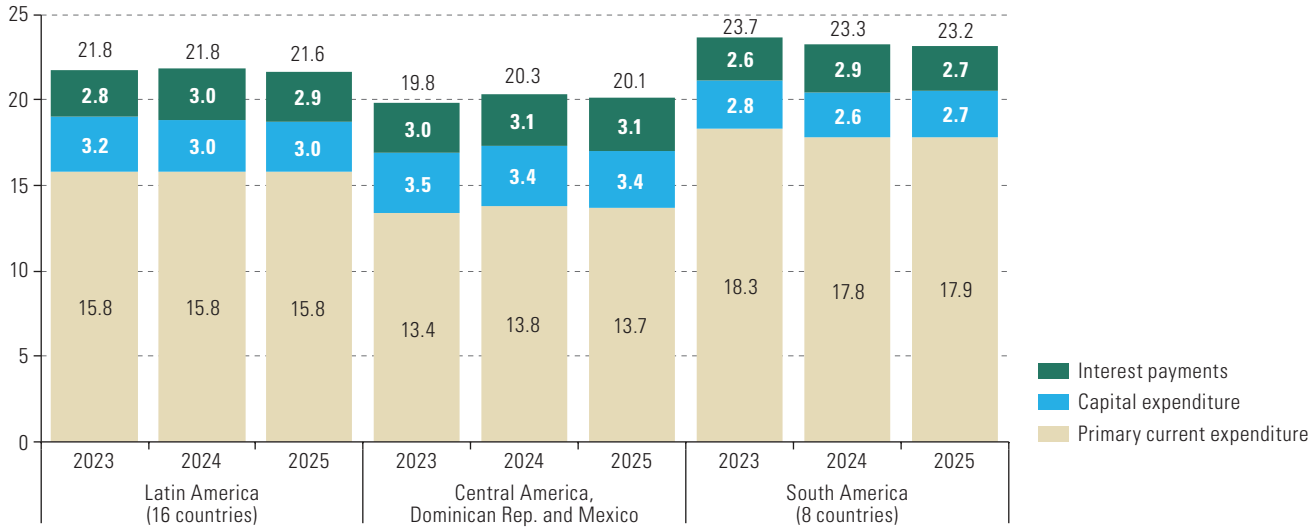
As for natural-resource-exporting countries, the rebound in total revenue is partly explained by extraordinary inflows. In Trinidad and Tobago, income tax revenue was boosted by the implementation of a tax amnesty initiative (Ministry of Finance of Trinidad and Tobago, 2025). In Guyana, the larger withdrawal from the Natural Resource Fund, in the amount of 9.8% of GDP in 2025 (compared with 6.4% of GDP in 2024) was notable (Ministry of Finance of Guyana, 2026).

B. Public expenditure remained stable in Latin America but increased in the Caribbean

The trajectory of public expenditure in 2025 reflected countries' efforts to contain spending, in fulfilment of their commitment to public debt sustainability and compliance with applicable fiscal regulations. In Latin America on average, there was a slight drop in total central government expenditure due primarily to falling interest payments, which were largely a reflection of active liabilities management by certain countries in the course of the year (see figure I.6). While the average remained stable, the countries registered significant variations across all expenditure components and substantial fiscal heterogeneity as they actively employed fiscal policy to pursue different objectives. In some cases, countries allocated greater resources to priority areas like public investment. Other countries prioritized adjustments to discretionary expenditure components, as their room for manoeuvre was significantly constrained given the large share of fixed expenditure components such as social entitlements, pensions and interest payments.

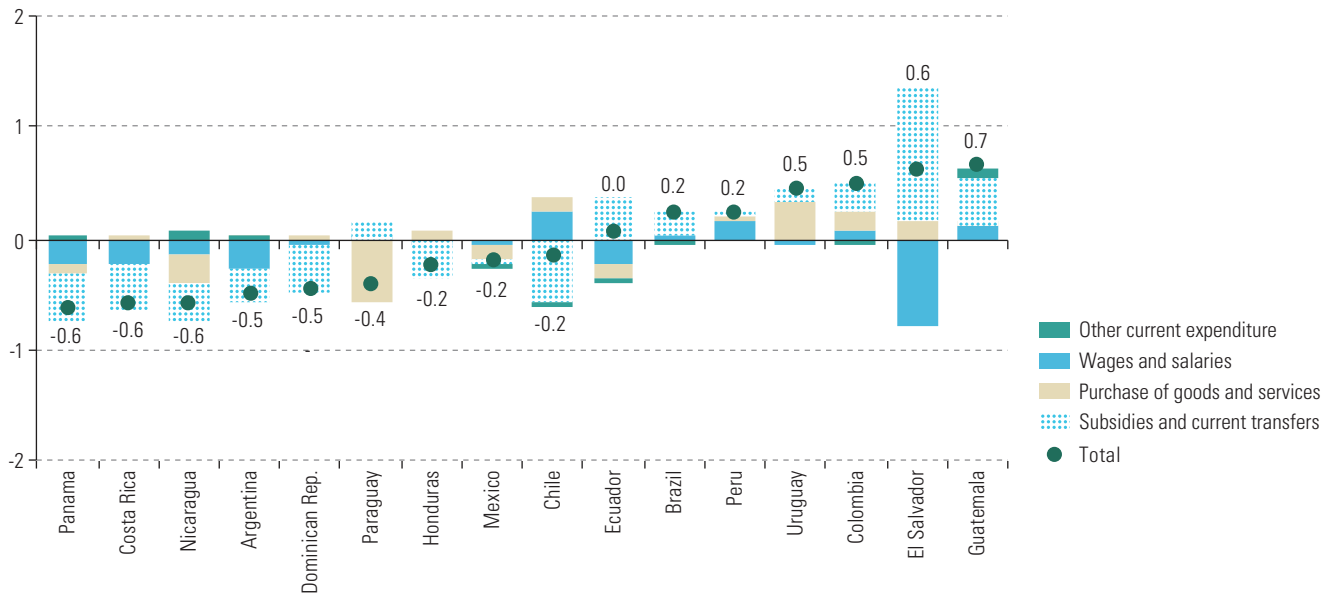
Similarly, the Latin American average for primary current expenditure remained stable, but trends varied significantly by country and component in 2025. As in previous years, subsidy payments and current transfers were determining factors in the aggregate trend, mostly to the effect of lowering primary current expenditure in several countries (figure I.7). The reasons for this vary, with lower spending on energy subsidies offset by higher spending on pensions. There were also divergent trends in spending on social programmes, including a particularly high base effect from 2024, when several countries executed expenditures to counter food inflation. Other trends of note included a reduction in the wages and salaries component in several countries, attributable in some instances to measures aimed at containing current operating expenditure.

Figure I.6
Latin America (16 countries):[a] total central government expenditure, by component, 2023–2025
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.
Note: Simple averages. The figures for Argentina, Mexico and Peru refer to the national public administration, the federal public sector and the general government, respectively.
[a] Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

Figure I.7
Latin America (16 countries): year-on-year variation in central government primary current expenditure, by subcomponent, 2024 and 2025
(Percentage points of GDP)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.
Note: Simple averages. The figures for Argentina, Mexico and Peru refer to the national public administration, the federal public sector and the general government, respectively.

Energy subsidies decreased, in some cases to a considerable extent, as a result of falling international oil prices. In Colombia, transfers to the Fuel Price Stabilization Fund decreased by 0.8 percentage points of GDP between 2024 and 2025 owing to the reduced differential between international and local prices on liquid fuel. However,

greater pension outlays due to the growing number of beneficiaries and the increase in the minimum wage, together with transfers under the General Participation System, among others, more than compensated for the reduction (Ministry of Finance and Public Credit of Colombia, 2026). Fuel subsidies also contracted in the Dominican Republic (Ministry of Finance and Economy of the Dominican Republic, 2025), while in Argentina, a reduction in energy subsidies alongside cuts to spending on several social programmes more than offset the increase in pension payments (Congressional Budget Office of Argentina, 2026).[6]

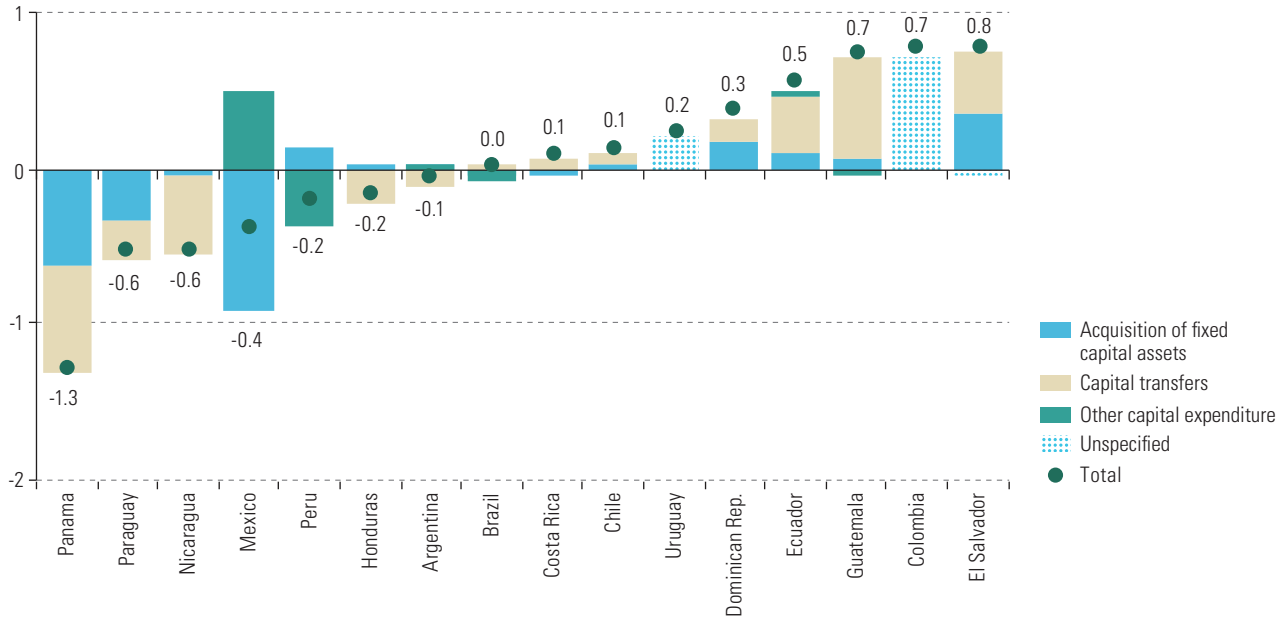
In other countries, spending on social programmes played a larger part. While in Paraguay, for example, spending on social entitlements grew, especially on retirements and pensions and on social programmes to end hunger (*Hambre Cero)* and support older persons (*Adultos Mayores)* (Ministry of Economy and Finance of Paraguay, 2026), other countries registered a reduction in social spending due to non-recurring factors. In Chile, for example, *Bolsillo Familiar Electrónico* transfers, aimed at addressing rising food prices in 2024, created a high base effect in 2025 (Budget Directorate of Chile, 2026). In Panama, spending on the *Fondo Solidario de Vivienda* housing programme and the programme to incentivize national grain production was lower in 2025 relative to the considerable resources poured into the programmes the year before (Ministry of Economy and Finance of Panama, 2026). This occurred despite a significant transfer of resources from the central government to the Social Security Fund to bolster its financial sustainability.

Several countries also recorded notable reductions in wages and salaries. In El Salvador, a particularly significant drop resulted from the abolishment of salary increases, a freeze on new posts and the use of vacant posts (Ministry of Finance of El Salvador, 2026). Argentina's reduction came from cuts to permanent and temporary posts, coupled with salary increases that failed to keep pace with inflation (Congressional Budget Office of Argentina, 2026). In Costa Rica, a high base effect owing to the retroactive payment to public employees in 2024 of an outstanding balance from 2020 was the main cause of the decrease (Ministry of Finance of Costa Rica, 2026). In contrast, Chile recorded an increase in payroll spending associated with the implementation of Local Public Education Services, a reform aimed at transferring public education management from the municipalities to the central government, which involved transferring staff from municipal payrolls to the central government payroll (Budget Directorate of Chile, 2026). This was offset by lower spending on subsidies and on goods and services.

Meanwhile, average capital expenditure held steady in Latin America, though several countries recorded significant fluctuations, both positive and negative. Capital transfers were the principal underlying factor in the most pronounced year-on-year variations, which reflects, in part, the inherent volatility of this expenditure component (see figure I.8). Guatemala, for example, recorded larger transfers to the transport and community development sectors, while in Panama, capital transfers contracted substantially, despite a greater allocation of resources to the Panama City metro (Ministry of Economy and Finance of Panama, 2026), and physical investment also contracted with the implementation of measures to achieve more targeted and strategic execution.

[6] There was a substantial rise in spending on retirement and pensions, primarily in the first half of the year, as monthly updating in line with the consumer price index (based on a two-month delay) produced real positive increases in the value of entitlements under the new inflation-adjusted pension formula, which went into effect in April 2024 (Congressional Budget Office of Argentina, 2026).

Figure I.8
Latin America (16 countries): year-on-year variation in central government capital expenditure, by subcomponent, 2024 and 2025
(Percentage points of GDP)



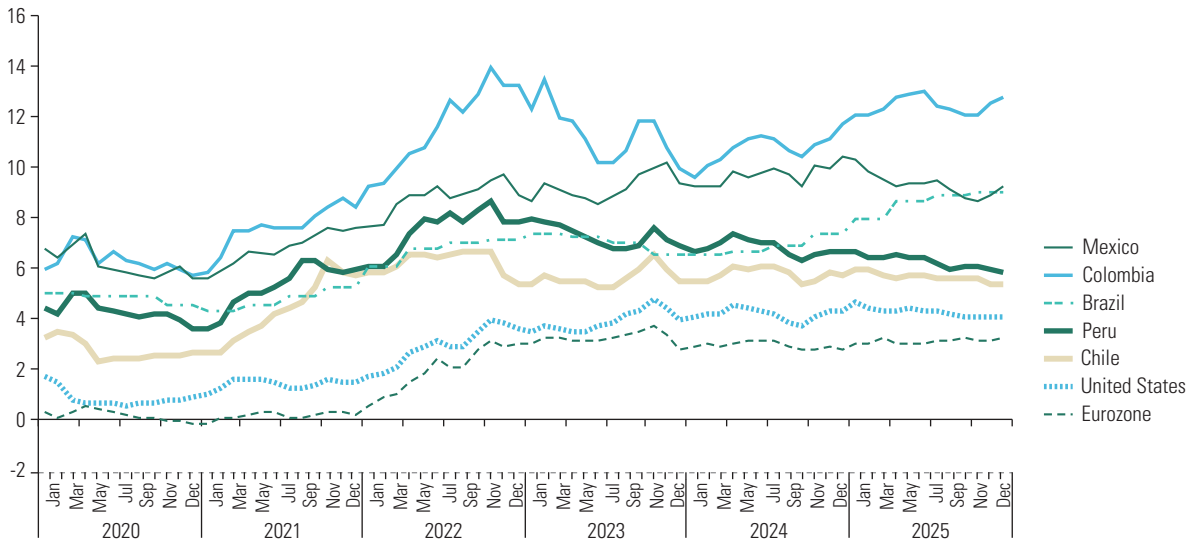
Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.
Note: The figures for Argentina, Mexico and Peru refer to the national public administration, the federal public sector and the general government, respectively.

Some other countries also recorded pronounced fluctuations in physical investment. In Mexico, the reduction of capital expenditure was attributable mainly to a contraction in physical investment by the Institute of Social Security and Social Services for State Employees, PEMEX and the Federal Electricity Commission due to a high base effect produced by the culmination of several infrastructure projects the year prior (Ministry of Finance and Public Credit of Mexico, 2026). However, the contraction was partially offset by increased financial investment owing to the federal government's aforementioned exceptional support for PEMEX debt repayment. In Peru, this trend was reversed, with financial investment declining as a result of a high base effect produced by a capital contribution from the general government to Petroperú a year earlier (Ministry of Economy and Finance of Peru, 2026). In Colombia, the increase was largely a product of the delayed execution of budget resources from 2024 (Ministry of Finance and Public Credit of Colombia, 2026), while investments in road infrastructure were the most notable factor in El Salvador (Ministry of Finance of El Salvador, 2025).

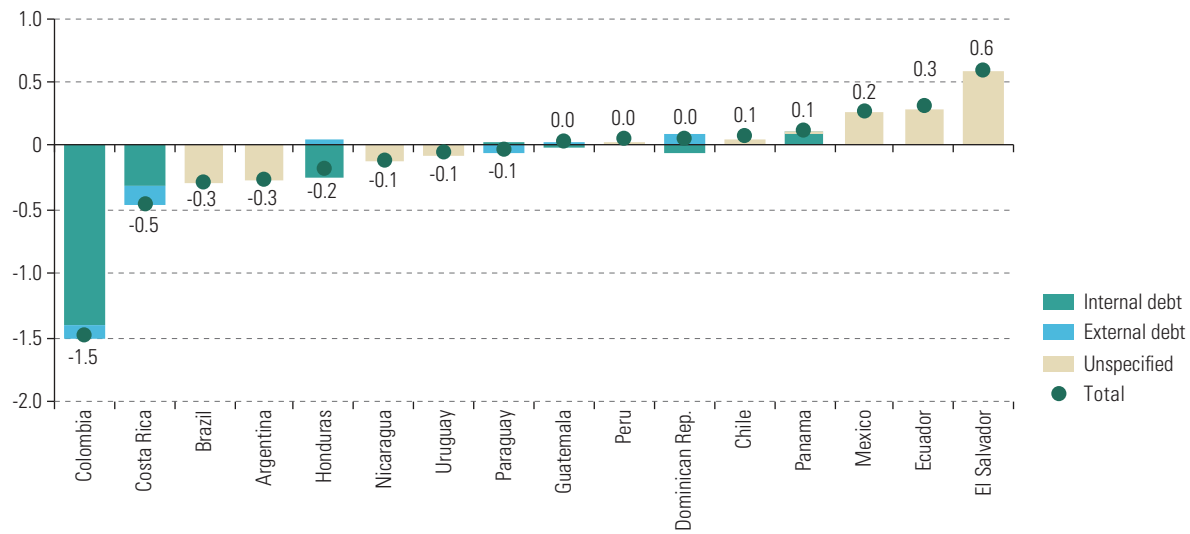
On average, interest payments fell in the countries of Latin America in 2025, after peaking at a record 3.0% of GDP in 2024 following three consecutive years of increases. Financial conditions in international and national markets showed signs of improvement, with nominal rates in national currency declining in the second half of the year in several countries (ECLAC, 2025a). Although Brazil and Colombia both saw rising interest rates on long-term bonds denominated in national currency, their interest payments decreased significantly in relative terms (see figure I.9).

Figure I.9
Latin America (16 countries): interest rates on 10-year bonds denominated in national currency, and year-on-year variation in central government interest payments, 2020–2025
(Percentages and percentage points of GDP)

A. Interest rates on 10-year bonds in national currency, January 2020–December 2025
(Percentages)



B. Year-on-year variation in central governmental interest payments, 2024 and 2025
(Percentage points of GDP)



Source: Economic Commission for Latin America and the Caribbean, on the basis of Organisation for Economic Co-operation and Development. (2026). *OECD Data Explorer*. https://data-explorer.oecd.org.
Note: The figures for Argentina, Mexico and Peru refer to the national public administration, the federal public sector and the general government, respectively.

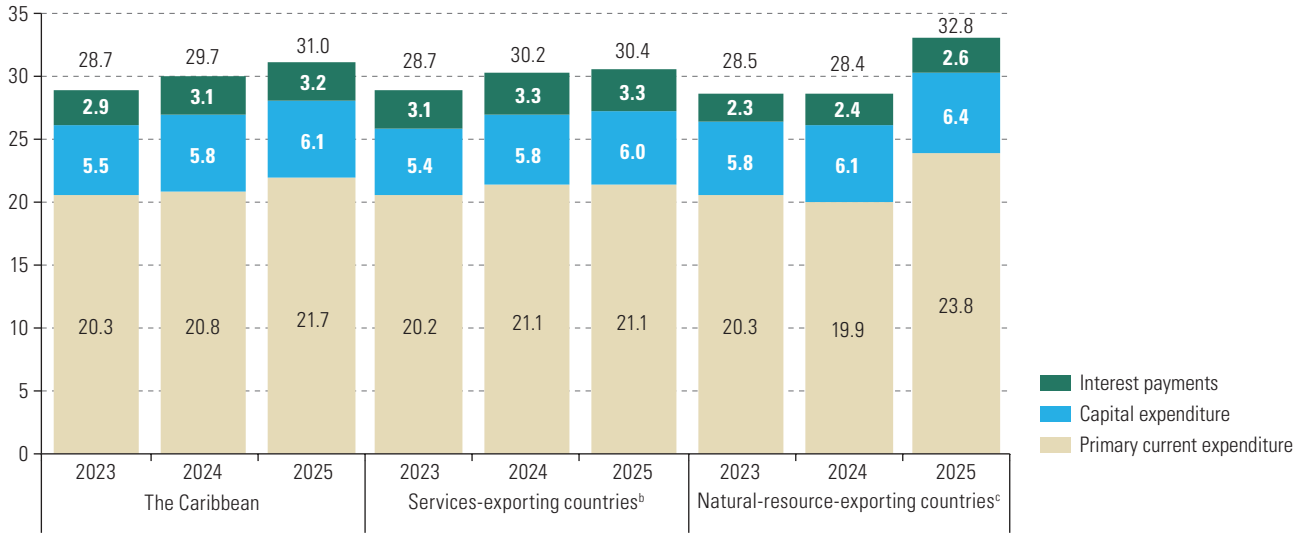
In Brazil, the central bank's foreign-exchange swaps generated significant earnings, recorded under the central government's interest account (Central Bank of Brazil, 2026). Through debt management operations undertaken in 2025, Colombia reprofiled its public debt and lowered the nominal value of its balance (Ministry of Finance and Public Credit of Colombia, 2026).[7] Similarly, lower interest payments in Costa Rica were the product of an active liabilities management strategy involving swaps, auctions

[7] However, because this result reflects a redistribution of the cost of debt over time, interest payments could increase in the future, absent such debt management operations (Ministry of Finance and Public Credit of Colombia, 2026).

and improvements to maturity profiles (Ministry of Finance of Costa Rica, 2026). In El Salvador, in contrast, interest payments climbed. This was partly the result of a public debt swap in 2023 that succeeded in extending the maturity on domestic debt securities, but it also raised the weighted average interest rate on debt issuance (International Monetary Fund [IMF], 2025).

In the Caribbean, an upward trend in average public expenditure in 2025 was partially due to the response to Hurricanes Beryl and Melissa, but an extraordinary transaction in Suriname also played a part. In the services-exporting countries worst affected by these disasters, the increase was relatively modest owing mainly to higher capital outlays (see figure I.10). Primary current expenditure, meanwhile, though relatively stable on average, varied significantly in some countries.

Figure I.10
The Caribbean (12 countries):[a] total central government expenditure, by component, 2023–2025
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.
Note: Simple averages. The figures for Barbados and Saint Kitts and Nevis refer to the non-financial public sector and the federal government, respectively.
[a] Antigua and Barbuda, The Bahamas, Barbados, Belize, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago.
[b] Antigua and Barbuda, The Bahamas, Barbados, Belize, Grenada, Jamaica, Saint Kitts and Nevis, Saint Lucia and Saint Vincent and the Grenadines.
[c] Guyana, Suriname, and Trinidad and Tobago.

Jamaica, for example, spent more on the purchase of goods and services, including the provision of 3,300 container homes, clean-up services and transfers like the Restoration of Owner or Occupant Family Shelter programme, which provides housing grants to the most affected households (Ministry of Finance and the Public Service of Jamaica, 2026). The Government of Saint Kitts and Nevis, facing a substantial decline in non-tax revenue from the citizenship-by-investment programme, adopted measures to contain total expenditure. However, transfers rose, owing in part to the Budget Boost Wallet programme implemented in the first half of 2025, which provided direct financial assistance to those who earned a monthly income of up to 5,000 Eastern Caribbean dollars and met other eligibility requirements.[8]

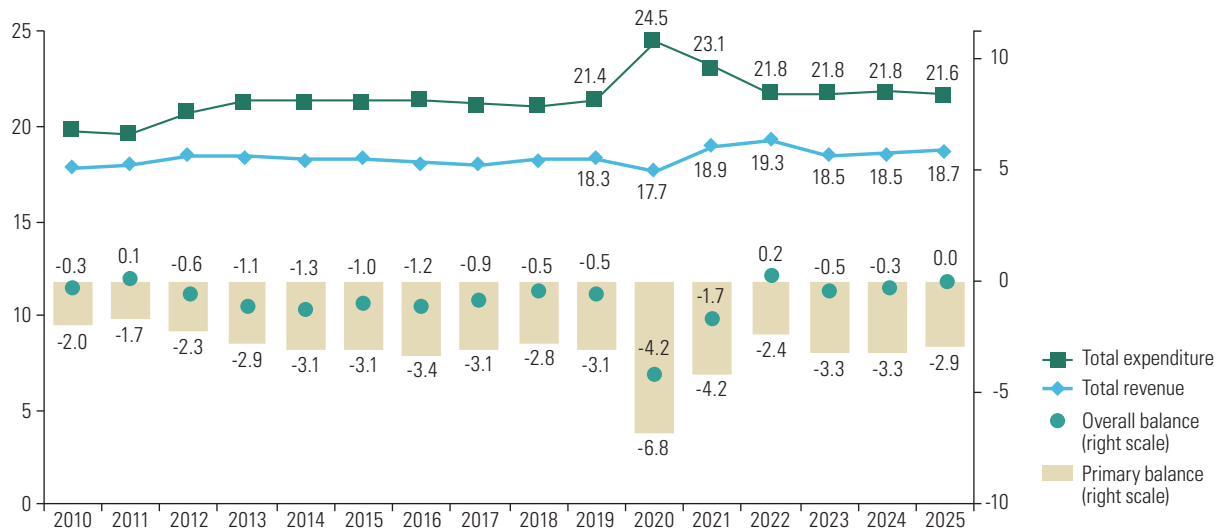
In natural-resource-exporting countries, growth in total expenditure and average primary current expenditure resulted essentially from the recapitalization of the Central Bank of Suriname for an amount equivalent to 5.6% of GDP (Ministry of Finance of Suriname, 2025). Guyana's pursuit of its public investment plans to diversify the national economy was notable in the capital expenditure component (Ministry of Finance of Guyana, 2026).

8 https://www.sknis.gov.kn/2025/01/13/government-provides-clarity-on-budget-boost-wallet-registration-and-accessibility/

C. Latin America's fiscal position improved, while the Caribbean's deficit expanded

On average, the fiscal accounts of Latin American countries recorded a slight improvement in 2025 compared with the prior year. A moderate decline in total public expenditure, owing primarily to lower interest payments on debt, in addition to a minor increase in total revenue, helped to reduce the overall deficit and stabilize the primary deficit. Respectively, in GDP terms, these deficits went from 3.3% and 0.3% in 2024 to 2.9% and 0.0% in 2025 (see figure I.11). Although expenditure containment efforts eliminated the primary deficit, reducing public debt will require a surplus. In addition, despite the contraction in the overall deficit, the persistent gap between total expenditure and revenue remains a source of vulnerability in the region. This is especially clear in the light of unfavourable conditions in international financial markets, which are expected to deteriorate in 2026, partly as a result of the potential impacts of the armed conflict in the Middle East.

Figure I.11
Latin America (16 countries):[a] central government fiscal indicators, 2010–2025
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.
Note: Simple averages. The figures for Argentina, Mexico and Peru refer to the national public administration, the federal public sector and the general government, respectively.
[a] Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru and Uruguay.

Despite the improvement in the subregional average fiscal balance, results varied by country in Latin America. Argentina, Mexico, Nicaragua, Panama and Peru, for example, recorded improvements of more than 1 percentage point of GDP in their primary and overall balances, whether in the form of an increased surplus or a reduced deficit. In other countries, fiscal positions worsened, with fiscal deficit increases of up to 1.2 percentage points of GDP (see table I.1). Fiscal deficit reductions were mainly the product of fiscal consolidation measures undertaken by authorities in an effort to rein in growing debt. However, in several cases, this process entailed cuts to public investment or subsidies and current transfers, which may have negative ramifications for both social well-being and economic growth in the medium and long term.

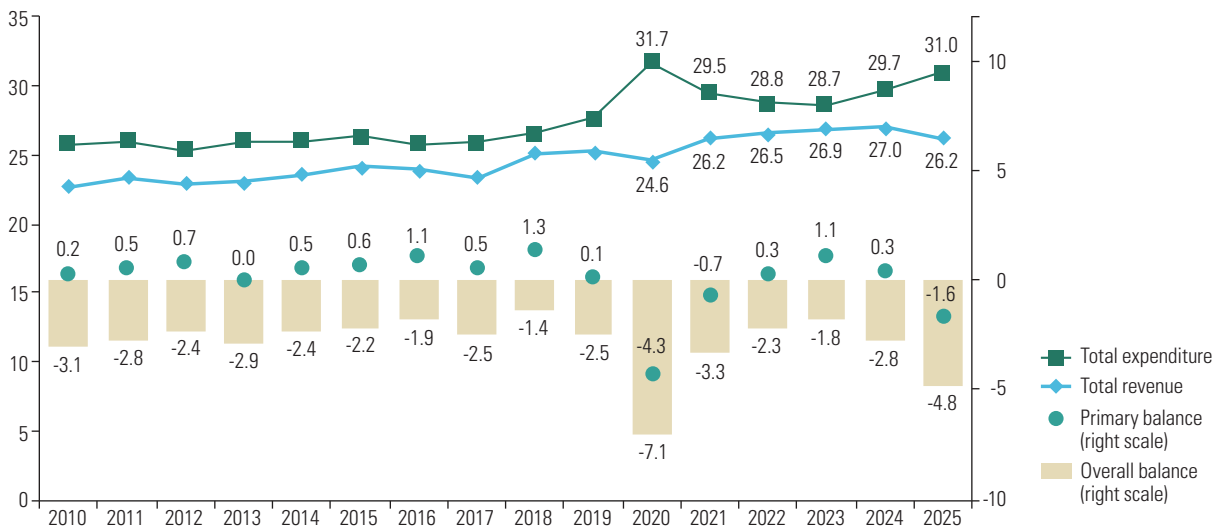
Table I.1
Latin America (16 countries): primary and overall central government balances, 2024 and 2025
(Percentages of GDP)

Country	Primary balance		Overall balance	
	2024	2025	2024	2025
Argentina	1.3	2.4	-0.3	1.1
Brazil	-0.4	-0.5	-7.7	-7.5
Chile	-1.6	-1.6	-2.8	-2.9
Colombia	-2.4	-3.6	-6.7	-6.4
Costa Rica	1.1	0.9	-3.8	-3.4
Ecuador	0.0	-0.4	-2.8	-3.5
Dominican Republic	0.3	-0.1	-3.1	-3.6
El Salvador	0.6	1.0	-3.3	-3.4
Guatemala	0.7	-0.3	-1.0	-1.9
Honduras	1.1	0.8	-1.8	-1.9
Mexico	-1.5	-0.2	-4.9	-3.8
Nicaragua	3.8	5.3	2.3	3.9
Panama	-4.7	-2.2	-7.6	-5.2
Paraguay	-0.6	-0.1	-2.6	-2.0
Peru	-2.0	-0.9	-3.6	-2.5
Uruguay	-0.8	-1.3	-3.2	-3.7

Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.
Note: The figures for Argentina, Mexico and Peru refer to the national public administration, the federal public sector and the general government, respectively.

