Box 3

TAX REVENUES IN LATIN AMERICA AND THE CARIBBEAN[1]

Tax revenues are governments' principal and most stable source of income, accounting for around 69% of total general government receipts in Latin America and the Caribbean (LAC) countries (around 86% in Organisation for Economic Co-operation and Development (OECD) member countries). They allow governments to plan and budget effectively and, inter alia, they facilitate the financing of essential public services, infrastructure projects and social programmes.

On average, tax revenues in LAC countries stood at 21.5% of GDP in 2022, the latest year for which data are available.[2] This is higher than in other emerging regions, such as Africa[3] (15.6% in 2021) and Asia and the Pacific[4] (19.8% in 2021), but much lower than in OECD economies[5] (34%) (see Chart 1). The LAC average masks significant heterogeneity: some countries have tax receipts in line with OECD economies, such as Brazil (33.3% of GDP), Barbados (30.5%) and Argentina (29.6%), while in others, such as Guyana, Panama and the Dominican Republic, they represent less than 14% of GDP (see Chart 2). The heterogeneity of tax receipts as a proportion of GDP largely reflects the cross-country differences in public spending as a proportion of GDP (see Chart 3).

Developments in recent decades

From a historical perspective, tax receipts have increased considerably in LAC countries. As a percentage of GDP, they rose from 14.6% in 1990 to 21.5% in 2022. However, despite this increase, the gap with OECD economies has remained relatively stable since 2007, at around 12 percentage points.

Since 1990 the increase in tax revenues has been driven mainly by the increase in value added tax (VAT), personal income tax (PIT) and corporate income tax (CIT), and is explained by various structural and temporary factors.

The structural factors include the introduction of VAT and reforms to this tax between 1990 and 2002, which were key to increasing VAT revenues from 2% of GDP in 1990 to 6% in 2022. Meanwhile, CIT revenues increased significantly between 2002 and 2008, partly on account of the rise in commodity prices. The 2008 global financial crisis affected revenues in subsequent years, although VAT recovered more rapidly than taxes on income and profits. In 2022 PIT and CIT receipts represented 3.3% and 6.3% of GDP, respectively.

Composition of the tax basket

The LAC region, like other emerging regions, such as Asia and the Pacific and Africa, depends mainly on indirect taxes. In 2022 indirect taxes represented approximately one-half of the total tax revenues in LAC countries (see Chart 4). VAT is the main source of these revenues, representing 28.3% of total tax receipts. Meanwhile, direct taxes on income and profits represented 30.1% of total tax revenues in 2021, of which 18.8% arose from CIT, 9.2% from PIT and 2.1% from other such taxes. Revenues obtained from social security contributions (SSCs) in the LAC region amounted on average to 16.7% of total revenues in 2022.

This LAC tax structure contrasts with the OECD's. On average, the resources of OECD economies are based less on taxes on consumption, in particular VAT (20.7% of total tax revenues). In 2021 SSCs accounted for the highest percentage of total tax revenues (25.6%), followed by PIT (16.3%) and CIT (10.2%).

LAC countries have lagged behind in implementing environmental taxes, with environmental tax revenues standing on average at 0.8% of GDP in 2022, as against 1.9% in the OECD. Although some countries have introduced carbon and other environmental taxes, they are still very limited and not effective enough to make a significant dent in carbon emissions.

Focus on the share of corporate taxation

The share of taxes on businesses in the LAC region is significantly higher, on average, than in the OECD. Indeed, CIT is the only direct tax that generates slightly more revenues for LAC countries than for OECD ones, representing 3.9% of GDP in the former in 2022, as compared with 3.3% in the latter in 2021. Statutory CIT rates are relatively high in the LAC region, standing on average at 24.1%, as against 23.6% in the OECD (see Chart 5).

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1 This box has been prepared in collaboration with the OECD Development Centre.

