Guatemala

Summary

- Total tax revenue in Guatemala showed a slight decline of 0.8% of GDP for the period from 2003 to 2012, despite efforts to strengthen tax policy and tax administration. Guatemala's revenue mix over the period shifted slightly, with an increase of 0.4% in taxes on income and profits, and a decrease of 0.5% and 0.9% in taxes on goods and services and taxes on international trade, respectively.
- A recent study[1] found Guatemala's tax effort[2] to be the lowest compared to other countries in Latin America and the Caribbean (LAC). The country also holds the lowest level of revenue as a share of GDP. Guatemala's tax effort is 35.8% of tax capacity, whereas the average of the surveyed LAC countries is 61.1%. The country's tax capacity, at 29.9% of GDP, is slightly lower than the tax capacity of all other surveyed LAC countries, the average of which is 33.5%.
- Personal income tax revenue effort and productivity figures in Guatemala are significantly below the regional, income group, and world averages. The maximum personal income tax rate is modestly above the regional, income groups, and world averages.
- Guatemala's corporate income tax revenue effort is slightly lower than the regional, income group, and world averages, while its productivity figures are significantly above the averages. The corporate income tax rate is well above the regional, income groups, and world averages.
- Revenue effort for the value added tax (VAT) is broadly in line with the income group and world averages and slightly below the regional average, while VAT productivity figures are modestly above the regional, income group, and world averages. The VAT rate is slightly below all comparator groups.
- Areas for further investigation include:
  - The very low productivity of the personal income tax in Guatemala, especially in light of the country's relatively high personal income tax rates.

[1] Pessino, Carola and Ricardo Fenochietto (2010), "Determining countries' tax effort", *Hacienda Pública Española / Revista de Economía Pública*, 195-(4/2010): 65-87, Instituto de Estudios Fiscales. "Tax capacity" is the maximum tax revenue that can be generated given the country's economic, social, institutional, and demographic characteristics. "Tax effort" is the ratio of actual revenue to tax capacity.

[2] The definition of "tax effort" employed in the aforementioned study differs from the definition of revenue effort employed further below in this paper.

- The low overall level of revenue and estimated ratio of tax effort to tax capacity.
- The impact of tax privileges introduced at the end of 2013.

Major Developments and Features of Current Tax System

Evolution of Revenue

Guatemala's tax revenue declined by 0.8% of GDP between 2003 and 2012. Revenues reached a peak of 11.7% of GDP in 2007, but these gains waned after 2007 due to fiscal incentives for investment, the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), and the 2008 financial crisis. Guatemala's revenue mix over the period shifted to an increased reliance on income taxes and a decreased reliance on domestic sales taxes and international trade taxes. Except for small gains in revenue from taxes on income and profits, tax revenues have stayed constant over the last 2 years.

- Revenue from taxes on income and profits increased by 0.4% of GDP over period.
- Revenue from taxes on goods and services decreased by 0.5% of GDP.
- Revenue from taxes on international trade decreased by 0.9% of GDP.

Guatemala Government Current Revenue
(% of GDP)

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Taxes on Income & Profits	3.0%	2.8%	2.9%	3.3%	3.3%	3.3%	3.2%	3.1%	3.4%	3.4%
Taxes on Goods and Services	6.7%	6.9%	5.9%	6.8%	7.1%	6.5%	6.0%	6.2%	6.2%	6.2%
Taxes on International Trade	1.5%	1.4%	1.9%	1.2%	1.1%	0.9%	0.8%	0.8%	0.7%	0.6%
Other Taxes	0.1%	0.2%	0.2%	0.2%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%
Total Tax Revenue	**11.4%**	**11.3%**	**10.9%**	**11.6%**	**11.7%**	**10.9%**	**10.1%**	**10.2%**	**10.5%**	**10.6%**

Source: Economic Comission for Latin America and the Caribbean, CEPALSTAT

Summary of Reforms

The Peace Agreements of 1996, following three decades of civil war, included explicit fiscal policy objectives, such as raising fiscal revenue to a minimum of 12% of GDP. Early in the decade, a Fiscal Pact was enacted to set the direction for fiscal policy modernization and improve collections. [3] However, to date, progress towards increasing fiscal revenue, fighting tax evasion, and enhancing the transparency of government spending has been modest, and Guatemala maintains the lowest revenue mobilization rates in the region. Selected highlights of fiscal reforms over the past decade are presented below.