In the Caribbean, increased total expenditure, especially in the primary current account, combined with decreased revenue —attributable mainly to lower non-tax revenue— translated into a marked deterioration in the average fiscal balance. The overall deficit expanded, from 2.8% of GDP in 2024 to 4.8% of GDP in 2025. The primary balance also worsened, as its 2024 surplus of 0.3% of GDP became a deficit of 1.6% of GDP in 2025 (see figure I.12). This shows that even as revenue from extraordinary international assistance has begun to decline, spending needs associated with reconstruction following hurricanes and other disasters persist. This combination further squeezes the limited fiscal space available to address other social priorities and underscores the Caribbean's fragile fiscal state in the face of extreme weather events.

Figure I.12
The Caribbean (12 countries):[a] central government fiscal indicators, 2010–2025
(Percentages of GDP)



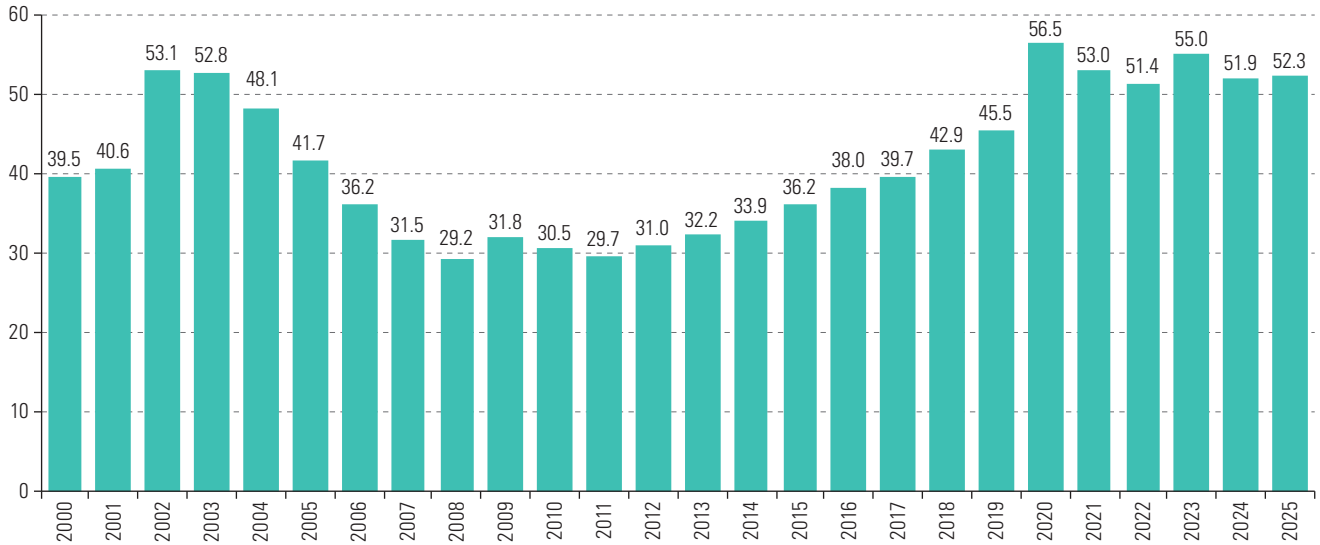
Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.
Note: Simple averages. The figures for Barbados and Saint Kitts and Nevis refer to the non-financial public sector and the federal government, respectively.
[a] Antigua and Barbuda, The Bahamas, Barbados, Belize, Grenada, Guyana, Jamaica, Saint Kitts and Nevis, Saint Vincent and the Grenadines, Saint Lucia, Suriname, and Trinidad and Tobago.

D. The region's public debt remains high

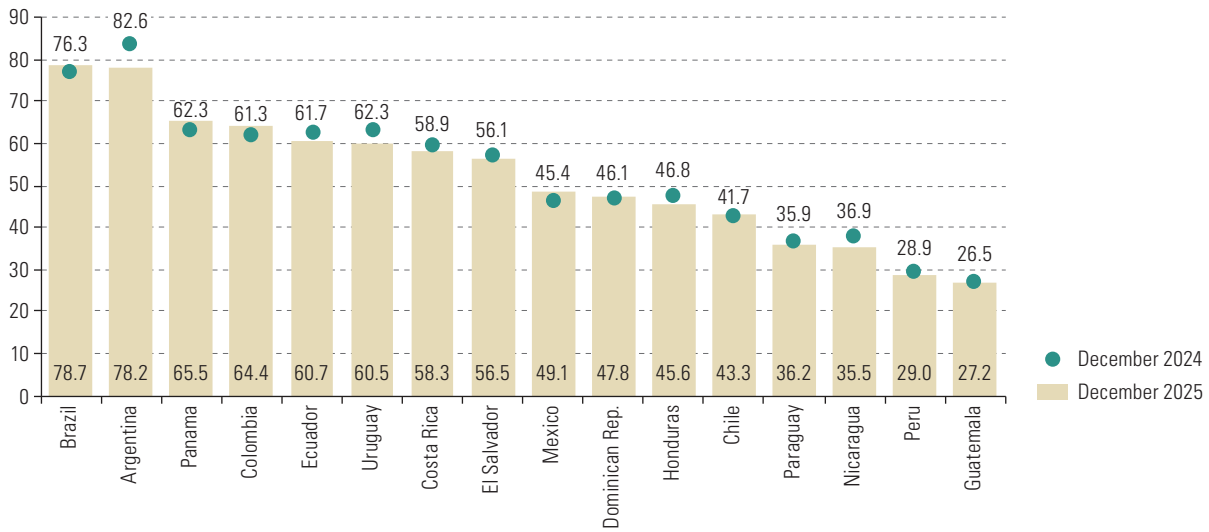
Latin American central governments closed out 2025 with public debt averaging 52.3% of GDP, compared with 51.9% of GDP in 2024 (see figure I.13). Since the considerable increase recorded in 2020, which intensified the rising trend that started in 2011, public debt remains historically high —above 50% of GDP— similar to the peak levels reached in the 2000s. On a country-by-country basis, debt levels exhibit considerable heterogeneity with both positive and negative year-on-year variations.

Figure I.13
Latin America (16 countries): central government gross public debt, 2000–2025
(Percentages of GDP)

A. Average central government gross public debt, 2000–2025



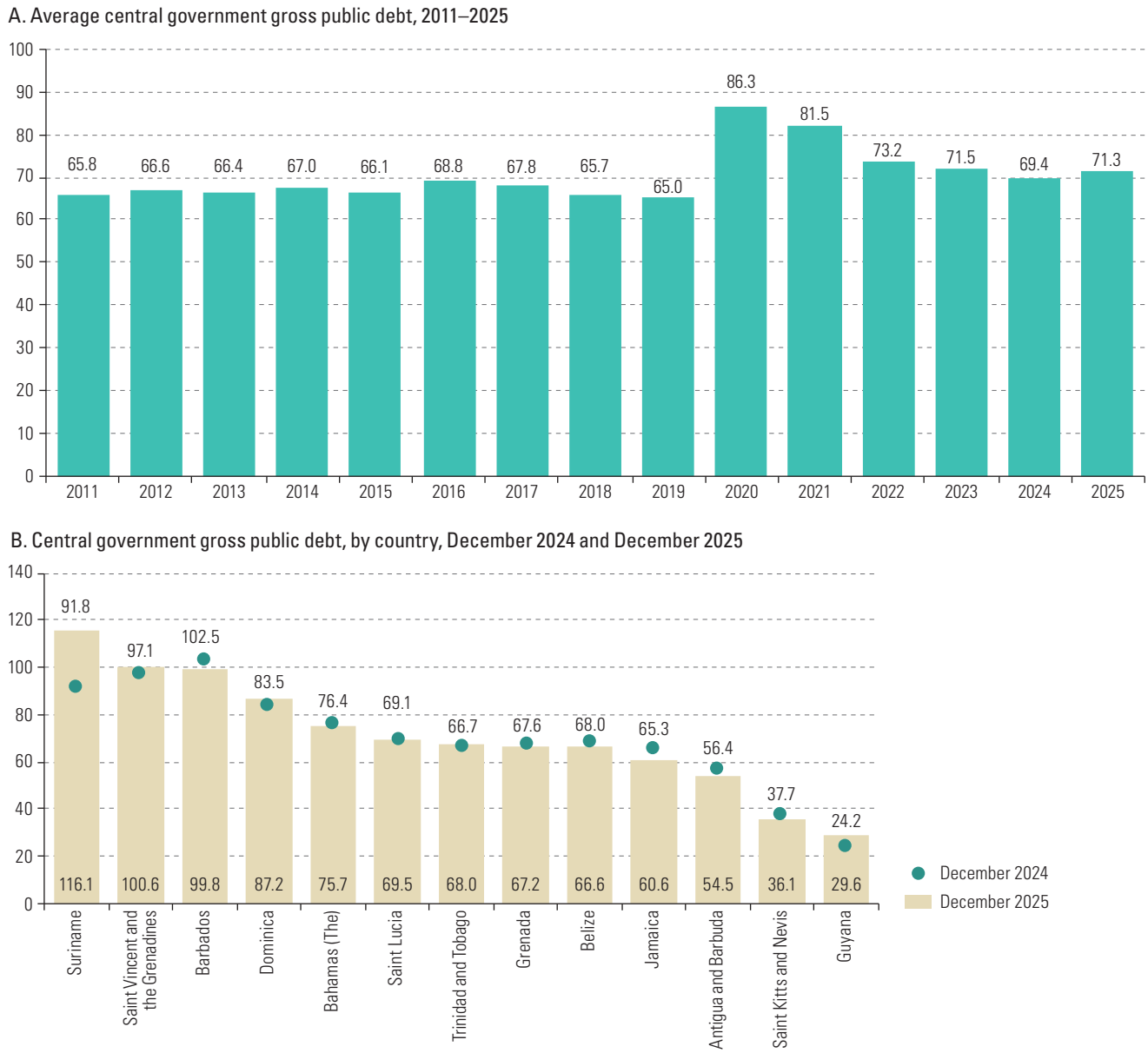
B. Central government gross public debt, by country, December 2024 and December 2025



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.
Note: Figures for Brazil refer to the general government. Figures for Argentina, Chile, Costa Rica and Guatemala are up to September 2025. Figures for Nicaragua are up to June 2025.

In the Caribbean, central government gross public debt as a percentage of GDP has declined in recent years relative to the peak recorded in 2020, stabilizing at levels moderately above those prior to that year. In December 2025, according to available official information, the figure was 71.3% of GDP, slightly above the 69.4% of GDP recorded at the close of 2024 but still below the 2023 figure (see figure I.14). The recent uptick, however, reflected a pronounced increase in Suriname due to a bond issuance in November 2025 as part of a liabilities management operation (IMF, 2026). Beyond this particular case, however, and despite the slight improvement observed in the majority of cases, public debt remains high —above 80% of GDP— in some Caribbean countries (see box I.3)

Figure I.14
The Caribbean (13 countries): central government gross public debt, 2011–2025
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.
Note: Figures for Guyana refer to the public sector. Figures for Belize, Guyana, Jamaica, Saint Vincent and the Grenadines and Trinidad and Tobago are up to September 2025. Figures for Antigua and Barbuda, Dominica, Grenada, Saint Kitts and Nevis and Saint Lucia are up to June 2025.

Box I.3
The Caribbean: public debt and recent experiences with hurricane clauses

Public debt has been a recurring problem in the Caribbean, with a considerable amount accumulated in three periods: from 1997 to 2004, owing partly to higher interest rates and deteriorating primary balances in the countries of the Eastern Caribbean Currency Union; from 2008 to 2009, because of the international financial crisis; and in 2020, as a result of the coronavirus disease (COVID-19) pandemic (Pérez Caldentey, 2025). Debt restructuring in the subregion has been frequent and largely preventive, but decreases in debt levels have been temporary. From the 2000s onward, such processes have incorporated innovative instruments generally linked to the structural characteristics of Caribbean countries, such as their high exposure to disasters and the effects of climate change.

These innovations include hurricane clauses, which link debt repayment capacity with the occurrence and severity of disasters. Such clauses allow affected countries to postpone the payment of interest, principal or both for a specific period, without needing to undertake formal restructuring. The triggering of these clauses depends on whether certain externally verifiable indicators —agreed upon in advance between the issuer and the investors— reach predefined thresholds. This limits the probability of disorderly defaults and allows resources to be redirected towards reconstruction, albeit in exchange for higher debt service payment in future through the capitalization of deferred interest.

Several Caribbean countries have already had some experience incorporating this type of instrument into debt issuance processes, for example Barbados in 2018 and Belize in 2020 (Pérez Caldentey, 2025). Following the passage of Hurricane Beryl in July 2024, both Grenada and Saint Vincent and the Grenadines became the first countries to activate such clauses. Grenada incorporated this instrument into sovereign bonds issued at a 7% coupon rate and maturing in 2030, which were linked to payments from the Caribbean Catastrophe Risk Insurance Facility for losses over US$ 15 million.[a] After incurring losses estimated at more than US$ 30 million, the government deferred payments of approximately US$ 12.5 million towards the bond in addition to US$ 5 million towards bilateral loans from Taiwan Province of China and the Paris Club, for a total of over US$ 17 million (IMF, 2025; Straker, 2024).

Saint Vincent and the Grenadines, meanwhile, triggered the World Bank Climate Resilient Debt Clause, which allows it to defer payments of principal and interest (and other loan charges) to the Bank for up to two years in case of eligible disasters. This made it the first country to exercise that option, as part of a package including the disbursement of US$ 20 million through a Catastrophe Deferred Drawdown Option (World Bank, 2024).

Source: Economic Commission for Latin America and the Caribbean, on the basis of Pérez Caldentey, E. (2025). Análisis de los orígenes y las causas de la acumulación de deuda en el Caribe y estrategias para enfrentar esta problemática. *Financing for Development series*. (279) (LC/TS.2025/113). Economic Commission for Latin America and the Caribbean; International Monetary Fund. (2025). Grenada. 2024 Article IV Consultation—Press Release; Staff Report; and statement by the Executive Director for Grenada. IMF Country Report. (25/39); Straker, L. (2024, 19 August). Government triggers hurricane clause. *Now Grenada*. https://nowgrenada.com/2024/08/government-triggers-hurricane-clause; World Bank. (2024, 12 November). *World Bank Expands Lifeline to Small States hit by Disasters*. https://www.worldbank.org/en/news/press-release/2024/11/12/world-bank-expands-lifeline-to-small-states-hit-by-disasters.

[a] https://www.finance.gd/docs/2024/Annex%20D_Notice%20to%20Bond%20Holder_Deferral%20Claim.pdf

Consistently high levels of central government public debt as a percentage of GDP are seen as a vulnerability of the countries of the region. Lowering and stabilizing these levels is a challenge that also has an impact on the countries' other macroeconomic objectives. Rising public debt affects the sustainability of State finances in the medium term, owing in particular to higher interest payments, which weigh on fiscal balances and limit the resources available to cover priority spending.

The accumulation of public debt depends on a range of factors. Internally, these include the primary deficit, the pace of economic growth and the implicit interest rate. Externally, key influences include high interest rates, fluctuating exchange rates and credit ratings, which determine public debt management. These factors affect not only payments of interest on current debt —especially that denominated in foreign currency or subject to variable rates—, but also the cost of issuing new debt or refinancing existing debt under less favourable financial conditions.

The risks deriving from the actual composition of debt by currency and creditor residence are also important to consider (see table I.2). Countries of the region are exposed to exchange-rate volatility given that a large share of their public debt is denominated in dollars and other benchmark currencies, although for some, such as Brazil, Chile, Colombia, Costa Rica, Mexico and Uruguay, most of the debt stock is denominated in local currency. Another key factor, which reflects uneven trends across countries, is the proportion of debt held by internal and external creditors. The situation in countries such as Brazil and Mexico, where internal creditors account for a larger share of debt, contrasts with that of others such as Nicaragua, Panama and Paraguay, where external creditors represent the lion's share of debt. Countries with higher levels of external debt face additional risks that can affect borrowing costs, as well as greater exposure to the volatility of foreign capital flows.

Table I.2
Latin America (16 countries): central government public debt, by creditor residence and currency, December 2025
(Percentages of total)

Country	Internal creditors	External creditors	National currency	Foreign currency
Argentina	66	34	44	56
Brazil	87	13	95	5
Chile	65	35	65	35
Colombia	70	30	71	29
Costa Rica	74	26	66	34
Dominican Republic	26	74	33	67
Ecuador	40	60	86	14
El Salvador	32	68	...	...
Guatemala	55	45	...	...
Honduras	48	52	37	63
Mexico	84	16	84	16
Nicaragua	5	95	...	...
Panama	18	82	89	11
Paraguay	11	89	18	82
Peru	57	43	55	45
Uruguay	53	47	54	46

Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.
Note: Figures for Brazil refer to the general government. Figures by currency for Ecuador, Panama and Peru refer to the public sector, while those for the Dominican Republic refer to the non-financial public sector and those for Mexico refer to net federal government debt. For Ecuador and Panama, dollar-denominated debt is debt in national currency. Figures for Argentina, Chile, Costa Rica and Guatemala are up to September 2025, while figures for Nicaragua are up to June 2025.

E. The fiscal accounts of subnational governments remain relatively stable and highly dependent on central government transfers

Across the region, both intermediate and local governments recorded, on aggregate, a slight decline in total subnational revenue compared with previous years (see table I.3) This trend derived primarily from the variation of intergovernmental transfers, specifically, from transfers and tax revenue for intermediate governments, and from non-tax revenue for local governments.

Intermediate government revenue fell from 2021 onward, owing mainly to lower transfers, which had increased during the coronavirus disease (COVID-19) pandemic, then stabilized at around 3.9% of GDP. In 2024, transfers declined again compared with previous years, resulting in a contraction in total intermediate government revenue. Meanwhile, local government revenue remained relatively stable, falling slightly relative to 2020.

Table I.3
Latin America (14 countries):[a] subnational government revenue, by component, 2020–2024
(Percentages of GDP)

	2020	2021	2022	2023	2024
Intermediate governments					
Tax revenue	2.2	2.3	2.2	2.2	2.1
Transfers	4.3	3.9	3.9	3.9	3.7
Non-tax revenue	1.1	1.1	1.2	1.2	1.2
Total	**7.6**	**7.3**	**7.3**	**7.3**	**7.0**
Local governments					
Tax revenue	0.8	0.7	0.8	0.8	0.9
Transfers	2.3	2.2	2.2	2.2	2.2
Non-tax revenue	0.7	0.7	0.7	0.7	0.6
Total	**3.8**	**3.7**	**3.7**	**3.7**	**3.7**

Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.
[a] The sample of intermediate governments includes Argentina, Brazil, Colombia, Mexico, Peru, the Plurinational State of Bolivia and Uruguay. The sample of local governments includes Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Panama, Peru and the Plurinational State of Bolivia.

The lower average intermediate government revenue was attributable mainly to the provinces of Argentina, with regard to both tax revenue and transfers. In that country, provincial tax revenue fell by 8% in real terms, while transfers —largely considered national tax resources that derive from federal tax revenue sharing— decreased by 7.4%, also in real terms (Ministry of Economy of Argentina, 2025a). Current and capital transfers also contracted. The reduction in current transfers stemmed from the decline and elimination of transfers for education and health, as well as of transfers from the national treasury, while the decrease in capital transfers was due primarily to weaker investment in education, housing and sanitation infrastructure.

Major vertical imbalances in subnational governments are the predominant feature of the region's intergovernmental fiscal relations (ECLAC, 2024). This is reflected in the increasing relative importance of transfers in these governments' public revenue structure; such transfers have remained at around 4% of GDP in the past five years (see table I.4).

Table I.4
Latin America (14 countries): aggregate intergovernmental transfers, 2020–2024
(Percentages of GDP)

Country	2020	2021	2022	2023	2024	2020–2024 average
Argentina	11.6	11.0	11.1	10.8	9.6	10.8
Bolivia (Plurinational State of)	5.7	5.3	5.4	4.4	4.7	5.1
Brazil	9.1	8.8	9.0	9.3	9.8	9.2
Chile	2.2	2.0	2.0	2.2	2.1	2.1
Colombia	6.7	5.7	4.9	5.2	5.8	5.7
Costa Rica	0.3	0.3	0.3	0.3	0.3	0.3
Dominican Republic	0.3	0.4	0.4	0.4	0.3	0.4
Ecuador	3.2	3.4	3.4	3.0	3.1	3.2
El Salvador	1.8	1.3	0.7	0.6	0.9	1.1
Guatemala	1.6	1.7	1.5	1.8	1.7	1.7
Mexico	9.4	8.6	8.7	9.1	8.3	8.8
Panama	0.2	0.3	0.1	0.1	0.2	0.2
Peru	7.3	6.3	7.2	7.1	6.9	7.0
Uruguay	1.0	1.0	0.9	0.8	0.9	0.9
Simple average	**4.3**	**4.0**	**4.0**	**3.9**	**3.9**	**4.0**

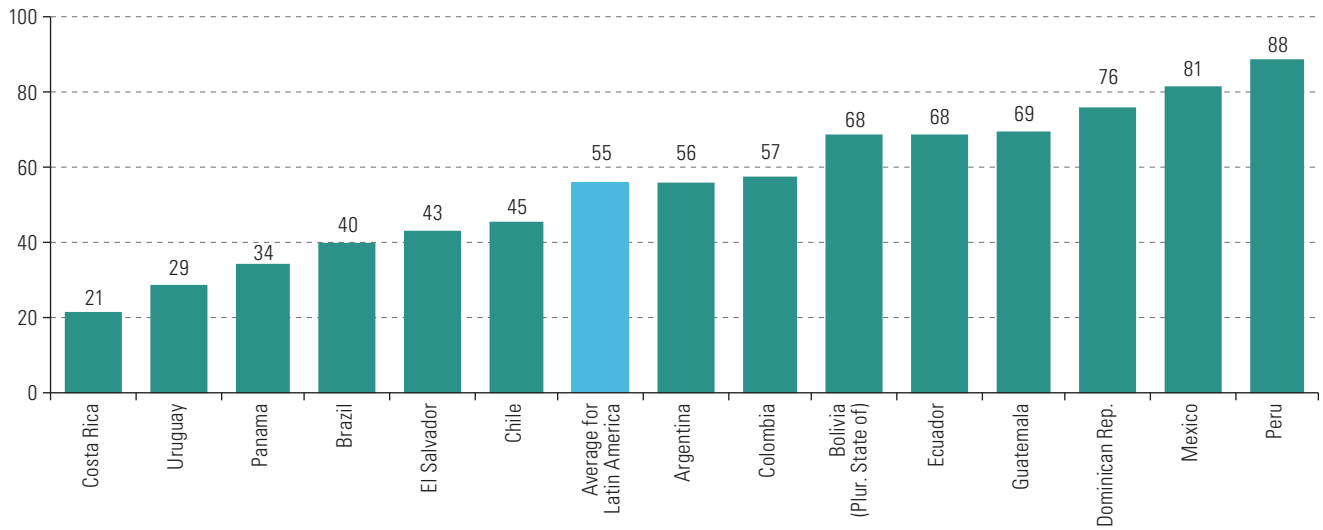
Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.
Note: For Argentina, Brazil, Colombia, Mexico, Peru and the Plurinational State of Bolivia, the data refer to the unconsolidated sum of transfers received by local and intermediate governments. For Uruguay, the data refer to transfers received only by departments. For the remaining countries considered, only local government data are used.

Trends have varied widely in some countries, including Argentina, Brazil, El Salvador, Mexico and the Plurinational State of Bolivia. El Salvador has carried out major reforms by reducing the number of municipalities, with the aim of improving efficiency in the use of public resources. As a result, the relative importance of the main source of transfers to municipalities —the Fund for Economic and Social Development of Municipalities— has decreased and a more centralized resource distribution model is being adopted (Ministry of Finance of El Salvador, 2023). Similarly, transfer systems have been adjusted in Mexico, regarding mainly transfers for specific purposes, with the most striking example being the reduction in the Health Services Contributions Fund.

Brazil recorded an increase in intergovernmental transfers compared with the years preceding the COVID-19 pandemic, following the adoption of Constitutional Amendment No. 105 of 2019 that created two new instruments: special transfers and transfers for specific purposes. Municipalities have been the main beneficiaries of this measure, which somewhat restricts the use of resources to physical and financial investments, as well as to certain areas under the authority of the federal government and beneficiary subnational governments (National Treasury Secretariat of Brazil, 2026).[9] In the Plurinational State of Bolivia, the decline recorded stems mainly from departments' dependence on revenue from extractive activities, especially from hydrocarbons, whose production has been affected by external factors linked to the price cycle (Andrian et al., 2024).

Despite pandemic-related challenges and the need to increase resource flows from central governments, the relative importance of transfers has remained high in Latin America, accounting for 55% of total subnational revenue (see figure I.15). Although this figure is slightly lower than pre-pandemic levels, it still indicates a notable dependence not seen in any other region of the world apart from Africa (Radics et al., 2022).

Figure I.15
Latin America (14 countries): relative importance of aggregate intergovernmental transfers, average for 2020–2024
(Percentages of total subnational revenue)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.

[9] These conditions could change in the coming years, owing to the recent reform of consumer taxes (some under subnational authority) and the introduction of a dual VAT comprising a federal tax (contribution on goods and services) and a shared State/municipal tax (goods and services tax). The extent of the reform implies a reformulation of existing transfer systems, the effects of which will emerge beginning in 2026 in an implementation process set to last until late 2032.

As observed in 2025 (ECLAC, 2025b), in most cases, transfers have components with conditions that restrict their use to certain social purposes (primarily education and health), or infrastructure development, operation and maintenance. However, and especially in federal countries such as Argentina, Brazil and Mexico, a large share of transfers is unrestricted (that is, free of conditions) so that intermediate and local governments can use them flexibly to address local needs and priorities. In countries such as Colombia, Costa Rica, Ecuador and Guatemala, most transfers are linked to capital expenditure.

In recent years, subnational governments in the region have made significant public investment efforts. Following the decline in 2021, capital expenditure accounted for the largest share of total local government expenditure, which surpassed pre-pandemic levels (see table I.5). Specifically, in the past few years, local governments in Argentina and Colombia have seen their capital income grow substantially, while their Peruvian counterparts have tightened their capital expenditure.