2 OECD et al. (2024). *Revenue Statistics in Latin America and the Caribbean 2024*. OECD Publishing, Paris.

3 OECD/AUC/ATAF. (2023). *Revenue Statistics in Africa 2023*. OECD Publishing, Paris.

4 OECD. (2024). *Revenue Statistics in Asia and the Pacific 2024: Tax Revenue Buoyancy in Asia*. OECD Publishing, Paris.

5 OECD. (2023). *Revenue Statistics 2023: Tax Revenue Buoyancy in OECD Countries*. OECD Publishing, Paris.

Box 3

TAX REVENUES IN LATIN AMERICA AND THE CARIBBEAN (cont'd)

Although these rates are relevant, other factors must be taken into account in order to calculate the effective level of taxation borne by businesses. Specifically, differences in how the tax base is defined across jurisdictions can have a significant impact on the tax burden. For example, tax systems vary with regard to the rules on depreciation and other provisions. To understand this impact, it is necessary to calculate average effective tax rates[6] and marginal effective tax rates.[7]

Chart 1
Tax revenues as a percentage of GDP, regional averages, 1990-2022

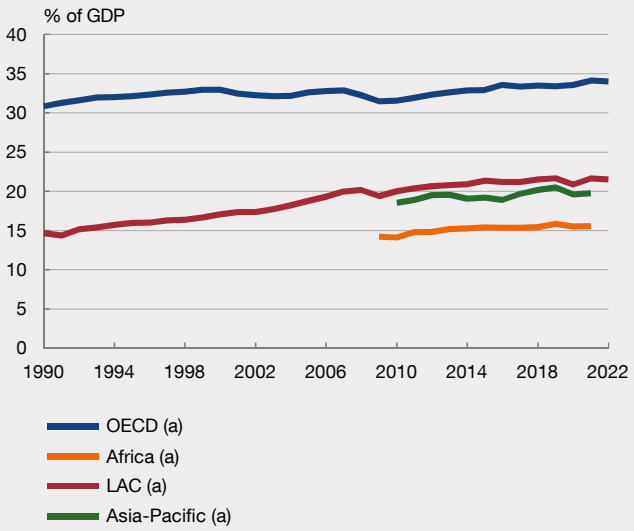


Chart 2
Tax revenues as a percentage of GDP in LAC countries and regional averages, 2022

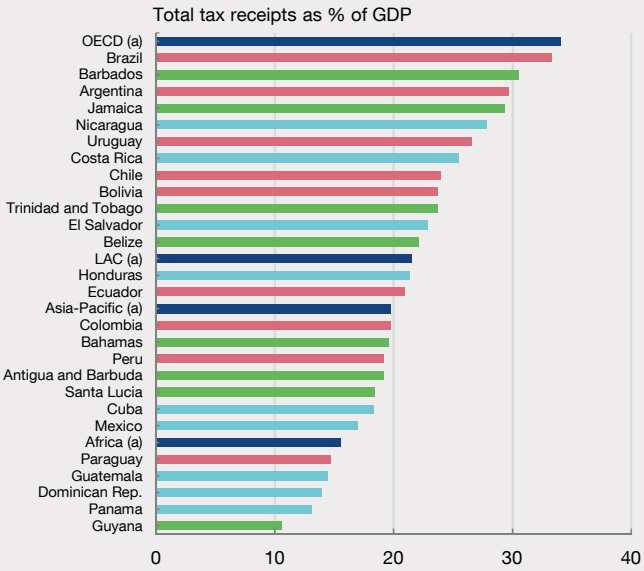
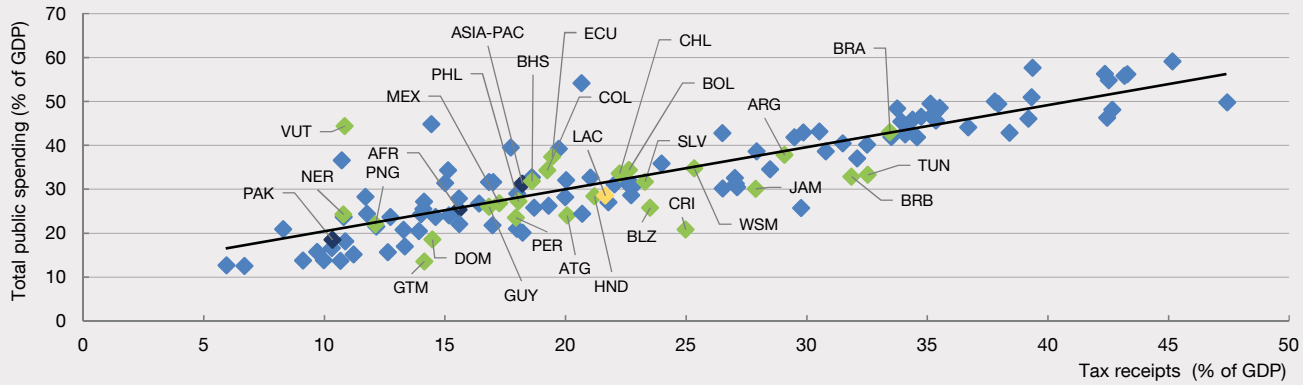


Chart 3
Total public spending and tax receipts as a percentage of GDP (2021)



SOURCES: OECD and IMF.

a The aggregates represent the unweighted averages for the 38 OECD member countries, 26 LAC countries (not including Cuba or Venezuela), 29 Asia-Pacific countries and 31 African countries.