[3] United Nations Conference on Trade and Development (UNCTAD) Investment Policy Review: Guatemala, 2010. http://unctad.org/en/docs/diaepcb201009_en.pdf

- In 2001, Guatemala increased its VAT rate from 10% to 12% and restricted zero-rating to exports.[4]
- On July 1, 2004, the Extraordinary and Temporary Support for the Peace Agreements Tax (IETAAP) was introduced at a rate of 2.5% for companies/individuals that carry out mercantile or agricultural activities in Guatemalan territory. This newly established solidarity tax gradually fell to 1% from 2004 – 2007.[5]
- In 2006, Guatemala's Congress ratified CAFTA-DR, effectively removing trade barriers across LAC countries, leading to a reduction in import taxes.
- In 2008, Congress approved the Solidarity Tax Law (ISO), replacing the IETAAP. The ISO law raised the minimum and maximum personal income tax rates to 15% and 31%, and maintained the 1% solidarity tax in effect.
- Reforms in 2012 introduced significant changes to both corporate and personal income tax regimes, including a major rate-reduction on the lowest (from 15% to 5%) and highest (from 31% to 25%) marginal personal income tax rates.[6] Starting in 2014, the law reduces the corporate income tax rate[7] on net income from 31% to 25%, and raises the tax rate on gross income from 5% to 7%.
- In 2012, a new Anti-Evasion Law increased the authority and resources of the Guatemalan tax administration (SAT) to conduct audits of businesses and individuals. The law also established mandatory receipt issuance for all purchases worth over Q50.[8] It is expected that these measures will generate additional revenue of 1.5% of GDP in 2012-2015.[9]
- In November of 2013, Guatemala enacted a number of exemptions. The taxable base of selected construction projects was reduced from 100% to 70% of property value, said to impact the VAT, the income tax, and the property transfer tax. Dividends were removed from the income tax base. The charge of 5% for import and use of energy by non-residents was repealed. The deduction for specific employee benefits was raised from 50% to 100% of benefits. In addition, transfer pricing controls were suspended until 2015.

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[4] Fuentes and Cabrera, "The Fiscal Covenant in Guatemala: Lessons Learned from the Negotiations", CEPAL Review 88, Apr 2006. http://www.eclac.org/revista/noticias/articuloCEPAL/3/26323/LCG2289iFuentesCabrera.pdf

[5] KPMG Tax Flash, "Guatemala's Tax Reform comes into effect", http://us.kpmg.com/microsite/tax/ies/2004_Flash_Alerts/fa04-160.pdf

[6] IMF 2012 Article IV Consultation, Country Report No 12/146, June 2012.

[7] The Guatemalan corporate income tax system is based on the territoriality principle; all Guatemalan-source income is taxed. It is the choice of the taxpayer to be taxed at a 5% rate on gross income (the general system) or 31% rate on taxable income (the optional system). Under the optional system, corporate income tax is paid annually but quarterly advance payments are required. Under the general system, corporate income tax is paid on a monthly basis. Source: KPMG Corporate and Indirect Tax Survey, 2012.

[8] Economist Intelligence Unit. Guatemala: Tax Regulations, 2013.

[9] Economic Commission for Latin America and the Caribbean (ECLAC) Estimate

Tax System Profile (2010-11)

The tables in Annex 1 provide a high-level description of Guatemala's tax system and draw comparisons with the Latin America and Caribbean (LAC) region, low-middle-income (LMI) countries,[10] and the rest of the world. The data in this section are from the 2012-2013 release of USAID's Collecting Taxes database.[11] **The most recent comparative data in this section are from fiscal year 2011 and do not reflect the most recent reforms or data discussed above.**

Revenue Effort

- "Revenue Effort" is the amount of revenue as a share of GDP.
- Guatemala's overall tax revenue effort, at 11.0% of GDP, lies significantly below the LAC regional average of 19.5%, and well below the income group and world averages of 16.4% and 17.9%, respectively.
- Guatemala's revenue effort from the personal income tax, at 0.4% of GDP, is significantly below the regional, income group, and world averages of 4.1%, 4.6%, and 5.5%, respectively.
- Guatemala's corporate income tax revenue effort, at 3.1%, is broadly in line with the world average of 3.3% and slightly below the regional and income group averages of 3.7% and 3.6%, respectively.
- The revenue effort from VAT, at 6.1% of GDP, is on par with the world average of 6.1% and income group average of 6.0%, and slightly below the regional average of 6.4%.

Tax Structure

- The maximum personal income tax rate in Guatemala, at 31%, is modestly above the income group, regional, and world averages, which are in the 27% to 28% range.
- Guatemala's corporate income tax rate on taxable income, at 31%, is well above the regional, income group, and world averages, which are in the 24% to 27% range.
- The value added tax rate, at 12%, is slightly below regional, income group, and world averages, which are in the 13% to 14% range.
- The tax wedge on labor income, at 11.5%, is roughly half the amount of the regional, income group, and world averages, which range between 19-22.4%. This figure is in line with Guatemala's relatively low social contribution rate.