Table I.5
Latin America (14 countries):[a] composition of subnational expenditure, 2020–2024
(Percentages of GDP)

	2020	2021	2022	2023	2024
Intermediate governments					
Wages and salaries	3.2	2.9	2.9	3.0	3.0
Interest payments	0.1	0.1	0.1	0.1	0.1
Other current expenditure	3.5	3.4	3.0	3.1	2.9
Capital expenditure	0.8	0.9	1.0	1.1	0.9
Total	**7.7**	**7.3**	**7.1**	**7.3**	**7.0**
Local governments					
Wages and salaries	1.2	1.1	1.1	1.2	1.2
Interest payments	0.1	0.1	0.1	0.1	0.1
Other current expenditure	1.6	1.5	1.3	1.3	1.4
Capital expenditure	0.9	0.9	1.2	1.2	1.2
Total	**3.8**	**3.5**	**3.7**	**3.8**	**3.9**

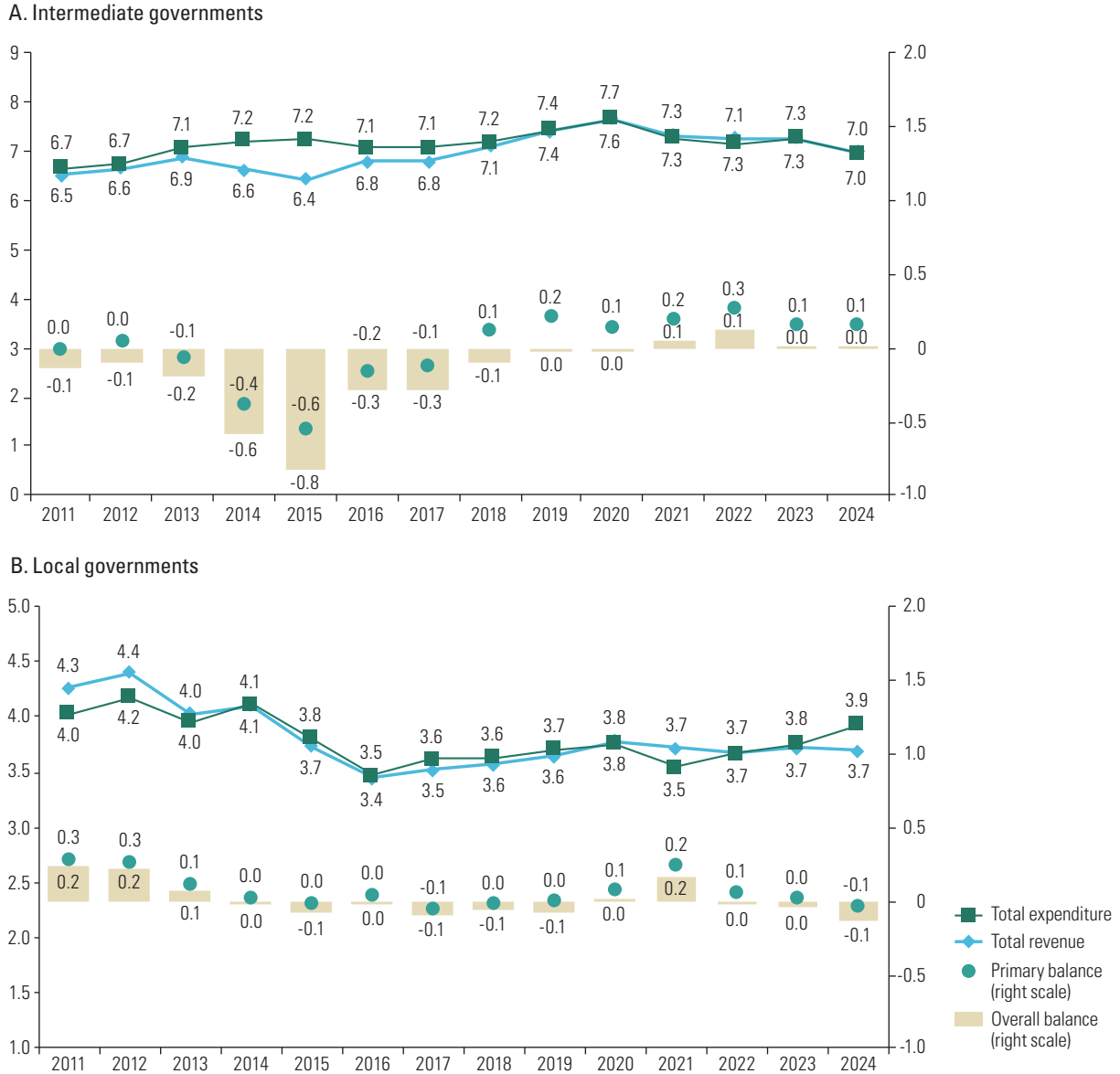
Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.
[a] The sample of intermediate governments includes Argentina, Brazil, Colombia, Mexico, Peru, the Plurinational State of Bolivia and Uruguay. The sample of local governments includes Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Panama, Peru and the Plurinational State of Bolivia.

Public investment by intermediate governments has varied in recent years, but has lacked the momentum seen at the local level. Unlike interest payments and wages and salaries, investment edged down in 2024. The sharpest declines in capital expenditure were recorded in the provinces of Argentina and the departments of the Plurinational State of Bolivia. They resulted from the public sector retrenchment in the former and transfers related to the direct tax on hydrocarbons in the latter.

Trends in revenue and expenditure variables indicate mixed performances at both levels of government and for both the overall and primary balances (see figure I.16). For intermediate governments balances remained stable relative to 2023, as a fall in revenues was accompanied by a similar reduction in spending. In contrast, balances deteriorated for local governments, with the primary balance moving from a surplus to a deficit, as expenditures increased.

Following the increase in 2023, subnational debt declined towards the end of 2024, to around 2.0% of GDP, on average (see table I.6). In 2020, there was an exceptional increase in this variable after subnational governments were forced to relax their borrowing constraints in order to access new financing to cope with the crisis stemming from the COVID-19 pandemic (Pérez-Valbuena et al., 2024; Radics et al., 2022).

Figure I.16
Latin America (14 países):[a] subnational government fiscal indicators, 2011–2024
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.
[a] The sample of intermediate governments includes Argentina, Brazil, Colombia, Mexico, Peru, the Plurinational State of Bolivia and Uruguay. The sample of local governments includes Argentina, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Mexico, Panama, Peru and the Plurinational State of Bolivia.

Table I.6
Latin America (11 countries): subnational public debt, 2020–2024
(Percentages of GDP)

Country	2020	2021	2022	2023	2024
Argentina	8.2	6.0	5.2	9.3	3.9
Bolivia (Plurinational State of)	3.2	3.1	2.9	2.8	2.8
Brazil	13.3	9.7	8.5	8.3	8.6
Chile	0.0	0.0	0.0	0.0	0.0
Colombia	1.6	1.9	1.8	1.9	1.9
Costa Rica	0.2	0.2	0.2	0.2	0.2
Dominican Republic	0.0	0.0	0.0	0.0	0.0

Country	2020	2021	2022	2023	2024
El Salvador	2.5	2.8	2.5	2.4	2.2
Mexico	2.8	2.5	2.3	2.2	2.1
Peru	0.4	0.3	0.3	0.4	0.5
Uruguay	0.2	0.2	0.1	0.2	0.2
Simple average	**2.9**	**2.4**	**2.2**	**2.5**	**2.0**

Source: Economic Commission for Latin America and the Caribbean, on the basis of official figures.
Note: The debt includes only intermediate governments in Argentina, local and intermediate governments in Brazil, Colombia, Mexico, Peru and the Plurinational State of Bolivia, and only local governments in Chile, El Salvador and Uruguay.

For intermediate governments, changes are due largely to the trends in Argentina, Brazil and Mexico. In Argentina, provincial debt was subject mainly to variations in the GDP price deflator and the exchange rate (ECLAC, 2024). The average debt of Mexican States decreased gradually because of the rules and regulations adopted in 2016 (Del Castillo and Cabral, 2024). For local governments, the debt trend was essentially determined by El Salvador, where municipalities lowered their debt levels owing primarily to refinancing and road infrastructure projects (Ministry of Finance of El Salvador, 2024). In short, debt management and financial sustainability, as well as the rules and frameworks of fiscal responsibility, remain a central theme of subnational public finance, especially in some of the region's countries.

F. The key role of fiscal policy in promoting more productive, inclusive and sustainable development is reinforced in the current context

As a result of the crisis caused by the COVID-19 pandemic in 2020 and the succession of shocks stemming from the war in Ukraine from 2022 onward, Latin American and Caribbean countries face a situation of limited fiscal space, with insufficient public revenue to finance growing demand for public spending. This is exacerbated by the weight of debt interest payments —recognized as a constraint on development—, high debt levels and persistent social and productive gaps. As a result, public investment is often used as an adjustment variable to preserve fiscal sustainability, which limits the region's development potential. At the same time, countries face a series of structural transitions (demographic, climate, energy, technology and labour) that put greater pressure on public finances in the medium and long term, as they require considerable resources to strengthen social protection systems, invest in resilient infrastructure and promote sustainable and inclusive development models.

This document, *Fiscal Panorama of Latin America and the Caribbean, 2026*, confirms the persistent difficulties the region's countries face in increasing fiscal resources, especially as regards tax revenue as a source of public financing. In 2023, despite the highly uneven trends across countries, general governments' average tax revenue, equivalent to 21.5% of GDP, was below the corresponding figure for countries of the Organisation for Economic Co-operation and Development (34.0%) (OECD et al., 2025). At the same time, countries of the region maintain a regressive tax structure, based mainly on consumption taxes, such as VAT, with a considerably smaller share of direct taxes, especially personal income tax.

These characteristics are closely linked to two structural limitations of tax systems in the region. First, tax evasion distorts the economic and distributive effects of taxes and significantly limits available public revenue. ECLAC estimates that tax non-compliance

represented 6.7% of regional GDP in 2023, or US$ 433 billion. This gap is attributable in large part to personal income tax, as examined more closely in chapter II. Second, tax expenditures (differential tax treatment, such as exemptions or reduced rates) represent forgone revenue of approximately 4% of GDP in the region. Despite the high fiscal cost, in most cases there are no objective evaluation mechanisms to determine their effectiveness as fiscal policy instruments, as shown in the analysis in chapter III.

In light of these challenges, fiscal policy can play a central role in promoting a sustainable, inclusive and productive development model, by fostering growth based on strategies to ensure productivity, decent work and macroeconomic stability. Its main purposes include generating and allocating public resources, promoting equity and stabilizing the economy while achieving fiscal and environmental sustainability. These can be fulfilled through policies that are general and others that target driving sectors. Through the provision of public goods, infrastructure investment and incentives for strategic sectors, fiscal policy drives productive development and, through progressive tax systems and social spending, reduces inequalities and strengthens macroeconomic resilience (ECLAC, 2025b).

In particular, with regard to the need to step up domestic resource mobilization and expand limited fiscal space, the following strategic priorities should be noted:

- Strengthen direct taxation, reinforcing the personal income tax through a comprehensive revision of rates, broadening of the tax base and sufficient integration of capital income. The treatment of independent workers and the coordination of simplified regimes to favour economic formalization are especially important in this regard. This should be complemented with concrete measures for more effective taxation of property, wealth and inheritance.
- Bolster other important sources of tax revenue, including by raising VAT revenue by reducing exemptions and incorporating digital services into the base for that tax. Also, expand environmental taxes, such as carbon taxes, and revise fossil fuel subsidies. There is room to strengthen taxes on products that are harmful to human health (tobacco, alcoholic beverages and specific foods). It is also important to improve the tax regimes applied to natural resource exploitation, in order to ensure that the State receives a sufficient share of the revenue generated.
- Reinforce measures to reduce tax non-compliance, consolidating the function and technical capacities of tax administrations in this regard, leveraging technologies such as electronic invoicing and improving oversight mechanisms and international cooperation. This should be accompanied by the introduction of innovations in tax regulations themselves to minimize the opportunities for tax avoidance, especially by multinational corporations.
- Fine-tune processes to quantify tax expenditures linked to tax incentives and benefits, creating opportunities for streamlining and reducing such expenditures. That would require advancing in the development and implementation of ex ante and ex post evaluation of the different tax expenditures in order to reliably determine, on the basis of accurate data, their cost-effectiveness and consistency with public policy objectives.
- Advance measures to improve the efficiency and quality of public expenditure, in light of major socioeconomic gaps, through the leveraging of various information technologies to manage social programmes, budget preparation and policy evaluation. Given the key role of public investment as a catalyst for growth, the reduction of inequalities and the transition towards more sustainable economies, public-private partnerships can mobilize additional resources.

- Consolidate fiscal institutions comprehensively, with solid institutional frameworks that ensure fiscal sustainability. The most important elements to consider include the design of clear and transparent fiscal rules, the establishment of independent fiscal councils, the protection of social spending and public investment, and the incorporation of processes such as the demographic transition and climate change into medium-term fiscal frameworks and the strategic use of sovereign funds and thematic bonds to finance sustainable projects.

The fiscal reforms needed to overcome the structural challenges affecting the countries of the region require robust governance mechanisms and broad political agreements. In this context, strengthening the technical, operational, political and prospective (TOPP) capabilities of public institutions is essential for formulating fiscal policies that are more effective, transparent and adaptable to new development challenges (ECLAC, 2025c). Building fiscal compacts through social dialogue can legitimize tax reforms and ensure their sustainability over time, as well as the strategic allocation of public expenditure in priority sectors. The strengthening of institutional capacities facilitates participation in and leveraging of the different forums for international cooperation.

In the current context and in light of the potential macroeconomic effects of the armed conflicts involving several countries of the Middle East, it is important to reinforce prospective capabilities. As seen on other occasions, this type of shock is likely to weigh on global economic growth and trade in a number of ways. Moreover, rising commodity prices —especially of oil, natural gas and fertilizers— could push up food prices, resulting in measures possibly being taken to reduce the taxes on certain goods and services and to finance relief measures for the most vulnerable groups. This climate of global uncertainty and volatility could also be reflected in benchmark interest rate increases, which would affect interest payments on public debt, particularly for countries with considerable refinancing needs.

This underscores the need for progress in adopting strategies to strengthen public finances, with a special emphasis on institutions and macroeconomic resilience. Among other elements, the potential role of fiscal stabilization mechanisms, such as sovereign funds, and the introduction of innovative financing instruments to protect investment priorities amid uncertain external conditions, is notable. Through greater domestic resource mobilization and consolidation of a medium-term perspective, fiscal policy can foster more sustained, productive, inclusive, sustainable and stable growth in the countries of the region.

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CHAPTER

II

Personal income tax non-compliance: estimation methods and reduction strategies

Introduction

The countries of the region face numerous challenges in their efforts to finance greater productive, inclusive and sustainable development. Development financing relies primarily on the mobilization of domestic resources and, in particular, on tax revenue. However, tax receipts have historically been insufficient to meet the demands on public spending. In 2023, the average general government tax take in the region's countries was 21.3% of gross domestic product (GDP), compared with 33.7% of GDP in the countries of the Organisation for Economic Co-operation and Development (OECD).[1]

The persistence of this gap is largely due to the tax structure prevailing in the region, particularly the insufficient collection of direct taxes. In comparison with OECD countries, tax revenue in Latin America and the Caribbean relies to a greater extent on taxes on the consumption of goods and services. By contrast, income tax revenue is limited in the region, averaging 6.2% of GDP, compared with 12.2% of GDP in OECD.

An analysis of the components of these taxes helps to explain the origin of this revenue gap. On average, revenue from corporate income tax is similar in the countries of the region and in their OECD counterparts (3.8% of GDP). The problem thus lies in the limited yield of personal income tax, which averaged 2.0% of GDP in 2023, compared to 8.2% of GDP in the OECD countries. This discrepancy cannot be explained solely by differences in development levels, given that personal income tax revenue is also lower than in other developing regions such as Africa (2.8% of GDP) and developing Asia and the Pacific (2.7% of GDP).

Attempts have been made to explain the phenomenon by reference to various structural, institutional and cultural factors. Most commonly cited is the high level of informal employment in Latin America and the Caribbean, although it is important to realize that other developing regions are not free of this problem either (Salazar-Xirinachs and Chacaltana, 2018). The design of the tax itself has also been mentioned, since in the region it tends to include high income thresholds and extensive deductions, credits and other types of preferential treatment, limiting the tax base and reducing tax liabilities (Barreix et al., 2017). Added to this is the role of tax morale, which influences taxpayers' attitudes towards compliance with their tax obligations, particularly in a region with high levels of inequality (Castañeda, 2024; Castañeda Rodríguez, 2017; Torgler, 2005).

While these factors are important, personal income tax receipts are also undermined by widespread tax non-compliance. The few studies available on the subject indicate that actual revenue from this tax amounts to barely half its potential in several countries of the region (Gómez Sabaini et al., 2010). Although these specific studies are of great value, there is considerable scope for carrying out comparable estimates. With a view to contributing to the development of such estimates in the region, this chapter presents a methodology for measuring personal income tax non-compliance in five of its countries, namely Costa Rica, Honduras, Panama, Peru and Uruguay, that is based on stochastic estimates and standardized, conservative criteria.

The estimates presented in this chapter suggest that personal income tax non-compliance represents a considerable constraint on the mobilization of domestic resources. The tax gap associated with this non-compliance averaged 0.57% of GDP in 2023 across the countries analysed. Furthermore, the results confirm that levels of non-compliance vary significantly between types of taxpayers, being higher among self-employed workers than among wage earners. In both cases, however, actual receipts fall well short of potential in absolute terms.

[1] OECD Data Explorer. https://data-explorer.oecd.org.

In this context, measures by tax authorities to improve compliance among existing taxpayers can generate significant revenue. Following this logic, several countries of the region have tackled the problem on two distinct fronts. First, they have implemented new audit strategies based on cutting-edge technologies, allowing anomalies and fraudulent practices to be detected. Second, they have brought in measures to facilitate compliance, involving improvements to the taxpayer experience such as unified tax portals, pre-filled forms and virtual customer service assistants. These actions have been reinforced by the implementation and expansion of simplified regimes and other measures aimed at strengthening the legal framework of personal income tax by closing loopholes for evasion and avoidance arising from the countries' own legislation.

The chapter is structured as follows. Section A analyses personal income tax and existing official measurements of tax non-compliance in Latin America. Section B examines the main methodological approaches to measuring non-compliance and describes various experiences across the region. Section C presents new estimates of personal income tax non-compliance in the region, based on a methodology developed by the Economic Commission for Latin America and the Caribbean (ECLAC). Section D analyses the main strategies implemented by the countries to address the problem of non-payment of personal income tax. Lastly, some final observations are presented to conclude the chapter.

A. Personal income tax in Latin America

Income tax is a fundamental instrument of the tax system, in relation to both tax revenues and income redistribution. In particular, personal income tax gives effect to the ability to pay principle by taxing individuals' income progressively and distributing the tax burden more equitably within society. This section will examine the main characteristics of the tax, specifically its general structure, scope and revenue impact at the regional level, and will go on to address the issues that have resulted in its share of total revenue being so low, with particular emphasis on tax non-compliance and its main causes.

1. The main features of the tax: scope, tax base and structure

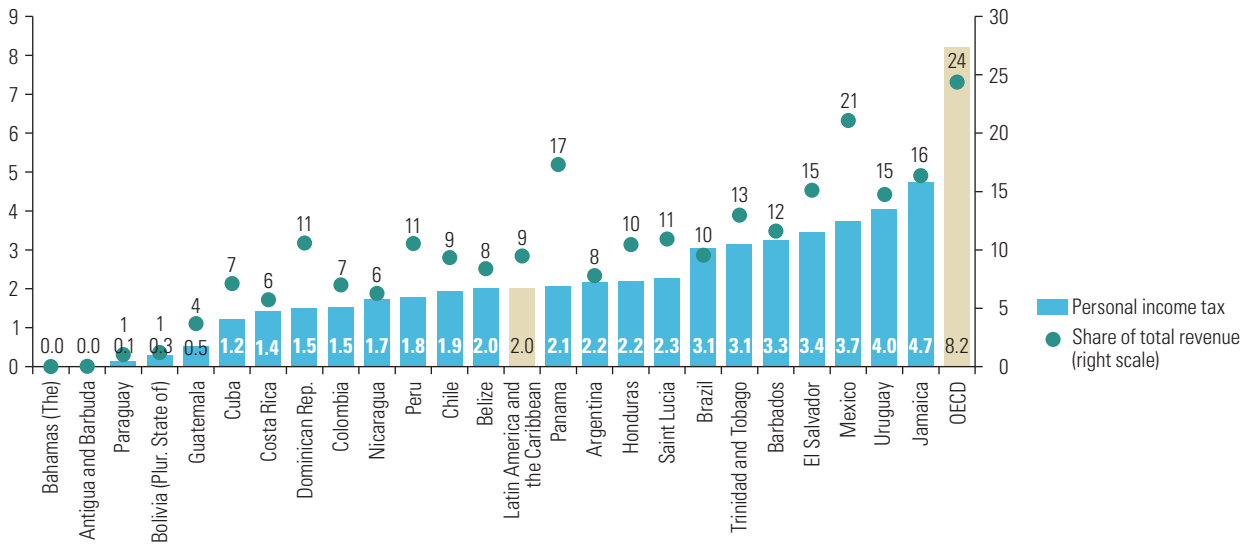
Personal income tax is a direct tax levied on the income of individuals, including wages and salaries, fees, investment income, capital gains and, in some cases, pensions and retirement benefits. It generally has a progressive structure, meaning that the relative tax burden increases as income rises. Accordingly, as well as being a major source of revenue for the State, it acts as an income redistribution tool, since it makes the tax system progressive.

The structure of the tax typically includes a minimum threshold of exempt or non-taxable income designed to exclude lower-income taxpayers, followed by a scale of income brackets to which increasing marginal rates apply as income rises. At the top end of the distribution, there is a maximum threshold above which the highest marginal rate applies. The effective tax burden may be modified by deductions applicable to the tax base, such as pension contributions and certain healthcare, education or housing expenses, and by tax credits and exemptions, such as those associated with dependants, which reduce the final tax bill.

In 2023, personal income tax accounted for an average of 9.2% of the total general government tax take in the countries of Latin America and the Caribbean, equivalent to 2.0% of GDP. However, there was marked heterogeneity between the countries

of the region, with figures below 0.5% of GDP in five of them, while in three others (Jamaica, Uruguay and Mexico) they exceeded 3.5% of GDP. By contrast, the average for the OECD countries was 24.4% of the total tax take, equivalent to 8.2% of GDP (see figure II.1).

Figure II.1
Latin America and the Caribbean (24 countries) and Organisation for Economic Co-operation and Development (OECD) (38 country average): personal income tax revenue and its share of total tax revenue, 2023
(Percentages of GDP and percentages of total tax revenue)



Source: Economic Commission for Latin America and the Caribbean, on the basis of Organisation for Economic Co-operation and Development. *Global Revenue Statistics*. OECD Data Explorer. https://data-explorer.oecd.org.

As regards the redistributive capacity of personal income tax, the reduction in the Gini coefficient attributable to this tax in 2014 is estimated at between 0.3% and 5.9% for a group of 18 countries in the region, with an average of 2.0%, which is considerably lower than the average reduction of 12.5% estimated for the countries of the European Union (Economic Commission for Latin America and the Caribbean [ECLAC], 2017).

One reason why this tax accounts for only a small proportion of the region's tax revenue and has such a low redistributive capacity is that it is levied mainly on the wages and salaries of employees, while the contribution from self-employed workers is smaller, being usually limited by the special simplified regimes that exist for small taxpayers. Furthermore, capital income such as dividends, interest, royalties and rental income is usually given preferential treatment, with lower flat rates and numerous exemptions (Gómez Sabaini and Morán, 2016).

Furthermore, with regard to the structure of the tax, maximum statutory rates in Latin America and the Caribbean are low, averaging 31.9% in 2021, as compared to 42.6% in the OECD countries. Similarly, minimum statutory rates are also lower than in the developed countries, although the difference is not as great. In this case, the regional average was 11.8%, compared with 14.3% in the OECD countries. These factors are compounded by high minimum tax-free thresholds, which also contribute substantially to the low level of income tax revenue. As of around 2021, these minimum thresholds above which tax becomes payable averaged the equivalent of 1.0 times per capita GDP in Latin America and the Caribbean, whereas in Western Europe they represented considerably lower relative income levels of less than 0.4 times per capita GDP (Cetrángolo et al., 2023).

Besides revenue shortfalls resulting from the tax structure, tax expenditure associated with income tax is also a limiting factor. This consists in preferential treatment relative to the baseline system, granted in the form of exemptions, deductions, credits, reduced rates or deferrals intended to achieve specific public policy objectives of an economic, environmental, social or other nature, which reduce the burden on taxpayers and therefore the overall tax take (ECLAC, 2019).

As of around 2024, tax expenditure in Latin America and the Caribbean averaged 4.0% of GDP, of which 1.3% was associated with personal and corporate income tax. In the case of individuals, the tax revenue foregone in the countries of the region for which disaggregated data are available averaged 0.9% of GDP, although there were marked differences between them (ECLAC, 2025b).

2. The problem of tax non-compliance

Another very important factor that undermines the revenue-raising and redistributive capacity of personal income tax in the region is non-compliance. This takes the following forms:

- tax evasion, which consists in a taxpayer deliberately breaking the law by concealing or voluntarily underreporting income;
- tax avoidance, meaning the use of legal loopholes to reduce the effective tax burden; and
- delinquency, when tax is declared but not paid by the deadline.

Tax evasion, which is illegal, is a structural phenomenon in the countries of Latin America and the Caribbean, being closely linked to the high level of informal employment that characterizes the region. A significant proportion of taxpayers go unrecorded on administrative registers or underreport their income from both employment and capital, which limits the ability of tax authorities to determine the actual tax base. This behaviour is one of the main factors contributing to the tax revenue gap in the region, particularly where taxpayers with higher non-wage incomes are concerned.

Unlike evasion, tax avoidance takes place within the legal framework. In the case of personal income tax, it typically involves strategies such as reclassifying employment income as capital gains (as these are generally taxed at a lower rate), the intensive or abusive use of deductions, exemptions and preferential treatment, or the channelling of income through companies, special regimes or other legal entities that are taxed at lower rates. Although tax avoidance practices are not strictly illegal, they can seriously undermine the revenue from and the progressiveness of the tax. Tax avoidance is encouraged by complex and fragmented legal frameworks and by a proliferation of tax incentives.

Delinquency, meanwhile, consists of a temporary breach of tax obligations, whether due to late payment or the late filing of a tax return, without necessarily involving any intention to evade tax. Unlike tax evasion and avoidance, delinquency does not result in a permanent loss of revenue, but it does generate financial and administrative costs for the State, affecting the availability of liquidity. Delinquency is very common in Latin America and the Caribbean, where only 47.4% of personal income tax returns are filed within the deadlines stipulated by law (Garcimartin and Díaz de Sarralde Míguez, 2025), something that partly reflects the limitations of tax administrations' management, collection and compliance facilitation systems.

One of the main reasons for income tax non-compliance in the region is the high level of informal employment, which in 2024 affected an average of 46.6% of the working population across 15 countries of Latin America and the Caribbean (ECLAC, 2025b). This

situation limits the effective coverage of tax systems, as a large proportion of income is neither declared nor subject to withholding mechanisms, thereby reducing the tax base. Furthermore, the high incidence of own-account work hinders ex post enforcement and creates horizontal inequalities, as the tax falls mainly on formal employees.

The high level of informality in the region manifests itself in different dimensions that reflect the dysfunctional character of the social contract between individuals and the State, characterized by a limited capacity on the part of the latter to fulfil the functions required for socioeconomic well-being. In this context, the perceived legitimacy of the tax system and taxpayers' commitment to complying with tax regulations are weakened, making evasion more likely (Gómez Sabaini et al., 2017).

Consequently, tax non-compliance is a substantial factor that directly affects the equity, fiscal sustainability and economic efficiency of tax systems. Where equity is concerned, it undermines distributive justice by shifting a greater burden on to those who do pay their taxes, usually formal workers. From a sustainability perspective, non-compliance reduces public revenue, limiting the State's ability to finance social policies and essential public goods. It also distorts the effects of taxes on efficiency and equity by altering economic incentives and leading to inefficient resource allocation.

These effects are at the root of the concern to measure and quantify the consequences of tax non-compliance, with a view to arriving at a more precise assessment of the actual impact of taxes and to setting the direction for reforms that can enhance both receipts and equity. The estimates that will be presented in this chapter represent the continuation of a very significant line of research whose most important antecedent is a pioneering ECLAC project that laid the methodological foundations for measuring personal income tax non-compliance (Gómez Sabaini et al., 2010). At the time of that study, evasion rates were estimated at 49.7% in Argentina, 46.0% in Chile, 58.1% in Ecuador, 36.1% in El Salvador, 69.9% in Guatemala and 32.6% in Peru.

B. Measuring non-compliance: the methodological experience of the region

This section presents and analyses the main methodologies used to estimate tax non-compliance, with a particular focus on personal income tax. The most commonly used approaches include top-down and bottom-up methodologies, which differ both in their sources of information and in the underlying assumptions and estimation procedures (International Monetary Fund [IMF], 2021). The analysis covers various experiences in Latin American and Caribbean countries, but also selected cases from some developed countries. In the region, the studies of Chile, Costa Rica, the Dominican Republic and Ecuador are noteworthy for being based on similar methodological approaches, although they incorporate specific features reflecting the adaptation of these methodologies to the institutional, statistical and tax characteristics of each country.

1. Estimation methodologies and international practice

The estimation of personal income tax non-compliance is a key input for fiscal policy design and the management of tax administrations. Having a regular and reliable measure of the gap between potential and actual revenue can serve to quantify revenue losses, orient enforcement strategies and inform the debate on tax system reform.

In general terms, potential tax revenue is the amount that would be raised if tax obligations were fully met (IMF, 2021). Comparing this with actual revenue yields the tax gap, which is defined as the difference between potential and actual revenue. This total gap can be broken down into two components: (i) the compliance gap, attributable to evasion, avoidance and delinquency; and (ii) the policy gap, which reflects revenue foregone as a result of tax policy decisions such as exemptions, deductions, preferential treatment and special regimes.

The analysis in this document focuses on estimating the compliance gap, which, unlike the policy gap, does not stem from strategic decisions taken by the fiscal authority but arises from the actual behaviour of taxpayers and the institutional limitations and constraints of tax administrations. In international practice, two main methods, which can be mutually complementary, have been used to estimate the compliance gap: the top-down approach and the bottom-up approach.

The top-down approach involves estimating the potential revenue from a tax by analysing the distribution of individual incomes as derived from household survey data, which can be calibrated using national accounts aggregates. This calibration is essential, given the limitations that household surveys typically present when it comes to calculating the tax base: omission and underreporting of income, underrepresentation of higher-income households and limited coverage of capital income.

To address these shortcomings, the most recent methodologies supplement survey data with information from tax returns and administrative records. Once the adjusted tax base has been calculated, the statutory tax structure (with progressive rates by income bracket and allowable deductions) is applied to estimate the theoretical potential revenue, which is then compared with the revenue actually collected.

The main strength of this approach is that it provides an aggregate view of the tax gap, which facilitates international comparisons and allows non-compliance associated with the informal economy to be factored in. Among its limitations are, first, that the accuracy of the estimates is dependent on the quality of household surveys and national accounts, which tend to underestimate high incomes and capital income, and second, that it does not distinguish what proportion of the gap is due to tax evasion and what proportion to avoidance.

The bottom-up approach, meanwhile, estimates non-compliance by analysing individual taxpayers, with the results then extrapolated to the entire taxpayer population. The most robust method is based on random audit programmes using statistically representative samples, which allow estimates to be obtained with known levels of confidence and precision. However, the high operational cost of this method means that only a few tax authorities have adopted it systematically.

Another variation of this approach involves using the results of routine operational audits. However, as these are typically targeted at taxpayers who are more likely to be non-compliant, their results suffer from selection bias, and correcting it presents considerable methodological difficulties. This is no minor challenge, as directly extrapolating these results to the entire population could lead to the level of evasion being overestimated (IMF, 2021).

