Ending tax evasion and illicit financial flows: A policy imperative for Latin America and the Caribbean

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A COMPLEX CONTEXT

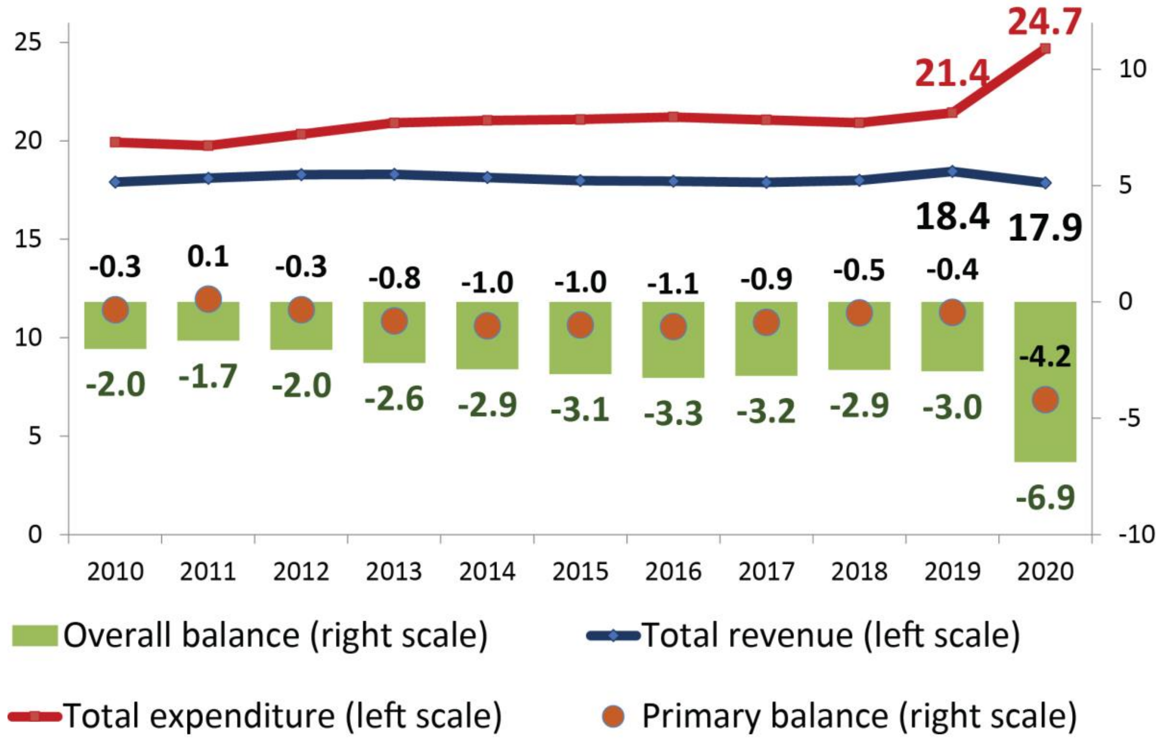
- Recovery of growth in 2021 will not offset the contraction seen in 2020 and will be influenced by uncertainty related to unequal access to vaccines and uneven vaccination roll-out.
- Governments made fiscal efforts **(4.6% of GDP)** to mitigate social and economic effects.
- Given the persistence of the pandemic and the fragility of the economic recovery process, an expansionary fiscal policy must be maintained in 2021 although the capacity to sustain expansionary fiscal and monetary policies varies greatly.
- Growth expected to be sluggish in the coming years, making it difficult to restore employment levels, address informality and reverse increases in poverty and extreme poverty.
- Widening inequalities: technologically-intensive sectors will tend to recover faster in a region characterized by low productivity and fragmented social protection and health systems.
- Women will bear the brunt of the impact, with labour market participation set back by 10 years.