Revenue Productivity

- "Revenue productivity" measures the revenue share of GDP that is mobilized for each point of the tax rate.

[10] Derived from the World Bank's Country and Lending Group classifications, http://data.worldbank.org/about/country-classifications/country-and-lending-groups.
[11] USAID's Collecting Taxes Database, http://egateg.usaid.gov/collecting-taxes.

- Personal income tax productivity, at 0.01, is significantly below that of the regional, income group, and world averages, which are within the 0.15 to 0.22 range.
- Conversely, corporate income tax productivity, at 0.61, is significantly above – more than three times greater – than the regional, income group, and world averages of 0.15, 0.17, and 0.15, respectively.
- Guatemala's VAT productivity, at 0.51, is slightly above the regional average of 0.47, and modestly above the income group and world averages of 0.44 and 0.42, respectively.

Tax Administration Structure

- The *Superintendencia de Administración Tributaria* (SAT) is responsible for the administration of taxes in Guatemala. A separate directorate, supervised by SAT, is responsible for the administration of taxes on imports—the General Directorate for Customs.
- Tax administration in Guatemala is organized along functional lines and includes a Large Taxpayer Unit (LTU).
- The SAT's ratio of active taxpayers to staff, at 155 taxpayers per staff, is significantly below the LAC regional, income group, and world averages of 982, 349, and 677 taxpayers per staff, respectively.

Taxpayer Burden and Corruption Evidence

- The 2010 World Bank Enterprise Survey indicated that the percentage of Guatemalan business taxpayers "expected to give gifts in meeting with tax officials" was 3.9%, which was below the LAC regional average of 6.1%, and significantly below the world average of 14.1%.
- The 2014 World Bank Doing Business survey estimates that the average time to pay taxes expended by a medium-sized company in Guatemala amounts to 326 hours per year – slightly below the LAC regional average of 369 hours, and moderately above the world average of 285 hours per year.

ANNEX 1: Guatemala's Collecting Taxes Indicators

Total Tax Revenue	TAXY[12]
	Tax Revenue as % of GDP (%)
Guatemala	11.0
Latin America and the Caribbean[1]	19.5
Low-Middle-Income Economies[2]	16.4
World	17.9

Company Income Tax	CITR	CITY	CITPROD
	Tax Rate (%)	Revenue as % GDP (%)	Revenue Productivity
Guatemala	31.0	3.1	0.61
Latin America and the Caribbean[1]	27.2	3.7	0.15
Low-Middle-Income Economies[2]	24.7	3.6	0.17
World	24.1	3.3	0.15

Income Taxes on People	PITMINR	PITMAXR	PITMINL	PITMAXL
	Minimum Tax Rate (%)	Maximum Tax Rate (%)	Minimum Income Level (Multiples of GDP per capita)	Maximum Income Level (Multiple of GDP per capita)
Guatemala	15.0	31.0	0.00	7.57
Latin America and the Caribbean[1]	13.4	27.5	0.52	3.58
Low-Middle-Income Economies[2]	10.4	27.3	0.44	7.04
World	10.9	27.8	0.40	6.38

[12] A glossary of terms for the selected indicators is found in Annex 2.

Personal Income Tax	PITY	PITPROD	SSR	WEDGE
	Revenue as % GDP (%)	Revenue Productivity	Mandatory Combined Social Contribution Rates (%)	Combined Rate of Personal and Labor Taxation (%)
Guatemala	0.40	0.01	11.5	11.5
Latin America and the Caribbean[1]	4.1	0.15	17.1	20.1
Low-Middle-Income Economies[2]	4.6	0.17	18.1	19.0
World	5.5	0.22	20.8	22.4

Value Added Tax	VATR	VATY	VATGCR	VATPROD	THRESHOLD
	VAT rate (%)	Revenue as % GDP (%)	Gross Compliance Ratio (%)	Revenue Productivity	Mandatory registration/ filing (annual turnover in USD)
Guatemala	12.0	6.1	58.6	0.51	7,844
Latin America and the Caribbean[1]	13.5	6.4	66.2	0.47	34,149
Low-Middle-Income Economies[2]	13.1	6.0	69.3	0.44	56,881
World	13.8	6.1	65.9	0.42	57,598