The main advantage of the bottom-up approach is that, thanks to the wealth of information available from tax records, it is possible to identify patterns of non-compliance by income source and specific taxpayer segment, making it a particularly valuable input for the design of targeted audit strategies (Bahbah et al., 2024). On the other hand, it is more costly to implement and its coverage is limited to the universe of registered taxpayers. Consequently, it excludes forms of non-compliance associated with the informal economy, which, as explained in the previous section, is a fundamental feature of the region's labour structure and one of the main causes of tax non-compliance.

By working with these methodologies, some developed countries have gained experience in estimating the compliance gap and the level of underdeclaration, and as a result they now serve as international benchmarks. Generally speaking, there are a variety of methodological approaches and techniques, which are determined by the quantity and quality of information available in each country and by the specific elements that the tax authorities seek to analyse or clarify (see table II.1).

Table II.1
Selected countries: official estimates of personal income tax non-compliance and methodologies used, 2012–2023

Country	Segment of taxpayers analysed	Years covered	Approach	Finding	Methodology
Australia	High wealth individuals (net worth exceeding 50 million Australian dollars)	2022–2023 (projected)	Bottom-up (statistical)	Net compliance gap: 5.1% (gross gap: 7.4%)	The extreme value theorem is applied to extrapolate the findings from a sample f high-value amendments to the entire population.
Canada	Individuals	2022	Top-down	Net compliance gap: 7.7% (gross gap: 13%)	Non-compliance gap for the underground economy and hidden offshore investment income estimated separately.
Spain	Individuals	2022	Top-down	Gap of 14.7% for income from work and 46.2% for income from work and capital together	The non-compliance estimate is broken down into work and capital income and by autonomous community.
United States	Individual tax filers	2022	Bottom-up (random audit programme)	Compliance gap of 17.5% (US$ 447 billion)	The detection-controlled estimation (DCE) model is used to extrapolate average auditors' findings to the level of the most successful auditors.
United Kingdom	Individuals, national Insurance contributions and capital gains tax	2023-2024	Bottom-up	Net compliance gap: 3%	Non-compliance gap is estimated separately for self-assessment (self-employed), Pay As You Earn (PAYE), hidden economy and avoidance.
Italy	Self-employed and business owners	2012–2017	Top-down	Revenue gap of between 30 billion and 34 billion euros; non-compliance propensity of between 65% and 69% of potential tax liability	Gross operating surplus is used as a proxy for the potential tax base that is then compared with tax data.
	Households whose main income source is self-employment	2013 (records from 2010 to 2016) for underdeclaration and 2018 for the revenue shortfall	Bottom-up (expenditure-based)	Underreporting of 36% to 44% of income; revenue shortfall of 15% of the potential personal income tax take	Expenditure surveys are linked with administrative records covering a seven-year period and financial wealth data to reduce measurement error. The distributional effects of underreporting are measured.

Source: Economic Commission for Latin America and the Caribbean, on the basis of Australian Taxation Office. (2025, 3 November). *Methodology for estimating high wealth income gap.* https://www.ato.gov.au/about-ato/research-and-statistics/in-detail/tax-gap/a-h-tax-gaps/high-wealth-income-tax-gap/methodology; Bazzoli, M., Di Caro, P., Figari, F., Fiorio, C. V. and Manzo, M. (2020). Size, heterogeneity and distributional effects of self-employment income tax evasion in Italy. *Working Paper* (8). Finance Department; United Kingdom. (2025). *Measuring tax gaps 2025 edition: tax gap estimates for 2023 to 2024.* https://www.gov.uk/government/statistics/measuring-tax-gaps; Canada Revenue Agency. (2026). *Overall federal tax gap report (2026)*; Gallucci, M., Pansini, R. V. and Pisani, S. (2020). Direct taxes gap estimates: methodology and preliminary results. *Discussion Topics* (02/2020). Revenue Agency; Internal Revenue Service. (2024). *Tax Gap Projections for Tax Year 2022*; Vallés Giménez, J. and Zárate Marco, A. (2026). Estimación de la brecha fiscal (*tax gap*) en el IRPF, 2003-2022. *Estudios sobre la Economía Española* (2026/03). Fedea.

International practice regarding the measurement of non-compliance is also reflected in the studies of the International Survey on Revenue Administration (ISORA).[2] According to the most recent findings, 28.1% of countries in Latin America and the Caribbean produce regular estimates of the tax gap for personal income tax, a proportion that rises to 44.4% among member countries of the Inter-American Center of Tax Administrations (CIAT) (Garcimartin and Díaz de Sarralde Míguez, 2025).

[2] ISORA emerged from a joint initiative by five organizations: the International Monetary Fund (IMF), the Intra-European Organisation of Tax Administrations (IOTA), OECD, the Inter-American Center of Tax Administrations (CIAT) and the Asian Development Bank. It compiles statistical information provided by tax collection authorities in 179 countries worldwide, including data on revenue, institutional structure, budgets and human resources, among other operational aspects.

2. Methodological approaches used in the region

As mentioned in the previous section, measurements of tax non-compliance in Latin America and the Caribbean are relatively few, intermittent and methodologically inconsistent, particularly where personal income tax is concerned, which makes it difficult to carry out systematic and comparable analyses at the regional level. However, this section presents some of the countries that have published estimates in recent years, together with their main methodological aspects.

(a) Chile

The Internal Revenue Service of Chile (SII, 2025a) uses a mixed approach to estimate personal income tax non-compliance, with a bottom-up methodology for the formal sector and a top-down methodology for the informal sector. The tax is a composite of the single second category tax (*impuesto único de segunda categoría*), a withholding tax levied on employment income, and the complementary global tax (*impuesto global complementario*), which is levied on the total income of resident individuals.

A distinctive feature of the Chilean system is the integration of corporate and personal income tax: taxpayers are entitled to claim the first category tax (corporate income tax) paid on business earnings attributed or distributed to them as a credit and, in the case of the semi-integrated regime, must restore 35% of that credit as a tax debit. This structure of cross-credits and debits between the two taxes is a key factor in estimating potential tax revenue.

Given this complexity, estimation is based on information from tax returns, supplemented by national accounts data. The tax returns provide the microeconomic detail required by the integrated system, while the national accounts enable the aggregate figures for each income source to be adjusted. The declared values for wages and salaries, the mixed income of the self-employed and withdrawals and dividends are compared with their equivalents in the national accounts, and adjustment factors are obtained for each income source. These factors are calculated by subtracting the informal wages and income obtained from the Supplementary Income Survey (ESI) from the national accounts aggregates.

Adjustment factors are applied at the level of individual taxpayers' tax returns, scaling their declared income up to a theoretical value consistent with the national accounts. Following this recalculation of the theoretical tax base, the relevant credits and debits are re-estimated, with each being adjusted for additional undeclared income. The difference between the resulting theoretical tax net of credits and actual revenue constitutes the estimated compliance gap for the formal sector.

In the case of the informal sector, the methodology employs a top-down approach based on the ESI results. Income variables are constructed for the main and secondary occupations of employees and the self-employed. Only self-employment income generated by households is considered, with that from quasi-corporations being excluded. These variables are adjusted in line with their counterparts in the national accounts: remuneration net of social contributions is taken for employees, and the sum of the household sector's gross mixed income and gross operating surplus for the self-employed, after deducting the gross operating surplus associated with housing services.

To calculate the tax gap in the informal sector, the first step is to estimate potential tax revenue on the assumption that all respondents are formal workers. Next, actual revenue is estimated, subtracting income from informal employment. In both cases, revenue is estimated using the table of income brackets and tax rates for each year.

(b) Costa Rica

The Costa Rican Ministry of Finance employs a top-down approach, using data from the National Household Survey (ENAHO) and the national accounts to estimate the potential revenue from personal income tax levied on wage earners and the self-employed (Ministry of Finance, 2024). It should be noted that the estimation does not include income tax levied on national pension payments, although these form part of the tax base. A distinctive feature of this exercise is that it assumes full compliance with income tax obligations where public sector wages and salaries are concerned.

In the case of wage earners, the potential tax base is determined by aggregating a number of ENAHO variables that approximate the national accounts concept of cash wages and salaries, after which the corresponding adjustment factors are calculated. In the case of self-employed individuals, the potential tax base is determined from the monetary earnings declared by employers and own-account workers. Once this is obtained, the survey data are adjusted in line with the gross mixed income figures from the national accounts, which are treated as an approximation of the taxable profits of these taxpayers.

Once the tax bases have been determined and adjusted, the total potential tax take is estimated by applying the tax bracket and rate tables to each taxpayer. In cases where taxpayers combine wages and salaries with self-employment income, the portion of their tax-free allowance they have already used as wage earners is deducted from the allowance applicable to self-employment income. Once the potential tax has been calculated, the applicable tax credits are determined in accordance with current legislation to arrive at net potential revenue. These credits are non-refundable and therefore cannot result in negative tax liabilities. This net potential revenue is compared with the actual revenue derived from tax returns for the relevant tax year to calculate the compliance gap.

(c) Ecuador

Ecuador's Internal Revenue Service (SRI) estimates the personal income tax gap using a top-down methodology that incorporates bottom-up elements. Three sources of information are combined: the National Survey on Employment, Unemployment and Underemployment (ENEMDU), the annual national accounts, and tax returns submitted to SRI (Chamorro et al., 2023).

The methodology is divided into several stages. Firstly, ENEMDU is used to determine a distribution function for the income tax base by calculating a taxable income that distinguishes between those in wage employment, self-employment and mixed employment. This taxable income is converted into the tax base by applying a coefficient derived from tax returns that reflects the relationship between the tax base and taxable income and implicitly incorporates the effects of costs, operating expenses and deductions for personal expenses.

Secondly, the tax base for the economy as a whole is estimated from the national accounts by adding together wages and salaries and the gross operating surplus, taken in both cases from the household sector figures in the integrated economic tables. A peculiarity of the Ecuadorian case is that the gross operating surplus of quasi-corporations in the corporate sector is added in, since this concept is similar to that of individuals required to keep accounts. In the case of employees, social security contributions and personal expenses are deducted using a coefficient derived from tax returns. The sum of these components constitutes the national tax base.

Thirdly, to estimate the resulting potential tax liability, the national tax base is distributed using the distribution function determined from ENEMDU. The distributed tax base is divided into income tax brackets, and for each bracket a hypothetical taxpayer whose taxable income corresponds to the group average is defined. The tax liability for each year is estimated by applying the relevant tax rate table, and the results are extrapolated using the survey's expansion factors to arrive at a national estimate.

Lastly, the tax gap is calculated by comparing the potential tax liability with the actual revenue collected through tax returns for the relevant tax year.

(d) Dominican Republic

In the Dominican Republic, the Ministry of Finance, the Central Bank and the Ministry of Economy, Planning and Development published a joint report estimating tax non-compliance in the country (Ministry of Finance et al., 2018). In this report, a top-down methodology is used to estimate personal income tax non-compliance, drawing on the Continuous National Labour Force Survey (ENCFT) and national accounts.

Taxpayers are categorized by their employment status in ENCFT: employees, recipients of mixed income (self-employed) and others (individuals with unearned income). Employers are excluded from the sample, as they are considered legal entities. The tax base determined on the basis of ENCFT requires certain adjustments. In the case of employees, payments in kind receive special tax treatment and are subject to the tax on supplementary remuneration, payable by the employer. Meanwhile, pension payments from the Dominican Social Security System are taxed only when they amount to five times the minimum wage or over.

Another peculiarity of the methodology is the adjustment of the ENCFT tax base in line with the national accounts. In the case of wages and salaries and the income of self-employed workers, by contrast with other countries where uniform adjustment factors are applied, use is made of a non-linear function that generates increasing factors by decile of the income distribution.

To calculate potential revenue, social security contributions are deducted from the adjusted tax base, yielding net taxable income. The scale of tax brackets and rates is then applied to this figure to obtain the net potential revenue. In addition, the estimated revenue from the tax on supplementary remuneration is calculated. Lastly, tax expenditures associated with personal income tax are deducted to arrive at an overall estimate of potential revenue. This figure is compared with actual revenue from the various personal income tax components to calculate the compliance gap.

3. Recent studies on personal income tax non-compliance in the region

Although the estimates are not necessarily comparable, as exercises differ in coverage and methodology, there is substantial variation between the countries analysed. Chile, for example, has non-compliance rates of less than 20%, while in other countries they exceed 50%. As regards the proportion of GDP lost to tax evasion, a notable case is the Dominican Republic, where non-compliance with personal income tax amounted to 1.68% of GDP in 2017, a figure equivalent to 13% of the central government's total revenue (see table II.2).

Table II.2
Latin America and the Caribbean (4 countries): non-compliance rates and compliance gaps, 2021 or latest year with information available
(Percentages)

Country		Year	Non-compliance rate *(Percentages of potential revenue)*	Compliance gap *(Percentages of GDP)*
Chile		2021	18.3	0.4
Costa Rica	Employees	2021	13.9	0.17
	Own-account workers		86.6	0.82
Dominican Republic		2017	57.1	1.68
Ecuador		2021	56.2	0.98

Source: Economic Commission for Latin America and the Caribbean, on the basis of Internal Revenue Service of Chile. (2025, 17 April). *SII presenta versión revisada de estudio de brechas de cumplimiento tributario en IVA y en el Impuesto a la Renta*. https://www.sii.cl/noticias/2025/170425noti01aav.htm; Ministry of Finance. (2024). *Análisis del Incumplimiento Tributario: Exploración de Brechas de Cumplimiento al 2021*; Chamorro, C., Chiliquinga, D. and Carvajal, S. (2023). *Indicador brecha tributaria del impuesto a la renta de personas naturales*. Internal Revenue Service; and Ministry of Finance, Central Bank and Ministry of Economy, Planning and Development. (2018). *Estimación del incumplimiento tributario en la República Dominicana*.

As regards trends in estimated non-compliance rates, these have been relatively stable in the Dominican Republic and Ecuador and among own-account workers in Costa Rica. In contrast, Chile saw a fall of more than 30 percentage points between 2018 and 2021. In the case of 2021, however, SII notes that these results should be interpreted with caution, as they coincide with the distribution of financial assistance payments and withdrawals from individual pension savings funds in the context of the coronavirus disease (COVID-19) pandemic. Given that it is unclear to what extent the national accounts were able to accurately measure all these effects, SII states that the figures may be underestimates (SII, 2025a).

C. Estimates of personal income tax non-compliance using a harmonized methodology for the countries of the region

This section presents new estimates of personal income tax non-compliance in five Latin American countries: Costa Rica, Honduras, Panama, Peru and Uruguay. The methodology employed is based on a top-down approach, which involves using household survey microdata and national accounts aggregates to reconstruct potential revenue (see annex II.AI). The calculations relate exclusively to revenue from the tax as levied on employment income and pensions.

The choice of a top-down approach, despite its limitations, was made for pragmatic reasons. First, it allows a standardized methodology to be applied across a wide range of countries; second, it recognizes the information constraints that make it difficult for third parties to implement a bottom-up approach. Few countries in the region regularly publish aggregate statistics on personal income tax returns (some that do are Brazil, Colombia and Uruguay). Furthermore, access to tax return microdata and to the results of taxpayer audits, where these exist, is limited.

A key challenge of the top-down approach is reconciling discrepancies between household surveys and the national accounts, an issue that is discussed at length in the literature on inequality measurement and addressed in recent studies focused on generating distributional statistics from national accounts using this approach (Zwijnenburg et al., 2021; Törmälehto, 2019; Fesseau and Mattonetti, 2013).

Given its importance for the topics analysed in this chapter, it is worth emphasizing that underreporting of income in surveys and the existence of high-income individuals who are not captured by the surveys (the "missing rich") are phenomena that tend to artificially compress the observed income distribution, something that is particularly important in the case of a progressive tax such as personal income tax (Lustig, 2020).

Mention should also be made of another strand in the literature on the subject: the bottom-up approach developed by the World Inequality Lab (2025), which is used to construct distributional national accounts. This approach draws on microdata from household surveys, administrative records and other sources that are then integrated with various macroeconomic aggregates in order to distribute total national income between the country's resident households.

Bottom-up construction of these statistics is no easy task in developing countries. For example, while several authors have been able to use tax data from Latin America and the Caribbean, this information generally covers only a limited segment of the population, which means that major statistical efforts are needed to reconcile the different administrative sources, as are adjustments to bring them into line with the macroeconomic aggregates of the national accounts (Alvaredo et al., 2024).

This chapter adopts a top-down approach, prioritizing the use of a harmonized methodology based on widely available statistics, with the aim of estimating the potential personal income tax revenue from formal and informal economic activity. It is based in part on the recommendations of the Expert Group on Disparities in a National Accounts Framework (EG DNA) (Coli et al., 2022) and on the work of the Ministry of Finance, the Central Bank and the Ministry of Economy, Planning and Development (Ministry of Finance et al., 2018) of the Dominican Republic, although it has three distinctive features:

(i) Firstly, the adjustment between household surveys and the national accounts is applied at the individual level and increases with income, reflecting the assumption that underreporting is concentrated in the higher income brackets.

(ii) Secondly, rather than a single point estimate, the model uses Monte Carlo simulations to generate a range of plausible scenarios.

(iii) Thirdly, the distributional adjustment is not left undetermined, but is validated using external data differentiated by income type. In the case of wages and salaries, the method utilizes the identification of formal sector workers in household surveys to estimate the amount of tax that would be deducted from pay in each scenario, and weights the scenarios by how close they are to actual tax revenue from this source. In the case of own-account income, where no equivalent mechanism exists, validation is based on how close the concentration of income in the top decile is to thresholds derived from international distributional national accounts.

Once earnings have been adjusted, the potential tax liability is estimated by applying the current tax regulations of each country, including deductions, credits and simplified regimes. It is assumed that income received by self-employed workers operating through a legal entity is not subject to the personal income tax applicable to employment income, but is taxed as capital income subject to final withholding tax on distributed dividends or other mechanisms. This income is accordingly excluded from the estimated personal income tax base in the estimates shown in the present chapter.

The tax gap is calculated as the difference between potential and actual tax revenue, derived ideally from tax return statistics, although in several cases it was necessary to use figures obtained according to the cash basis of accounting. The estimates are presented for the median and for percentiles 25 and 75 of the results distribution.

This methodology has a number of limitations. National accounts, by their nature, are estimates subject to revision, and treating them as exact figures introduces an additional element of uncertainty. Furthermore, the gap between household surveys and national accounts is due not only to underreporting of income, but also to conceptual differences, selective non-response by high-income households and sampling limitations at the extremes of the distribution, and it is not possible to isolate the contribution of each factor. The adjustment function, while parsimonious, imposes a monotonically increasing form that excludes alternative patterns of underreporting. Furthermore, the method does not allow tax evasion to be distinguished from tax avoidance.

1. Non-compliance limits the scope for expanding fiscal space

The results of the methodology used in this chapter indicate that personal income tax non-compliance remains a major challenge. In 2023, the non-compliance rates estimated for the five countries analysed showed considerable variation, ranging from 13% to 51% (see figure II.2). This dispersion reflects differences in the capacity of tax administrations and the effectiveness of enforcement, as well as the structural characteristics of each economy, including their production structures and levels of informality, among others. These results have major implications, as they suggest that revenue losses due to non-compliance with this tax may represent up to half of estimated receipts, posing considerable challenges for tax administrations.

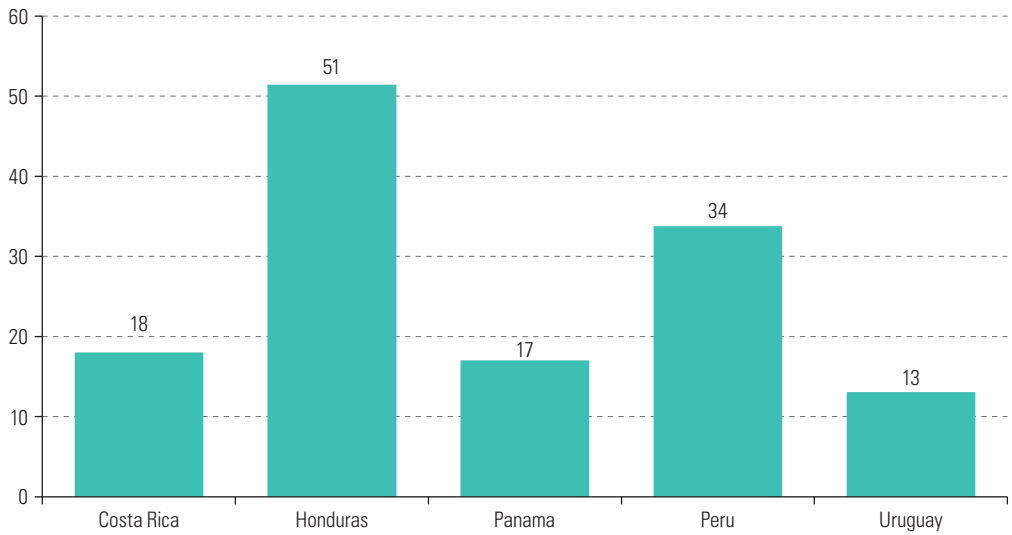
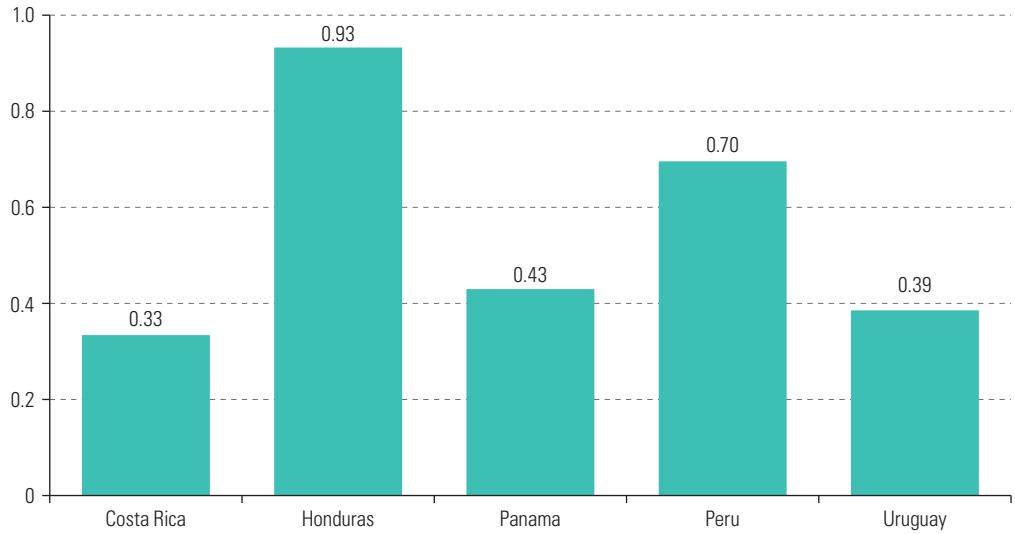


Figure II.2
Latin America (5 countries): personal income tax non-compliance rates, 2023 or latest year with information available
(Percentages of potential revenue)

Source: Economic Commission for Latin America and the Caribbean.
Note: The estimates are from 2023 for Honduras, Panama and Peru, 2022 for Costa Rica and 2021 for Uruguay. Figures are for the tax as applied to earnings.

The consequences of non-compliance become clearer when the scale of the revenue foregone is assessed. The tax gap, measured as the difference between actual revenue collected and estimated potential revenue, shows marked variation across the five countries, with levels ranging from 0.33% to 0.93% of GDP (see figure II.3). In a context of limited fiscal space and growing public spending demands, these losses further constrain the resources available for priority social spending and public investment, which may have negative consequences for growth in the short and medium term (ECLAC, 2025c). At the same time, the low level of revenue collected undermines the potential of the tax as a redistributive tool and as an automatic stabilizer.

Figure II.3
Latin America (5 countries): tax gaps attributable to personal income tax non-compliance, 2023 or latest year with information available
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean.
Note: The estimates are from 2023 for Honduras, Panama and Peru, 2022 for Costa Rica and 2021 for Uruguay. Figures are for the tax as applied to earnings. In the case of Uruguay, the figures are for the tax on second category income.

An analysis of the evolution of the tax gap over the last decade confirms that it has persisted over time. Table II.3 presents estimates of the gap, together with the interquartile range, for the years 2017–2019 and 2021–2023. The year 2020 is not included because of the disruption caused by the COVID-19 pandemic.[3] The gap has remained fairly stable in most of the countries analysed, with no clear downward trend. Whilst there have been year-on-year fluctuations, some of them associated with economic cycles, regulatory changes or one-off enforcement efforts, they have not led to a structural change in the size of the gap. An interesting case is Panama, where the introduction of a tax deduction for education expenses in 2019 reduced estimated potential revenue, resulting in a smaller tax gap measured as a percentage of GDP, even though the non-compliance rate remained quite stable.

Table II.3
Latin America (5 countries): tax gaps attributable to personal income tax non-compliance, 2017–2019 and 2021–2023
(Percentages of GDP)

Country	2017	2018	2019	2021	2022	2023
Costa Rica	0.31 [0.29. 0.35]	0.33 [0.32. 0.37]	0.53 [0.51. 0.56]	0.27 [0.25. 0.30]	0.33 [0.31. 0.35]	
Honduras					0.85 [0.76. 0.93]	0.93 [0.86. 1.00]
Panama		0.71 [0.62. 0.83]	0.52 [0.45. 0.61]		0.45 [0.35. 0.57]	0.43 [0.36. 0.5]
Peru	0.70 [0.61. 0.80]	0.62 [0.55. 0.76]	0.72 [0.61. 0.82]		0.68 [0.59. 0.77]	0.70 [0.62. 0.78]
Uruguay	0.34 [0.24. 0.51]	0.29 [0.2. 0.47]	0.36 [0.27. 0.5]	0.39 [0.31. 0.52]		

Source: Economic Commission for Latin America and the Caribbean.
Note: Figures are for the tax as applied to earnings. In the case of Uruguay, the figures are for the tax on second category income. The figures in square brackets refer to the twenty-fifth and seventy-fifth percentiles of the estimates.

All this suggests that the factors underlying non-compliance, such as informal employment, the limitations of tax authorities when it comes to enforcement and the structure of the tax system itself, operate persistently and are not easily remedied through isolated interventions. In this context, the personal income tax gap should

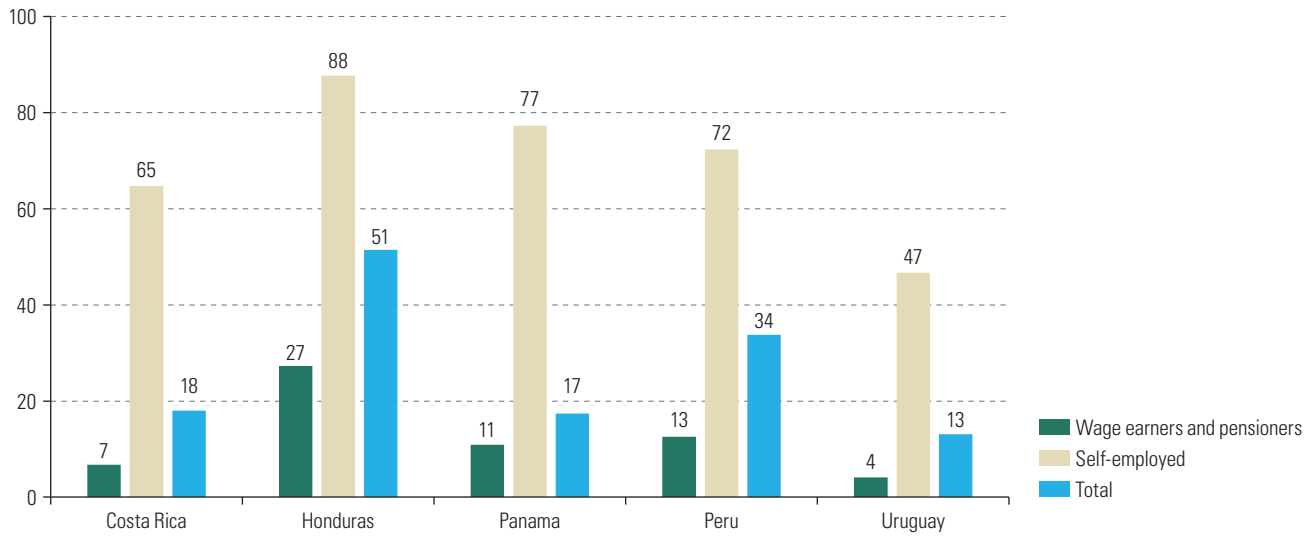
[3] In several countries, it was not possible to construct a complete time series for the period, mainly because of data limitations. Particular issues were changes in household survey methodologies in some countries, such as Honduras and Uruguay, and the limited availability of up-to-date supply and use tables in national accounts.

not be understood as a temporary phenomenon but as a structural feature of the region's tax systems, which reinforces the need to adopt comprehensive and sustained strategies to narrow it.

2. The level of non-compliance varies significantly by taxpayer type

A breakdown by taxpayer type reveals a common and unsurprising pattern. Self-employed workers exhibit substantially higher non-compliance rates than wage earners (see figure II.4). This gap reflects the fundamental asymmetry in the way each group's income is reported to the tax authorities. Employers apply withholding tax to their employees' earnings, which creates an automatic record of their income and limits the scope for voluntary underreporting. Self-employed workers, by contrast, are largely responsible for declaring their own income, in the absence of systematic third-party information that would enable tax authorities to effectively verify the regular tax returns they are required to submit.[4]

Figure II.4
Latin America (5 countries): personal income tax non-compliance rates, by taxpayer type, 2023 or latest year with information available
(Percentages of potential revenue)



Source: Economic Commission for Latin America and the Caribbean.
Note: The estimates are from 2023 for Honduras, Panama and Peru, 2022 for Costa Rica and 2021 for Uruguay. Figures are for the tax as applied to earnings. In the case of Uruguay, the figures are for the tax on second category income.