RECOVERY AT RISK

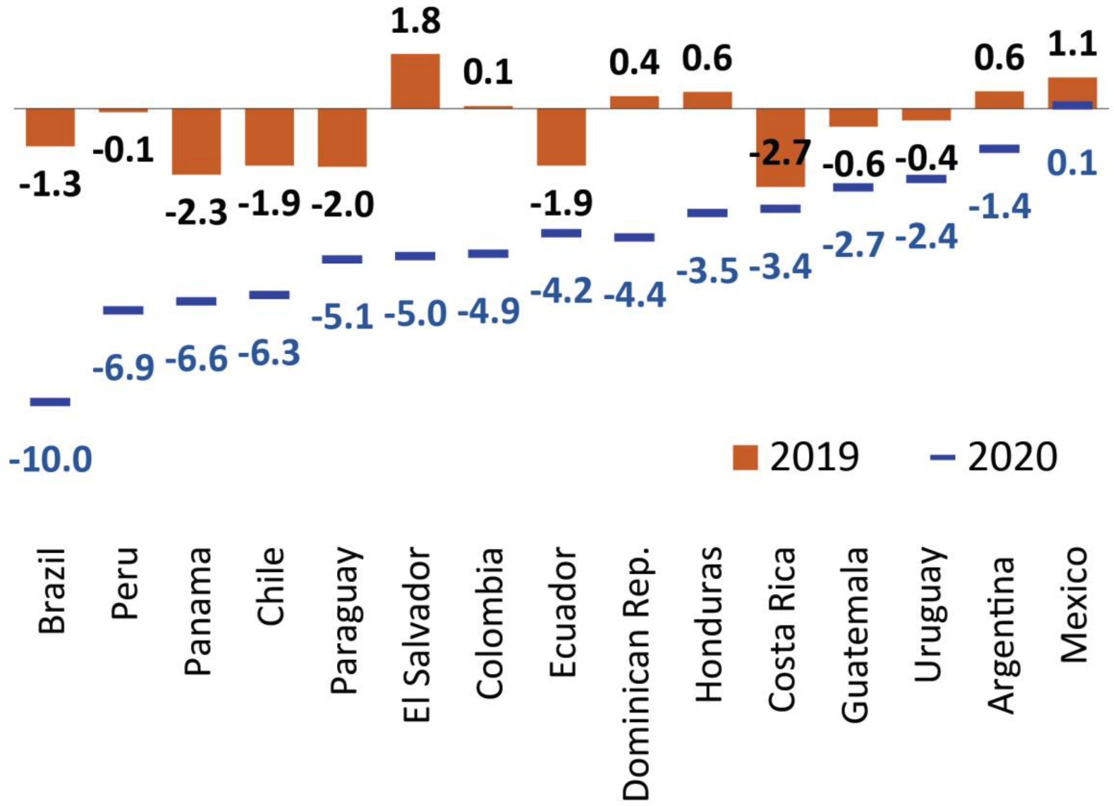
- Uneven, divergent and asynchronous economic recovery
- Uncertainties about vaccine access and efficacy
- High levels of global debt, particularly in middle-income countries (96% of GDP except in China and India).
- More than half of the region's economies are rated as high risk; coupled with increases in long-term rates, this could increase volatility in financial flows to the region
- Global debt relief initiatives currently exclude middle-income countries

FISCAL DEFICITS WIDENED OWING TO THE DECLINE IN PUBLIC REVENUES AND THE INCREASE IN PUBLIC SPENDING

LATIN AMERICA (16 COUNTRIES): CENTRAL GOVERNMENT FISCAL INDICATORS, 2019–2020
(Percentages of GDP)