Tax Administration	Tax Staff	Payer to Staff	Function	LTU	Customs
	Tax staff per 1000 population	Number of tax payers per tax staff	Functional Organization (1 = Yes, 0 = No)	Large Taxpayer Unit (1 = Yes, 0 = No)	Customs and Tax Administration Combined (1 = Yes, 0 = No)
Guatemala	0.30	155	1.00	1.00	1.00
Latin America and the Caribbean[1]	0.33	982	0.80	0.78	0.30
Low-Middle-Income Economies[2]	0.35	349	0.91	0.89	0.22
World	0.65	677	0.88	0.81	0.30

Footnotes:

1. LAC countries include: Anguilla, Antigua and Barbuda, Argentina, Bahamas, Barbados, Belize, Bermuda, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Mexico, Nicaragua, Panama, Paraguay, Peru, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Uruguay, and Venezuela.
2. Low-Middle-Income Countries include: Armenia, Bhutan, Bolivia, Cameroon, Cape Verde, Congo, Rep, Cote d`Iviore, Djibouti, Egypt, El Salvador, Georgia, Ghana, Guatemala, Guyana, Honduras, India, Indonesia, Kiribati, Kosovo, Lao P.D.R, Lesotho, Mauritania, Micronesia, Moldova, Mongolia, Morocco, Nicaragua, Nigeria, Pakistan, Papua New Guinea, Paraguay, Philippines, Samoa (Western), Senegal, Solomon Islands, Sri Lanka, Sudan, Swaziland, Syrian Arab Republic, Timor-Leste, Ukraine, Uzbekistan, Vanuatu, Vietnam, West Bank/Gaza, Yemen, Rep, and Zambia..

ANNEX 2: Collecting Taxes Indicators Glossary

CITR is the general rate applied for the corporate income tax. In most countries, only one corporate income tax is applied to corporate profits. In most countries, business enterprises that are owned by sole proprietors or unincorporated partnerships pay tax under the personal income tax system.

CITY is the level of corporate income tax collections as percentage of GDP.

CITPROD represents how well the corporate income tax does in terms of revenue collection, given the tax rate. CITPROD is the portion of GDP in revenue that is mobilized for each point of CIT rate.

PITMINR is the lowest non-zero positive tax rate applied to the lowest income group in the personal income tax system.

PITMINL is the lowest level of income at which the lowest marginal personal income tax rate (PITMINR) is imposed, expressed as a multiple of per capita GDP.

PITMAXR is the highest tax rate applied under the personal income tax system.

PITMAXL is the lowest level of income at which the top marginal personal income tax rate is imposed, expressed as a multiple of per capita GDP.

PITY is the level of personal income tax collections as percentage of GDP.

PITPROD provides an indication of how well the personal income tax in a country does in terms of producing revenue. PITPROD is the portion of GDP in revenue that is mobilized for each point of the average PIT rate.

SSR is the combined rate for employer and employee social security contributions.

WEDGE is an estimate of the overall taxation of labor income, represented as a percentage of gross salary. It combines social contributions with personal income tax. The tax wedge represents the ratio of total labor taxes to total labor costs to the employee.

VATR is the general rate at which most goods and services are taxed under the value added tax system. Most countries have a variety of reduced rates for certain basic goods, such as basic food stuffs. Also, all countries have a zero rate on exported goods.

VATY is the level of VAT collections as a percentage of GDP.

VATGCR is the VAT gross compliance ratio which is the ratio of potential VAT collections—if all final household consumption had been taxed at the standard rate--to actual VAT collections.

VATPROD is a measure of how well the VAT produces revenue for the government, given the VAT rate. It is the portion of GDP in revenue that is mobilized for each point of VAT rate.

Threshold indicates the amount of annual turnover, in US $ terms above which taxpayers must register for VAT and file regular VAT returns.

Functional Organization is a binary indicator where 1 indicates that the tax administration is organized along functional lines.

Large Taxpayer Unit is a binary indicator where 1 indicates that there is a large taxpayers unit.

Customs and Tax Administration Combined is a binary indicator where 1 indicates that revenue is administered jointly by a single customs and tax administration.

ANNEX 3: Guatemala Tax Highlights

Guatemala Highlights

Currency: Guatemalan Quetzal (GTQ)

Foreign exchange control: No

Accounting principles/financial statements: IFRS

Principal business entities: These are a stock corporation, limited partnership by shares, limited liability company and branch of a foreign entity.

Corporate taxation:

Residence – A corporation is resident in Guatemala if it is incorporated in Guatemala.

Basis – Guatemala operates a territorial system under which income tax is levied only on Guatemalan-source income. Resident companies may opt to be taxed under (1) the general regime, where a flat 5% tax is imposed on monthly gross income; (2) or the optional regime, where tax is levied at a rate of 31% on net taxable income.