Despite the general tendency for self-employed workers to be less compliant than wage earners, the comparative analysis indicates that peculiar factors exist in each country. For example, the countries with the highest overall levels of non-compliance show significantly different results where wage earners are concerned. In Honduras, the highest non-compliance rate is recorded for this segment, whereas in Peru the rate is close to the average for the other countries. This difference is partly explained

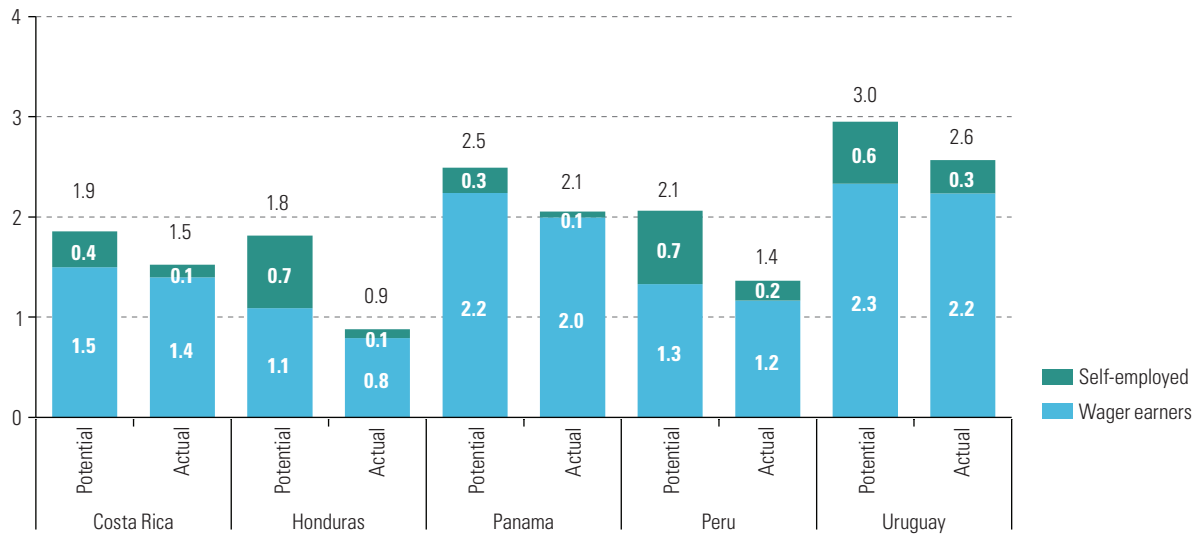
[4] Precisely because of this verification difficulty, many countries of the region apply withholding, collection and advance payment systems designed to bring forward the actual collection of annual tax liabilities, thereby reducing reliance on taxpayers' voluntary declarations.

by the structure of the tax itself. In Peru, the progressiveness of personal income tax brackets and rates, combined with the level of the tax-free allowance, means that tax revenue from wage earners is concentrated in a small segment of the formal economy.

While non-compliance rates by taxpayer type reveal where the problem of non-compliance is most acute from a behavioural perspective, the tax gap shows where the fiscal consequences are most severe. This distinction is important because the impact of non-compliance on tax revenue depends not only on its prevalence, but also on the size of the underlying tax base.

In countries where wage-earning employment is widespread and formal wage and salary income accounts for a large proportion of the potential personal income tax base, the overall tax gap remains relatively small even when non-compliance among the self-employed is high, because the large volume of tax revenue from wages and salaries offsets the losses caused by non-compliance among own-account workers (see figure II.5). The high rate of non-compliance among the self-employed is offset by the tax burden borne by a large employee workforce that largely meets its tax obligations.

Figure II.5
Latin America (5 countries): potential and actual personal income tax revenue, by taxpayer type, 2023 or latest year with information available
(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean.
Note: The estimates are from 2023 for Honduras, Panama and Peru, 2022 for Costa Rica and 2021 for Uruguay. Figures are for the tax as applied to earnings. In the case of Uruguay, the figures are for the tax on second category income.

The picture is reversed in economies with higher levels of informality. Where wage employment is more limited and tax revenue from formal wages is structurally low, the same high rate of non-compliance among self-employed workers translates into much greater revenue losses relative to GDP, since there is no broad base of formal wage income to offset the shortfall. In these countries, non-compliance by the self-employed is not merely a compliance challenge at the margins, but is the main determinant of the overall personal income tax gap.

In addition, there is the impact on potential tax revenue of the simplified regimes that exist in several countries. Even in a scenario of full compliance, a segment of potential taxpayers could opt for one of them to minimize their tax liabilities (see box II.1). These regimes operate outside the personal income tax system, and in some cases replace it. However, it is important to note that, in the case of self-employed

workers, their impact on the potential revenues from the personal income tax depends on their eligibility conditions. As detailed in annex II.A1, the Peruvian and Uruguayan regimes were modelled for the present exercise with the aim of determining what the optimal tax regime for potential taxpayers would be, and removing their income from the estimation for the personal income tax.

Box II.1
The impact of simplified regimes on potential personal income tax revenue: Peru

In Peru, fourth category income comprises earnings from the independent practice of a profession, art, science or trade, and is taxed under the general personal income tax regime, with deductions and progressive rates. However, depending on their economic activity and income level, some self-employed workers whose income would otherwise be taxed as fourth category may instead operate under one of two simplified regimes: the New Single Simplified Regime (NRUS) or the Special Income Regime (RER). NRUS is aimed is available to those exercising a trade with an annual income or expenditure of less than 96,000 soles and entails a fixed monthly payment of between 20 and 50 soles. The RER, meanwhile, is available to both individuals and legal entities with annual incomes of up to 525,000 soles, and applies a rate of 1.5% of monthly gross income (net only of returns and discounts, not of costs); access requires structuring the activity as a business that issues invoices rather than fee receipts. Both regimes exclude university-qualified professionals and certain activities specified in the International Standard Industrial Classification of All Economic Activities (ISIC).

To estimate the impact of these regimes on potential tax revenue, each self-employed worker with a primary occupation falling into the fourth category was categorized according to the tax regime that would yield the smallest tax burden, subject to the eligibility restrictions described above. The MYPE Tributario regime is not included in the exercise. As shown in the table, approximately 77.5% of these potential taxpayers would remain in the fourth category regime, either because economic activity restrictions prevented them from accessing the simplified regimes or because their income level made switching unprofitable. The remaining 22.5% would optimize their tax position through NRUS (11.8%) or RER (10.7%). In terms of revenue, taxpayers who would remain in the fourth category for their main occupation would generate revenue equivalent to 0.5% of GDP, while the simplified regimes would together contribute just 0.11% of GDP. This difference reflects both the lower income levels of those switching to the simplified regimes and the substantially lower effective rates applied under those regimes.

Peru: distribution of potential fourth category taxpayers by optimal tax regime and associated revenue, 2023

Occupation	Optimal regime	Percentage of taxpayers by optimal regime	Estimated revenue by optimal regime	Estimated fourth category revenue
Primary occupation	Fourth category	77.5	0.5	...
	New Single Simplified Regime (NRUS)	11.8	0.01	0.04
	Special Income Regime (RER)	10.7	0.1	0.4
	Total	**100.0**	**0.6**	**...**
Secondary occupation	Fourth category	...	0.1	...
Total	**Fourth category**	**...**	**0.7**	**...**

Source: Economic Commission for Latin America and the Caribbean.
Note: The household survey does not allow the different regimes of own-account workers to be classified for their secondary occupation, so all tax revenue is assigned to the fourth category.

This exercise shows that, even in a scenario of full compliance, the existence of simplified regimes could have a significant impact on the potential revenue from personal income tax paid by the self-employed. Although the proportion of taxpayers who would optimize their tax position by switching to NRUS or RER is relatively small (22.5%), the revenue generated by these regimes is substantially lower than what would be obtained under the fourth category regime, since the fixed or proportional rates of the simplified regimes replace the progressive personal income tax scale. This is particularly important in the case of RER, whose income ceiling of 525,000 soles per annum allows taxpayers with considerable incomes to be taxed at a rate of 1.5% of gross revenue (net only of returns and discounts, not of costs) rather than the progressive personal income tax scale being applied to them: if these taxpayers were taxed under the fourth category, estimated revenue would rise from 0.06% to 0.4% of GDP. Thus, the simplified regimes operate as a mechanism that shields a portion of potentially taxable income from the progressiveness of the tax.

Source:Economic Commission for Latin America and the Caribbean.

D. Country strategies for addressing personal income tax non-compliance

Estimates of tax non-compliance in the region, while still subject to methodological and data availability constraints, point to potentially significant revenue losses. In this context, there is broad consensus that effectively reducing non-compliance is an unavoidable challenge for the countries of the region, not only to secure the financing of the State, but also to uphold the principles of efficiency and distributive equity that underpin tax systems.

In recent years, the countries of the region have implemented a range of different strategies, capitalizing on technological advances and institutional capacity-building in tax administrations. Furthermore, measures have been taken to simplify voluntary tax compliance, strengthen taxpayer assistance and promote a stronger tax culture. As part of taxpayer segmentation strategies, a wide range of simplified regimes have also been introduced and consolidated with the aim of reducing compliance costs and promoting the gradual incorporation of taxpayers into the general tax system.

Whatever their potential to reduce non-compliance, administrative measures are not always sufficient to achieve concrete results. Accordingly, the design of the tax system becomes particularly important. For one thing, certain regulatory changes resulting from tax reforms can specifically help to close tax evasion and avoidance loopholes. Second, although this falls outside the scope of the present chapter, any improvement that addresses structural weaknesses such as low tax revenue, reliance on indirect taxes and, in particular, the weakness of personal income tax as a redistributive tool could help align taxpayers' incentives with tax compliance and with their perception of the tax system.

1. Digitalization and technologies to improve tax enforcement

Digitalization and the intensive use of information and communications technologies (ICTs) have strengthened tax compliance via the integration, systematization and advanced analysis of large volumes of data by tax authorities. These tools allow them to consolidate information from multiple sources and gain a more comprehensive view of taxpayers' behaviour, particularly in the case of individuals with multiple sources of income, and thence detect inconsistencies between declared and actual income, while also developing analytical models for segmenting taxpayers and assessing the risk of non-compliance so that audit actions can be prioritized (Peredo, 2026).

In this context, tax audits are increasingly moving towards preventive and evidence-based approaches, supported by predictive models. In the case of personal income tax, these techniques are particularly important for monitoring non-wage, self-employment and investment income, where withholding mechanisms are limited or non-existent (Organisation for Economic Co-operation and Development [OECD], 2017).

According to the latest results of the ISORA survey, by 2022 a growing proportion of tax administrations in Latin America and the Caribbean had adopted or were in the process of adopting advanced digital technologies to strengthen tax administration. Specifically, 18 of 24 countries in the region reported using or implementing data science and analytics tools, while 13 countries stated that they had adopted cloud computing solutions. A smaller number of countries (8) indicated that they were using artificial intelligence (AI) as part of their innovative technological solutions, while only four reported

experimenting with distributed ledger or blockchain technologies (Garcimartin and Díaz de Sarralde Míguez, 2025). These findings reflect a heterogeneous process of technology adoption, involving greater progress with data analysis and operational efficiency than with the still nascent incorporation of more complex technologies.

In relation to the use of big data and advanced analytics for tax enforcement, for example, Brazil, Chile and Mexico have implemented systems for the large-scale integration of information from electronic invoicing, bank records, tax returns and third-party data. In Brazil, the Federal Internal Revenue Secretariat uses AI-based platforms and network analysis to integrate numerous databases and detect complex patterns of tax evasion, including preventive alert mechanisms aimed at self-regularization (Federal Internal Revenue Secretariat, 2024). Similarly, Chile's Internal Revenue Service (SII) has stepped up automated cross-checking of electronic tax documents, bank transfers and transactions reported by payment providers, while incorporating technological controls to prevent and penalize the use of ideologically false tax documents (Internal Revenue Service of Chile [SII], 2025b). In Peru, the National Tax and Customs Administration (SUNAT) uses digital files and predictive algorithms to classify taxpayers, simulate risk scenarios and decide on audits (National Tax and Customs Administration [SUNAT], 2024).

Mexico and Peru also make considerable use of automated rules and specific predictive models for managing non-compliance risk, supported by the integration of multiple data sources and coordination with other public bodies. In Peru, SUNAT has developed a wide-ranging system of data cross-referencing and rules designed to detect compliance gaps and risk profiles, including risks associated with payment instalments (SUNAT, 2024), while in Mexico these models are also used to carry out compliance management actions, such as sending preventive communications and detecting atypical tax refund claims (Tax Administration Service, 2025).

An important consideration regarding these technological improvements is that segments with more limited digital access must not be excluded, as their omission from audit processes based on big data and cross-referencing of information can introduce major biases into predictive models of non-compliance risk. Furthermore, excluding these segments can create areas of tax opacity, characterized by reduced visibility for economic transactions and a diminished perception of enforcement, which undermines the effectiveness of audits.

2. Tools for facilitating voluntary compliance

The modernization of tax administrations has been greatly advanced by the introduction of digital tools designed both to strengthen enforcement and to facilitate voluntary compliance by taxpayers. In particular, they include:

- Electronic invoicing, which entails the large-scale use of sales or service receipts issued, transmitted, validated and stored in digital format with the same legal and tax validity as a paper invoice, and which has improved the traceability of financial transactions, served to automate the cross-checking of data between institutions, laid the foundations for more timely and targeted auditing processes and increased the perceived risk of detection for taxpayers.
- Pre-filled tax returns, which use information from various sources such as employers, electronic invoicing systems and financial institutions to make the process less complex and time-consuming for taxpayers and thereby reduce filing errors and compliance costs.
- The automation of processes and services, including online filing and payment of taxes and contributions, electronic notifications, automatic refunds and digital management of files and forms.

- Virtual assistants and digital customer service channels, based on AI or automated response systems, which provide guidance and resolve frequently asked questions, thereby supporting the timely fulfilment of tax obligations.

According to data from the 2022 ISORA survey, more than 70% of countries in Latin America and the Caribbean gave taxpayers the option of registering online, while 66.7% had electronic channels for filing personal income tax returns. These tools are more widely available in upper-middle- and high-income countries, reflecting differences in the institutional and technological capabilities of tax administrations across the region. Furthermore, as of 2022, about half the countries of the region included in ISORA were already using tax return pre-filling mechanisms, even if only in pilot phases, and required mandatory electronic invoicing for some or all taxpayers (Garcimartin and Díaz de Sarralde Míguez, 2025).

Studies in various countries of the region have documented positive effects from electronic invoicing on tax revenue. In Argentina, for example, value added tax (VAT) revenue rose by up to 10.7% between 2005 and 2016 following the adoption of this tool; in Ecuador, incurred tax increased by 25% in 2016; in Mexico, the amount of VAT declared rose by 14.6% in 2013, and personal income tax receipts increased by 6.6% in 2015; and in Uruguay, corporate tax revenue rose by 3.7% in 2016 (Hernández and Robalino, 2018). Similarly, a more recent study found that the implementation of electronic invoicing in Peru between 2016 and 2023 had had a positive and statistically significant effect of over 5% on general sales tax payments (Ganiko and Santisteban, 2025).

As mentioned above, electronic invoicing also enables pre-filled tax returns to be generated, which minimizes unintentional errors by taxpayers and reduces both the time needed to complete the return and the costs of compliance. In Chile, for example, the introduction of the pre-filled F29 form reduced the time spent completing it by 60% (Reyes-Tagle et al., 2021). In the state of Piauí (Brazil), the inclusion of the amount payable and transaction records in notifications sent to small businesses under the simplified regime improved compliance by 21 percentage points and increased declared revenue by 39% (Bando et al., 2021).

Furthermore, several tax authorities in the region have introduced virtual assistants as tools to facilitate voluntary compliance, with varying levels of technological sophistication. Countries using AI based on natural language processing and cognitive platforms include Brazil, which has the Léo and Teresa assistants; Colombia, where DIANA, operated by the Directorate of National Taxes and Customs (DIAN), is in use; and Peru, where SUNAT has the Sofía virtual assistant. In addition, other tax collection agencies in the region use advanced automation chatbots, primarily for disseminating information and guiding users through procedures, such as TRAVI in Costa Rica, Tina in Argentina, RITA in Guatemala and OrientaSAT in Mexico. In the Dominican Republic, an assistant called DIGI DGII is currently under development as part of a broader digital transformation strategy by the General Directorate of Internal Revenue (DGII). Taken together, these tools reflect a regional trend towards the digitalization of customer service, combining AI tools and rule-based solutions to reduce compliance costs and provide 24-hour service seven days a week.

Other mechanisms to facilitate tax compliance have been developed in Mexico, where the Tax Administration Service (SAT) has implemented various measures to simplify compliance with tax obligations for both individuals and businesses. These initiatives include, in particular, the reduction of requirements and digitalization of procedures for enrolling in the Federal Taxpayers Register (RFC) and the generation and renewal of electronic signatures, which now require less paperwork, the result being an increase in the number of enrolments and renewals. SAT has also developed

the SAT Móvil mobile app, which taxpayers can use to view and download their tax compliance report, submit provisional and annual returns, access tax information and manage notifications from the Tax Mailbox, among other things.

To give another example, Brazil's Federal Internal Revenue Service has brought out the Meu Imposto de Renda (My Income Tax) mobile application, which features a pre-filled tax return that syncs across multiple devices, allowing users to start the process on one device and finish it on another with the information already loaded. This digital ecosystem is complemented by the Public Digital Accounting System (SPED) and the DCTFWeb platform, which unify the flow of accounting information and automatically generate tax debit and credit returns, thereby reducing the need for manual data entry and the occurrence of unintentional errors.

This digital ecosystem in Brazil has also laid the groundwork for enforcement strategies based on large-scale cross-referencing of administrative data (*malha fiscal*), enabling inconsistencies in tax returns to be detected and encouraging voluntary compliance by business taxpayers. Impact evaluations involving randomized controlled trials have documented positive results from these strategies: in the state of Bahia, compliance assistance provided by tax inspectors increased the monthly revenue declared by companies under the simplified tax regime by 20% (Motta Café et al., 2024), while in the state of Pará, a digital platform for large-scale self-regularization increased the amount of tax paid almost 13-fold, with an effectiveness 60% higher than that of the traditional audit approach (Yarygina et al., 2025).

Argentina, for its part, has introduced an optional simplified self-assessment regime for personal income tax. This regime, which is available up to a certain asset and income threshold, introduces the use of a pre-filled tax return prepared by the tax authorities that becomes legally binding once ratified by taxpayers, thereby exempting these from the need to formally declare their assets (Law No. 27799).

3. Progress on international cooperation and information-sharing

International cooperation is playing an increasingly important role in reducing non-compliance with personal income tax obligations, particularly at a time of growing capital mobility and internationalization of financial income. Through information-sharing, mutual administrative assistance agreements and the harmonization of transparency standards, tax authorities have strengthened their ability to detect undeclared foreign income, financial assets and tax avoidance schemes used by high-income individuals. While these tools do not completely eliminate international financial opacity, they have helped to reduce it and enlarge the information base available for income tax audits, thereby strengthening both enforcement and the perception of risk among taxpayers.

Many of the technological tools mentioned above, such as pre-filled tax returns, electronic invoicing and the use of information from various sources, can operate at both national and international levels. Accordingly, the sharing of information between jurisdictions significantly increases the volume and quality of data available, thereby enhancing the use of digital and advanced analytical tools for detecting undeclared income. Combining these tools serves to strengthen a tax enforcement approach tailored to the size and risk profile of taxpayers, thereby improving the effectiveness of personal income tax.

Among international cooperation initiatives for the exchange of financial information between tax authorities, the OECD Standard for Automatic Exchange of Financial Account Information in Tax Matters provides a global framework for the automatic

sharing of financial account data. This mechanism is particularly useful for broadening the effective taxation of capital income. As of March 2025, a total of 18 countries in Latin America and the Caribbean had committed to implementing these standards.[5]

A considerable amount of revenue has been identified by participating members in the region through on-request information provision, the automatic sharing of financial account information and voluntary disclosure programmes (Global Forum on Transparency and Exchange of Information for Tax Purposes, 2025). Between 2009 and 2024, these countries identified 28.4 billion euros in additional revenue through such information exchanges. The automatic sharing of financial account information, with data aligned with the Standard for Automatic Exchange of Financial Account Information in Tax Matters, is gaining momentum in Latin America and the Caribbean, with 10 countries having implemented it by 2024. That year, the 10 countries received data on 4.2 million financial accounts held abroad, worth 986 billion euros. As a result, in 2024 the countries in the region identified more than 491 million euros in additional revenue.

The integration of data into tax administration processes is still a work in progress. Besides regulatory and policy changes, major investments are required in infrastructure, such as IT systems to process and link data from different databases, and in staff training to analyse this information. However, the countries are already actively using information from the Standard for Automatic Exchange of Financial Account Information in Tax Matters in risk assessments, tax audits, tax collection and notifications to taxpayers. An example of this last is when it was discovered in Chile that 63 taxpayers had failed to declare 1.5 billion pesos in capital income from financial accounts abroad in their tax returns (SII, 2025c).

4. Simplified regimes for self-employed workers

Simplified tax regimes represent a strategic approach to integrating sectors with lower tax-paying capacity into the system, particularly in a region where nearly half the working population is informally employed (ECLAC, 2025d). These regimes aim to facilitate formalization by reducing administrative barriers and compliance costs and by creating economic incentives, preferential rates and other benefits designed to make the system more accessible and financially advantageous for taxpayers who meet certain criteria.

To implement this simplified approach, use is often made of presumptive mechanisms, which consist in calculating the tax or contribution without the need to analyse the taxpayer's actual income, using estimated or predetermined amounts instead; this simplifies calculation and reduces the costs and time required to meet tax obligations. Payment facilities or other administrative measures may also be offered, such as the consolidation of national and provincial procedures, as in Argentina, which allows taxpayers to meet their obligations with less paperwork. There may also be a reduction in the tax burden so that people on limited incomes can access the system.

These measures are sometimes implemented gradually, as in Uruguay, where phased payment arrangements are in place (only 25% or 50% of the contribution in the early years). This type of gradual transition helps ensure that joining the formal system does not place immediate financial pressure on individuals.

In some countries such as Argentina, Brazil and Uruguay, these regimes have provided access to social protection systems by unifying pension and health insurance contributions (so-called *monotributo* or single tax regimes), with the aim

[5] The countries are Antigua and Barbuda, Argentina, The Bahamas, Barbados, Belize, Brazil, Chile, Colombia, Costa Rica, Ecuador, Jamaica, Mexico, Panama, Peru, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines and Uruguay.

of enhancing perceived benefits and social inclusion. Benefits such as minimum pensions, maternity leave or health insurance may also be included to encourage voluntary formalization.

The information available indicates that these regimes have been effective in promoting formalization, particularly when it comes to tax registration of smaller taxpayers. In Argentina, for example, the number of people registered under the *monotributo* regime rose from just over 1 million in December 2000 to 4.3 million by the end of 2021 (Bertranou and Goldschmit, 2024). In the case of Brazil, a recent evaluation of the impact of the simplified individual microentrepreneur (MEI) regime shows that, in addition to the massive formalization of entrepreneurs (with the number registered rising from 4.6 to 14.6 million between 2014 and 2022), its benefits have also been reflected in: (i) improved access to bank credit for these taxpayers (both in terms of the number and size of loans and the associated interest rates and financial conditions); (ii) an increase in individual incomes (of up to 25% per month) and in total income in the economy; and (iii) greater access to social protection benefits.[6]

However, while simplified regimes may encourage formalization, they also pose certain risks to the general tax system, such as: (i) "fiscal dwarfism", as the low cost of simplified regimes may encourage individuals and businesses to remain within them indefinitely, even if they have the financial capacity to pay tax under the general regime; (ii) problems of financial sustainability for social protection and healthcare systems, since contributions are subsidized by the State and there is thus a mismatch between the amounts collected and the benefits provided; and (iii) low revenue collection, since the primary objective of these regimes in the region is usually inclusion and formalization rather than the collection of revenue, which is generally very limited.

With regard to personal income tax, in cases where the simplified regime serves as a substitute for the obligation to declare and pay taxes, it is essential to manage any transition to the general regime carefully, to ensure that taxpayers do not perceive the change as a "leap in the dark" entailing increased costs and complexity, particularly in the case of the self-employed. Because these changes require a period of adjustment, the priority should be to narrow the gap between the two systems. This can be achieved through mechanisms that allow for a gradual transition to the general regime, accompanied by temporary financial incentives and administrative concessions. An approach of this kind was adopted in Argentina in April 2021 via a permanent transition regime that includes specific benefits, such as the recognition of tax credits and deductions, to soften the impact of the switch.

5. Programmes for regularizing tax obligations

Tax regularization programmes are a tool used to deal with non-compliance while at the same time generating extraordinary revenue. In practice, these programmes take various forms, including: (i) wide-ranging general amnesties aimed at securing settlement of existing tax liabilities by waiving interest, fines and surcharges, within limited timeframes and on an exceptional basis; (ii) programmes for regularizing specific debts, which allow for payment in instalments, rescheduling of liabilities or partial reductions in interest; (iii) voluntary disclosure programmes, designed to encourage the regularization of undeclared obligations through taxpayer self-reporting before tax audits take place; and (iv) programmes linked to formalization processes, frequently associated with simplified regimes or regulatory changes. The design, scope and frequency of these programmes are usually decisive when it comes to assessing their impact on

6 See Agência Sebrae de Notícias (2026).

both short-term revenues and medium- and long-term tax compliance. However, the potential adverse effects that the repeated use of these programmes may have on tax morale and taxpayers' perception of the risk of non-compliance are also recognized.

By way of example, the 2026 tax regularization programme in Mexico involves a reduction of up to 100% in the amount of fines, surcharges and enforcement costs to facilitate the payment of tax arrears for the 2024 financial year and to encourage compliance and the regularization of tax obligations for individuals whose total income did not exceed 300 million Mexican pesos (around US$ 17 million) in the 2024 financial year.[7] Furthermore, under the 2026 Financial Year Federal Revenue Act, a transitional tax is applied at a preferential rate of 15% to funds repatriated to the country, provided they are invested there for at least three years.

Another country that has implemented debt regularization programmes is Peru, where the Tax Code empowers SUNAT to authorize "the deferral and/or payment in instalments of tax debts", as well as the application of reduced interest rates. In the 2024 process, SUNAT reported that the special instalment scheme generated revenue in excess of 880 million soles (around US$ 263 million), equivalent to approximately 0.6% of that year's tax revenue.

Through the tax regularization process, Colombia allows taxpayers to rectify their tax situation by declaring previously unreported assets or removing non-existent liabilities. The scheme also provides for a 50% reduction in the tax base in the case of capital held abroad that is repatriated and invested in the country, and grants benefits in relation to penalties and criminal proceedings, including exemption from penalties for inaccurate reporting, exclusion from the asset comparison system and termination of criminal proceedings for the offence of asset concealment. For the 2025 tax year, with the additional introduction of transitional benefits for overdue liabilities, DIAN reported revenue of 237.25 billion Colombian pesos (approximately US$ 65 million) during the first two weeks of January 2026 and authorized an extension of the benefits until 30 April that year (Directorate of National Taxes and Customs, 2026).

6. Legislative reforms to strengthen the personal income tax structure

As mentioned in section II.A, the revenue-raising and redistributive capacity of personal income tax is limited because of the existence of extensive exemptions and preferential treatment, narrow tax bases, high exemption thresholds, limitations in inspection and audit mechanisms and weak integration between the taxation of income from labour and capital. Consequently, strengthening taxation and boosting compliance require not only improvements in tax administrations but also reforms to tax legislation itself.

In Brazil, for example, the recent tax reform (Bill No. 1087/2025) included important changes to personal income tax, aimed primarily at updating tax thresholds and making the tax more progressive. In addition to an increase in the tax-free allowance and a gradual reduction in the tax burden for those on medium incomes, a minimum tax rate of between 0% and 10% was established for high incomes, starting at 600,000 reais (around US$ 115,950). With the clear aim of increasing tax progressivity while keeping the fiscal impact neutral, profits and dividends distributed to resident individuals, together with those remitted abroad (above a certain threshold), will also be subject to withholding tax from 2026, at a flat rate of 10%.

[7] See Ministry of Finance and Public Credit (2026).

In Ecuador, following the enactment of the Organic Law on Social Transparency of 2025, important changes were made to the taxation of dividends and distributed profits, with the introduction of a system of differentiated tax rates aimed at enhancing fiscal transparency and oversight of ownership structures. The legislation provides for a 10% withholding tax when dividends are paid to non-residents and a 12% rate when the beneficiary is a resident of the country. It also provides for a higher rate of 14% in the following cases: (i) if residents of tax havens or low-tax jurisdictions are involved at any level of the ownership chain; (ii) if the beneficial owner of the dividend is resident in Ecuador; or (iii) if the company distributing the dividends fails to comply with the duty to properly report its corporate structure. In this way, the regime combines transparency requirements with a higher tax burden in cases where there is a risk of non-compliance.

In Paraguay, recent tax reforms form part of a strategy aimed at reducing informality and broadening the tax base. Within this framework, the country enacted Law No. 7444/2025, which establishes a set of incentives to promote the formalization of micro-, small and medium-sized enterprises (MSMEs), which, while not directly affecting personal income tax, may have indirect effects. The new regime combines tax benefits and exemptions, simplified regimes, easier financing terms, special social security systems and an adapted employment framework, among other measures, with the aim of facilitating the transition of individuals and small informal enterprises into the formal economy, and thereby their gradual incorporation into the personal income tax system.

Lastly, in Uruguay, the 2025–2029 National Budget Act (No. 20446) stipulates that all capital gains derived from non-resident entities will be taxable, as will capital gains arising from the sale of foreign assets. Similarly, the regime applicable to new tax residents has been adjusted by altering the conditions of the tax holiday and introducing alternative taxation arrangements for passive income from abroad, thereby shifting to a worldwide income jurisdictional criterion. Furthermore, the rules relating to the taxation of indirect transfers of assets located in the country have been consolidated, so that they are now subject to the applicable tax as determined by the taxpayer's status.