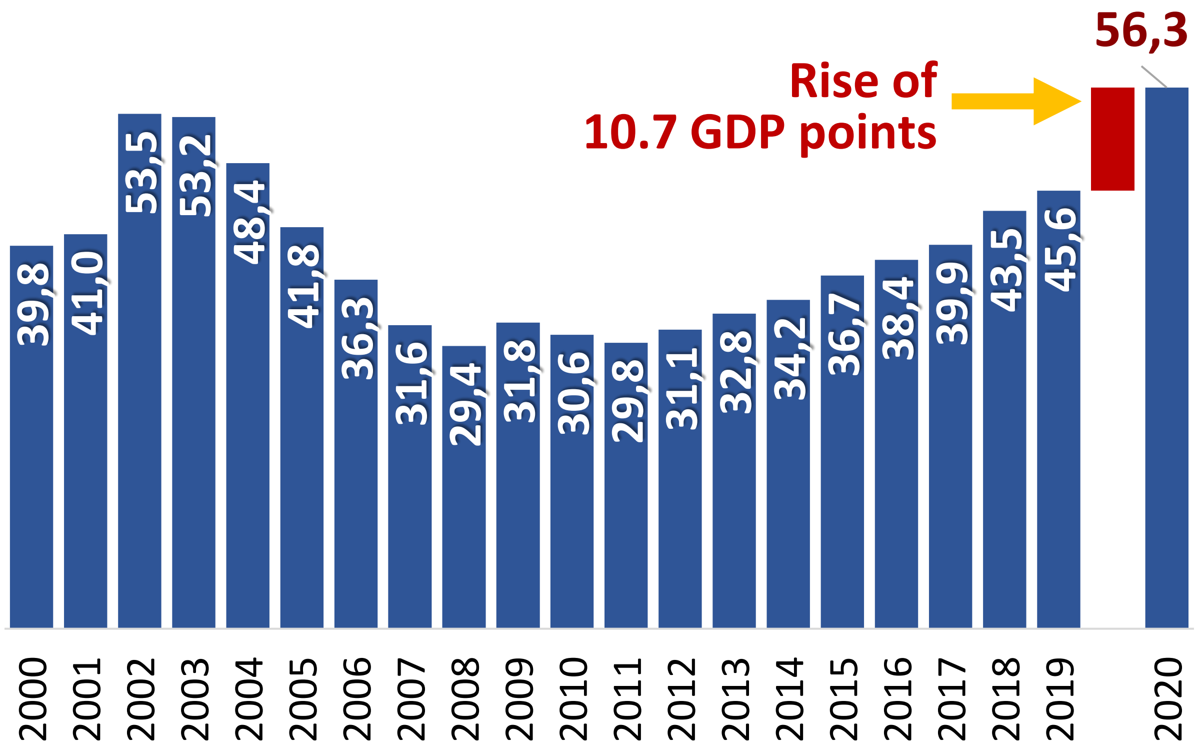
LATIN AMERICA (15 COUNTRIES): CENTRAL GOVERNMENT PRIMARY BALANCE, 2019–2020
(Percentages of GDP)



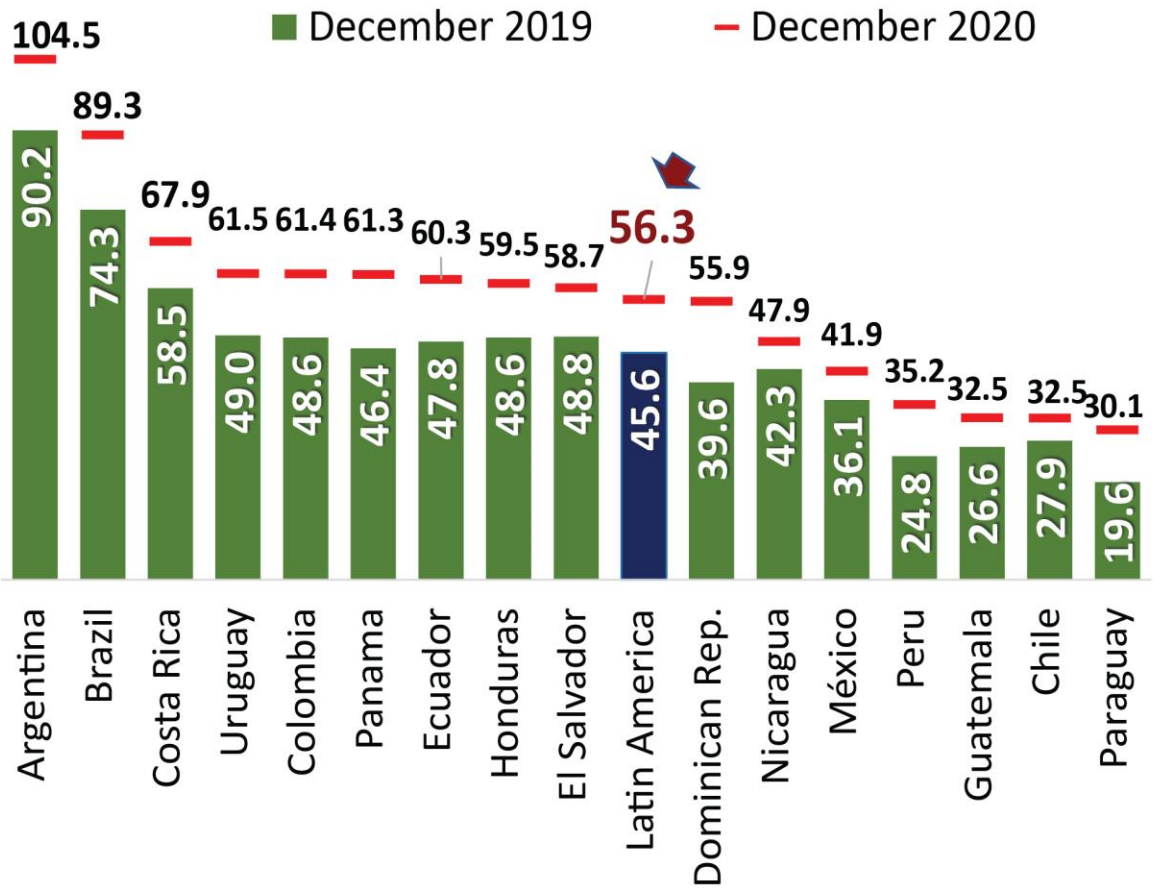
Source: ECLAC, on the basis of official figures.

