RISING TAX REVENUES: A KEY TO ECONOMIC DEVELOPMENT IN LATIN AMERICAN COUNTRIES

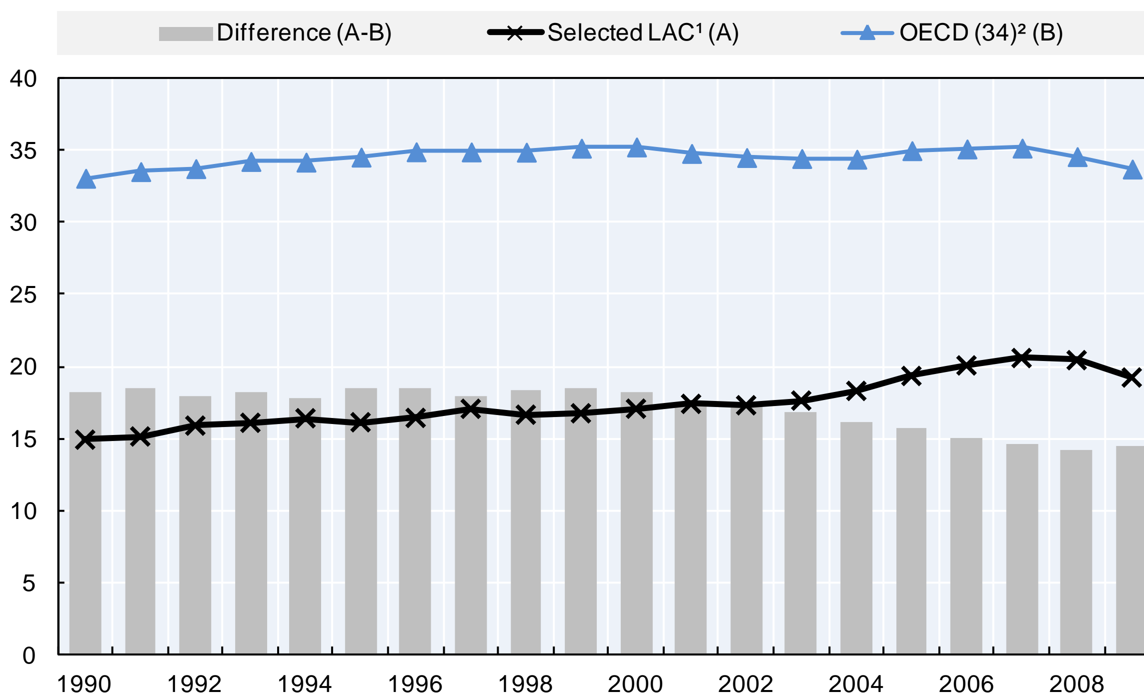
Santiago, Chile, 25th January 2012 - **Increased domestic resource mobilization is widely accepted as crucial for countries to successfully meet the challenges of development and achieve higher living standards for all their people. Additional tax revenues enable governments to simultaneously improve their competitiveness and promote social cohesion through increased spending on education, infrastructure and innovation.**

Latin American countries have made great strides over the past two decades in raising tax revenues as is demonstrated in *Revenue Statistics in Latin America* which is launched today by the CIAT, ECLAC and the OECD. It shows that the average tax to GDP ratio in 12 Latin American and Caribbean countries (LAC) rose almost continuously from 14.9% in 1990 to 19.2% in 2009. This increase reflects strong economic growth, taxation of non-renewable natural resources, and better management of tax administrations.

Despite these improvements, significant gaps between Latin America and OECD countries remain. The average tax to GDP ratio in OECD countries is much higher than in Latin American countries (33.8% compared to 19.2% in 2009, respectively). As the countries in the region still find themselves in relatively strong economic conditions, now is the time to consider reforms that generate long-term, stable resources for governments to finance development.

Tax to GDP ratios for the 12 Latin American and Caribbean countries covered by the Report – Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Mexico, Peru, Uruguay, and Venezuela – vary from Guatemala with the lowest percentage at 12.2% in 2009 to Brazil with the highest percentage at 32.6% (near to the OECD average).

Total tax revenues as percentage of GDP in Latin America and the Caribbean and OECD, 1990-2009.



1. Represents a selected group of 12 Latin American and Caribbean countries. These are Argentina, Brazil, Chile, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Mexico, Peru, Uruguay and Venezuela. Chile and Mexico are also part of the OECD (34) group.

2. Represents the unweighted average for OECD member countries.

Source: OECD/ECLAC/CIAT (2011), *Revenue Statistics in Latin America*, OECD Publishing.

Statlink: http://dx.doi.org/10.1787/888932532012

Key findings:

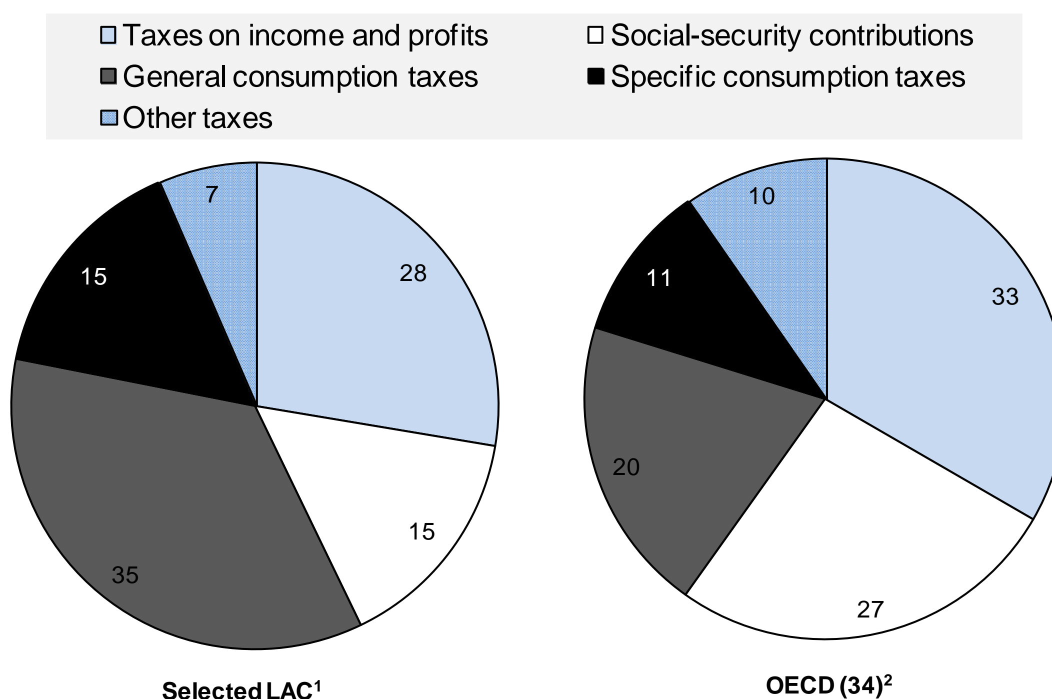
Tax to GDP ratios

- The difference between the OECD average tax to GDP ratio and that for the 12 LAC countries fell by 4 percentage points between 1990 and 2009.
- Brazil had the highest tax to GDP ratio among the Latin American countries (32.6% in 2009), followed by Argentina (31.4%).
- Guatemala had the lowest tax to GDP ratio (12.2% in 2009) followed by the Dominican Republic (13.1%) with El Salvador and Venezuela both at 14.4%.
- Non-renewable natural resources have played a significant economic role in Latin America with the largest economies in the region being traditionally net exporters. The extensive mineral resources are strategically important for tax policy and, coupled with the recent commodity-price boom, have boosted tax revenues.

Tax structures

- Following strong growth over the past twenty years, general consumption taxes (mainly VAT and sales taxes) accounted for 35% of tax revenues in the Latin American countries in 2009, whereas the share of specific consumption taxes (such as excises and taxes on international trade) declined to 15%.
- Taxes on income and profits accounted for 28% of revenues in the Latin American countries, an increase of 5 percentage points over the period, and social security contributions represented 15%.
- The major differences between the tax structures in Latin American countries and OECD countries relate to general consumption taxes - 35% in Latin America with 20% of tax revenues in OECD , social security contributions - 15% in Latin America and 27% in OECD - and income taxes - 28% in Latin America and 33% in OECD.

Tax structures in Latin America and the Caribbean and OECD, 2009



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Sub-national governments

The scope of sub-national governments' tax policies in the region has been relatively modest and limited, and the share of tax revenues collected by local governments has not increased. Between 1995 and 2009, the share of tax revenue raised by local government declined by 2 to 3 percentage points in Argentina and Brazil for example.

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NOTES TO THE EDITORS

Revenue Statistics in Latin America aims to provide internationally comparable data on tax levels and tax structures for a selection of Latin American and Caribbean (LAC) countries. Using the same methodology as OECD *Revenue Statistics* database, this publication presents cross-country comparisons between LAC economies, and for the first time, between LAC economies and their industrialised peers. This work is part of the OECD LAC Fiscal Initiative, which aims to improve taxation and public expenditure policies to support stronger economic growth and fairer income distribution. This publication has been financially supported by the Agencia Española de Cooperación Internacional para el Desarrollo (AECID) and the Fundación Internacional y para Iberoamérica de Administración y Políticas Públicas (FIIAPP). For more information on *Revenue Statistics in Latin America* and the LAC Fiscal Initiative please consult www.latameconomy.org/en/fiscal-policy/revenue-statistics and www.oecd.org/tax/lacfiscal

The OECD Centre for Tax Policy and Administration
The Centre for Tax Policy and Administration (CTPA) (www.oecd.org/tax) is the focal point for the OECD's work on taxation. The Centre provides technical expertise and support to the Committee on Fiscal Affairs and examines all aspects of taxation other than macro-fiscal policy. Its work covers international and domestic tax issues, direct and indirect taxes, tax policy and tax administration. CTPA also carries out an extensive global programme of dialogue between OECD and non-OECD tax officials through events held annually on the full range of OECD work, bringing together almost 100 non-OECD economies.

The OECD Development Centre
The Development Centre (www.oecd.org/dev) helps policy makers in OECD and partner countries find innovative solutions to the global challenges of development and poverty alleviation. It is a unique institution within the OECD and the international community, where the governments of Member and developing and emerging countries, enterprises and civil society organisations discuss questions of common interest informally.

The Economic Commission for Latin America and the Caribbean (ECLAC)
ECLAC (www.cepal.org) is one of the five regional commissions of the United Nations. Headquartered in Santiago, Chile, ECLAC contributes to the economic and social development of Latin America and the Caribbean through regional and subregional cooperation and integration; gathers, organizes, interprets and disseminates information and data relating to the economic and social development of the region and provides advisory services to Governments at their request.

The Inter-American Center of Tax Administrations (CIAT)

CIAT (www.ciat.org) is an international public organization with a non-profit aim, which promotes international cooperation and the exchange of experiences and information related to tax administrations. It also delivers technical assistance services, studies and training. It was founded in 1967 as an initiative of American countries to serve as a permanent forum to address the issues and concerns of tax administrators. Currently CIAT has 40 member countries and associate member countries from 4 continents: 31 countries of the Americas, 6 European countries, 2 African countries and 1 Asian country.