E. Conclusions and recommendations

As ECLAC has repeatedly pointed out, personal income tax remains the weak point in the tax systems of Latin America and the Caribbean, with limited revenue-raising capacity and a very small redistributive impact. The heavy concentration of the tax burden on employment income, the preferential treatment accorded to capital income, the application of relatively low statutory rates, the existence of high exemption thresholds and the widespread use of tax expenditures erode the tax base and reduce the potential of the tax as a central instrument of fiscal policy.

These factors are compounded by high levels of tax non-compliance, manifested in tax evasion, avoidance and delinquency and exacerbated by high levels of informal employment and a variety of institutional weaknesses. The complexity and fragmentation of legal frameworks, together with limitations in management, audit and effective collection systems, tend to exacerbate the problem. In this context, regular estimation of tax non-compliance, based mainly on top-down and bottom-up methodologies, provides a strategic input for quantifying revenue losses, targeting enforcement actions and obtaining technical information to advance progressive tax reforms.

The estimates presented in this chapter, which are based on a harmonized methodology, highlight the persistence of personal income tax non-compliance. As of around 2023, it is estimated that the five countries analysed (Costa Rica, the Dominican Republic, Honduras, Panama and Uruguay) lost between 0.33% and 0.93% of GDP in tax revenue

because of this phenomenon. However, there are marked differences between them, reflecting structural factors such as labour informality and the particular limitations of their respective tax administrations. Furthermore, the tax structure and the existence of simplified regimes limit potential revenue in some countries, even in a scenario of full compliance.

It is important to note the limitations of these estimates. Bridging the gap between macroeconomic aggregates and microeconomic sources such as household surveys is no easy task, particularly in the case of the self-employed, as it can be difficult to determine whether the information reported corresponds to the relevant concept in the national accounts. Another major challenge is underreporting or non-response by higher-income individuals. Despite these challenges, the top-down approach provides an overview of the phenomenon and gives an idea of the interactions between factors such as labour market informality and the tax's structure and relationship with other tax systems.

Tax collection agencies in the region, which play a key role in this area, have been very active in implementing different administrative measures aimed at improving the monitoring and detection of non-compliance and based on data analysis, cross-referencing of information and innovative risk models. At the same time, the use of electronic channels to facilitate compliance is now well-established for tax registration, filing and payment alike. International cooperation and the exchange of information between jurisdictions have also intensified, thanks to the implementation of multilateral standards enabling financial data to be shared and unreported income detected. Lastly, regulatory reforms have been implemented to modernize and strengthen the personal income tax structure, with adjustments to tax bases, rates, reliefs and compliance mechanisms that aim to close loopholes for avoidance and evasion and increase the taxpayer base and the fairness of the system.

Given the complexity and scale of the problem, another prerequisite for reducing tax non-compliance is to strengthen a range of technical, operational, political and prospective (TOPP) capabilities, most notably as follows:

- Take advantage of the opportunities offered by ICTs to capture large volumes of data and integrate and analyse the data available from different sources, so that these can be used to inform regular estimations of the scale of non-compliance.
- Increase investment in digital tools and in training for tax authority staff with the aim of strengthening audit analysis and operational and management mechanisms, thereby contributing to simplification and better support for taxpayers.
- Set up working groups with finance ministries, tax authorities, central banks and national statistical institutes to improve data compatibility and evaluate alternative methodologies.
- Create arrangements for regional cooperation between tax authorities, drawing on both shared information about taxpayers and lessons learned about technical issues and specific practical experiences.
- Enhance the political capabilities needed for consensus-building so that measures for strengthening personal income tax can be agreed on and implemented, taking account of the complementarity of administrative measures with a robust legal framework based on equity.
- Consolidate the regular, systematic production of estimates to create a basis for projecting and anticipating potential changes in non-compliance levels resulting from the economic volatility of the business cycle.

In short, the aim is to develop a comprehensive strategy for consolidating personal income tax as a tool for development, with measurement of non-compliance playing a central role. Besides the scope for and necessity of improving diagnostics, increasing the available fiscal resources and carrying out income redistribution based on progressive criteria, this would help to consolidate the tax as an automatic stabilizer, with potential benefits in the shape of greater macroeconomic resilience, helping to foster sustained and stable growth in the countries of the region.

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Annex II.A1
Methodology for estimating personal income tax non-compliance

A. Adjustments to income reported in household surveys

1. Adjustment function

Let $q_i \in [0,1]$ be the position of person i in the weighted cumulative income distribution, and $k \geq 0$ the shape parameter. Adjusted income is defined as:

$$y_i^* = y_i \cdot \lambda(q_i) = y_i \cdot \left(1 + \varepsilon \cdot q_i^k\right) \quad (1)$$

where ε is the excess factor, analytically calibrated to satisfy the aggregate constraint:

$$\sum_i w_i \cdot y_i^* = Y^{CN} \quad (2)$$

with w_i being the survey expansion factor and Y^{NA} the national accounts aggregate. Solving for ε:

$$\varepsilon = \frac{Y^{NA} - \sum_i w_i y_i}{\sum_i w_i y_i q_i^k} \quad (3)$$

When $k = 0$, $\lambda(q_i) = 1 + \varepsilon$ for all i (uniform proportional adjustment). As k increases, the adjustment is concentrated in the higher percentiles.

2. Monte Carlo simulation

In each iteration $j = 1, \ldots, N$, $k_j \sim U[k_{min}, k_{max}]$ is drawn, ε_j is calculated according to the previous expression, and the adjusted distribution $\{y_i^{*(j)}\}$ is obtained. The procedure employs a two-phase adaptive sampling approach: a pilot phase with a wide range of k to find the region of feasible parameters, followed by a main phase with a refined range.

(a) Wages and salaries

For each scenario, the gross income of wage earners is adjusted, with survey variables aligned to the concept of wages and salaries (D.11) in the national accounts. In Uruguay, the national accounts only report wage earner compensation (D.1), which includes employers' social contributions. Since the household survey records net wages and salaries, it was necessary to calculate the gross amount from the net before the adjustment by reversing both employee and employer social security contributions and, where applicable, amounts withheld for personal income tax.

With the incomes adjusted, potential income tax revenue T_j is calculated by applying current legislation to the formal employees identified in the survey. This is compared with the amount actually withheld from wages and salaries. The logic is that the tax revenue yielded by the distributional adjustment for formal workers must match actual revenue.

Every scenario in which potential revenue is lower than the tax amount actually withheld from wages and salaries is discarded. The valid scenarios receive a weight proportional to a one-sided exponential kernel function, which progressively penalizes those that generate a greater excess of potential revenue.

(b) Self-employment income

For each scenario, the gross income of own-account workers or employers is adjusted using a survey variable aligned with the concept of gross mixed income (B.3b) in the national accounts.

Income concentration in the top decile is then calculated. The scenarios are weighted using a Gaussian kernel function with a benchmark derived from the Eurostat (2025) distributional national accounts (50%).[8]

In some cases, the survey already shows a concentration in the top decile that is significantly higher than the benchmark value. In these situations, the Monte Carlo procedure cannot reduce the concentration towards the target, as the adjustment function is monotonically increasing and only raises incomes.

(c) Point estimation

Point estimates are obtained as weighted medians of the shape parameter k over the set of valid scenarios, using weights ω_j. Percentiles 25 and 75 provide the uncertainty interval.

B. Tax microsimulation and calculation of non-compliance

1. Tax microsimulation

For each country, a microsimulation model is constructed to replicate the personal income tax legislation in force during the tax year analysed. The main components are gross income, deductions and credits, simplified regimes and family tax returns.

(a) Gross income

In the case of employees, gross income is calculated on the basis of the gross monthly wage or salary, including statutory compensation (which includes end-of-year bonuses, where applicable). For the purposes of the calculation, the tax base for informal employees is the value reported in the survey. The microsimulation does not attempt to impose full formalization. For own-account workers, the income reported in the survey, which generally reflects net earnings, is used directly. Where necessary, gross income is calculated by applying an adjustment factor based on the ratio in the national accounts between gross mixed income and household sector output.

(b) Deductions and credits

Tax deductions applicable under each country's legislation are modelled (see table II.A1.1). Deductions are applied to estimate the tax base before the tax rate scale is applied; tax credits are applied against the resulting tax liability.

8 https://ec.europa.eu/eurostat/web/national-accounts/database

Table II.A1.1
Latin America (6 countries): tax treatments considered in the microsimulation exercises

Country	Tax treatment
Costa Rica	**Credits** Children aged under 18; children aged 18 to 25 who are students; spouse. **Special treatment** For mixed taxpayers: an exemption for individuals engaged in gainful activities, reduced by the amount already applied to wage or salary income; tax credits are first applied to income from employment, then any surplus is applied to self-employment income.
Honduras	**Exempt income** Year-end bonus and fourteenth month's wage up to 10 times the minimum wage; teachers; those aged over 65 with incomes of 350,000 lempiras or less. **Deductions** 40,000 lempiras for education and healthcare costs; 80,000 lempiras for older persons aged 65 and over; social security contributions. **Credit** 30,000 lempiras for those aged 60 and over.
Panama	**Exempt income** Agricultural activities, if sales are less than 350,000 balboas. **Deductions** Mortgage interest (capped at 15,000 balboas, for the spouse with the higher income); healthcare expenditure for eligible individuals (as a modelling criterion, in the absence of data on healthcare expenditure in the survey, the per capita out-of-pocket healthcare expenditure estimated by the World Health Organization (WHO) is used as a proxy);[a] from 2019, education expenses of 3,600 balboas per dependent, which is the ceiling set in the tax legislation (as a modelling criterion, in the absence of data on education expenses in the survey, the maximum deductible amount is allocated to dependents attending private schools; expenditure for pupils at State schools is not modelled owing to a lack of reliable data on households' direct expenditure on State education); 800 balboas per dependent spouse.
Peru	**Deductions** Fixed deduction of seven tax units (UIT); an additional deduction for rent, healthcare and restaurants, of 30% in each case (these three categories have a combined cap of 3 UIT); a notional cost of 20% in the fourth category (cap of 24 UIT).
Uruguay	**Deductions** Social security contributions; for children, 20 benefit and contribution units (BPC) annually for each dependent minor child (26 BPC annually for each dependent child with a disability, whether a minor or adult), with a deduction rate of 10% or 8% depending on income; for mortgage payments, up to 36 BPC. **Credit** Rent: 6% a year (personal income tax obligation ceiling).

Source: Economic Commission for Latin America and the Caribbean.
[a] World Health Organization. (2026). *Out-of-pocket expenditure (OOP) per capita in US$*. Global Health Observatory. https://www.who.int/data/gho/data/indicators/indicator-details/GHO/out-of-pocket-expenditure-(oop)-per-capita-in-us.

(c) Simplified regimes

Potential beneficiaries of simplified regimes are identified. These workers are excluded from the estimation of potential personal income tax revenue.

(i) Peru

Self-employed non-agricultural workers who qualify as self-employed service providers in their main occupation (National Classification of Occupations (CNO) 2015, two-digit code) are considered potential fourth category taxpayers. The optimal regime is determined by comparing the tax burden in the fourth category with that applicable under the New Single Simplified Regime (NRUS) or the Special Income Tax Regime (RER), as appropriate. University graduates and senior managers are excluded by law; for all others, inclusion depends on the International Standard Industrial Classification of All Economic Activities (ISIC) and annual income. If a lower tax rate is obtained under NRUS or RER, that option is chosen; the remainder form the fourth category tax base.

(ii) Uruguay

Eligibility for the simplified regimes is determined on the basis of income, own-account employment and main occupation. It is restricted to own-account workers with an annual income of less than 305,000 indexed units (IU). The ISIC

code for their occupation is used to determine whether they meet the requirements for the *monotributo* simplified tax regime, which applies only to a limited range of activities.

For all other self-employed workers who fall below the threshold, eligibility for minimum value added tax (VAT) is determined by exclusion, with agricultural activities, personal professional services and certain commercial activities being legally disallowed. All other own-account workers operating businesses are classified as potential beneficiaries.

These taxpayers are exempt from personal income tax on self-employment income, although any wage income is included.

(d) Joint declaration by spouses

In Uruguay, there is the option to pay personal income tax as a household by filing a joint return. By comparing individual tax liability with family tax liability, taxpayers can choose the most advantageous option, thereby minimizing the tax burden on the household.

In Panama, spouses may choose to file a joint return, which entitles them to an additional deduction of 800 balboas. However, combining both spouses' incomes into a single tax base generally results in a higher tax burden, so that a joint return is only advantageous when the spouse with the lower income earns very little. In the model, the tax liability under the two methods is compared for each household, and the option that minimizes the household's tax burden is selected.

2. Estimation of non-compliance

The estimated tax non-compliance for each scenario is defined as:

$$G_j = 1 - \frac{T^{obs}}{T_j} \quad (4)$$

The central estimate is given by the weighted median of G_j and the interval by percentiles 25 and 75. In the case of employees, by construction, G_j is bounded below by 0 (rejection constraint). In the case of own-account workers, potential revenue is estimated from national accounts-adjusted incomes without an analogous revenue constraint; therefore, negative values of G_j are possible in principle and would indicate that the adjusted survey yielded less revenue than actually observed.

CHAPTER

III

Tax expenditures for social objectives: comparative analysis of 12 Latin American countries

Introduction

The countries of Latin America and the Caribbean are undergoing profound economic, social and demographic transformations, in an international context of heightened trade uncertainty and geopolitical tensions, compounded by global challenges related to climate change and the transition to more sustainable development models. This has a direct impact on the region's economies, and it limits their growth potential, the sustainability of public finances and the capacity of governments to respond to their populations' social demands.

Addressing these challenges requires developing more comprehensive, consistent and coordinated policy frameworks, backed by robust institutions that are sustainable through time and can manage distributional conflicts. In this regard, the Economic Commission for Latin America and the Caribbean (ECLAC) has emphasized the need to strengthen the capacity of the State to promote a more productive, inclusive and sustainable development model that combines economic growth, greater equality and environmental sustainability. This entails not only increasing the available resources, but also improving the quality of expenditure, tax systems and public intervention generally, to ensure that fiscal and social policies function in a coordinated manner and are aligned with long-term development objectives.

In this context, the design and efficient use of fiscal policy instruments are particularly important, especially in the case of those that enable resources to be mobilized and social support to be channelled in an effective, equitable and transparent manner, ensuring universal access to quality essential goods and services in priority sectors such as health, education, housing, social protection and employment.

Among available fiscal instruments, tax expenditures for social objectives occupy an important place in most Latin American and Caribbean countries. These instruments are defined as preferential tax treatments that deviate from the benchmark tax framework, in order to alleviate the tax burden on specific taxpayers, activities or consumption. They are used to support households, individuals and sectors that are considered social priorities. Nonetheless, there is scant information on their effectiveness, distributional impact and fiscal cost, or on their consistency with the broader social policy and inclusive and sustainable development objectives in the countries of the region.

In this context, the systematic analysis of tax expenditures for social objectives is key to fostering an informed debate on their role as a public policy instrument. In particular, an in-depth study of these tools would make it possible to assess their efficacy in reducing socioeconomic disparities and inequality, and in fostering inclusion and social well-being. Moreover, by weighing the associated costs, it would also be possible to determine whether a tax expenditure aiming for specific social objectives is the most appropriate instrument for achieving the desired outcome, especially in comparison with other alternatives, such as direct transfers.

The objective of this chapter is to contribute to the regional debate on strengthening more efficient, equitable and sustainable fiscal and social systems, through a comparative analysis of tax expenditures pursuing social objectives in 12 Latin American countries. The analysis is focused on both their sectoral distribution and their type of incidence (direct or indirect), using an innovative conceptual and methodological approach that facilitates their identification, classification and quantification. The results show that the revenue loss associated with tax expenditures for social objectives varies significantly across countries, both as a percentage of GDP and as a percentage of total tax expenditure,

reflecting different approaches to their role in promoting social development. However, data on their relative effectiveness as a fiscal policy instrument remain scanty in the region's countries.

A more comprehensive and transparent management of these instruments is a necessary condition for improving the quality of fiscal and social policies, expanding fiscal space and strengthening the legitimacy of tax reforms amid high inequality and budgetary constraints. By emphasizing periodic analysis and evaluation processes, the aim is to strengthen the governance of tax expenditures for social objectives in the region's countries.

This chapter is divided into five sections following this introduction. The first of these presents the conceptual framework, including a definition and demarcation of tax expenditures for social objectives, along with a review of the main frameworks used to classify social spending. The second section includes a description of the methodological approach used to study these tax expenditures and specifies the criteria adopted for their identification, classification and analysis. The third presents an analysis of the main tax expenditures for social objectives currently in place in 12 Latin American countries, covering their distribution by sector of public spending, type of tax and tax benefit, and type of incidence. The fourth provides an estimate of the fiscal cost of the main tax expenditures identified and analysed. The fifth and last section offers a series of concluding comments and reflections on policies aimed at strengthening the design, evaluation and governance of tax expenditures for social objectives in the region's countries.

A. Tax expenditures for social objectives: conceptual framework

1. Definition and scope

Through fiscal policy instruments —such as public expenditure and tax systems, which include tax incentives and benefits— governments seek to promote various economic and social objectives, such as allocating resources more efficiently, promoting a more equitable distribution of income, stabilizing the economy and fostering sustainable, productive and inclusive growth.

In addition to raising revenue to finance public spending, tax systems are used as tools of economic, social and environmental policy. By applying preferential taxes or tax treatments, they can complement or reinforce public spending actions, steering the behaviour of economic agents in line with the public interest and supporting specific sectors. However, this poses multiple challenges.

Tax expenditure is defined as the revenue that the government ceases to receive by applying differential tax treatments to firms or individuals in order to achieve specific public policy objectives. This eases the tax burden on some taxpayers compared with a benchmark tax system (Economic Commission for Latin America and the Caribbean and Oxfam International [ECLAC and Oxfam International], 2019). In general, this regulatory framework corresponds to the tax legislation and regulations applicable to the majority of taxpayers in each country, while identifiable treatments can take the form of exemptions, deductions, reduced rates, tax credits or tax deferrals, covering different types of tax.

In this chapter, tax expenditures for social objectives are defined as the resources that the government forgoes by granting preferential tax treatments to specific taxpayers or sectors. These aim, either directly or indirectly, to reduce inequalities, encourage the private provision of social entitlements, or support individuals and households in situations that affect their well-being or involve social risks. Thus, the instruments referred to in this chapter as "tax expenditures for social objectives" are linked mainly to the areas of social protection, education, health, housing and community services, as well as recreational, cultural and religious activities when they have a social welfare component.[1]

The instruments in question seek to contribute to general well-being, enhance equity and improve the population's quality of life, by complementing public social spending that finances these areas directly. They can target both individuals and households —for example, through deductions or tax credits for personal or family expenses on education or health— or firms and organizations that provide social goods and services or support any of these priority areas.

As is the case with other tax instruments, however, the efficacy of the benefits depends on their design, targeting, practical application and governance. Tax policies that pursue social objectives must be backed by clear eligibility criteria, periodic evaluation mechanisms and sound institutional management, to ensure that they are consistent with equity and efficiency objectives and also with other public policies. This is essential to ensure that they serve the most vulnerable sectors, reduce inequalities and support the private provision of social entitlements effectively.

The implementation of tax benefits poses several challenges. Reducing the tax burden in certain sectors means forgoing public revenues, which can impinge on fiscal sustainability and limit spending capacity in domains that are development priorities. Moreover, some tax expenditures can have regressive effects if their benefits are concentrated among higher-income taxpayers, thereby compromising the equity of the tax system. If not properly designed, tax expenditures can also make tax systems more complex, raise compliance and enforcement costs, facilitate evasion and reduce the transparency of fiscal policy, while also distorting efficient resource allocation.

The debate on the efficiency of tax expenditures compared with direct public spending, as instruments targeting social objectives, has long been a focus of attention for academics and policymakers. In pioneering work on this subject, Stanley Surrey —who is credited with coining the term "tax expenditure"— argued that tax incentives were generally less cost-effective or equitable than direct subsidies, even when motivated by relevant objectives such as social ones (Surrey, 1970).

Unlike public spending on social transfer programmes, tax expenditures for social objectives are not usually subject to explicit eligibility criteria for receiving support, such as proof of income or family wealth. As a result, they are often available to a wide range of citizens and thus benefit different income groups, which diminishes their targeting capacity. Accordingly, in addition to causing revenue loss, tax expenditures for social objectives can produce ambiguous outcomes in terms of progressivity and distributive impact, depending on the design of the instrument, its coverage, the type of tax and interaction with other instruments (see box III.1).

[1] Environmental tax expenditures are a similar instrument that aim to generate positive effects on environmental sustainability. For a more in-depth analysis see Economic Commission for Latin America and the Caribbean [ECLAC] (2025a) and Redonda et al. (2025).

Box III.1
Distributional impact of tax expenditures for social objectives

By shrinking the tax base, differential tax treatments, especially those designed for social purposes, generally have a number of distributional consequences that need to be taken into account.

A recent study of European Union countries shows that lower-income households tend to benefit proportionally less, even where tax expenditures targeting domains that are critical to social welfare (such as employment, housing, health, education and family well-being) are generally progressive, (Turrini et al., 2024). This impact can be seen in the case of personal income tax, where there are differences between domains of public intervention. Family-related tax expenditures, which generally target relatively larger and younger households, help to reduce inequality, whereas housing-related treatments that take the form of tax relief on mortgage interest tend to have the opposite effect.

In contrast, although value added tax (VAT) expenditures resulting from exemptions or reduced rates mitigate the generally regressive nature of this tax, their redistributive effect is small in most cases. This is because, even when applied to essential goods in the basic shopping basket, the expenditures in question are less precisely targeted and also benefit households with greater purchasing power. Nonetheless, in both cases the revenue loss associated with tax expenditures for social objectives can be significant: averaging 1.2% of gross domestic product (GDP) in the case of personal income tax and 1.1% of GDP in the case of VAT, for European Union countries, according to Turrini et al. (2024).

In some Latin American countries, the official reports on tax expenditures have started to include analyses of their distributional impact. For example, in Mexico, annual reports on tax revenue forgone show that, in recent years, the largest revenue loss arises from preferential VAT treatment, particularly the zero rate applied to food. In general, this represents a tax transfer to all households, which benefits lower-income households relatively more. In contrast, in the case of personal income tax, the analysis suggests that the highest income deciles receive most of the benefits (Ministry of Finance and Public Credit of Mexico 2025).

Costa Rica's official report on tax expenditures also addresses the distributional dimension of those pursuing social objectives, particularly in relation to the reduced VAT rate of 1% (instead of the general rate of 13%) applicable to goods included in a basic reference basket). The report notes that while this tax expenditure helps to preserve access to certain essential goods, especially for households in the first income deciles, it also results in sharply lower tax revenues (Ministry of Finance of Costa Rica, 2025). This highlights the need to assess, on a case-by-case basis, whether tax expenditures for social objectives are the most cost-effective means of achieving the desired outcomes, compared with alternatives such as direct transfer programmes.

Source: Economic Commission for Latin America and the Caribbean, on the basis of Turrini, A., Guigue, J., Kiss, Á., Leodolter, A., Van Herck, K., Neher, F., Leventi, C., Papini, A., Picos, F., Ricci, M. and Lanterna, F. (2024). Tax Expenditures in the EU: Recent Trends & New Policy Challenges. *Discussion Paper* (212). European Commission. http://doi.org/10.2765/651221; Ministry of Finance and Public Credit of Mexico. (2025). *Renuncias recaudatorias 2025*; Ministry of Finance of Costa Rica. (2025). *Estimación del gasto tributario: impuesto sobre la renta, impuesto al valor agregado y otros tributos 2024* [Unpublished manuscript].

There may also be differences between the administrative costs of tax expenditures and of social entitlements. In general, the former are less costly to administer, since, in principle, they do not require institutional (bureaucratic) arrangements to: (i) certify the eligibility of the potential beneficiaries; (ii) coordinate delivery of the social entitlements associated with the programmes; and (iii) control and restrict the potential for fraud in their allocation. In contrast, differential treatments tend to be managed by tax collection entities or agencies that do not have the experience or knowledge needed for a cost-effective implementation of various measures that have social impact. Choosing the most appropriate instrument is therefore influenced by factors including the potential for targeting and the administrative costs, along with country-specific elements, such as the strength of public administration and the initial income distribution (Turrini et al., 2024).

In addition, compared with direct public spending on social programmes, tax expenditures for social objectives are subject to limited control, monitoring and public debate. Whereas public spending must be approved annually as part of the budget process (and is subject to parliamentary scrutiny, discussion among different political and social actors and formal evaluation and accountability mechanisms), tax breaks are often established through regulations of undefined duration and are generally outside the budget debate. This diminishes their visibility and transparency, makes it difficult to compare their effectiveness relative to other forms of public intervention and reduces the possibility of reallocating resources to more effective or more equitable initiatives.

Aside from these limitations, in many cases the use of tax expenditures as instruments pursuing social objectives is also determined by considerations that are inherent to, and frequently arise in, fiscal policy design and discussions in each country. Firstly, once implemented, differential tax treatments are difficult to reduce or eliminate, owing to the interests of the specific beneficiaries they create. Moreover, introducing or maintaining differential tax treatments may be more viable politically than creating or expanding direct public spending programmes, especially in periods of fiscal constraint, owing to the administrative, legal and procedural differences noted above.

In short, tax expenditures for social objectives can be a useful tool for promoting social well-being and equity, provided that their design and implementation are based on a sound governance approach. They also need oversight and evaluation mechanisms similar to those applied to direct public spending, in a framework of transparency and accountability that makes sure that their impact is aligned with the country's social objectives and is consistent with public finance sustainability.

2. Main reference frameworks for analysing public social spending

Fiscal policy in the social domain can be analysed by considering both direct public spending, implemented through various social programmes, and the tax benefits that governments grant through exemptions, deductions or other forms of preferential treatment in their tax systems. Although this study focuses on an analysis of differential treatments, it is important to first review the conceptual frameworks that exist for addressing both direct public social spending and tax expenditures for social objectives.

In this regard, the methodology of the Social Expenditure Database (SOCX) of the Organisation for Economic Co-operation and Development (OECD, 2019) aims to analyse trends in social spending, both public and private, and its composition by programme. This approach defines social spending as "the provision by public and private institutions of benefits to, and financial contributions targeted at, households and individuals in order to provide support during circumstances which adversely affect their welfare, provided that the provision of the benefits and financial contributions constitutes neither a direct payment for a particular good or service nor an individual contract or transfer" (OECD, 2019, p. 8).

According to this methodology, social entitlements include both cash transfers (for example, pensions, maternity leave payments and social assistance) and social services (such as childcare, older person care and care for persons with disabilities). Socially motivated tax relief (e.g. fiscal support for families with children, or favourable tax treatment for contributions to private health plans) is also included as an alternative to direct public spending. This reflects a distinctive feature of the SOCX methodology, which aims to quantify social spending in net terms and therefore incorporates the effect of the tax system on social expenditure levels through the following channels:

- Direct taxation of entitlement income: governments may tax cash transfers received through taxes on recipients' income or social security contributions. In such cases, the effective impact of the resources on public social spending recipients is less than that suggested by gross expenditure indicators.
- Indirect taxation of consumption by entitlement recipients: consumption taxes reduce the capacity of recipients to purchase goods and services with the income they receive from social entitlements.
- Tax breaks for social purposes: governments can use the tax system as a direct means of achieving social development targets. The measures in question can act as:
  - Substitutes for cash transfers (for example, child tax credits).
  - Incentives for the private provision of social entitlements (such as favourable tax treatment for the contributions or services of private health plans or non-profit non-governmental organizations).

In this context, OECD defines tax breaks for social purposes as "those reductions, exemptions, deductions or postponements of taxes, which: (a) perform the same policy function as transfer payments which, if they existed, would be classified as social expenditures; or (b) are aimed at stimulating private provision of benefits" (OECD, 2019, p. 33). Tax breaks for social purposes can either be granted directly to households or channelled through employers and private funds, which ultimately benefit households (for example, through favourable tax treatment of the entitlements provided by employers to their employees, or preferential treatment for private pension funds).

Another relevant conceptual framework for analysing public spending is the System of National Accounts (SNA) 2008, which includes the Classification of the Functions of Government (COFOG) among its expenditure classifications. This classification makes it possible to analyse public expenditure according to the functions or purposes for which it is intended, and it shows how governments perform their economic, social and environmental functions. It also enables comparisons to be made over time and between different countries (United Nations, 2000).

COFOG defines the key functional categories of public expenditure and provides an analytical framework for identifying the objects of expenditure. In other words, it makes it possible to distinguish the public policies to which budgetary resources contribute, and to assess the extent to which governments meet social demands through public spending, for example.

According to the *2014 Government Finance Statistics Manual* (International Monetary Fund [IMF], 2014), COFOG classifies the functions and socioeconomic objectives of general government units into different types of expenditure. These functions are grouped in 10 categories, 5 of which are considered in this study to be part of tax expenditures for social objectives, namely: social protection, education, health, housing and community amenities and recreation, culture and religion.[2] This approach is consistent with other recent research on this subject (see box III.2), and also with ECLAC statistics on public social spending in Latin American and Caribbean countries (ECLAC, 2025b).

[2] The other functions are: general public services, defence, public order and security, economic affairs and environmental protection.

Box III.2
Measurement of tax expenditures for social objectives from an international viewpoint

In a recent study, Aliu and Redonda (2025) analyse the interplay between tax expenditures and public social spending using information from the Global Tax Expenditures Database. Drawing on a sample of 105 countries and more than 25,000 measures, the authors identify and systemize those that can be classified as tax expenditures pursuing social objectives in five social functions (housing and community amenities; health; recreation, culture and religion; education; and social protection), according to the COFOG methodology.

The study reveals widespread use of tax expenditures for social objectives, with significant fiscal costs that, on average, represent more than 1% of gross domestic product (GDP), 6% of tax revenues and 27% of total tax expenditure worldwide. The results are presented in aggregate form by country group —according to income level— and by type of tax, tax expenditure modality and social policy function (without publishing individual data by country). The main findings regarding tax expenditures for social objectives are as follows:

- In high-income countries, these instruments predominate in personal income tax, mainly in the form of deductions, and they are concentrated in social protection and in housing and community amenities.
- In upper-middle-income countries, they are concentrated in value added tax (VAT) and personal income tax, with exemptions and deductions linked to social protection, health and education.
- In lower-middle-income countries, they are found mainly in VAT and corporate income tax, in the form of exemptions associated with social protection and health.
- In low-income countries, they are concentrated in VAT and customs duties, with exemptions targeting mainly health and recreational, cultural and religious activities.