THE RATIO OF PUBLIC DEBT TO GDP ROSE ACROSS THE BOARD, REFLECTING RISES IN DEBT AND FALLS IN GDP

LATIN AMERICA (16 COUNTRIES): GROSS CENTRAL GOVERNMENT PUBLIC DEBT, 2000–2020
(Percentages of GDP)



LATIN AMERICA (16 COUNTRIES): GROSS CENTRAL GOVERNMENT PUBLIC DEBT, 2019–2020
(Percentages of GDP)



Source: ECLAC, on the basis of official figures.

CHALLENGES OF EXPANDING FISCAL SPACE AND MAINTAINING EXPANSIONARY FISCAL POLICY IN THE PANDEMIC

STRENGTHENING PUBLIC REVENUES

- Eliminate tax evasion
- Reduce tax expenditures
- Access to international financing
- Increase tax collection, consolidate income tax, expand the scope of property, capital and environmental taxes
- Improve income distribution

RETHINKING PUBLIC SPENDING

- As an instrument of development
- Tie in emergency with a transformative recovery
- Support domestic demand
- Support supply: MSMEs
- Prioritize employment-intensive investment (for women and young people) in more productive sectors

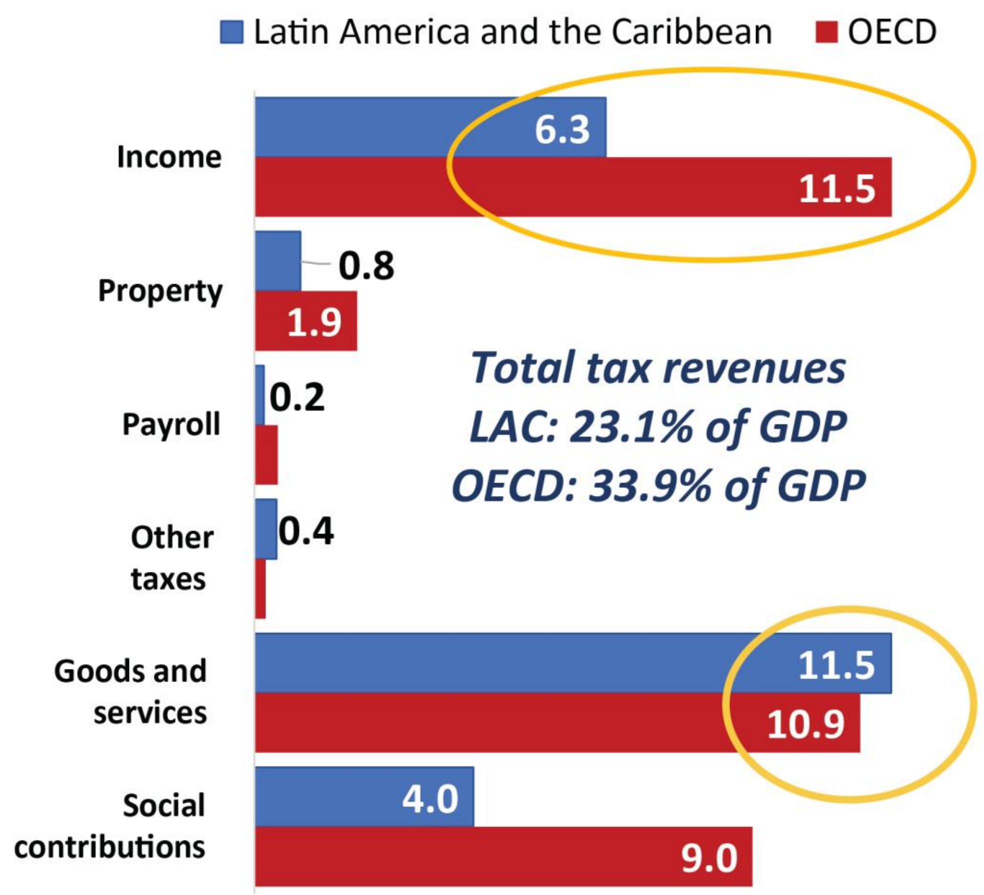
Fiscal covenants and political/social compacts to close gaps in equality, climate action, universal access to health and social protection