Taxable income – A company that elects to be assessed under the optional tax regime is required to calculate taxable income as gross income less necessary costs and expenses, plus nondeductible expenses less exempt income and other specific deductions established by the law, less tax credits.

Taxation of dividends – Dividends received by residents from profits that have been subject to income tax at the corporate level are exempt from further taxation.

Capital gains – Capital gains are taxed at 10% under the general income tax regime and 31% under the optional tax regime.

Losses – Ordinary losses may not be carried forward or back. Under the optional tax regime; capital losses may be carried forward 5 years to offset capital gains.

Rate – The rate is 5% on gross income under the general income tax regime and 31% on taxable income under the optional regime.

Surtax – No

Alternative minimum tax – A solidarity tax (ISO) is applicable to companies under the optional regime at a rate of 1% on total assets or gross income, whichever is greater.

Foreign tax credit – No

Participation exemption – No

Holding company regime – No

Incentives – In addition to free zones, various incentives are available, including those for the promotion of mining, exports and tourism.

Withholding tax:

Dividends – Dividends paid to a nonresident are not subject to withholding tax if the distributed profits were taxed at the corporate level. Otherwise, the withholding tax is 10%.

Interest – Interest paid to a nonresident is subject to a 10% withholding tax.

Royalties – Royalties paid to a nonresident are subject to a 31% withholding tax.

Branch remittance tax – No

Other taxes on corporations:

Capital duty – No

Payroll tax – No

Real property tax – Real estate tax is imposed at progressive rates up to 0.9%.

Social security – Social security contributions must be made by the employer at a rate of 12.67% of an employee's annual salary.

Stamp duty – Stamp tax is levied on various documents at a rate of 3%. The stamp tax does not affect contracts or documents relating to VATable transactions because double taxation is prohibited.

Transfer tax – No

Other – No

Anti-avoidance rules:

Transfer pricing – No

Thin capitalisation – No

Controlled foreign companies – No

Other – No

Disclosure requirements – No

Administration and compliance:

Tax year – Calendar year

Consolidated returns – There are no provisions for group taxation; each entity must file a separate return.

Filing requirements – An annual income tax return is due 3 months after the close of the previous tax period (i.e. March).

Penalties – Penalties are imposed for late filing, failure to file, under-reporting or tax avoidance/evasion.

Rulings – Taxpayers may request a ruling on the tax consequences of transactions in which they have a direct interest. A binding ruling must be issued no later than 60 working days after submission of the request.

Personal taxation:

Basis – Resident individuals are subject to income tax on their Guatemalan-source income. Nonresident individuals are taxed via withholding on their Guatemalan-source income.

Residence – While Guatemala does not define residence for individual tax purposes, a definition is provided for nonresidents. A nonresident is an individual who remains abroad, uninterrupted, for 1 year, and whose absence covers more than 6 months of any given tax year.

Filing status – Each individual must file a return.

Taxable income – Tax is generally imposed on all income arising from Guatemalan sources, including income derived from capital, goods and services.

Capital gains – No

Deductions and allowances – In addition to a personal allowance of GTQ 36,000, individuals may deduct various items from income, including: certain insurance premiums; court-ordered alimony payments; medical expenses; and membership fees for professional organisations.

Rates – The personal income of residents is taxed at progressive rates from 15% to 31%. Nonresident individuals are taxed via withholding at a flat rate of 31% on Guatemalan-source income.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – Real estate tax is imposed at progressive rates up to 0.9%.

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – Employees contribute to social security at a rate of 4.83% of their total monthly remuneration.

Administration and compliance:

Tax year – Calendar year

Filing and payment – All individuals are required to file a tax return by the third month after the close of the previous tax year. Individuals who derive only employment income in an amount of GTQ 36,000 or less are not required to file a tax return.

Penalties – Individuals are liable for a penalty of up to 100% of any unpaid tax liability.

Value added tax:

Taxable transactions – VAT applies to most sales of goods, the provision of services and imports.

Rates – The standard VAT rate is 12%.

Registration – Registration for VAT purposes is generally required upon incorporation.

Filing and payment – Entities are required to file monthly returns.

Source of tax law: Income Tax Law (Decree No. 26-92) and regulations; Value Added Tax Law (Decree No. 27-92) and regulations; ISO Law (Decree No. 73-2008)

Tax treaties: Guatemala has not concluded any double tax treaties.

Tax authorities: Superintendent of Tax Administration

International organisations: MCCA (Mercado Comun Centroamericano); Dominican Republic and Central America Free Trade Agreement; Central America agreement with Dominican Republic, Chile, Panama and Colombia

SOURCE: Deloitte International Tax Source: Tax Highlights, http://www.deloitte.com/taxguides.