The study also highlights the challenges involved in measuring and analysing tax expenditures for social objectives. Compared with data on direct public spending, working with information on tax expenditures is made more complex by the existence of different frames of reference and methodologies and the poor quality and limited availability of the statistics. The study also stresses the need to design and evaluate these instruments carefully, to make sure they align with governments' social objectives and minimize unintended consequences.

Source: Aliu, F. y Redonda, A. (2025). Beyond the budget: a global perspective on social spending through tax expenditures. *Social Policy and Society, 24*(2). http://doi.org/10.1017/S1474746424000435.

In applying COFOG, the expenditures must be classified according to the public function they actually perform in government, rather than the economic or social policy objectives that motivate them. For example, a subsidy granted to a specific industry or sector should not be registered according to the policy objective that justifies it —which might be to preserve employment or strengthen national defence— but instead according to the economic or social function for which it is intended. This methodological criterion ensures greater statistical consistency and facilitates international comparability of the data, by reflecting more accurately the functions that governments perform through their public interventions.

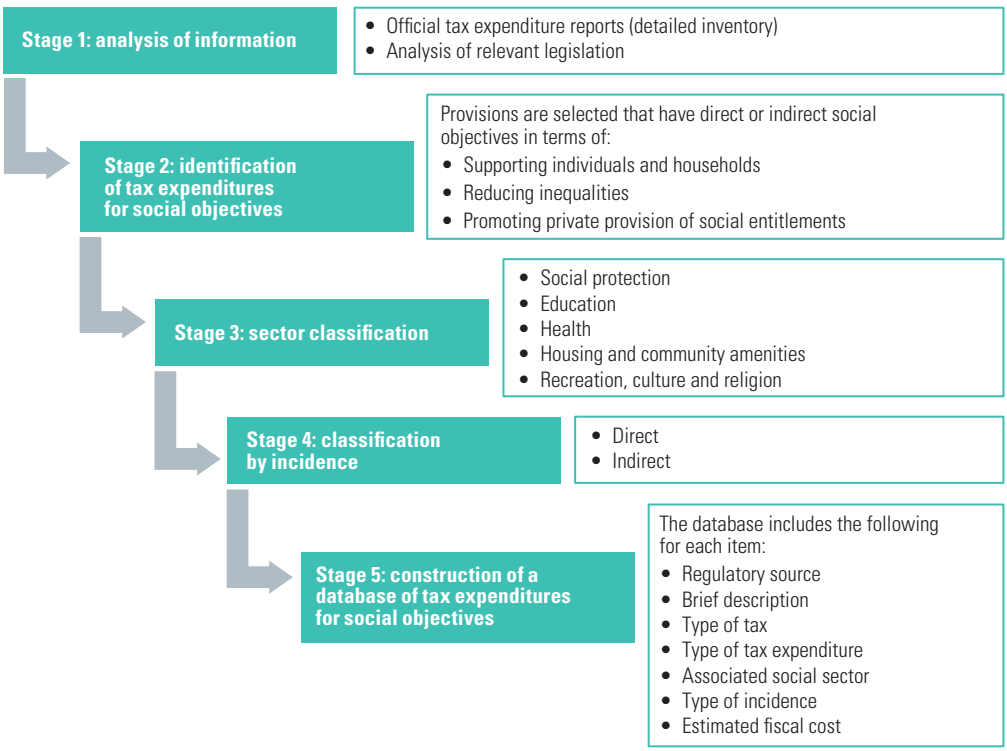
B. Methodological approach to the study of tax expenditures for social objectives

The analysis of tax expenditures for social objectives poses specific methodological challenges, which stem both from their intrinsic nature and off-budget status, since they represent tax revenues forgone, as well as from the heterogeneity of regulations, the objectives they pursue and the levels of information available in the region's countries. Given this scenario, it is essential to have a systematic methodological approach that

makes it possible to organize these instruments, makes them more comparable and transparent and promotes their evaluation as elements of public policy. This chapter presents an innovative methodology that proposes a set of criteria and procedures for distinguishing, classifying and analysing tax expenditures for social objectives in a consistent manner and for laying the foundations for quantifying and monitoring them, and for analysing their impact.

The process involves a series of steps that countries in the region can follow, while adapting them to their specific context and the information available (see diagram III.1).

Diagram III.1
Methodology for identifying and classifying tax expenditures for social objectives



Source: Economic Commission for Latin America and the Caribbean.

In the analysis of information (stage 1), the main source for distinguishing tax expenditures for social objectives are the official tax expenditure reports published by each country, in which it is important to have a detailed inventory of the different provisions.

On the basis of the availability and level of disaggregation of official information on tax expenditures, this study identifies, analyses and quantifies tax expenditures for social objectives in 12 selected Latin American countries (Argentina, Brazil, Chile, Costa Rica, the Dominican Republic, Ecuador, Honduras, Mexico, Nicaragua, Paraguay, Peru and Uruguay).[3]

In cases where descriptions of the tax measures, or the legal underpinnings or policy objectives were not included in these reports, or were incomplete, the relevant legislation and other complementary official sources were consulted. Moreover, the Latin American and Caribbean Tax Expenditures Database of the Inter-American Center of Tax Administrations (CIAT) was used as an initial reference for mapping the tax

[3] Owing to the high level of disaggregation and detail required in the information on tax expenditures needed to perform this analysis, only 12 Latin American countries had public data that satisfied the specified criteria. Consequently, no examples were found that would make it possible to perform the exercise for Caribbean countries.

expenditures for social objectives and for designing and constructing a new up-to-date database of such expenditures. Use was also made of the most detailed and recent tax expenditure report available on each country's official portals in November 2025, in order to have the most up-to-date information possible. This involved data for 2024 (except where, for reasons of statistical availability, they refer to figures for the 2023 fiscal year).

At the government level, although it would be ideal to have information covering general government (in other words, the tax expenditures for social objectives of the central government and intermediate and local governments), subnational data remain sparse in most of the region's countries, notwithstanding their special relevance in federal countries such as Argentina and Brazil. Accordingly, the present analysis is confined to the central government level.

On the basis of the inventory of tax expenditure items, along with the analysis of relevant legislation and the concept of tax expenditures for social objectives outlined above, the expenditures in question are identified (stage 2) by selecting provisions that have either direct or indirect social objectives. These measures can provide support directly to individuals or households in circumstances that affect their well-being or pose social risks, try to reduce inequalities, or foster the provision of social entitlements.

Not all preferential tax treatments with a social purpose are classified or measured as tax expenditures (or as revenue forgone), however, because each country applies its own methodology —even when defining tax expenditure— and each has its own tax reference framework based on its respective tax legislation (legal approach). As a result, tax expenditure figures and analyses are not fully comparable across countries and, in some cases, they do not include all measures that have potential social effects. For example, several countries have personal income tax deductions designed to support families with children. Although these benefits have a clear social impact and provide financial assistance to households, they are often considered part of the normal tax structure and are therefore not recorded as tax expenditures. Given such methodological differences between countries, caution is needed when making international comparisons.

The next stage entails classifying this specific type of tax expenditure (stage 3) into five main categories: (i) social protection; (ii) education; (iii) health; (iv) housing and community amenities; and (v) recreation, culture and religion (see table III.1), according to the COFOG methodological definitions referenced above (IMF, 2014).

Table III.1
Sectoral classification and relevant examples of tax expenditures for social objectives

Sector	Description	Examples
Social protection	Designed to support individuals and households facing social risks or situations of vulnerability, such as illness, disability, old age, family and child expenses, unemployment, social exclusion and death, in the case of survivors of deceased persons. This category also includes measures to promote employment and training for vulnerable groups (excluding general employment incentives or those targeting specific economic sectors or regions).	– Income tax exemption for disability. – Deduction or credit for social donations. – Exemption for older person day-care centres and residences. – Reduced rate or exemption from value added tax (VAT) on products in the basic shopping basket. – Exemptions for civil associations, foundations, mutual societies, cooperatives and charitable organizations. – Income tax credit or deduction to incentivize the employment of persons in vulnerable groups.
Education	Aimed at promoting access to, and the quality and financing of, education at all levels.	– Income tax deduction or credit for educational expenses. – Income tax exemption for educational institutions. – Deduction or credit for donations to universities. – VAT exemption for educational services.
Health	Aimed at facilitating access to health goods and services, such as medical and hospital care, medicines, insurance, prevention programmes and medical equipment.	– Reduced VAT rate for medicines and medical services. – Income tax deduction for health insurance or medical expenses. – Zero VAT rate on imported pharmaceutical products.

Sector	Description	Examples
Housing and community amenities	Linked to the construction, acquisition, access to, or improvement of housing and the development of basic community infrastructure and amenities, such as water and sanitation.	– VAT exemption for mortgage interest. – Exemption for property rental (VAT, income tax). – Reduced VAT rate for housing construction. – Income tax deduction for mortgage loans.
Recreation, culture and religion	Aimed at fostering participation in cultural, sporting, recreational, or religious activities, as well as the equipping and maintenance of associated infrastructure and services.	– VAT exemptions or reduced rates for books, newspapers, magazines and other items. – Reduced rates or exemptions for shows, cultural and sporting activities. – Credit for donations for sports purposes. – Exemptions for religious institutions.

Source: Economic Commission for Latin America and the Caribbean.
Note: Tax expenditures related to scientific research and development activities are included and imputed to some of the main social sectors listed.

Each measure was classified according to the description contained in the official sources, taking into account the sector or activity that is effectively supported through the tax expenditures for social objectives, aside from the stated primary objective. Thus, among other relevant examples (see table III.1), an income tax deduction for donations to hospitals is not classified according to the main policy objective that justifies it —which might be reducing unemployment or stimulating employment in medical institutions— but instead according to the social sector for which this tax reduction is intended, which in this case is the health sector, since it is the activity that receives the financial support. This classification does not take into account the actual social impact or the efficacy of these instruments in the social sectors mentioned, since such an analysis would require specific evaluations that are beyond the scope of this chapter.

It is important to classify tax expenditures for social objectives according to how they impact the beneficiary (stage 4). In particular, these measures can be channelled in two different ways, as follows:

(i) Direct incidence: similar to public social spending policy, as the tax expenditures would substitute cash transfers,[4] with the clear objective of ensuring that the tax instruments applied respect the principles of equity and contributory capacity and, in addition, enhance the redistributive impact of fiscal policy as a whole. Examples include tax credits for children or deductions for education, health, or housing expenses, which are often included in personal income tax in different countries.

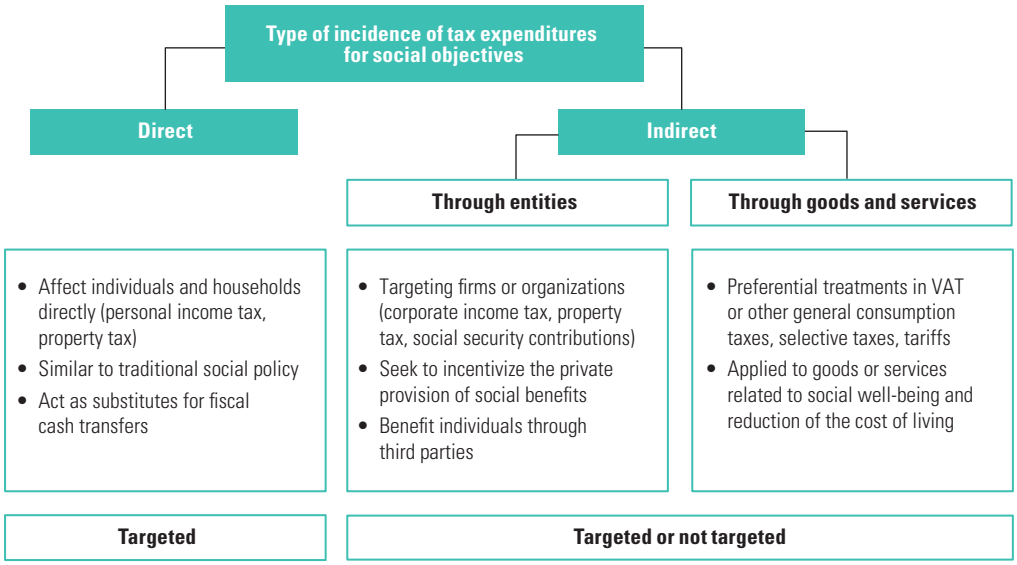
(ii) Indirect incidence: tax expenditures for social objectives that are not granted to persons and households individually, but instead affect them through their inclusion and participation in the society in which they live —including the labour market— or by virtue of their consumption of specific goods and services in that environment. Consequently, these provisions may partially target a specific social group, although not necessarily. Two cases can be distinguished:

– Tax expenditures that are applied through entities (firms or organizations) with the aim of influencing supply, incentivizing the private provision of social entitlements, or the support provided by these institutions to their employees, or to households or social sectors. Through these intermediaries, the tax expenditures can also aim to foster the private production of goods or services of social interest. Examples include deductions or credits in corporate income tax for donations for social purposes, incentives for the employment of vulnerable groups, or income tax exemptions for educational or health institutions, as well as the promotion of cultural activities undertaken by private sector entities.

[4] In practice, they would function as "imperfect or approximate" substitutes, owing to the existence of evasion and informality and less effective targeting.

– **Tax expenditures implemented through goods and services**, which act mainly on indirect taxes —such as VAT, excise taxes or tariffs— aim to attenuate the generally regressive impact of these taxes by influencing demand to improve the population's general well-being, although, ideally, with a bias in favour of the most vulnerable sectors. These include exemptions or reduced rates for basic food basket items, educational and health services, medicines and housing rental (see diagram III.2).

Diagram III.2
Classification of tax expenditures for social objectives, by type of incidence



Source: Economic Commission for Latin America and the Caribbean.

Although direct measures provide support to the beneficiary families or individuals directly, their social impact should be assessed carefully on a case-by-case basis. This is because personal income taxpayers tend to be concentrated mainly in the middle- and high-income brackets, especially in Latin American and Caribbean countries, so tax-free thresholds exclude a significant proportion of the population (Cetrángolo et al., 2023). In this context, such preferential tax treatments not only reduce effective tax collection but can also undermine the progressive nature of the tax.

In the case of the first group of measures with an indirect incidence through intermediaries, aimed at firms or other institutions, it is also important to analyse their effectiveness and social impact, since the tax benefits are channelled through these actors and only have an indirect impact on individuals and households in the respective social sector.

In the case of tax expenditures for social objectives with an indirect incidence through goods and services, although they may aim to mitigate the regressive nature of the main indirect taxes and alleviate the burden on the most vulnerable households, a significant share of the benefit in absolute terms is received by higher-income individuals, highlighting the concerns about the efficiency of these instruments. Accordingly, their final distributive impact needs to be analysed, evaluated and compared with that of other alternative public policies.

Lastly, based on the information collected, a specific database is constructed (stage 5), which, for each selected item, includes the regulatory source, a brief description, the type of tax, the tax expenditure modality, the associated social sector, the type of incidence and, when the country quantifies it, the estimate of the corresponding fiscal cost.

This novel methodology is intended to be replicable and adaptable to the reports and quantification of tax expenditures prepared by the region's different countries. Furthermore, the possibility of classifying differential treatments by purpose would improve the quantity and quality of the available information and facilitate the implementation of ex ante and ex post evaluations, by providing greater clarity and precision regarding the benefits and costs associated with these instruments. This would apply primarily to the set of tax expenditures for social objectives, but could be extended to environmental sustainability, technological innovation, the promotion of strategic sectors, productive and territorial development and other public policy objectives.

C. Identification of the main tax expenditures for social objectives in selected Latin American countries

1. Analysis by functional sector of social spending

According to the new database compiled from information obtained from official tax expenditure reports, there were 543 tax expenditure provisions targeting social objectives in the 12 countries analysed. The sectoral distribution shows that the tax instruments used for social purposes in the region are aimed primarily at social protection, followed by cultural promotion, housing and community amenities, health and education.

The social protection function accounts for 46% of total tax expenditures for social objectives (see table III.2). This reflects the importance of measures aimed at supporting vulnerable households and groups through tax breaks related to social security, assistance and inclusion. Recreation, culture and religion are the second-most-important function, accounting for 20% of the total, including incentives to promote access to cultural and sports goods and services. The housing and community amenities sector accounts for 13%, with measures aimed at facilitating access to housing or improving urban conditions. Health absorbs 11% of the total amount of tax provisions for social objectives and includes tax breaks related to medical care, health prevention and the purchase of medicines. Lastly, 10% is concentrated in education and refers to preferential treatment for educational institutions or household spending on education.

In particular, tax expenditures related to social protection are more numerous in Brazil and Ecuador, where they were recorded mainly in corporate and personal income taxes, but also in general consumption taxes. Nonetheless, social protection-related measures that correspond mainly to these three types of tax predominate in all the countries in the sample.

Most social protection provisions relate to corporate income tax exemptions for charitable institutions, preferential treatment applied to donations for social purposes, and deductions for social entitlements provided by firms to their employees, or for the training or hiring of persons with disabilities, young people, women or other vulnerable groups. For example, in Brazil, firms can claim deductions in respect of food programmes for their workers, and also for voluntary contributions to finance supplementary benefit plans similar to social security.

Table III.2
Latin America and the Caribbean (12 countries): tax expenditures for social objectives provisions, by sector, 2024 and more recent information
(Number of provisions and percentages of the total)

Country	Year	Social protection	Education	Health	Housing and community amenities	Recreation, culture and religion	Total
Argentina	2024	12	3	6	4	8	33
Brazil	2024	37	12	13	6	33	101
Chile	2024	27	11	3	10	9	60
Costa Rica	2023	16	1	3	3	-	23
Dominican Republic	2024	14	5	2	3	10	34
Ecuador	2024	50	5	5	4	10	74
Honduras	2024	8	2	2	-	4	16
Mexico	2024	25	3	7	8	8	51
Nicaragua	2023	17	3	3	3	1	27
Paraguay	2023	5	6	4	4	5	24
Peru	2024	14	2	3	3	10	32
Uruguay	2024	24	4	8	21	11	68
Total		**249**	**57**	**59**	**69**	**109**	**543**
Percentage of total		**46**	**10**	**11**	**13**	**20**	**100**

Source: Economic Commission for Latin America and the Caribbean, on the basis of Inter-American Center of Tax Administrations. (2025). *Tax Expenditure Database of Latin America and the Caribbean*. https://www.ciat.org/gastos-tributarios; and official tax expenditure reports.

Chile provides a tax credit for occupational training that allows firms to deduct, from their first category tax liability, expenses associated with job training programmes carried out in the country.[5] In Ecuador, additional deductions are available for hiring persons with disabilities, young people, women, construction and agricultural workers, or individuals who have served a prison sentence. In Mexico, employers can deduct up to 53% of the contributions they make to pension and retirement funds on behalf of their workers. There are also additional deductions for hiring workers aged 65 years or older and for persons with disabilities.

In the case of personal income tax, deductions are available for family expenses, voluntary social security contributions and family allowances, and there are exemptions related to retirement, old-age or disability pensions and other social security entitlements. For example, Argentina permits a special deduction for retirement entitlements, pensions, severance payments or allowances arising from personal employment, while Brazil allows exemptions from personal income tax for retirement and old-age pensions (for taxpayers aged 65 years or older), or for serious illness or accident, as well as for insurance paid in the event of death or disability. In Costa Rica, the family credit system allows a deduction to be made for the taxpayer's spouse and each child, as a credit against the employed worker's income tax. Similarly, in Ecuador, there is a deduction for personal expenses based on the number of dependents, covering items such as clothing, education, food, health, rent and interest on home purchases and alimony, among other items. In Honduras, persons over 65 years of age with a gross income of up to 350,000 lempiras (about US$ 13,300) are exempt from income tax.

In the case of tax expenditures for social protection linked to VAT (or other general consumption taxes), exemptions or reduced rates are applicable to basic goods and services, personal insurance premiums (for death or disability), personal care services and funeral services. Some countries also incorporate more targeted or personalized provisions into VAT (as they are aimed at vulnerable groups), such as tax refunds for persons with disabilities and older persons, or reductions for the recipients of social transfer programmes. In Ecuador, for example, persons with disabilities and older persons

[5] The benefit entails a maximum equivalent to 1% of the taxable remuneration of staff and only applies if annual remuneration exceeds 35 monthly tax units (UTM) (about US$ 2,700 per year).

are entitled to a refund of the VAT paid when they buy basic goods and services for personal use or consumption, provided that their monthly tax base does not exceed the equivalent of twice the basic unified wage. In Uruguay, a 22-percentage-point reduction in the VAT rate is applied to transactions made using cards from the *Tarjeta Uruguay Social* programme.

Some countries apply exemptions or reduced rates of excise or property taxes linked to social protection, particularly in relation to the purchase or ownership of vehicles for persons with disabilities or older persons. In Brazil, for example, exemptions from the industrialized products tax and the tax on financial operations are provided for the purchase of cars by persons with disabilities.[6] In Ecuador, a reduced rate is applied to the tax on motor vehicle ownership for persons with disabilities and older persons, and vehicles intended for persons with disabilities are exempt from the special consumption tax.

In the case of tax expenditures in the education sector, while all the countries analysed use this type of instrument, Brazil and Chile have the largest number of provisions. In most countries, preferential treatment is channelled through income tax (both for individuals and for legal entities) and, in all cases, there are also tax expenditures associated with general taxes on goods and services. The main measures include corporate income tax exemptions applicable to educational institutions, as well as tax deductions or credits for donations to such entities or to educational programmes. In the case of personal income tax, deductions or credits for education expenses incurred by the taxpayer or their family group are the most common. A particular case is that of Honduras, where serving teachers in primary and secondary schools, or in the National Autonomous University of Honduras, are exempt from income tax on the salaries received from those institutions. In the case of VAT, there are exemptions or reduced rates for educational services in the 12 countries analysed, in addition to other measures that complement tax benefits in education.

In the health sector, all countries grant preferential tax treatment, with Argentina, Brazil, Mexico and Uruguay reporting the largest number of measures. Most tax expenditures in the health sector relate to VAT exemptions or reduced rates, which are used in the 12 countries analysed and mainly cover medical services and medicines. There are also personal income tax deductions for medical expenses, health plans or insurance premiums and donations to health institutions. In Honduras, the deduction for educational expenses, medical fees, hospitals, medicines and other professionals is doubled for persons aged over 65 years, up to 80,000 lempiras (about US$ 3,000). Deductions for health-related donations apply to corporate income tax in some countries, where there are also deductions for employee health insurance, employee health care expenses and exemptions for healthcare institutions. For example, in Brazil, payments made by firms for medical, dental, pharmaceutical and social assistance services for all their employees and managers can be recorded as operating expenses. Similarly, in Ecuador, employers are allowed an additional 100% deduction for private health insurance and prepaid medical care expenses contracted on behalf of their workers, provided that the entire workforce is covered.

In the housing and community amenities sector, Uruguay, Chile and Mexico have the largest number of tax expenditures, although these exist in all countries. The measures in question are channelled mainly through VAT, through exemptions on property rentals or interest on housing loans, along with reduced rates or credits related to housing construction or water supply and sanitation. Income tax, especially in the case of individuals, allows deductions or credits for mortgage interest or housing

[6] In addition, the recent Brazilian tax reform (Complementary Act No. 214 of 2025) guarantees reduced rates on the purchase of vehicles for persons with disabilities and maintains exemptions from the goods and services tax and the contribution on goods and services.

rent, as well as exemptions for rental income. There are also deductions in property taxes, such as exemptions for social housing, properties below a minimum threshold, or housing for older persons.

For example, in Chile, the tax expenditure associated with this sector corresponds to the deduction by construction firms of up to 65% of the VAT debt generated by the sale of residential housing valued at up to 2,000 *unidades de fomento* (UF) (around US$ 87,300), with a maximum of UF 225 per unit (US$ 9,800), which firms can apply to their mandatory provisional income tax payments, offset against other taxes, or recover through a refund request.[7] In the Dominican Republic, homes belonging to persons aged over 65 years are exempt from property tax, provided their home is their only real estate asset. In contrast, in Uruguay, social housing gives rise to a wide range of tax benefits, including exemption from income tax on economic activities and property tax for the construction of homes with certain characteristics in promoted projects. Sales of homes covered by this regime are also exempt from VAT and property transfer tax.

Lastly, provisions relating to recreation, culture and religion are common in Brazil, although they also exist in Argentina, Chile, the Dominican Republic, Ecuador, Mexico, Peru and Uruguay and cover different types of tax. Many of these measures take the form of exemptions or reduced VAT rates applicable to books, newspapers, magazines, shows, works of art, films and cultural or sporting activities. There are also provisions related to personal and corporate income tax, such as exemptions for cultural or recreational entities and deductions or credits for donations to cultural, artistic, cinematographic, or sporting institutions or projects. In addition, preferential treatment is granted for import tariffs related to the cultural or sports sectors. In this area, Brazil allows the deduction from income tax —for both individuals and legal entities— of amounts allocated to sponsorship or donations for the direct support of sporting and para-sporting projects previously approved by the Ministry of Sports, within the limits prescribed by current laws.

2. Analysis by type of tax and tax preferential treatment

Analysis of the importance of tax expenditures for social objectives by type of tax shows that 87% are concentrated in VAT and income taxes, although countries also use a variety of taxes to support specific social objectives (see table III.3).

General consumption taxes account for 37% of the total, revealing widespread use of exemptions, reduced rates and other preferential treatments applied to VAT and other similar taxes. These aim to reduce the cost of basic goods and services for households. Income taxes, on individuals (25%) and on legal entities (25%), jointly account for half of the instruments analysed, which shows the relevance of deductions, credits and exemptions associated with health, education, or social protection expenses. To a lesser extent, tax expenditures are channelled through excise taxes, property taxes and import duties (between 3% and 4% each), among other levies.

This predominance of differential treatment in general consumption taxes can be seen in 8 of the 12 countries in the sample, while in 4 cases (Brazil, Chile, Ecuador and Mexico) more exceptions are applied to income taxes, both for legal entities and for individuals. The latter are more frequent in Chile and Mexico.

[7] The Special Credit for Construction Companies (CEEC) was abolished by Act No. 21,420 of 2022, which will come into force on 1 January 2027.

Table III.3
Latin America (12 countries): tax expenditures for social objectives provisions, by type of tax, 2024 or more recent information
(Number of provisions and percentages of total)

Country	General consumption taxes	Personal income tax	Corporate income tax	Excise taxes	Taxes on international trade	Property taxes	Social security contributions	Other	Total
Argentina	14	12	1	-	-	1	3	2	33
Brazil	34	14	37	4	4	-	4	4	101
Chile	9	27	20	-	-	2	-	2	60
Costa Rica	9	7	7	-	-	-	-	-	23
Dominican Republic	14	3	3	1	5	7	-	1	34
Ecuador	20	23	25	3	-	3	-	-	74
Honduras	6	4	4	-	2	-	-	-	16
Mexico	10	28	13	-	-	-	-	-	51
Nicaragua	20	-	4	-	3	-	-	-	27
Paraguay	18	1	3	-	2	-	-	-	24
Peru	13	5	6	8	-	-	-	-	32
Uruguay	35	12	10	1	-	10	-	-	68
Total	**202**	**136**	**133**	**17**	**16**	**23**	**7**	**9**	**543**
Percentage of total	**37**	**25**	**25**	**3**	**3**	**4**	**1**	**2**	**100**

Source: Economic Commission for Latin America and the Caribbean, on the basis of Inter-American Center of Tax Administrations. (2025). *Tax Expenditure Database of Latin America and the Caribbean*. https://www.ciat.org/gastos-tributarios; and official tax expenditure reports.
Note: The figures for Costa Rica, Paraguay and Peru refer to the 2023 fiscal year.

In contrast, the distribution by type of preferential treatment shows that exemptions and exclusions predominate in all social sectors and account for 53% of the measures recorded (see table III.4). Deductions (23%) are more prevalent in sectors linked to household expenditures —such as health, education and social protection— while reduced rates (12%) are more frequent in functions related to health, housing and community amenities, generally aimed at promoting access to, and consumption of, certain goods or services. In the case of education, tax credits are also relatively frequent, reflecting their use as a mechanism to stimulate educational spending and teaching at different levels. Lastly, deferrals[8] and other types of tax expenditure have less impact on the total amount of preferential treatment in the social domain.

An analysis of tax expenditures for social objectives by modality and country shows that in 10 of the 12 countries in the sample, exemptions and exclusions predominate, while in the other 2 (Chile and Ecuador), tax deductions are more widely used. Reduced rates are also common in several countries, such as Argentina, Brazil, Costa Rica, Paraguay and Uruguay.

A cross-classification between the type of tax and type of tax expenditure shows that exemptions and exclusions predominate in nearly all taxes, especially in general consumption taxes, excise taxes and taxes on international trade, but also in property taxes and social security contributions. Deductions represent a large proportion of the total, particularly in personal and corporate income taxes. Reduced rates are concentrated mainly in general consumption taxes, property taxes, social security contributions and other taxes. Tax credits, in contrast, are applied mainly to income taxes and social security contributions. In contrast, deferrals and other types of tax expenditure have less of an impact on the overall set of preferential tax treatments of this kind (see figure III.1).