ALTERNATIVES TO IMPROVE THE TRAJECTORY OF PUBLIC REVENUES AND THE REDISTRIBUTIVE CAPACITY OF TAX POLICY

- **Eliminate spaces for tax evasion:**
  - ***Reduce avoidance and evasion by multinationals and individuals through tax havens and profit shifting***
  - ***Multilateral agreements to reduce tax evasion and illicit financial flows***
- **Multilateral agreements to set a worldwide minimum rate for corporate income tax**
- **Solidarity or wealth tax, on substantial gains during the pandemic,
to finance the response to the emergency**
- **Assess tax expenditure (3.7% of GDP) and refocus it on the Sustainable Development Goals**
- **Consolidate personal and corporate income tax**
- **Extend the scope of taxes on wealth and property**
- **Taxes on the digital economy, environmental taxes and taxes relating to public health issues**
- **Revise and update royalties for extractive industries**

LATIN AMERICA AND THE CARIBBEAN (25 COUNTRIES) AND OECD COUNTRIES: GENERAL GOVERNMENT TAX STRUCTURES, 2018

(Percentages of GDP)

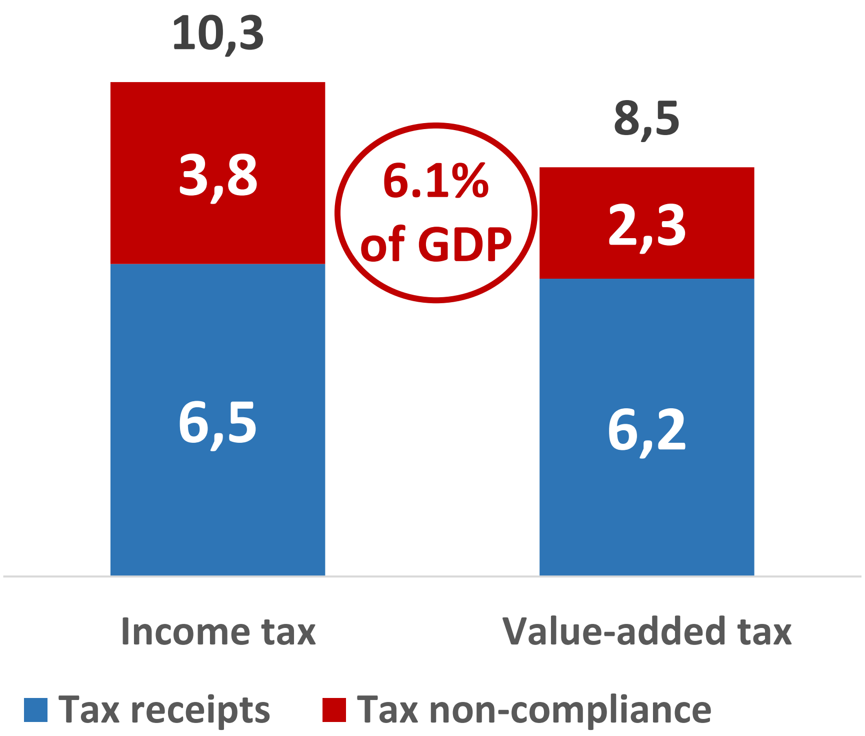


TAX EVASION REPRESENTS A KEY CHALLENGE FOR ACHIEVING A SUCCESSFUL MOBILIZACION OF DOMESTIC RESOURCES TO FINANCE THE SDGS

- **Revenue losses occasioned by tax evasion limit the capacity of countries to undertake expansive fiscal policies to stimulate recovery and invest in sustainable development.**
- **ECLAC began to produce estimates of tax evasion in Latin America with the aim of supporting regional policy discussions since 2016.**
- **Tax evasion in Latin America represented US$ 325 billion, equivalent to 6.1% of GDP.**
- **Income tax evasion accounts for a significant share of this amount (equivalent to 3.8% of GDP), with evasion of the VAT estimated at 2.3% of GDP.**