6 The average effective tax rate measures the percentage of profit that firms pay as corporate income tax. This indicator may help to show whether taxes affect firms' decisions to invest in new projects. See T. Hanappi, S. Nieto Parra, J. R. Orozco and A. Rasteletti. (2023). "Corporate Effective Tax Rates in Latin America and the Caribbean". Technical Note No IDB-TN-2782.

7 The marginal effective tax rate measures the extent to which taxes increase the marginal cost of capital. This indicator may help to show whether taxes affect firms' incentives to expand their existing investments. See T. Hanappi, S. Nieto Parra, J. R. Orozco and A. Rasteletti. (2023). "Corporate Effective Tax Rates in Latin America and the Caribbean". Technical Note No IDB-TN-2782.

Box 3

TAX REVENUES IN LATIN AMERICA AND THE CARIBBEAN (cont'd)

Chart 4
Tax structures

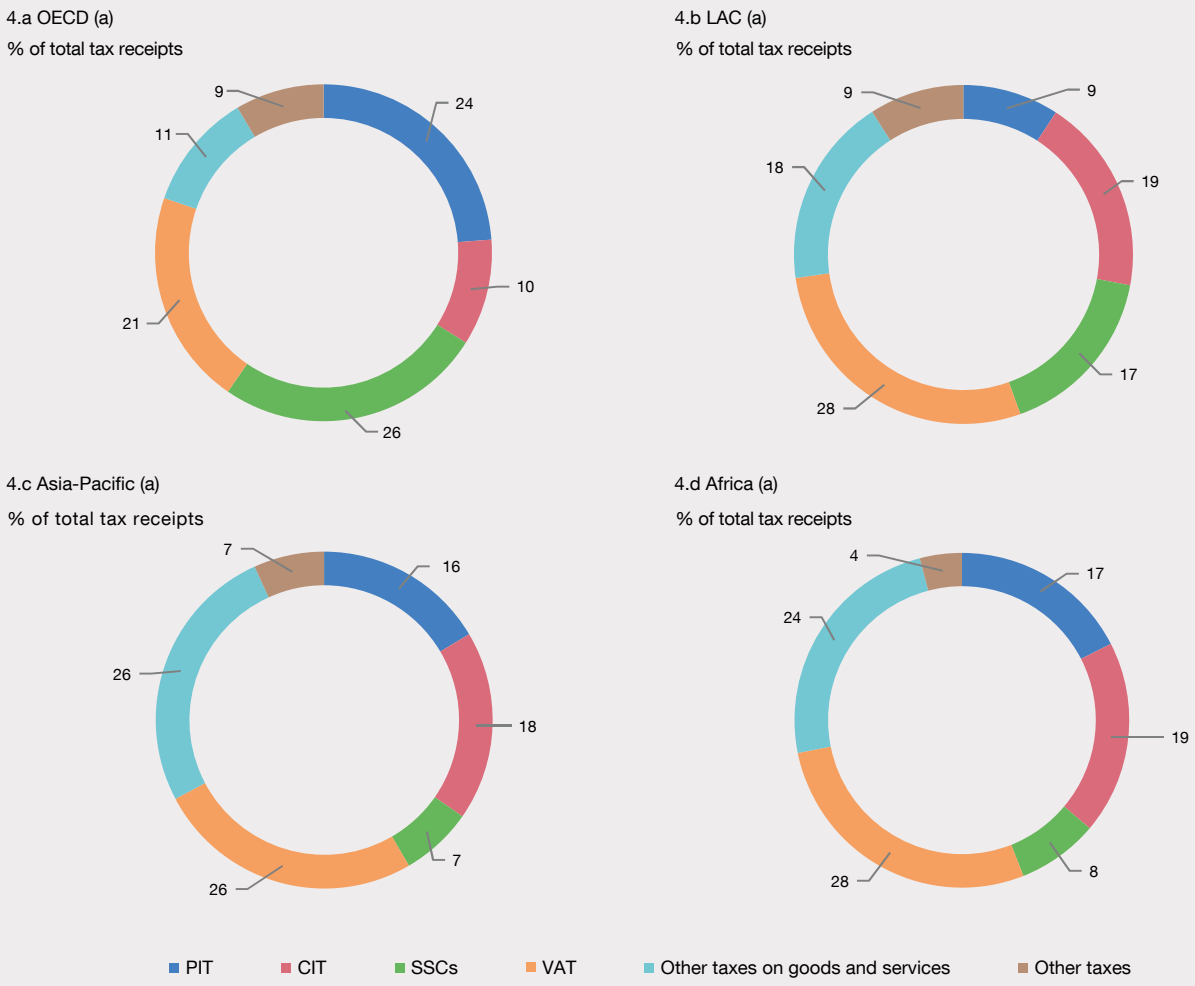
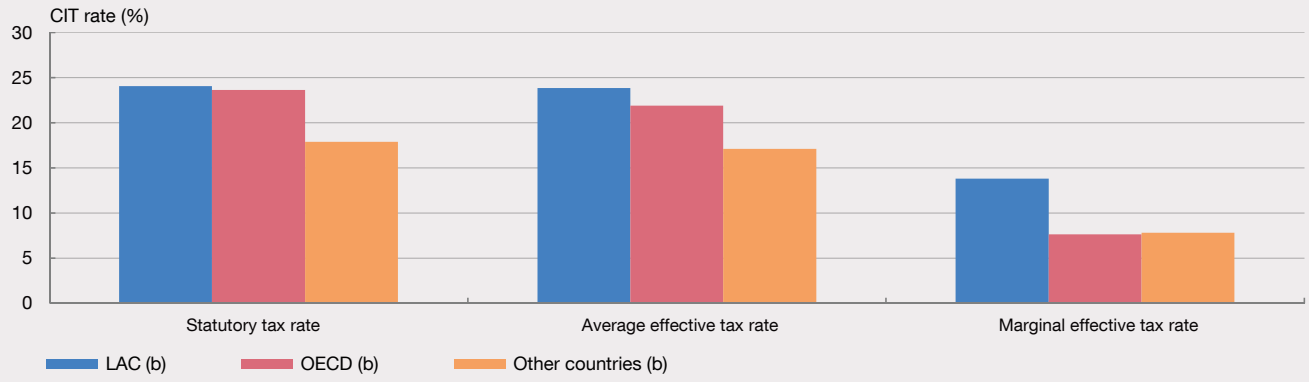