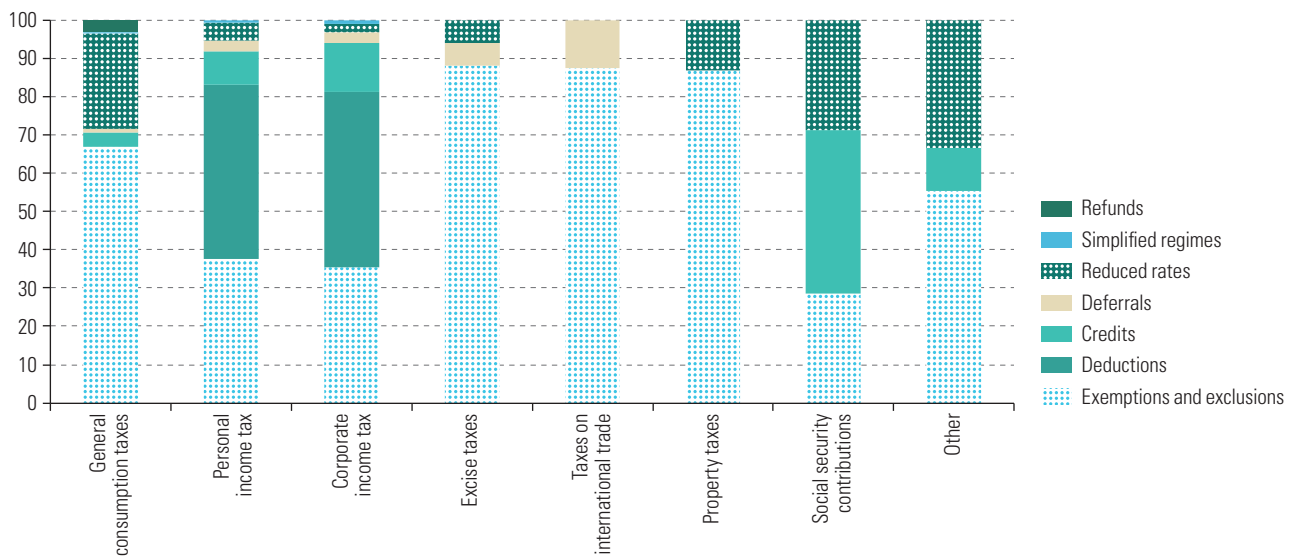
[8] In several of the region's countries, the methodological framework adopted does not treat this type of tool as a tax expenditure, so the corresponding information is not available.

Table III.4
Latin America (12 countries): tax expenditures for social objectives provisions, by type of preferential tax treatment, 2024 or more recent information
(Number of provisions and percentages of total)

Country	Exemptions and exclusions	Deductions	Credits	Deferrals	Reduced rates	Simplified regimes	Refunds	Total
Argentina	12	11	4	-	6	-	-	33
Brazil	44	26	3	5	21	2	-	101
Chile	18	20	16	4	2	-	-	60
Costa Rica	10	1	2	-	10	-	-	23
Dominican Republic	30	4	-	-	-	-	-	34
Ecuador	30	37	-	-	3	-	4	74
Honduras	14	1	-	-	-	-	1	16
Mexico	22	14	6	4	5	-	-	51
Nicaragua	27	-	-	-	-	-	-	27
Paraguay	19	-	-	-	5	-	-	24
Peru	23	6	-	-	2	-	1	32
Uruguay	40	3	10	-	14	1	-	68
Total	**289**	**123**	**41**	**13**	**68**	**3**	**6**	**543**
Percentage of total	**53**	**23**	**8**	**2**	**12**	**1**	**1**	**100**

Source: Economic Commission for Latin America and the Caribbean, on the basis of Inter-American Center of Tax Administrations. (2025). *Tax Expenditure Database of Latin America and the Caribbean*. https://www.ciat.org/gastos-tributarios; and official tax expenditure reports.
Note: The figures for Costa Rica, Paraguay and Peru refer to the 2023 fiscal year.

Figure III.1
Latin America and the Caribbean (12 countries):[a] tax expenditures for social objectives, by type of tax and preferential tax treatment, 2024 or more recent information
(Percentages)



Source: Economic Commission for Latin America and the Caribbean, on the basis of Inter-American Center of Tax Administrations. (2025). *Tax Expenditure Database of Latin America and the Caribbean*. https://www.ciat.org/gastos-tributarios; and official tax expenditure reports.
Note: The figures for Costa Rica, Paraguay and Peru refer to the 2023 fiscal year.
[a] Argentina, Brazil, Chile, Costa Rica, the Dominican Republic, Ecuador, Honduras, Mexico, Nicaragua, Paraguay, Peru and Uruguay.

To summarize, tax expenditures targeting social protection predominate in the countries of the region, mainly through exemptions —and, to a lesser extent, reduced rates— applied to value added tax, as well as through deductions —and, to a lesser

extent, exemptions— in both personal and corporate income tax. This structure reflects the importance of consumption- and income-related instruments in promoting social well-being and supporting households through the tax system.

3. Analysis by type of incidence

A key element in evaluating the implementation, design and possible continuity of preferential tax treatments involves the analysis of tax expenditures for social objectives by type of incidence. This makes it possible to review the mechanisms through which tax benefits affect social well-being, distinguishing between those that affect individuals or households directly and those that act indirectly, either through incentives granted to firms or other organizations, or through the consumption of goods and services. From a public policy standpoint, this distinction is essential for analysing aspects such as the degree of targeting, and the progressivity and complementarity of this specific type of tax expenditures compared with public social spending.

The percentage distribution of the amount of tax expenditures for social objectives by type of impact shows that, in aggregate terms, those that act indirectly through the consumption of goods and services predominate in the region, accounting for 45% of the total. Measures with a potentially direct impact account for around 27%, while those that act indirectly through firms or other organizations account for the remaining 28% (see table III.5).

Table III.5
Latin America (12 countries): tax expenditures for social objectives, by type of incidence, 2024 or more recent information
(Number of provisions and percentages of total)

Country	Direct incidence	Indirect incidence		Total
		Through entities	Through goods and services	
Argentina	12	5	16	33
Brazil	14	41	46	101
Chile	28	21	11	60
Costa Rica	7	7	9	23
Dominican Republic	4	9	21	34
Ecuador	25	26	23	74
Honduras	4	4	8	16
Mexico	28	13	10	51
Nicaragua	-	4	23	27
Paraguay	1	3	20	24
Peru	5	6	21	32
Uruguay	17	15	36	68
Total	**145**	**154**	**244**	**543**
Percentage of total	**27**	**28**	**45**	**100**

Source: Economic Commission for Latin America and the Caribbean, on the basis of Inter-American Center of Tax Administrations. (2025). *Tax Expenditure Database of Latin America and the Caribbean*. https://www.ciat.org/gastos-tributarios; and official tax expenditure reports.
Note: The figures for Costa Rica, Paraguay and Peru refer to the 2023 fiscal year.

This regional pattern is due largely to the widespread use of tax breaks in indirect taxes, particularly in general consumption taxes, through exemptions and reduced VAT rates applied to goods and services considered essential, such as items in the basic food basket, medicines and education and health services. These instruments aim to improve access to socially prioritized goods and services, by reducing their final prices. However, as they are applied broadly and are not targeted, they are distributionally imprecise and can have regressive effects, benefiting middle- and high-income households to a greater extent, because they account for a larger share of the consumption of these goods and services.

There are also significant differences between countries. In several cases, there is a very clear predominance of tax expenditures targeting indirect social objectives through the consumption of goods and services, as in Nicaragua (85%), Paraguay (83%), Peru (66%) and the Dominican Republic (62%). This pattern suggests that tax systems use preferential treatment in indirect taxes mainly to support social well-being, in particular by lowering the price of basic goods or essential social services.

Tax expenditures for social objectives with a direct impact —that is, those with an immediate effect on household disposable income— account for a larger relative share in some countries, including Mexico (55%), Chile (47%), Argentina (36%), Ecuador (34%) and Costa Rica (30%). In these contexts, tax policies make more intensive use of personal income tax deductions or credits, associated with expenditures on education, health or housing, or family expenses. These instruments complement, or substitute for, public social spending, by channelling assistance to households directly.

In contrast, although tax expenditures for social objectives that act indirectly, through incentives to firms or organizations for the provision of social entitlements, account for a smaller share of the regional aggregate, they are significant in specific cases. In countries such as Brazil, Chile, Costa Rica and Ecuador, this type of expenditure accounts for between 30% and 41% of the total and reflects greater use of tax incentives to promote the private delivery of social entitlements, the hiring of vulnerable groups, or support for activities and sectors with explicit social objectives.

In short, the observed distribution reflects the diversity of strategies employed by the countries to channel social support through the tax system. Although tax expenditures targeting indirect social objectives predominate, particularly those linked to consumption taxes, expenditures of direct impact play an important role in some countries, thus reflecting different approaches to the linkages between tax policy and domains of social development.

D. Estimation of the fiscal cost of the main tax expenditures for social objectives

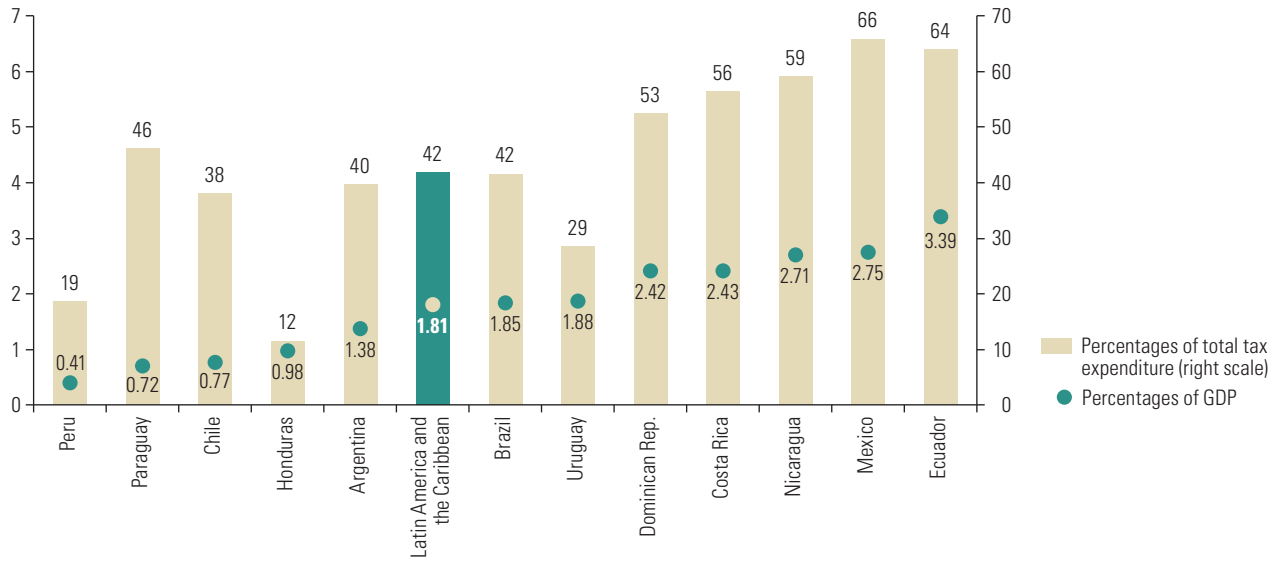
As explained in the second section, the data on tax expenditures for social objectives are not fully comparable across countries, owing to differences in methodological approaches, benchmark tax frameworks and levels of disaggregation of the available information. In some cases, the figures for revenue forgone do not include all provisions with potential social effects existing in each country, either because the country's methodology does not treat them as tax expenditures or because there is insufficient information to estimate the revenue loss.

As there is no single definition of tax expenditure and there are differences in methodology and frames of reference between countries, caution is needed when making international comparisons. Nonetheless, this section presents information that makes it possible to approximate the fiscal cost of tax expenditures for social objectives in a representative sample of Latin American countries.

An analysis of the official figures reveals considerable heterogeneity in tax expenditures for social objectives in the 12 selected countries. The differences are evident in various dimensions, such as the fiscal cost associated with these instruments, the social sectors benefited and the type of incidence, which must be interpreted in light of the different methodological approaches adopted.

The tax revenue forgone as a result of tax expenditures for social objectives averages 1.81% of GDP in the 12 countries analysed and accounts for 42% of total tax expenditure. Analysis at the country level reveals considerable heterogeneity, with the fiscal cost of these tax provisions varying between 0.41% and 3.39% of GDP. In some countries, such as Ecuador (3.39%), Mexico (2.75%), Nicaragua (2.71%), Costa Rica (2.43%) and the Dominican Republic (2.42%), revenue forgone for social objectives exceeds 2% of GDP, thus reflecting intensive use of the tax system for such purposes. In contrast, in Chile, Honduras, Paraguay and Peru, these specific tax expenditures represent less than 1% of GDP. However, this does not imply less relevance when considering the figures in relative terms for each case. For example, in relation to the officially estimated level of total tax expenditures, those pursuing social objectives show relative shares ranging from 12% in Honduras to 66% in Mexico (see figure III.2).

Figure III.2
Latin America (12 countries): tax expenditures for social objectives, 2024 or more recent information
(Percentage of GDP and percentage of total tax expenditure)



Source: Economic Commission for Latin America and the Caribbean, on the basis of Inter-American Center of Tax Administrations. (2025). *Tax Expenditure Database of Latin America and the Caribbean*. https://www.ciat.org/gastos-tributarios; and official tax expenditure reports.
Note: The figures for Costa Rica, Paraguay and Peru refer to the 2023 fiscal year.

With regard to the social sectors, most of the specific measures relate to social protection, which represents more than 1% of GDP on average. Health-related tax expenditures are much smaller, accounting for approximately 0.37% of GDP, followed by housing and community services (0.18% of GDP) and education (0.16% of GDP). In contrast, measures targeting recreation, culture and religion have a marginal share in the regional average, close to 0.06% of GDP. Thus, there is a clear prioritization of social protection in the use of tax expenditures for social objectives, in conjunction with an unequal distribution of the revenue forgone across the different sectors.

The distribution by social sector or domain shows that in all the countries analysed except Chile and Uruguay, social protection absorbs the largest share of tax expenditures for social objectives, while health and education are of intermediate importance (see table III.6). Nonetheless, there are significant differences between countries: in Uruguay for example, the health component represents 0.79% of GDP, and the VAT exemption on health services provided to affiliates of the National Health Fund has an estimated fiscal cost of 0.54% of GDP. The revenue forgone related to housing, which amounts to 0.53% of GDP is due mainly to VAT exemptions applicable to property rental services

and real estate sales by the Mortgage Bank of Uruguay and the National Housing Agency. Further losses stem from exemptions from VAT, income tax on economic activities, property tax and property transfer tax for the promotion of social housing. Tax expenditure on housing is also significant in Chile, at 0.34% of GDP.

Table III.6
Latin America (12 countries): tax expenditures for social objectives, by sector, 2024 or more recent information
(Percentage of GDP and percentage of tax expenditures for social objectives)

A. Percentages of GDP

Country	Year	Social protection	Education	Health	Housing and community services	Recreational activities, culture and religion	Total
Argentina	2024	0.57	0.14	0.39	0.16	0.11	1.38
Brazil	2024	1.01	0.13	0.52	0.07	0.13	1.85
Chile	2024	0.16	0.14	0.12	0.34	0.01	0.77
Costa Rica	2023	1.67	0.02	0.48	0.26	0.00	2.43
Dominican Republic	2024	1.49	0.24	0.38	0.17	0.14	2.42
Ecuador	2024	2.47	0.22	0.43	0.21	0.06	3.39
Honduras	2024	0.44	0.19	0.29	0.00	0.05	0.98
Mexico	2024	2.11	0.16	0.19	0.26	0.04	2.75
Nicaragua	2024	1.70	0.30	0.59	0.11	0.01	2.71
Paraguay	2023	0.35	0.21	0.04	0.05	0.06	0.72
Peru	2023	0.20	0.00	0.16	0.01	0.03	0.41
Uruguay	2024	0.35	0.20	0.79	0.53	0.02	1.88
Average		**1.04**	**0.16**	**0.37**	**0.18**	**0.06**	**1.81**

B. Percentages of tax expenditures for social objectives

Country	Year	Social protection	Education	Health	Housing and community services	Recreational activities, culture and religion	Total
Argentina	2024	41	10	28	11	8	100
Brazil	2024	54	7	28	4	7	100
Chile	2024	21	18	16	43	2	100
Costa Rica	2023	69	1	20	10	0	100
Dominican Republic	2024	62	10	16	7	5	100
Ecuador	2024	73	6	13	6	2	100
Honduras	2024	46	19	30	0	5	100
Mexico	2024	77	6	7	9	1	100
Nicaragua	2024	63	11	22	3	0	100
Paraguay	2023	49	29	6	7	9	100
Peru	2023	50	0	40	4	7	100
Uruguay	2024	19	10	42	28	1	100
Average		**52**	**11**	**22**	**11**	**4**	**100**

Source: Economic Commission for Latin America and the Caribbean, on the basis of Inter-American Center of Tax Administrations. (2025). *Tax Expenditure Database of Latin America and the Caribbean*. https://www.ciat.org/gastos-tributarios; and official tax expenditure reports.

The results vary widely between countries, both in the magnitude of the fiscal cost associated with these tax expenditures and in terms of sectoral priorities and the degree of centrality that social objectives occupy in tax policy.

The estimation of revenue forgone from tax expenditures for social objectives, by type of incidence, shows that this is concentrated mainly in indirect measures, particularly through the consumption of goods and services, which on average represent 1.35% of GDP. In contrast, direct tax expenditures —those that benefit households or individuals immediately— amount to 0.31% of GDP, while indirect measures channelled through entities are relatively smaller, representing around 0.14% of GDP, on average, across the 12 countries analysed.

An analysis of these specific tax expenditures by type of incidence also reveals significant differences between countries, both relative to GDP and in terms of the share of each category in total tax expenditures (see table III.7). In most cases, preferential tax treatments that act indirectly through goods and services generate the largest share of tax revenue forgone, exceeding 70% of total tax expenditures for social objectives in countries such as Argentina, Costa Rica, the Dominican Republic, Ecuador, Nicaragua, Paraguay, Peru and Uruguay. This predominance is also reflected in large GDP shares, especially in Costa Rica (1.93%), the Dominican Republic (2.00%), Ecuador (2.50%), Mexico (1.81%) and Nicaragua (2.56%), where exemptions and reduced VAT rates applicable to basic goods and services account for most of the estimated tax expenditure for social objectives in all cases.

Table III.7
Latin America (12 countries): tax expenditures for social objectives, by type of incidence, 2024 or more recent information
(Percentage of GDP and percentage of tax expenditures for social objectives)

Country	Percentages of GDP			Percentages of tax expenditures for social objectives		
	Direct incidence	Indirect incidence		Direct incidence	Indirect incidence	
		Through entities	Through goods and services		Through entities	Through goods and services
Argentina	0.06	0.10	1.21	5	7	88
Brazil	0.71	0.38	0.76	39	20	41
Chile	0.20	0.09	0.49	26	11	63
Costa Rica	0.40	0.09	1.93	17	4	79
Dominican Republic	0.10	0.32	2.00	4	13	83
Ecuador	0.73	0.16	2.50	21	5	74
Honduras	0.57	0.14	0.26	58	15	27
Mexico	0.85	0.10	1.81	31	3	66
Nicaragua	0.00	0.15	2.56	0	6	94
Paraguay	0.00	0.03	0.69	0	5	95
Peru	0.00	0.05	0.35	0	13	87
Uruguay	0.11	0.09	1.69	5	5	90
Average	**0.31**	**0.14**	**1.35**	**17**	**9**	**74**

Source: Economic Commission for Latin America and the Caribbean, on the basis of Inter-American Center of Tax Administrations. (2025). *Tax Expenditure Database of Latin America and the Caribbean*. https://www.ciat.org/gastos-tributarios; and official tax expenditure reports.
Note: The figures for Costa Rica, Paraguay and Peru refer to the 2023 fiscal year.

Among the countries where this type of instrument is targeted most specifically, in Ecuador the refund of VAT paid on the purchase of basic goods and services for older persons represents a revenue loss equivalent to 0.22% of GDP, while the refund for persons with disabilities represents 0.04% of GDP. In Uruguay, the reduction in the VAT rate for transactions made using cards from the *Tarjeta Uruguay Social* programme also represents a fiscal cost of around 0.04% of GDP.

In contrast, the share of tax expenditures of direct incidence relative to total tax expenditures for social objectives is smaller and more heterogeneous. While in countries such as Honduras (58%), Brazil (39%) and Mexico (31%) this type of measure accounts for a large proportion of such expenditure, in others, such as Nicaragua, Paraguay and Peru, its share of the fiscal cost is zero. Relative to GDP, tax expenditures with direct incidence are greatest in Mexico (0.85%), El, Ecuador (0.73%), Brazil (0.71%) and Honduras (0.57%), suggesting a larger tax revenue loss in tax instruments that have more immediate effects on the final beneficiaries.

In Mexico, much of this fiscal initiative is explained by income tax exemptions applicable to pensions in respect of old age, disability, incapacity, unemployment, retirement and death (0.28% of GDP), as well as exemptions for certain social security entitlements, such as subsidies for disability, educational scholarships and childcare services (0.12% of GDP). In Ecuador, the revenue forgone associated with the income tax deduction for personal expenses related to the number of dependents represents

0.3% of GDP, while the exemption from this tax on contributions to the Ecuadorian Social Security Institute for dependents represents 0.17% of GDP. In Brazil, the fiscal cost of the income tax deduction for medical expenses (0.23% of GDP), exemptions for pensions owing to serious illness or accident (0.19% of GDP) and for retirement and old-age pensions (0.14% of GDP) are significant. In Honduras, specific tax expenditures with a potential direct social impact are concentrated mainly in the deduction for medical expenses (0.22% of GDP) and in income tax exemptions for teachers, the thirteenth and fourteenth monthly wage and persons over 65 years of age (0.15%, 0.13% and 0.07% of GDP, respectively).

Indirect incidence through entities is generally the smallest component of the fiscal cost associated with tax expenditures for social objectives, seldom exceeding 15% of the total, with exceptions including Brazil (20%) and Honduras (15%), and particularly low levels in Costa Rica, Mexico and Paraguay. As an example, in Brazil, the deduction from corporate income tax of health service payments made by firms for their employees and managers implies a revenue loss equivalent to 0.11% of GDP.

In short, and in line with the observations in the previous section, the distribution of tax expenditures for social objectives highlights both the heterogeneity of the combinations of instruments adopted by the countries and the pre-eminence of tax measures that operate through market and consumption mechanisms, rather than tax expenditure systems that target social objectives directly.

E. Conclusions and recommendations for strengthening the governance of tax expenditures for social objectives

The analysis of tax expenditures for social objectives in Latin America shows how these instruments have become increasingly important in the framework of public intervention in the region. In contexts characterized by high levels of inequality, low productivity, persistent fiscal constraints and growing social demands, tax expenditures for social objectives are used as complementary mechanisms and, in some cases, as substitutes for direct public spending, to channel aid to individuals, households and activities considered social priorities. However, their use raises important questions in terms of their effectiveness, equity, fiscal sustainability and consistency with social objectives.

In general, tax expenditures for social objectives can enhance social welfare by mitigating the risks associated with situations of vulnerability, by reducing inequalities or fostering the private provision of goods and services of social interest. However, their effectiveness depends on multiple institutional conditions, design, implementation and the degree of targeting. In the absence of sound governance and systematic evaluations, these instruments can result in revenue losses with limited social returns, which erodes both the efficiency and legitimacy of the tax system.

This study's main contributions are the systemization and comparative analysis of tax expenditures for social objectives in 12 Latin American countries, considering both their sectoral orientation and their type of incidence. The study also includes an up-to-date conceptual approach and a novel methodology that facilitates the identification, classification and evaluation of these expenditures in the Latin American context.

The results show that, in the regional aggregate, tax expenditures for social objectives are concentrated mainly in the domain of social protection, reflecting the priority given to policies related to social security, assistance and inclusion. To a lesser

extent, tax expenditures are also used for health, education, housing and community services, and to promote cultural, sports and recreational activities. In terms of the instruments used, there is a clear predominance of exemptions and reduced rates in general consumption taxes —particularly VAT— complemented by deductions and, to a lesser extent, credits in personal and corporate income taxes.

In fiscal terms, the overall estimate of the cost of tax expenditures for social objectives varies widely between countries. This type of expenditure ranges from less than 0.5% of GDP to more than 3% of GDP, representing between 12% and 66% of total tax expenditure, depending on the case. This diversity reflects not only differences in the amount of revenue forgone, but also different approaches to the role assigned to this specific type of tax expenditure in the social development toolbox.

The study's innovative analysis by type of incidence enables a deeper understanding of the channels through which tax expenditures for social objectives affect social welfare and the impact these can have on the final beneficiary. Tax expenditures with a direct incidence —mainly in personal income tax— are relevant in a few countries, through deductions or credits associated with education, health and housing expenditures, or family expenses. These instruments tighten the link between the tax benefit and the final beneficiary and can complement social spending programmes. However, their distributional impact is limited, especially in contexts where a large segment of the population does not pay income tax and is therefore excluded from the associated benefit, owing to high non-taxable minimum thresholds and high rates of informality in the region's economies.

In most countries, however, indirect tax expenditures predominate. Tax expenditures of this type that are channelled through entities and aim to promote the private provision of social entitlements, incentivize the hiring of vulnerable groups, or support social activities and sectors, represent a relatively insignificant share of the total. In contrast, in most cases, indirect measures channelled through VAT, which act through the consumption of goods and services, are predominant. This could be explained, partly, by administrative considerations, as the instruments in question are often easier to implement and have lower operating costs. However, their application poses significant distributional challenges.

Although exemptions and reduced rates applied to basic goods and services aim to alleviate the tax burden on lower-income households, the available data show that their redistributive impact, although progressive, is ultimately small. As they are not targeted, much of the tax benefit goes to middle- and high-income households, thereby diluting its effect on inequality and making it less effective as a targeted policy with a social objective. This reinforces the need to analyse the impact of these instruments and explore alternatives with greater targeting capacity. In some cases, conditional transfer programmes or means-tested entitlements may be more effective in reaching vulnerable groups. In others, innovations in tax design, such as personalized VAT or the introduction of refundable tax credits, could make the system more progressive and expand its coverage, although their implementation will depend on each country's institutional capacities.

In particular, personalized VAT could be a relevant alternative for moving towards more equitable and efficient tax systems in Latin American and Caribbean countries. By combining a broad tax base and a uniform rate with individualized tax refund mechanisms, this approach would minimize the regressivity of VAT without resorting to general exemptions or reduced rates, which tend to be costly, poorly targeted and distortionary (Barreix et al., 2022). Although some countries are already moving in this direction in the region (for example, Uruguay), it is worth highlighting the case of Brazil, where the recent reform of indirect consumption taxation is based on a personalized VAT model

with cashback. In this case, it has been possible to eliminate preferential treatment by guaranteeing partial compensation for the tax paid by low-income households (up to half the minimum per capita wage). A key element of the Brazilian design has also involved harnessing the existing digital infrastructure, including electronic invoicing, digital payment systems and bank accounts, which facilitates the identification of beneficiaries, the verification of transactions and the processing of refunds.

From a design perspective, it is also important to review some structural features of tax expenditures for social objectives and to deepen analysis of these. For example, in personal income tax, a deduction reduces the fraction of income subject to taxation and applies to taxpayers above a minimum income level, excluding those with incomes below that level. In contrast, a tax credit, applied directly to the amount of tax due, is usually available to all registered taxpayers, irrespective of their declared income level. In this case, the introduction of an automatic refund mechanism would ensure that individuals, especially those with low incomes, receive the maximum level of benefit offered, obtaining not only a tax reduction but also a compensatory transfer (for the difference relative to their tax liability), which would make the instrument used more progressive.

In summary, the systematic evaluation of tax expenditures for social objectives is a central component of a fiscal policy geared towards equity, efficiency and sustainability. Identifying differential treatments with social benefits that would not offset the attendant fiscal cost raises the possibility of a debate on their continuity. If eliminated or time-limited, fiscal space could be expanded to strengthen more effective social spending programmes, reduce distortions in the tax system or support fiscal consolidation processes without compromising distributional objectives.

Moving in this direction requires strengthening a series of technical, operational, political and prospective (TOPP) capabilities, including the following:

- Improving the availability and quality of information, and institutionalizing periodic review mechanisms to adjust, redesign or eliminate these instruments.
- Strengthening investment in technological tools and technical training for the persons responsible for designing and evaluating these instruments.
- Developing monitoring indicators and implementing methodologies for identifying, quantifying and evaluating ex ante and ex post tax expenditures for social objectives, in particular incorporating distributional and sectoral impact analyses (Redonda et al., 2023).
- Establishing a sound legal and institutional framework and centralizing the granting, administration and monitoring of these instruments in a single agency, although in constant coordination with the institutions involved in the process.
- Including tax expenditure reports in the annual budgetary process to foster transparency, accountability and public debate, and create mechanisms for dialogue and citizen participation regarding the use of tax expenditures for social objectives.
- Promoting collaboration networks between the national, subnational and local levels, as well as platforms and instances of regional and international cooperation for the adoption of good practices in the design and management of these instruments.
- Incorporating cost-benefit analysis and simulation and sensitivity exercises in response to changing contexts to assess the fiscal sustainability of existing tax expenditures for social objectives in the medium term and compare them with alternative public policy instruments aimed at achieving the same goals.

In short, tax expenditures for social objectives are an important, albeit complex, component of fiscal policy in Latin America. They must be integrated into a broader strategic framework based on data, transparency and social dialogue to effectively reduce inequalities and strengthen social cohesion. A comprehensive and progressive approach, backed by strong institutional capabilities and adequate governance, would enable progress towards more efficient, equitable and sustainable fiscal and social systems in the region.

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The 2026 edition of the *Fiscal Panorama of Latin America and the Caribbean* analyses the main trends in public revenues and spending, fiscal balances, public debt and subnational finances in the region in 2025. Given the heightened uncertainty over the last year and limited fiscal space, countries are faced with the need to strengthen their tax systems in order to finance their public spending and investment policies in a context of persistent fiscal deficits and high indebtedness. Against this backdrop, this year's Fiscal Panorama includes a study of personal income tax non-compliance in five countries of the region, highlighting a set of recent strategies to improve tax collection. It also includes a novel methodology for examining tax expenditures for social objectives in 12 Latin American countries, emphasizing the importance of evaluating these instruments to ensure their effectiveness. The report highlights, as a cross-cutting message, the need to strengthen institutional capacities to support fiscal policies that foster more productive, inclusive and sustainable economic growth in the region.

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