LATIN AMERICA: EVASION OF THE INCOME TAX AND VALUE-ADDED TAX

(Percentages of GDP)

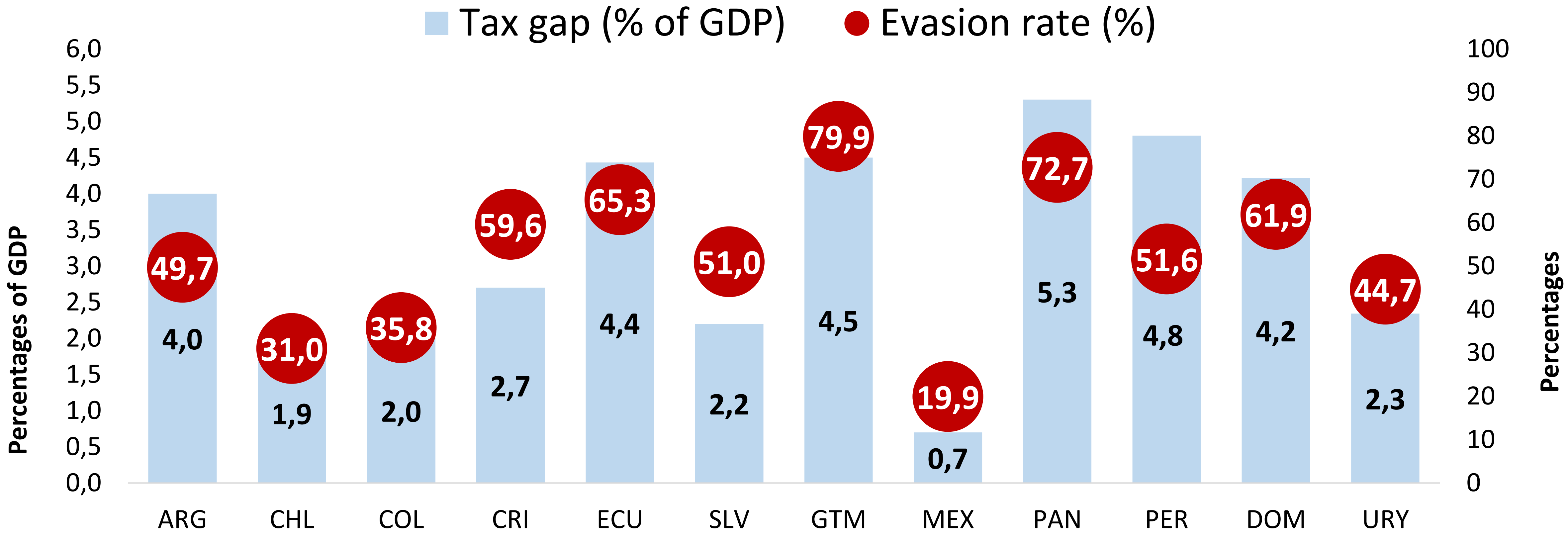


Source: Economic Commission for Latin America and the Caribbean (ECLAC).
Note: Estimates are based on national studies on income tax and value added tax non-compliance. The figures correspond to a weighted average based on GDP in dollars at current prices.

REVENUE LOSSES FROM EVASION OF THE CORPORATE INCOME TAX ARE STAGGERING

LATIN AMERICA (SELECTED COUNTRIES): EVASION RATES AND ESTIMATED TAX GAP OF THE CORPORATE INCOME TAX

(Percentages of GDP and percentages)