Chart 5
Statutory tax rate and average and marginal tax rates, 2021



SOURCE: Hanappi T., S. Nieto Parra, J. R. Orozco, and A. Rasteletti (2023), "Corporate Effective Tax Rates in Latin America and the Caribbean", Technical Note No IDB-TN- 2782, https://doi.org/10.18235/0005168

a The aggregates represent unweighted averages for the 38 OECD member countries, 26 LAC countries (not including Cuba or Venezuela), 29 Asia-Pacific countries and 31 African countries.
b OECD: 34 countries. LAC: 21 countries. Other countries: Emerging Europe (9 countries) and Middle East and Central Asia, Emerging Asia and Sub-Saharan Africa (16 countries). Unweighted averages.

Box 3

TAX REVENUES IN LATIN AMERICA AND THE CARIBBEAN (cont'd)

LAC countries have high average and marginal effective tax rates. In 2021 the average effective tax rate of the 21 LAC countries was 23.9% on average, as against 21.9% in OECD countries and 17.1% in the other countries shown in Chart 5. These average effective tax rates are key to understanding the cost for firms of new investment projects. The marginal effective tax rate in LAC countries was 13.8%, while in OECD countries it stood at 7.6%. Marginal effective rates help to clarify the cost to firms of expanding their existing investments.

The high effective rates are explained by high statutory rates and the fact that tax provisions are more restrictive in the region, which makes the definition of the CIT tax base broader. One example of this greater restrictiveness is the treatment given to the amortisation of software in the various countries in the region. While the real annual economic amortisation rate of software is estimated in the literature as 40%, Chilean law does not allow software to be amortised at all and the rates of amortisation permitted in Argentina and Bolivia are very low.[8]

8 When the depreciation allowed by statutory schedules lags behind economic depreciation, effective tax rates are higher. On the other hand, if the statutory schedule for an asset type allows for more rapid depreciation, CIT tax bases are reduced and effective tax rates decline.