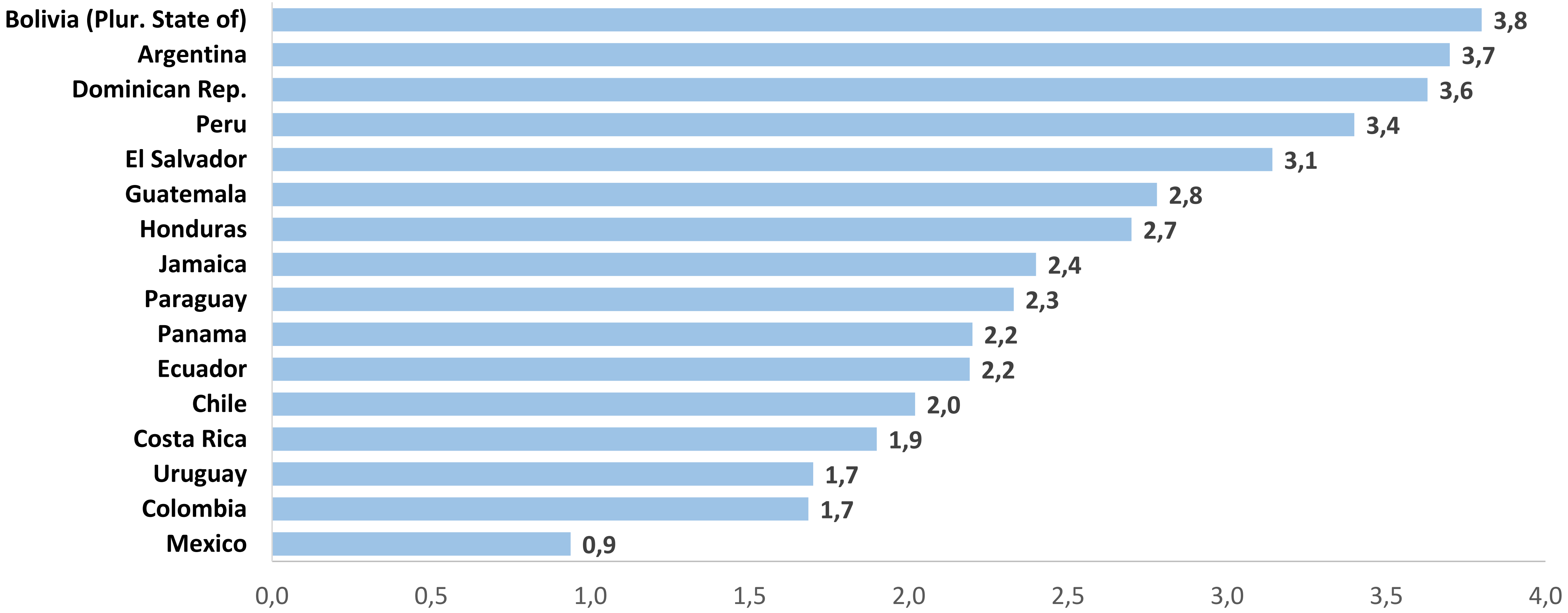


Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of *Fiscal Panorama of Latin America and the Caribbean 2020*.

REVENUE LOSSES DUE TO THE EVASION OF THE VALUE-ADDED TAX IN THE REGION ARE ALSO SIGNIFICANT

LATIN AMERICA AND THE CARIBBEAN (16 COUNTRIES): TAX LOSSES FROM NON-COMPLIANCE OF THE VALUE-ADDED TAX

(Percentages of GDP)



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of *Fiscal Panorama of Latin America and the Caribbean 2020*.

ECLAC'S PROPOSALS TO ADDRESS ILLICIT FINANCIAL FLOWS IN LAC

The United Nations at the center of international tax and financial affairs

- Expand the role of the UN Tax Committee to incorporate intergovernmental mechanisms for the discussion and agreement of international tax and financial affairs.
- Middle- and low-income countries have a limited influence in the global tax and financial debates. This asymmetry could be reduced by bringing the UN System to the center of tax and financial affairs.

Strengthen tax and customs administrations

- New generation of tools required –including investments in technology and staff specialization– to improve compliance and oversight.
- Create a best practices framework (regionally adapted) to standardize information, exchange practices and technical in adopting international best practices on tax and customs administration.
- Advocacy for the international community to provide needed financing and technical assistance (including investments) in line with SDG 17.1

Build regional positions with respect to the international tax debate

- Provide technical assistance and forums to build regional positions with respect to the international tax debate.
- Analyze the impact of different international tax reform proposals in the region.

Progressive taxation

- International community agreements and technical assistance to strengthen domestic tax frameworks in favor of progressive and environmental taxation.
- Ensure that multinational enterprises pay taxes where value-added is created.

Tax frameworks to cover the digital economy

- The rapid growth of the digital economy has eroded national tax bases.
- Provide support to countries through policy research and technical assistance to move towards digital taxation measures.

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